

NESTLÉ S.A.

## 2020 NINE-MONTH SALES CONFERENCE CALL TRANSCRIPT

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Speakers:

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

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

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

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

Good afternoon and good morning to everyone. Thank you for joining Nestlé's 9 Months 2020 Conference Call and Webcast. I am Luca Borlini, Head of Nestlé's Investor Relations team. 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 9-month sales. We will then open the lines for your questions.

**Slide: Disclaimer**

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

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

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

**Slide: Key messages**

In these truly unsettling and difficult times, Nestlé has delivered a strong quarter of very reassuring organic growth. Throughout this pandemic, our three key objectives of safety, business continuity and community solidarity were guiding us in our actions. We made good on all three of them.

I tip my hat with true and heartfelt respect to our 290,000 Nestlé associates around the world. You are truly rising to the challenge of the global pandemic and making a noticeable difference to our consumers, retail partners, suppliers and communities around us.

**Slide: Building NHSc into a nutrition and health powerhouse**

As the COVID crisis evolves, we're also making significant progress in our portfolio development activities. As expected, it has been and continues to be a busy year on the acquisition and divestiture front. I would like to focus here on Nestlé Health Science, which is clearly on a roll.

Stellar organic growth and operating performance are the starting point. I'm a strong believer in the mantra that you have to earn the right to acquire. Nestlé Health Science has clearly

done that very consistently over the past years. In addition, they have landed a very impressive string of deals with strong strategic fit, as you can see from the bottom of the slide. The net result is that we are almost doubling this business over a 5-year period.

Bringing nutrition and metabolism science to the table to advance the health and well-being of our consumers and patients has always been core to our mission. Over the past decade, Nestlé Health Science has also grown into a meaningful contributor to our consolidated financial results. I'm impressed by the strong pipeline of internal and external growth opportunities to build this business further, onwards and upwards.

**Slide: Our business as a force for good: Sustainable packaging**

In this quarter's business as a force for good section, I would like to focus on our sustainable packaging journey. We are now almost 2 years into the pursuit of our ambitious 2025 packaging commitments, lots of momentum and lots of learning. We have made solid progress in particular when it comes to novel materials that facilitate recycling.

In addition, we're now putting increased emphasis on the areas of reduce and reuse. The reduce pillar focuses on scaling down the size and volume of our packaging material and on using less virgin plastics. The reuse pillar has the goal of scaling up new reusable and refillable systems to eliminate the need for disposable packaging. Both pillars hold significant promise and will require close cooperation with our retail partners around the world.

The goal is to have a range of packaging options available that are a good fit for all the various geographies around the world that we serve. Depending on factors such as climate, infrastructure, population density and others, we aim to have safe packaging choices available that offer a superior environmental footprint.

**Slide: 2020 guidance updated**

Before handing it over to François, I would like to cover our improved guidance for 2020. The only change is our increased expectation for organic growth, reflecting the strong third quarter. We are raising our organic growth expectation for the full year from the band of 2% to 3% to around 3%.

While it is important to have some downward protection at this volatile time, we would be disappointed if full year organic growth in 2020 would not stay at or above 3%. Certain calendar items such as the timing of Chinese New Year will work against us this quarter, but

other than that, at the present time, we're not aware of major headwinds that would stand in the way of making good on this expectation.

With this, let me hand it over to François.

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

**Slide: Title slide**

Thank you, Mark, and good morning or good afternoon to all. Let me start with the highlights for the 9 months.

**Slide: Nine-month sales growth**

Organic growth was 3.5%. Following a soft second quarter impacted by lockdowns, organic growth accelerated in the third quarter to 4.9%. This is the highest level of quarterly growth in the last 6 years.

Real internal growth for the 9 months was strong at 3.3%. Most geographies contributed to the improvement in the third quarter. Pricing contributed 0.2%, largely reflecting currency depreciations in emerging markets.

Acquisitions, net of divestitures, reduced sales by 5.5%. This mainly relates to the divestments of Nestlé Skin Health, the U.S. Ice cream business and the Herta charcuterie business. Foreign exchange had a negative impact of 7.4%, reflecting the appreciation of the Swiss francs against most currencies. Total reported sales for the 9 months were CHF 61.9 billion, a 9.4% decrease.

**Slide: Contrasted momentum by channel**

The effect of COVID-19 on organic growth continued to vary materially by sales channel. As this slide shows, organic growth for retail sales accelerated materially to 7.1%, reflecting sustained strong demand for at-home consumption. Within retail, e-commerce saw exceptional growth of 47.6%, and e-commerce now accounts for 12.3% of total sales.

Out-of-home sales declined sharply as a consequence of movement restrictions and the closure of many offices, restaurants and hotels, to name just a few. As a reminder, before COVID-19, the out-of-home channel accounted for around 10% of group sales.

**Slide: Strong growth in retail sales**

Sales in retail continued to be strong, with a further increase in the third quarter. In out-of-home, the rate of decline bottomed out in April at around minus 60%. In the third quarter,

sales declines moderated to minus 26%. We remain cautious as the channel may come under further pressure in the coming quarters should movement restrictions be reinstated in major markets. Improvement in the out-of-home channel is expected to be gradual, with a recovery back to pre-COVID levels at the earliest in 2022.

**Slide: Positive growth across all geographies**

This slide shows the development of our sales by geography. It includes both our zones as well as our globally and regionally managed businesses. Growth was positive across all geographies. The Americas saw sustained strong momentum in both North America and Latin America. EMENA posted robust growth, accelerating in the third quarter, with positive contribution from all regions. Growth in AOA turned positive in the 9 months, reaching a mid-single-digit level in the third quarter.

**Slide: Strong real internal growth in developed markets**

Now looking at the growth dynamics between developed and emerging markets. Organic growth in developed markets was 3.9%, supported by broad-based strong RIG. Pricing remained negative.

Emerging markets saw growth of 2.8%, with an acceleration to a mid-single-digit rate in the third quarter. While turning positive in the third quarter, China posted a sales decrease. Excluding China, emerging markets reported mid-single-digit growth, with strong performances in Brazil, the Philippines, Russia and India. We remain positive on emerging markets as the key growth platforms 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 continue to see strong organic growth momentum. Sales were CHF 25 billion. Organic growth was 5.1%, supported by robust RIG of 4.7%. Pricing was positive at 0.4%.

North America continued to grow at a mid-single-digit rate. Most product categories performed very well. Purina PetCare remained a standout contributor. Growth continued to be driven by successful innovation, e-commerce and premium brands.

As a result of increasing demand, we are further expanding our production capacity with an investment of \$450 million in a new plant in North Carolina, which will be operational in 2022. Growth in Coffee reached a double-digit rate, with sustained high demand for Starbucks at home, Coffee-mate and Nescafé.

Frozen food posted high single-digit growth, supported by DiGiorno and Stouffer's. Within frozen, we created a new range of modern health offerings, which include Lean Cuisine and the newly launched Life Cuisine. The range delivered positive growth in the third quarter.

We captured growth opportunities in Dairy and Baking to meet increasing demand for cooking at home through innovation and digital engagement. Water reported a sales decrease, reflecting a high exposure to out-of-home channels, but recovered to almost flat in the third quarter, led by San Pellegrino and Perrier.

Latin America reached high single-digit growth with positive contribution from most markets and categories. Brazil was a standout performer, supported by strong sales development in Dairy, Nutrition and Coffee. Confectionery saw strong demand across brands in the third quarter.

Chile continued to see high single-digit growth, led by Dairy and Ice cream. Sales in Mexico reached a mid-single-digit rate in the third quarter with strong demand for La Lechera, Nescafé and Purina PetCare.

#### **Slide: Zone EMENA**

Turning now to Zone EMENA. Sales were CHF 15 billion. Organic growth reached 2.9% with strong RIG, supported by both volume and mix. Pricing decreased by 0.4%. Growth reached a mid-single-digit rate in the third quarter.

The Zone continued to see broad-based market share gains, particularly in Coffee and Pet food. All regions posted positive growth. Western Europe reported mid-single-digit growth in the third quarter, supported by the United Kingdom and France. In Eastern Europe, Russia was a standout performer with double-digit growth. By category, Coffee, Purina PetCare and Culinary products were the main contributors, all delivering double-digit growth. Growth in Coffee further improved with high demand for Nescafé, Nescafé Dolce Gusto and Starbucks products. Purina PetCare sustained strong momentum across most brands, supported by e-commerce and premium innovations. In September, we introduced a recyclable flexible pouch for wet pet food under our Felix brand.

Increased at-home consumption continued to boost sales of Culinary products. Vegetarian and plant-based sales posted strong double-digit growth, supported by new launches. We also upgraded Garden Gourmet Sensational Burger, which has among the best nutritional scores of any plant-based burger on the market, with a Nutri-Score A rating.

Infant nutrition posted positive growth. Russia performed strongly, and we recently achieved market share leadership with NAN. Growth in Confectionery was almost flat, turning positive

in the third quarter, supported by strong growth in tablets and home baking. Water reported negative growth, with declines moderating in the third quarter as sales in the out-of-home channels improved.

**Slide: Zone AOA**

Moving next to Zone AOA, with sales of CHF 15.3 billion. Organic growth was flat, reaching 4.5% in the third quarter. China saw negative growth, turning positive in the third quarter. Coffee, Culinary and Ice cream contributed positively, seeing sequential improvements.

The contraction in Wyeth Infant formula sales continued to moderate. Our turnaround plan for this business is underway. Wyeth's launch of locally manufactured formula, Belsol, is on track. The new brand strengthens Wyeth's offering in the super premium segment and in Tier 3 and Tier 4 cities. Infant cereals grew at a double-digit rate.

Purina PetCare sustained double-digit growth, led by Felix, Purina Pro Plan and Purina ONE. Sales momentum in e-commerce continued, with broad-based improvements across most categories.

Southeast Asia continued to grow at a mid-single-digit rate. The key growth contributors were the Philippines, led by Bear Brand, Milo and Maggi; as well as Indonesia, supported by Bear Brand, Dancow and Milo. South Asia continued to perform well. India posted strong mid-single-digit growth, with good momentum in Maggi, Nescafé and KitKat.

Sub-Saharan Africa grew at a double-digit rate, with strong growth across most markets, particularly South Africa. Japan, South Korea and Oceania saw slightly positive growth. Oceania had strong growth across most categories. Japan saw a decline in sales, with some improvement in the third quarter. KitKat sales declined in Japan, impacted by a reduction of inbound tourists.

Overall for the zone, Dairy, Culinary, Coffee and Purina PetCare were the main contributors to growth. Outside of China, infant nutrition saw good sales momentum, and Starbucks products continue to attract strong demand.

**Slide: Other Businesses**

Finally, turning to Other Businesses, which includes Nespresso and Nestlé Health Science. Total sales for the Other Businesses were CHF 6.7 billion. Strong organic growth of 7.4% was driven almost entirely by RIG of 6.8%. Pricing was positive at 0.6%.

Nespresso continued to see mid-single-digit growth, with broad-based improvement in the third quarter. E-commerce and the Vertuo system were the largest contributor to growth.

The Americas and AOA saw double-digit growth, with continued market share gains in North America. Growth in Europe turned positive in the third quarter with the reopening of boutiques and a strong momentum in e-commerce.

Nestlé Health science continued to be one of our key growth platforms, reporting double-digit growth. Consumer Care and Medical Nutrition both contributed positively as demand remained high for products that support health and the immune system. E-commerce continued to see strong double-digit growth. Garden of Life and Pure Encapsulations performed strongly. The newly acquired Vital Proteins also delivered robust growth based on high demand for premium collagen protein powders. Healthy aging products grew at a double-digit rate, supported by Boost in North America, Nutren in Brazil and Meritene in Italy. Medical Nutrition posted high single-digit growth. Food allergy and adult medical care products were the main contributors.

**Slide: Contrasted category dynamics**

Looking now at growth by product categories. A clear contrast remains between segments. Overall, our growth highlights the strength of our diversified portfolio and the ability of our company to adapt to a fast-changing environment.

Powdered and liquid beverages reported growth of 3.1%. Coffee posted 4.8% growth. Losses in the out-of-home channel were more than offset by strong developments in at-home consumption, which grew at a double-digit rate.

Starbucks products, Nespresso and Nescafé continued to gain market share. Starbucks products are now sold in more than 60 countries. Powdered formats in Cocoa and malt beverages, including Milo and Nesquik, grew at a high single-digit rate. Sales declined in ready-to-drink formats, moderated as lockdowns eased at the end of the second quarter.

PetCare continued to see outstanding growth globally, supported by momentum in e-commerce, premiumization and science-based offerings. Most segments grew at a double-digit rate with market share gains. We continue to bring innovation to the market, including Purina Pro plan LiveClear in North America and Europe and Purina Prime Bones in North America.

Nutrition & Health Science grew at 1.5%. Infant nutrition growth remains impacted by a sales contraction in China. Outside of China, growth was in low single digit. Infant cereals posted 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 and product segment. Our vegetarian and plant-based food offering continued to see strong momentum. Ambient Culinary and Frozen in retail grew at a high single-digit rate. Growth was supported by new product launches and increased digital engagement focused on maintaining a strong level of at-home consumption.

Milk products and Ice creams grew at 8.2%. Within the category, Dairy performed strongly with elevated demand for home-baking products and fortified products such as Ninho and Bear Brand. Coffee-mate in retail posted double-digit growth.

After a difficult first quarter, Ice cream continued to show sequential improvement, with growth reaching a double-digit rate in the third quarter. Water saw negative growth, given its high exposure to the out-of-home channel. Sales declines moderated in the third quarter.

Confectionery declined, with growth turning positive in the third quarter as the on-the-go consumption improved. Demand for tablets and baking products remained high.

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

## **Q & A Session**

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

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

<b>Questions on:</b>	<b>E-commerce Digital skills and capabilities</b>
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### **Richard Taylor, Morgan Stanley:**

Two questions from me on digital, one specific one and then one more broad question. In the statement, you point to online sales now being 12.3% of the group, which in itself is a big step up on last year, which I think was 8.5%. Can you give us a sense for how big categories like Pet, Coffee, Health science and Infant formula are online versus the rest of the group and perhaps what your fastest growth region for e-commerce is year-to-date?

And then we hear an awful lot from others about their digital capabilities, but my sense is that you've been somewhat understated about your own ability. It's been quite a while since I've been out there, but if I remember well, in 2012, you had a social media, digital monitoring room.

So, can you give us a sense of how you have upgraded your digital capabilities under your tenure, Mark? Maybe in terms of hiring, investment, data, that kind of thing. What I'm really trying to get at is if Nestlé is now at the level in terms of its digital capabilities, can it disproportionately benefit from this ongoing digital leap that we are seeing given the categories that you're exposed to, which should work pretty well online?

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

Yes. Thanks, Richard. And maybe I'll start with that second one and then hand it to François for the first part. So, look, even before COVID hit, this had been a key priority of ours, and I think we've been quite open and outspoken about this, for example, last year in our Investor Day in Arlington. We've been putting things into action. I think under the leadership of our new chief marketing officer, we've been significantly now expanding our digital skills across the full spectrum here, from digital communication, social media outreach, but also then when it comes to e-commerce fulfillment capabilities. It's important that we do this always in line with local market customs because digital, it sounds like a one size fits all, but there's lots of local flavors and local consumer preferences and also local players that you have to work with. So, we adapt to that. We try to avoid duplication by basically having a central toolbox and support system here. But it's important that we also let local markets have a strong voice in how they tailor those systems and apply them. So, feeling very good about this. It's a key priority in essentially all of our strategy meetings. Then, of course, at the beginning of this year, like with everyone else, we've seen this tremendous acceleration coming with COVID. This is where everyone in a short period of time had to improvise and redouble their efforts. So that one is more like your short-term ability to adapt to changing circumstances.

My view is now, this is the coming of age when it comes to digital in food and beverage. As you know, beverage had been comparatively slow compared to other consumer categories in adopting more digital- and e-commerce-driven business. But now I think this is here to stay.

People had to adopt this way of purchasing out of safety concerns and health concerns. Now that they see the convenience, we don't expect this to slide back even after the immediate pandemic is over. So, all the more reason to give it continued effort, greenlight more investment in this area and be a leader in this space.

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

Richard, François speaking. Let me cover the first question. So COVID-19 accelerated e-commerce sales, as you said, with an exceptional strong growth of almost 48% since the beginning of the year. It was fairly consistent even across the last two quarters.

E-commerce sales now represent 12.3% of our total sales, and we don't think that it will go back to where it was last year. It was 8.5% last year.

The good news is that we continue to gain market share online. In about 60% of our business cells online, we have improved and maintained our market share. And the interesting thing as well is in about 2/3 of the cases, we have a better market share online than offline.

You talked about geographies and categories. Our online sales are essentially very concentrated in a certain number of markets by weight and by value. It's largely coming from the U.S., the U.K., France, Germany, China and Japan. Some countries are more advanced than others, but if we look at the growth rate since the beginning of the year, it has been relatively consistent across geographies, maybe with a stronger development in the U.S. and especially because of PetCare because we really did very well over there for PetCare.

Category-wise, we have four categories which are more relevant for e-commerce: Coffee, PetCare, Nutrition and Water. There again we had strong growth momentum across categories, probably a little bit stronger in Coffee, as you can understand, especially because of Nespresso, because we used that channel, our online platform almost exclusively in Q2 during lockdowns in many geographies as our boutiques were closed.

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

Next question is from Warren Ackerman at Barclays.

<b>Questions on:</b>	<b>Coffee performance in Q3 Guidance, Out-of-home, Margins, RIG &amp; Pricing</b>
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**Warren Ackerman, Barclays Bank:**

It's Warren here at Barclays. So, my first question is -- for me, the two big standouts today were the big acceleration in Powdered and liquid beverages in Q3 and also the huge acceleration in EMENA in Q3. I was wondering whether you can say what the Coffee growth was overall in Q3 and kind of split it out between Nespresso, Nescafé and Starbucks.

The same thing on EMENA -- you mentioned U.K. and France being the contributors. Maybe you can flesh that out. I'm just trying to get a sense of how much of this is elevated category versus market share. How much is rising tide lifts all boats versus better execution and innovation from Nestlé, specifically related to Powdered and liquid? That's the first one.

The second one for me is on the guidance. I know you're trying to be a meet and beat, but you're 3.5% at the 9 months, you're 3% guidance plus for the year. You mentioned that Chinese New Year's later, so that's a swing factor. Could you maybe help us a little bit? How much of a swing factor can that be and then maybe what you're assuming for out-of-home in Q4? I know it's moving because of COVID and restrictions, but do you think out-of-home will be better or worse than Q3?

Then related to all of that, what does this all mean for margins? Because the growth today is very, very RIG-driven, hardly any pricing. Should we see big operational gearing on those high-margin categories like Pet food and Coffee driving down into a better margin performance in the second half?

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

Warren, let me cover the question on Coffee. So, Coffee grew by 4.9% in the 9 months. Coffee at-home, so double-digit growth, so we saw a clear acceleration there. That more than offset and compensated the significant sales decline that we saw in the out-of-home channel as well as in the ready-to-drink format.

We had actually a strong improvement in Q3 for Coffee. We were not far away from being double digit actually in Q3, driven by a broad-based acceleration in at-home consumption and some improvement as well in the out-of-home channel, which reflects one of the slides that I presented earlier today. The improvement of our growth largely came as well from the market share gains in the 9 months across segments, across geographies and brands. The same remark applies to the growth. It happened across brands, from Starbucks to Nespresso and through Nescafé as well.

Just one additional remark. We had some pricing improvement as well, and we were slightly positive in pricing, which is a change versus what we experienced over the last couple of years.

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

Warren, it's Mark. Let me just reiterate what François said. I feel very good about how the

Coffee category has developed in Q3. So, this is not just the rising tide, I think this is also us winning in quite a few markets and segments there.

So, look, on the guidance, I think I was pretty open with you that we know this is cautious. As you know, this year, with COVID, this is not exactly the environment for high-precision forecasting. This is where you would want to leave yourself a little bit of safety margin, and this is what we're doing.

As I mentioned, other than the timing of Chinese New Year, which is going to be lighter on Q4 sales compared to the previous year, we don't see really any specific new negatives here. But it's very hard to predict where exactly COVID is going to turn next and what the measures are going to be in key markets for us.

As I hope you also appreciated, the guidance was as short and crisp as it usually is. We've removed all cautionary language around it that existed as part of the H1 guidance. So, this is something that you can absolutely hang your hat on. It's not designed to flag here any specific bad news that we're seeing for the second half of the year and specifically for Q4.

You asked about out-of-home. So, we have not seen that trending down yet. You saw from François' slide that there was a recovery in Q3. We're watching very carefully if it now starts to trend down again with some restrictions out there again.

That has not happened. It could happen as things get worse. That is one of the cautionary items that, of course, we're watching out for. But as of this point, mid-October, we have not seen it yet in major out-of-home markets for us.

On the margin, I can only refer to the guidance, which is unchanged from the summer, and some of the explanations we've given in the summer when it comes to the margin. We have started to reinvest some in PFME because I think now is the good time to do this. You see the benefit in organic growth. Other than that, no new comments on the margin.

When it comes to RIG and pricing, do keep in mind, RIG has expanded very, very solidly. Some of that is mix. I think mix really is signaling the strong innovation track record that we've been building up now and that essentially people are paying for. So, to us, as you know, mix is the new form of pricing, and it is clearly paying off.

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

Next question is from Jon Cox at Kepler.

<b>Questions on:</b>	<b>Organic Growth 2021 Inflation and pricing</b>
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**Jon Cox, Kepler Cheuvreux:**

Yes. Jon Cox, Kepler Cheuvreux here. Just a couple of questions for you. Looking into next year -- and congratulations, by the way, on that very strong volume mix. I think it was the strongest in almost 10 years.

Just looking into next year though. I'm wondering, is there any reason why you can see at this point that organic sales growth would go lower than what we're seeing this year, just given some of the M&A you've been doing and some of the positives we're seeing in the category? So, it's like a 2021 question for you.

Then the second question, we're hearing about inflation coming back into the system potentially, which would help pricing next year. Do you see much of that at all? Obviously, your figures still look quite weak in terms of pricing.

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

Jon, let me start on the first question about next year's OG. Look, with the strong rollercoaster profile that you're seeing this year, I mean, when it comes to a quarter-over-quarter comparison, you will see a messy 12 to 18 months period. I think that's unavoidable. So, it's hard to sort of give you any forecast here exactly by each quarter. But by and large, the trend towards more in-home consumption, which favors us, I think, is here to stay, and I think that bodes well for next year.

But again, on specific quarters, like Q1 over Q1, when you saw some of the consumer stockpiling here in March 2020, it's going to be very hard to give precise expectations. For the full year and then also beyond, I feel quite optimistic because it's clear that even when some of the immediate health care concerns might be abated, people do actually skew towards more in-home consumption now.

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

Jon, François speaking. Let me answer your question on inflation. As you know, pricing is relatively limited in today's world because, first of all, we live in a deflationary environment. And pricing is actually the mere reflection of two forces. One is depreciation of currencies, which happens essentially in emerging market; as well as input cost, which means essentially commodity and packaging material pricing.

If I look at next year, there is no evidence at this stage that we will have a significant inflation on commodities and packaging material. We have seen over the last couple of months, rather, a trend of softening price increases for commodities and packaging material, probably linked to lower demand maybe for some of this raw material.

On the other side, as far as inflation coming from depreciation of currencies, yes, we will see more of it. We have started already to raise prices in some emerging markets when we have been facing, in a number of cases, depreciation of currencies of 25%, 30%. That has to be addressed over time with some kind of inflation, so we will see some of it.

What matters at the end for 2021 is a net of it. Still early to say, so we have two conflicting trends, I would say, over there.

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

Next question is from Céline Pannuti at JPMorgan.

<b>Questions on:</b>	<b>Market share particularly Nutrition in China Consumer spending 2021</b>
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**Céline Pannuti, JP Morgan:**

My first question is on trying to understand competitiveness. I think in the past, you had given some numbers about the percentage of your business where you hold or gain share. If you could share that with us, how that evolved into Q3. More specifically, if you can talk about where maybe you don't seem to be gaining share, which is in Nutrition. Could you talk about how your share losses are progressing in China? And if you could give us a bit of an outlook here, given that some of your competitors, or at least one yesterday, seemed to be a bit more cautious about the market growth going into 2021.

And second question, again, going into the year-end and 2021. I would like to understand how you see consumer spending next year. There seems to be a bit of conflicting messages. Some corporates are seeing still consumers are willing to spend for at-home and willing to spend on brands. Others are worrying about potential pressure and especially in emerging markets. I don't know, Brazil is doing well, but what will happen to the consumer when the government will shower consumers less with corona checks? So, could you give us a bit of your perspective on that?

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

Céline, let me take the first question on market share. So, our market share had been

improving. We have close to 60% of our business cells, a cell is a combination of a geography and a category, which have been gaining market share. It's actually 52% gaining. Holding is 6%, market share. That's close to the highest level that we had since 2013, so it's good overall.

There are obviously different trends by region, by product category and channel. The market share gains, the main ones are EMENA and AMS as well, if we exclude water. But as you know, most of it is linked to water in North America. The other market share gains, notable ones are PetCare as well as in Coffee, both on soluble, portion and roast and ground. We gained market share on Creamers, on chilled Culinary, Infant cereals and Malted beverages as well.

As I mentioned earlier, we also gained market share in an interesting way for the e-commerce channel. We are gaining market share there as well in about 60% of the cells. Where we lost market share is essentially with Yinlu in China and with S-26 as well in China, essentially for Wyeth. I mentioned as well Water for North America.

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

Céline, this is Mark. So as to your second question, it's hard to give a one-size-fits-all answer here but let me share a few thoughts with you. One is that the model that we've seen in previous recessions, where the two extremes of the pricing spectrum hold up pretty well, I think that is poised to happen again. So, you will see strong interest on the value side of things, including value packs, larger pack sizes, just getting good deals, good value. On the other hand, there is a continued interest in premium products, and people don't want to give up on those easily. Those who can afford to continue buying them will do that. So, from everything we've seen so far, that continues to play out again this time.

I think at some point, yes, some support checks are running out. There may be less consumer spending overall. But do keep in mind, you have to eat and drink, so it's not like this is where you start to save. Also, let's not forget, with less out-of-home consumption, there's a savings effect anyways because, typically, your unit prices at retail level that you spend in out-of-home tend to be much higher. So that purchasing power is available then for more in-home consumption -- or support the in-home consumption

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

Next question is from Alain Oberhuber at MainFirst.



<b>Questions on:</b>	<b>Portfolio management, Divestitures and Acquisitions Confectionery, Hsu Fu Chi</b>
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**Alain Oberhuber, MainFirst:**

Two questions from my side. The first question is regarding the rotation of the portfolio. As Nestlé announced, they would like to turn around 12% of its sales til 2023. I would be very much interested how is the current development of these divestments you have already announced, which is U.S. bottled water and Yinlu. Do you even expect an earlier divestment than you have guided for?

Within that, regarding the investments. With the recent acquisition of Aimmune Therapeutics, you went into a new area, in particular into parenteral nutrition versus your previous focus of enteral nutrition. Could we expect more of these parenteral nutrition acquisitions in the future?

The second question is Confectionery. Obviously, a good improvement in particular, I guess, in Brazil and in Europe, as you mentioned. I would be interested how is current development of China Hsu Fu Chi. I guess it's not doing good at the moment. When do you expect we could see a recovery with that brand in China?

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

Alain, thanks for the questions. And let me try and tackle both.

So, we feel very good about the timeline of the ongoing reviews, but I do feel that the time frame that we had given, which is Q1 of next year, is still the right one. So, we're fully on track for that, but I don't see much room here for an acceleration. As you know, there's only 10 weeks left in the year. So, the Q1 '21 timeframe to me makes sense.

I'm very glad you're asking the question about Aimmune because this gives me an opportunity to clear up a misconception here. I noticed that a few media reports, when we acquired the company, talked about a biotech firm. Then some people came to assume that this is a parenteral product that gets injected because this is what happens to many biologics.

The product itself got regulated by FDA as a so-called biologic approval pathway. The FDA has a few pathways for approving products, and they chose a biologic one. But it is an enteral product, and it is not like an antibody or something that gets injected. Hence, it's less high tech than maybe some biotech products out there in other therapeutic areas.

So, we believe that this is very much within our range of skills. It's something we can handle really well. It builds nicely on our portfolio of allergy products we have already. We'll continue to do research and try to expand also the technology platform that Aimmune offers to, over time, cover other allergens, not just peanut.

We believe this is a wonderful fit. As you know, we've been a minority investor in that company since 2016. So, we had a chance to follow the technology and its approval process very closely. So, we feel very comfortable we're leading this business going forward and handling the technology and maximizing its potential.

When it comes to Confectionery, look, I'm very pleased with the progress now we've seen in Q3. So clearly, this business has been hard hit by the reduced out-of-home consumption. Then in particular, when it comes to Hsu Fu Chi in China, as you know, a big part of their business is pick and mix. So, this is where you essentially self-serve, and in this current environment, with hygienic concerns, this is sometimes a hard sell on people. We've been responding, of course, in a swift way, trying to have more package choices and online. But nonetheless, a large part of the existing business was exposed here to pick and mix. This is something that I think we have to repair over time. We're putting a lot of effort on reinventing and reimagining that business. So, let's give it some time for the results to play out.

But overall, in Confectionery, I'm very pleased with the innovation I'm seeing, new things we bring to the table, the continued strong success story of our wonderful KitKat brand and others. So, feeling good about it.

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

Next question is from David Hayes at Société Générale.

<b>Questions on:</b>	<b>Nestlé Health Science Q3 performance Nespresso performance in Zone EMENA</b>
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**David Hayes, Société Générale:**

Two for me, one on Nestlé Health Science and one on EMENA. So, on Nestlé Health Science, looking at the numbers, it looks like it really stepped up in the third quarter, probably up in the high teens. I just wonder whether you can comment on whether there's anything specific in there that means that, that was a slightly standout quarter that maybe unwinds a little bit in the fourth quarter. Or is that just a growing trend, a growing evolution of people wanting to take healthy supplements and so forth?

The second question on EMENA. We've still got this gap when you look at EMENA with and without Other in the numbers, 2.9 versus 2.2. Backing that out, it looks like Other's down, therefore, a couple of percent or so. Given that NHSc is doing so well, it would suggest Nespresso is struggling a little bit in EMENA, which, I guess in some ways, is surprising given the move to in-home. Is it because so much of that business is out-of-home in that region? Or are you seeing some cannibalization early on with the Starbucks push and that cannibalization will ease off as we go through next year?

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

David, François speaking. Let me answer the question. So, on Nestlé Health Science, so it grew at double-digit rate, supported by strong growth for Consumer Care and Medical Nutrition products. Clearly, Consumer Care products were supported by both Atrium Innovations, Vital Proteins and the healthy aging products. I would mention specifically Garden of Life and Pure Encapsulations, which clearly saw strong momentum, with high demand for supplements that support both health and the immune system. I could mention even more specifically encapsulation PureDefense for respiratory health or Garden of Life organic elderberry syrups and gummies as a herbal remedy. We have some range like Garden of Life probiotics as well, which did very well. The Medical Nutrition side was supported by pediatric products and for adult medical care. There, I could mention a brand, which is Peptamen, that did very well. Finally, for NHSc, part of the growth came as well from the e-commerce sales that grew very strongly in double-digit growth.

As far as EMENA is concerned, you're absolutely right that the difference that you mentioned is largely coming from Nespresso. As you know, in Nespresso, most of our boutiques were closed for quite some time, and we had difficulties because of some issues with the post office in some countries to deliver during the peak of the lockdowns in some European countries. It got sorted out over time. Now it's back to normal. Actually, in Q3, we are happy to report that we were back into positive territories for Nespresso in Europe. There is no sign of cannibalization at this stage, so no specific concern on that side.

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

Next question is from Patrik Schwendimann at Zürcher Kantonalbank.

<b>Questions on:</b>	<b>Organic growth target</b> <b>Anticipated impact of late Chinese New Year</b>
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**Patrik Schwendimann, Zürcher Kantonalbank:**

You have reached 3.5% organic growth after 9 months in a tough environment. Your mid- to long-term target is to get to a mid-single-digit growth of, let's say, 4% to 5% growth. How close are you already to this target? Or what has still to be changed to reach this target on a sustainable basis? That's my first question.

And second, regarding China. The Chinese New Year is almost 3 weeks later. What's your best guess of impact for China in terms of sales? Does this mean 10% lower sales? Or what's your best guess assumption here for China?

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

Thanks, Patrik. So, let me start on the mid-single-digit target, which still very much, of course, guides our actions. So, we're very much focused on ensuring the internal steps that are necessary to hit that consistently over time. No one's served if we hit this for one quarter or one year and then slide back. It's important to have an innovation engine here in all of our categories that allows us to stay there in a consistent manner.

Now short term, this is what I was trying to explain earlier. With COVID around us, you will see rollercoaster movements here in the numbers going forward. So, the quarterly pictures are going to be very messy. Still, midterm, everything we told you in February about aiming here for mid-single digits still applies. I think the good news to me and the reassuring news to me is that while we're handling the COVID crisis, in all modesty, so well, the internal work when it comes to ensuring future innovation, building product pipelines, building new digital capabilities and all of that, that continues unabated. So that has not slowed down. There were a few weeks in the spring as everyone kind of improvised to set themselves up to work from home offices and everything like that. But beyond that now, I saw solid progress on all of these efforts throughout the year. Management very much focused on it. So, I feel good about our ability to be there in a reasonable amount of time.

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

Patrik, François speaking. On the other question of the impact of Chinese New Year, indeed, we do expect one impact for the quarter, which is why we are a little bit cautious as well on the outlook for the full year. We expect to lose probably close to two weeks as far as China is concerned. As you know, China is our second largest market. So, you can do the math. It's about 200 basis points potentially of loss, because we won't get this pre-season shipment for China on its own, which is probably 40 to 50 basis points of impact in terms of organic growth for the quarter for the group. So, it's quite material.

Not all categories will be hit in the same way. This is still an estimate. It's not an exact science either. So, we'll see exactly how it goes, but it could go up to that level.

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

Next question is from Guillaume Delmas at UBS.

<b>Questions on:</b>	<b>Nutrition performance Vision for Nestlé Health Science</b>
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**Guillaume Delmas, UBS:**

A couple of questions for me. The first one on Nutrition. And going back to your mid-single-digit organic growth ambition, it strikes me that all your high-growth categories this year are already performing at or actually well above your medium-term ambitions. The only exception to this rule is Nutrition. So curious to hear your thoughts about how you look at this, whether you think it's just a temporary softness and it's down to challenging market conditions or if you think there is more you can do to improve your performance quickly there.

Then my second question, going back to Nestlé Health Science. The category remains fragmented. We're hearing more and more about pharmaceutical groups creating stand-alone entities for their consumer health care assets. So, my question here is what's your vision for Nestlé Health Science? I mean are you happy with that combination of strong organic sales growth and bolt-ons? Or would you actually be open to a more transformational deal to accelerate the transformation of your portfolio?

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

Thanks, Guillaume. I think both of these are really important questions.

Look, on Nutrition, I think you're seeing two things at work. One is we were pretty open all throughout the year that we're not happy with the performance we're seeing in China and in particular with Wyeth there. I think I told you as part of the H1 call that we changed leadership. We're very focused on this. As always, you've seen us in the past, when we focus on matters, I think we set them straight and we get them going. We'll make sure it won't be different this time.

Generally, while we're totally committed and very bullish about Infant nutrition, it is true that on Infant formula itself, when you look at birth rates in key markets, it's very hard to get to significant growth rates right now. I think the best way to address that and still keep the growth ambition of this category is to also think about some of the additional products that we

have on offer there. Think about Infant cereals, which I think are doing extremely well and there's lots more potential here to upgrade those over time. Think about the VMS, vitamins, minerals, supplements space for both mothers and children to be sure that the first 1,000 days are nutritionally optimal.

So I think by defining our business scope there a little broader, not just in Infant formula, as we've done already over the last several years and then in a good way executing on that, I think we will be able to improve the growth profile over time. So, it's important not just to narrowly look at Infant formula alone and then draw your conclusions from there. I think this is one of the benefits of our Nutrition segment as I compare to some of our direct competitors.

On Nestlé Health Science, nothing has changed from what I laid out to you as part of the investor meeting in London in 2017. That is, we are super bullish on this, super committed, but we're not intending to build a toothbrush to sunscreen -- kind of soup-to-nuts portfolio. We are focused on nutritional and metabolism products, and we want to be the thought leader and market leader in products that relate to that. This is what we're patiently building up.

Had it just been for large numbers, we could have built one of these consumer care empires so much earlier. But I think a business model that only rests on one common denominator, and that is a channel to the pharmacy or the drugstore, in my view, has no future. I think if you want to be the thought leader, you want to be the know-how leader on a particular area, you want to own it. For us, of course, this is nutrition science and metabolism, and this is what we focus on.

So particular problems such as food allergies, digestion problems and ensuring that humans have all the micronutrients they need, I think this is what our core skill is, and we'll keep expanding there. It takes a little longer to then build it up to sizable numbers, but I hope you've seen by now that with the essential doubling that we have accomplished here -- or on track to accomplish, we are heading now to something that is meaningful for the group. But then more importantly, it's built to last because it really builds then on the know-how we have in the space, and it's not just a mini portfolio that gets sold through a drugstore or pharmacy.

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

Next question is from Jeremy Fialko at HSBC.

<b>Questions on:</b>	<b>Q3 purchasing habits Mix vs Volume</b>
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**Jeremy Fialko, HSBC:**

So, a couple of questions from me. The first one is, in the quarter, you saw both an improvement in the retail side of things but then also the out-of-home did better. So really just a question of whether there is any restocking that you're seeing. Any sort of catch-up spend? Just any items that you would see being, let's say, not representative of the kind of longer-term or midterm run rate.

Then the second question is just on the mix versus volume. So, all of your growth is coming from RIG now. I know you alluded to this in a previous question, but whether you can give any indication as to whether mix or volume is the primary component of your RIG.

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

Yes. Thanks, Jeremy. Let me take the first one and then maybe hand it to François for the second one. So again, it's pretty hard to give a one-size-fits-all answer. There may have been sort of isolated circumstances where either a retailer or consumer may have been stocking up. But broadly speaking, this quarter felt different from what we've seen, for example, in March, where clearly some cautionary stockpiling at the consumer level and also the retailer level was at work. This is not so much the case now.

I think what you're seeing here is genuinely people staying more at home, consuming more at home and also now getting settled into that habit, which I think is going to be here to stay with us for a while. I think that bodes well generally. So, I see it as something positive.

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

So, talking about the components of our growth. So, as I mentioned earlier, pricing, I would not say it doesn't exist anymore, but is limited because we live in a deflationary environment. This is just the passing through of input costs that we have, commodities, packaging material or currency depreciation as well. We don't create really any value there, but we have to reflect it and pass it through.

Mix is certainly more interesting because we are creating value there. Because the mix that we have is essentially product mix, which is largely linked to premiumization, we are creating value there because the price per kilo, the price per liter is usually higher. This is what we have been really doing over the last couple of years. That continued since the beginning of the year, which is rather good news.

Volume is important as well. You saw that in the past, we had about 1% of volume gain per annum. We are still around the same level as we speak. This is important as well because this is certainly creating value. This is share of stomach as well, so we value that overall.

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

So next question is coming from John Ennis at Goldman Sachs.

<b>Question on: Drivers behind market share gains</b>
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**John Ennis, Goldman Sachs:**

I have a follow-up question on market share trends, please. You highlighted Coffee and PetCare as categories that have gained share, and they're, of course, more e-commerce-friendly category. So, I just wondered what you think has been the main driver behind the share gains.

Is it predominantly down to channel shift? Or is it down to your supply chain strength maybe relative to some other competitors during COVID? Or is it something else altogether? I'm just interested to see what you think has been the biggest driver of those share gains and how confident you are that these share gains, now that you have them, can be held on to medium term.

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

The share gain, if I talk of Coffee, it happened, as I said, across brands and across geographies. Certainly, one of the key drivers of the growth has been innovation, and I would mention Starbucks there. We did gain significant market share through Starbucks.

I would mention one clear example in EMENA. We have gained about 10% of the Nespresso compatible capsules branded Starbucks in Europe, which is a market where we were not present before. As you know, we sell only Nespresso capsules through our own boutiques and our own e-commerce platform. So that's a good example of it. We have been very innovating as well, entering into roast and grounds with Starbucks brands and so forth.

I would mention one highlight as far as Coffee is concerned, which is Nescafé Dolce Gusto. We have been doing very well since the beginning of the year. As you know, we built over the years a business which is more than CHF 1.2 billion by value, and this is growing at a strong double-digit rate.



PetCare, a lot has to do with premiumization and innovation as well. So, we launched products like, for example, this anti-allergen product for cats in the U.S. So, we have launched as well, just to name a few, products that limit barking for dogs, and consumers are ready to pay a premium for it. Just to name a few of the innovative products that we have launched.

In PetCare, in emerging market, it's a different story. It's a little bit less about premiumization. It's much more about calorie conversion, which we are actually driving in many of the markets. And as you know, we are gaining significant market share as we speak in Eastern Europe, in Latin America as well as in Asia overall.

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

John, building on that. So fully concurrent, I feel that the trends that we were building on here in Coffee and PetCare were, by and large, trends that were already at play before COVID hit. So, this is not a supply chain game. I mean I'm very proud of what our supply chain people have done, but this is not only supply chain driven but rather a continuation of the good trends we've seen before.

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

Last question is from Jean-Philippe Bertschy at Vontobel.

<b>Questions on:</b>	<b>Capital expenditure for production capabilities Starbucks</b>
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**Jean-Philippe Bertschy, Vontobel:**

The first one is regarding some possible production bottlenecks, considering the strong growth in some categories. And if you want maybe to reallocate your capital in some strong-growth or high-growth categories.

The second one is on Starbucks, double-digit growth in North America. I would be very much interested in your first takes of this acquisition, what you've been learning from Starbucks and vice versa. It looks like you are likely above your expectations from back then when you acquired the business.

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

Thanks, Jean-Philippe. So, look, on production, we just touched upon PetCare, and I think this is the one I would call out. We are in a massive capital expenditure drive right now. As

you know, this is our second year now of very significant outsized growth rates. A lot has to do with the trend that we covered in earlier calls, but not today, and that is a renewed interest in science-based products and maybe less growth in some of the premium natural products. That trend, of course, is very much right now wheelhouse and something that we very much welcome. But as a result of that, we had to fast track quite a lot of CapEx now, around the world, in PetCare. This will take a bit of time to come onstream. So, nothing that, at this point, looks absolutely serious here when it comes to continued growth. But nonetheless, we need to work hard here to keep expanding in line with the market demand we're seeing. But again, there's nothing I like more than spending CapEx into a rising category. So, for me, as much as I know this is hard work for the team, I see it as good news.

The Starbucks partnership is absolutely wonderful. As you know, we closed the transaction in August 2018. So, this is now two years of work side by side to bring all these SKUs to the market. As you've seen, beyond the initial batch of 24 SKUS, which was unveiled in early 2019, we now also have a steady stream of new products coming to the market. I feel very good about the pipeline that is shaping up for '21. We had some really good launches this year. So, this is not a one-shot deal. This is an ongoing, strong partnership where I think the two companies sort of put their best Coffee, thinking together, and they continue to come up with amazing and dazzling products. So, couldn't feel better about it.

### **End of Q&A session**

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

Thank you all. With no further questions, we come to the end of our session today. If you have any other questions, please feel free to reach out to our IR team.

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

Thanks, everyone.

### **End of Transcript**