2020 FULL YEAR RESULTS CONFERENCE CALL TRANSCRIPT

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Speakers:

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François-Xavier Roger, Chief Financial Officer, Nestlé S.A.
Luca Borlini, Head of Investor Relations, Nestlé S.A.

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

Slide: Title slide

Good afternoon, and good morning to everyone. Welcome to the Nestlé Full Year 2020 Results Webcast. I am Luca Borlini, Head of Nestle's Investor Relations. Today, I'm joined by our Chief Executive Officer, Mark Schneider and Chief Financial Officer, François Roger.

Mark will begin with an overview of 2020 and discuss the 2021 guidance as well as the midterm outlook. François will follow with a review of the full year 2020 sales and profit figures. We will then open up the lines for your questions.

Slide: Disclaimer

Before we begin, please take note of our disclaimer.

And now I hand over to Mark.

Mark Schneider, 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 strong interest in our company. I think we have very reassuring results to share with you for the year 2020 and also a very encouraging outlook for the year '21 and beyond.

This conference call may feel the same to you. Behind the scene, it's a little different. We have taken every possible precaution here from a COVID perspective, so perfectly in line with Swiss regulations. François and Luca and I are handling this call from 3 separate rooms because we wanted to talk to you without masks on to make it better understandable. So we will have to improvise here and there, and I hope you bear with us. If you don't feel the difference at all, all the better. It means we're on top of the technology here.

Slide: Key Messages 2020

That takes me right to the key messages for the year 2020. While we don't want to have this call dominated by COVID only, of course, COVID has been the defining element of the year 2020, it's been a year like no other, I'm proud to say that Nestlé has been rising fully to the challenge by this global pandemic. We were from the beginning, staying focused on three priorities: employee safety, business continuity and community support. I think we stayed true to these three priorities all through the year.

In all modesty, as I look back over the year, as a team, we tackled that challenge really well. We were one of the first companies to issue a global travel restriction at a time when some other peer companies still thought that this may be a little over the top. We were one of the first companies to roll out and make widely available masks as a form of protection, at a time when even some of the national health agencies were still actively advising against that. Of course, that has reversed during the year. And we're one of the first companies to roll out widespread regular testing. To this day, whether it's François, me or anyone working in our facilities, people who come into our facilities at this time undergo frequent testing. Personally, I do it once or twice every week. That certainly gives us continuity. It gives us assurance that we keep a safe workplace. I think it's part of our commitment to our colleagues.

Then in terms of community support, I think we were supporting the communities where we operate. We're supporting the public where we can, not just by fulfilling our essential function of providing food and beverage, but also in very good ways through our medical help, donating products and increasingly now also providing support when it comes to vaccinations.

I'm also proud to say that with all the challenges posed by this pandemic, we did not get distracted from our major underlying initiatives and strategic directions that we had shared with you in previous years. I think that’s also borne out in the financial results. Organic sales growth of 3.6% is slightly ahead of the year before. We were able to increase our underlying trading operating profit margin by another 10 basis points to 17.7%.

Portfolio transformation is also fully on track, and I think that's also a very reassuring sign. The latest transaction you've just seen yesterday announced and that's the divestiture of our North American Waters business.

In line with that very reassuring performance, our Board has agreed to raise the dividend by 5 centimes per share. This is what we're going to be suggesting to the Annual General Meeting in April to an amount of CHF 2.75 for the year 2020.

One other achievement that I'll go into later in this presentation is our detailed roadmap to achieve net zero greenhouse gas emissions by 2050. We were one of the first companies in our space to issue that in December. We are keeping the timeline that we had set out to be one of the earliest ones out there with a detailed plan. In addition to keeping the timeline, I'm proud to say that this plan now, which is a very detailed document, has become sort of an industry benchmark, and we're quite proud of that.

Slide: Third consecutive year of improved growth and margins

Now moving on to the financials. François, of course, will give you a much more detailed update. But I would like to point your attention that we're seeing now the third consecutive year of improved growth and margins. When you think back to our investor event in September 2017 in London, that balanced pursuit of better organic sales growth and better underlying trading operating profit, that was the key element of that plan. That was also something that was kind of doubted at the time, like can you do the two at the same time? I think here we go, third year in a row. When you look at our guidance for this year, and also the midterm guidance, then you see that balanced success story is expected to continue.

The underlying trading operating profit margin, I wanted to address that. I think Francois will also get into that a little later. We had guided you towards a modest increase, which we have delivered. It is a guidance that we typically give in actual currency, not in constant currency. So I think what we've delivered here, the 10 basis points, is in line with the guided increase. I think there were some questions around the half year point when the underlying trading operating profit was ahead of plan. We had told you that in the spring of 2020, some of our marketing spend had been reduced simply due to COVID. But then during the fall, we accelerated that. I think we are investing and spring-loading here for growth in '21, which is a good thing. Then also any potential currency impact on underlying trading operating profit margin was much stronger in the second half of this year than the first half. So, I want you to keep that in mind.

But even though we have been sort of coming back from some of the levels from the half year point, we were completely in line with what we told you, because I think we cautioned, even in the summer, that we would actually get back to a more moderated underlying trading operating margin improvement level for the full year.

Slide: Continued progress in 2020 towards mid single-digit organic sales growth

Next, I would like to talk about the continued efforts here to get towards mid single-digit organic sales growth. You see essentially the same three buckets that we covered with you in the previous years: focus on high-growth categories and channels, portfolio management and fixing underperforming businesses. You see specific examples from each of these buckets that apply to the year 2020.

The one area I would like to point your attention to is plant-based food, where we've seen strong double-digit organic sales growth. As you recall from previous sessions, this is not only about the one product that seems to be getting all the attention, and that is plant-based hamburger patties. It is about a wider opportunity to reimagine, reinvent and reinvigorate what is a CHF 12 billion category for us, and that is food. Those opportunities to reinvigorate the food category are few and far between, it's a once-in-a-generation opportunity, and I think we're making good progress with that.

So, we told you that when it comes to the inner core of plant-based meat analogs, we're talking still about a sales level in the vicinity of about CHF 200 million, growing at strong double-digit rates. But when you look at the wider opportunity, when you look at where we use these ingredients to then make more attractive downstream offerings, like frozen pizza with plant-based toppings or frozen meals or other prepared dishes, then it's a much bigger opportunity. Then we're talking almost CHF 700 million. Here, again, growing at double-digit organic sales growth rates.

So, it shows you that the entry point, of course, is a product, like the hamburger patty, where I think we have a very competitive offering. But then it branches out into a much, much wider opportunity and downstream then and reinvigorates our food area.

Same applies to plant-based dairy alternatives. Here, we have a business slightly ahead of CHF 100 million. Again, growing double digit. But here again, it's an entry point to other areas that you can invigorate. Think about Ice Cream, think about Confectionery. Some of you may have seen earlier this week, our announcement on a vegan KitKat product. So, these ingredients are necessary starting points, so that further downstream we can see continued success in new products.

Slide: Further developing our portfolio

I'd like to move on to the next slide and the development of our portfolio. Clearly, a lot of activity. Sort of looking back to the year 2017, more than 75 transactions by now and the equivalent of about 18% of group sales. This is including the latest Waters transaction. On balance, a very successful endeavor, and I think, a good contributor to our continued organic sales growth improvements. The contribution in 2020 was around 60 basis points.

Slide: Nestlé's Net Zero Roadmap

Next, I'd like to cover briefly the net zero roadmap. I won't get into all details anymore, I'd refer you to our website, where the full document is available. Mind you, this is not just some sort of high-level summary and ambitions. This is 20 pages of fairly detailed material, by areas of operation, on how we intend to get there.

To me, there is a few key messages here. First of all, when you compare our 2050 commitment to other players, it's always important to keep in mind that this is a full scope category three commitment. So, this includes all of our agricultural supplies. That's different from what some other players are using, which is category scope two, so that would be basically the company's operations and distribution logistics and also inbound logistics, but not some of the commodities. Hence, especially in the agricultural space, we believe that we're not solving the problem if we're not moving up the supply chain and helping our suppliers to get to a net zero environment. So hence, this is what it takes. This is also where the vast majority of our greenhouse gas emission takes place. Actually, just solving the part inside our own four walls and in transportation logistics, would be a relatively easy endeavor compared to the full scope three. Hence, this is something you just need to appreciate across the categories and the vast scale the company has.

We believe it's a solid plan. We're very committed to it, and it's something that also has the full support of our management team, the Board and the employee base. In fact, I've rarely seen anything as motivating as this commitment when it comes to our colleagues around the world that are part of the Nestlé family.

Slide: Sustainability is key to our value-creation strategy

I would like, on the next slide, to put this into the wider context of our ESG commitments and some of the costs that we're facing when it comes to fulfilling our plans. I know this question had come up a few times over the winter now, especially after we issued the net zero roadmap. It's important for me that people do not see it only as a short-term impact on our P&L, or a burden, but rather, we see it very much as an opportunity. An opportunity to, first of all, do a great service to society and earth around us, but then also a great business opportunity in a world where priorities around sustainability are changing very fast. Especially now with the United States rejoining the Paris Agreement, I think there's a good expectation here that for the very first time, between the major North American economies, European economies and Asian economies, there's going to be regulatory convergence towards much, much higher standards when it comes to carbon neutrality and other sustainability matters.

So when you look at doing business in this environment, when you look at the heightened consumer awareness, it's very clear that lagging behind will come at a significant cost. You're losing out with consumers, losing out with the regulators. You're facing, in some areas, taxes for those people that lag behind. You're facing also, given the higher expectations from our investors, potentially higher cost of capital down the road. And certainly, when it comes to the war for talent and the employee base, if you want to capture the dedication, imagination of the best possible people on the planet, I think it's good to be one of the leaders in this space.

So, we see it as a source of competitive advantage. We do not see it as corporate philanthropy or giveaway. We are looking at these projects very much from an investment point of view. Just like with research and development that tries to make the best products available to our consumers, we see it as forward-looking spending to be sure that our sustainability profile gets improved and spending on which we expect payback and a decent return.

So, this is something I want to assure you about, that we look at it from a very commercial point of view. We see the opportunity. We see the benefits of being a leader in this space as opposed to a laggard in the space. Then short term, when it comes to some of these expenditures, I do think, and we have given you every assurance, that we have enough gas in the tank when it comes to efficiency improvements, structural cost reductions and also growth leverage to make these sustainability investments earnings-neutral. In fact, when you look at our guidance for this year, when you look at our mid-term outlook that we've shared, you see very clearly that we continue to follow the traditional investment model of moderately improving underlying trading operating profit margin. So, no deviation from that plan. Yet at the same time, we are firmly on our way to being a leader in that space.

Slide: 2021 guidance

That also brings me then to our 2021 guidance and, on the next page, our mid-term outlook. On the guidance, in all modesty, let me point out, I hope you appreciate that we're giving guidance at all in the circumstance, because that's not a done deal for everyone. Some people have still stayed away from that. So, we believe that, while, of course, there is some residual uncertainty related to COVID, we have sufficient clarity and visibility to commit to what we're giving you here. As you know, even at the depth of the crisis last year, each and every quarter, we were staying very true to what we were telling you. We were trying to be as precise as possible and give you as much dependability as we could.

So, with this, the most important thing, of course, is around organic sales growth. This is where we expect a continued increase in our organic sales growth rate towards mid-single digit. This means better than the 3.6% that we accomplished in 2020. There is a very good opportunity to actually get across the 4% barrier, which is then the entry point to the mid single-digit range. Again, I hope you understand with some of the residual uncertainties around COVID, that we're not in a firm position to guide towards that. But nonetheless, I think that you should appreciate the underlying optimism that is part of this guidance here, where we're saying definitely better than 2020 and then there is an opportunity to actually cross over into the mid single-digit range.

On underlying trading operating profit margin, as explained earlier, we continue to see and expect moderate improvement.

Then the other metrics around earnings per share in constant currency and capital efficiency, we also expect to improve.

Slide: Mid-term outlook

The same applies to the mid-term outlook, and very much steady as she goes when you look at the business model here. But to me, the key word is in the first bullet point, the emphasis on sustained mid single-digit organic sales growth. This is what we're aspiring to. No one is served if we hit mid single-digit organic sales growth once and then slide back. What we have done now with our innovation work, our portfolio adjustments and our focus on underperforming units, I think positions us really well to reap the benefits here over the mid-term. Especially in a low interest or zero interest rate world, I think the single biggest value driver that we can give to you as our shareholders is strong organic sales growth. I think this is what we're positioned for.

So on this outlook, let me hand it over to Francois, who will give you a more detailed financial update. Then we'll be back to answer your questions. Thank you.

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

Slide: Title slide

Thank you, Mark. Good morning or good afternoon to you all. Mark has shared the financial headline with you already, so I will provide you with some of the details behind those numbers.

Slide: Full-year sales growth

Our organic growth increased to 3.6%. The most significant contributor to growth was RIG which accelerated to 3.2%, the highest level in the last 9 years. Our strong RIG is largely made of positive product mix, which is a good illustration of our capacity to innovate and premiumize our offering.

Pricing was 0.4% and improved during the year, particularly in emerging markets.

Foreign exchange reduced sales by 7.9% reflecting the continued appreciation of the Swiss franc versus most other currencies.

Divestitures had a negative impact of 4.6%, largely related to the divestment of Nestlé Skin health, the U.S. Ice Cream business and Herta.

As a result, reported sales decreased by 8.9% to CHF 84.3 billion.

Slide: Contrasted momentum by channel

The effects of COVID-19 on organic growth varied materially by sales channel. Organic growth for retail sales doubled to 7%, reflecting sustained strong demand for at-home consumption. Within retail, e-commerce saw exceptional growth of 48.4% and now accounts for 12.8% of total sales. Sales in e-commerce exceeded CHF 10 billion, with further market share gains online.

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. Before COVID-19, the out-of-home channel accounted for around 10% of group sales. If we include on-the-go and impulse products, then our total exposure to this channel is closer to 15% of sales.

Slide: Strong growth in retail sales

Sales in retail remained strong throughout the year. In out-of-home, sales decline moderated in the second half of the year, stabilizing at around minus 26%. We remain cautious and expect continued headwinds for the out-of-home channels in the first half of 2021. 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: Broad-based growth with strong momentum in the Americas

This slide illustrates the development of our sales by geography. It includes both our Zones as well as our globally managed businesses. Our organic growth was positive in all geographies, led by sustained momentum in the Americas and robust sales development in EMENA. Pricing was positive in the Americas and AOA. Europe saw slightly negative pricing.

Slide: Strong real internal growth in developed markets

Now turning to growth dynamics between developed and emerging markets. In 2020, developed markets accounted for the majority of our sales, with organic growth accelerating to 3.8%. Emerging markets represented 41% of sales. Organic growth improved during the year to reach 3.4%, supported by both RIG and pricing in the second half. We are positive on emerging markets as a key growth platform for the years to come.

Slide: Zone AMS

Let's now look at the results of our 4 operating segments, starting with Zone AMS, where we saw a significant increase in organic growth to 4.8%. Sales were CHF 34 billion. North America grew at a mid-single digit pace, led by the United States. The largest contributor to organic growth was Purina PetCare, supported by strong sales development in e-commerce and science-based premium brands. Beverages, including Starbucks at-home products, Coffee-Mate and Nescafé posted double-digit growth with market share gains. Frozen food reported a high single-digit growth led by Stouffer's, DiGiorno and Hot Pockets. During the year, we created a new range of modern health offerings, including Lean Cuisine and the newly launched Life Cuisine, which saw encouraging results.

Latin America posted high single-digit growth with positive contribution across geographies and most product categories. To meet strong demand, the Zone invested behind key growth categories such as PetCare, Coffee and Food. For PetCare, we announced several investments amounting to $1.5 billion in new production capacity, including two new plants in Ohio and North Carolina. For Coffee, we are also adding a production facility in Mexico in 2021.

The Zone's underlying trading operating profit margin increased by 40 basis points. Operating leverage, portfolio management and the positive impact of direct store delivery transformation more than offset commodity inflation and COVID-19-related costs.

Slide: Zone EMENA

Next is Zone EMENA with sales of CHF 20.2 billion. Organic growth at 2.9% is the highest level achieved by the Zone over the last 5 years. RIG at 3.3% was supported by favorable mix. Each region saw broad-based positive growth, with most geographies and categories seeing market share gains led by pet food, portion and soluble coffee as well as vegetarian and plant-based food products. By category, the largest contributors to growth were Purina PetCare, Coffee and Culinary. Sales in Garden Gourmet grew by close to 60%, supported by new product launches and continued distribution expansion across its 20 markets.

The Zones continue to evolve its portfolio towards attractive high-growth categories, with acquisitions such as Lily's Kitchen in premium pet food and Mindful Chef in direct-to-consumer meal delivery. Both businesses grew at a strong double-digit rate.

In June, the group closed the sale of a 60% stake in its Herta charcuterie business.

The Zone's underlying trading operating profit margin increased by 50 basis points. Lower consumer-facing marketing expenses, structural cost reductions and portfolio management outweighed COVID-19-related costs.

Slide: Zone AOA

Moving now to Zone AOA with sales of CHF 20.7 billion. Zone AOA posted 0.5% organic growth for the year. Excluding China, growth was mid-single digits. China posted negative growth due to the timing of Chinese New Year, declines in out-of-home channels and limited consumer stockpiling during lockdowns. Coffee, Culinary, Ice Cream and Ambient dairy all delivered positive growth supported by e-commerce and innovation. Sales in Infant Formula declined, with improvement in the second half. Infant cereals and Purina PetCare saw double-digit growth. Nestlé Professional reported a sales decrease, with growth improving to almost flat in the fourth quarter.

Southeast Asia posted low single-digit growth. Sales in the Philippines grew at a high single-digit rate, led by increased consumer demand for Bear Brand, Milo and Maggi. Indonesia also delivered strong growth, supported by Bear Brand, Milo and Dancow.

South Asia continued to perform well with high single-digit growth in India and the return to positive growth in Pakistan.

Sales in Sub-Saharan Africa grew at a double-digit rate, reflecting strong sales development across most countries and categories.

Oceania posted robust broad-based growth led by Purina PetCare, Coffee and Confectionery.

Japan saw a sales decline, with improvement in the second half supported by Coffee. KitKat sales were negatively impacted by a reduction of inbound tourists.

By product category, the largest contributions to the Zone's growth came from Dairy, Culinary and Coffee. In Coffee, there was continued strong demand for Starbucks products.

Outside of China, Infant Nutrition grew at a mid single-digit rate, led by South Asia, Sub-Saharan Africa and Indonesia.

The Zone's underlying trading operating profit margin decreased by 30 basis points as a result of commodity inflation and COVID-19-related costs.

Slide: Other Businesses

Finally, we review our Other Businesses, which mainly includes Nespresso and Nestlé Health Science. Total sales were CHF 9.4 billion. Strong organic growth of 7.9% largely came from RIG at 7.3%. Nespresso sales reached almost CHF 6 billion, with growth accelerating to 7%. Strong double-digit growth in e-commerce and the Vertuo system more than offset sales declines in out-of-home channels.

By geography, the Americas and AOA grew at a double-digit rate with continued market share gains in North America. The United States became Nespresso's largest market. In Europe, the at-home business grew at a mid single-digit rate with strong sales development in the United Kingdom.

Nestlé Health Science grew at just over 12% and reached sales of CHF 3.3 billion. Growth was driven by strong demand for products that support health and immunity.

In Consumer Care, Garden of Life and Pure Encapsulations were the largest contributors to growth with continued strong momentum in e-commerce. The recently acquired Vital Proteins, America's leading collagen brand, saw strong growth. Persona, the subscription-based personalized vitamin business more than tripled its sales. Medical Nutrition posted high single-digit growth led by pediatric food allergy and adult medical care products.

The underlying trading operating profit margin of Other Businesses increased by 90 basis points based on operating leverage and structural cost reductions.

Nespresso and Nestlé Health Science will be reported as stand-alone operating segments in Nestlé published accounts from 2021 onwards. This change reflects the increased financial contribution of both businesses and provides greater transparency on their performance.

Slide: Contrasted category dynamics

Overall, 2020 demonstrates the resilience of our business. Our diversified portfolio is well geared for fast-changing trading conditions. As you can see, there is a clear contrast between category growth, partly reflecting their level of exposure to out-of-home channels and on-the-go products.

Powdered and liquid beverages reported growth of 3.2%. Coffee posted around 5% growth. Sales declines in the out-of-home channel were more than offset by strong development in at-home consumption, which grew at a double-digit rate.

Starbucks products, Nespresso and Nescafé continued to gain market share. Sales of Starbucks products reached CHF 2.7 billion, generating incremental sales of over CHF 400 million in 2020. The sales of the total Nespresso system, including Starbucks by Nespresso, grew at a double-digit rate.

Powdered formats in cocoa and malt beverages, including Milo and Nesquik, grew at a high single-digit rate, offset by a sales decline in ready-to-drink formats.

PetCare saw outstanding growth globally, supported by e-commerce, premiumization and science-based offerings. Most segments grew at a double-digit rate with market share gains. We continue to bring innovations to the market, including Purina Pro Plan LiveClear and Purina Prime Bones.

Nutrition and Health Science grew at 1.7%. Infant Nutrition saw slightly negative growth, reflecting the impact of a sales contraction in Wyeth China Infant Formula. Outside of China, growth was in low single digits with market share gains led by NAN and Cerelac. HMO Infant Formula is now on sale in 64 markets and delivered more than CHF 100 million in incremental sales in 2020. Infant cereals posted strong growth, boosted by increased demand in China, Brazil and South Asia. We have already commented on Nestlé Health Science.

In Prepared dishes and Cooking aids, growth was broad-based by region and product segment. We are building a portfolio of strong plant-based brands, such as Garden Gourmet and Sweet Earth. We are also launching products across our portfolio using more climate-friendly ingredients, such as meatless lasagna and plant-based pizzas. Altogether, sales of plant-based food products are close to CHF 700 million with strong growth.

The newly acquired direct-to-consumer meal delivery businesses, Freshly and Mindful Chef, also saw strong growth since their consolidation during the fourth quarter.

Milk products and Ice Cream grew at 7.9%. Within the category, Dairy performed strongly with elevated demand for home baking and fortified products such as Ninho and Bear Brand. Coffee-Mate also saw strong growth in retail. After a difficult start to the year, Ice Cream showed sequential improvement with growth reaching a double-digit rate in the second half.

Growth in Confectionery was slightly negative with reduced demand for impulse, seasonal and gifting products, partially offset by strong momentum in baking products and tablets.

Water saw negative growth given its high exposure to the out-of-home channel. Sales decline moderated in the second half.

Slide: Underlying trading operating profit margin by category

Moving to profit evolution by product categories. As we saw with growth, the contrast in margin evolution strongly reflects the level of exposure of each category to the out-of-home channel. Powdered and Liquid beverages saw a slight increase in margin, supported by significant contribution from our Coffee businesses. PetCare, Prepared dishes as well as Milk products and Ice Cream, saw material improvements, reflecting strong organic sales growth and the benefit of operating leverage.

Margin in Nutrition and Health Science reduced, mainly reflecting a sales decline in Wyeth Infant Formula.

Water and Confectionery saw a margin decrease, mainly as a result of lower sales in out-of-home channels.

Slide: Further improvement in gross margin

Looking at our gross margin, we finished the year at 49.1%. Excluding Nestlé Skin Health, our gross margin improved by 10 basis points. Gross margin has improved in seven of the last nine years. This illustrates the quality of our portfolio. The improvement also reflects our capacity to efficiently manage our product mix and industrial operations as well as to neutralize commodity and packaging inflation.

Slide: Continued margin expansion

This slide shows the progress of our underlying trading operating profit margin, which increased by 20 basis points in constant currency and by 10 basis points on a reported basis. The disposal of Nestlé Skin Health, which had a very different P&L structure, makes the reading of the different components of our own margin improvement difficult. It is, therefore, more relevant to look at margin expansion on a like-for-like basis, excluding Nestlé Skin Health, which is shown on the next slide.

Slide: Continued margin expansion

Excluding Nestlé Skin Health, our underlying trading operating profit margin increased by 30 basis points in constant currency. Our gross margin continued to improve, as our portfolio evolves towards more value-added products. Margin expansion was supported by structural cost reduction, portfolio management and slightly lower consumer-facing marketing expenses, which more than offset commodity inflation and COVID-19-related costs.

During the second half of the year, marketing expenses returned to a more normalized level and even increased versus the same period of 2019. We are increasing our media investments, particularly in digital channels, which now accounts for 47% of total media spend.

Slide: Increased underlying EPS in constant currency

Moving on to the P&L items, from underlying trading operating profit down to underlying EPS. Restructuring expenses and net other trading items decreased by 200 basis points, reflecting a significant reduction of asset impairments and COVID-19-related delays to restructuring programs.

The trading operating profit margin reached 16.9%, an increase of 210 basis points on a reported basis. Gains on disposals decreased as a result of the large gain on the disposal of Nestlé Skin Health in 2019. Income from associates and joint venture increased by 120 basis points, mainly due to the revaluation of our original equity investments in Aimmune and Freshly. The underlying tax rate decreased by 50 basis points to 21.1%, mainly due to the evolution of the geographic and business mix.

As a result, the net profit margin increased by 90 basis points to 14.5%. Underlying earnings per share increased by 3.5% in constant currency.

Slide: Continued improvement in working capital

Moving on to working capital. This chart shows our working capital levels based on a 5-quarter rolling average. Working capital decreased by 60 basis points to 0% of sales, marking 9 consecutive years of improvement. This reduction came even as the company increased inventory levels materially to meet COVID-19-related demand. Payables was the main factor driving this improvement.

Slide: Steady progress in ROIC, led by disciplined capital allocation

The group's return on invested capital increased to 14.7% as a result of improved operating performance and disciplined capital allocation. This is the sixth consecutive year of improvement. We are pulling all levers to improve ROIC, including sales growth, margin improvement, working capital reduction, as well as disciplined CapEx and portfolio management.

Slide: Strong free cash flow

Free cash flow was CHF 10.2 billion or 12.1% of sales. The slight reduction as a percentage of sales was mainly due to one-off items in 2020. We expect our free cash flow margin to remain around 12% as we work on all drivers of cash generation, such as sales growth, margin improvement and working capital reduction.

Slide: Net debt

Net debt increased by CHF 4.2 billion, closing at CHF 31.3 billion on December 31, 2020. The increase largely reflects share buybacks of CHF 6.8 billion completed during 2020 and is in line with our intention to avoid deleveraging our balance sheet. Our net debt-to-EBITDA ratio now stands at 1.7x versus 1.4x in 2019.

During 2020, we returned CHF 14.5 billion of cash to our shareholders in dividends and share buybacks. We are committed to maintaining our practice to increase the dividend every year in Swiss francs. At the next annual General Meeting, the Board of Directors will propose a dividend of CHF 2.75 per share, an increase of 5 centimes. If approved, this will be the company's 26th consecutive annual dividend increase. The company has maintained or increased its dividend in Swiss francs over the last 61 years.

This concludes my remarks. I now hand over to Luca to open the Q&A session.

Q & A Session

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

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

The first question is from Richard Taylor at Morgan Stanley.

Question on:	**Digital capabilities**

Richard Taylor, Morgan Stanley:
So just two from me. In my view, one of your biggest opportunities is to combine your high exposure to the big structural growth categories that work really well online with advanced digital capabilities. Combining these together will drive a high level of top line growth for the group and enable you to reach your midterm targets consistently. So, I'd like to ask where you are versus where you need to be with your digital capabilities. And then what do you think it could mean for growth in market such [sound lost]

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Yes. Richard, thank you. I heard your first question, then you were breaking up, and I didn't hear the second part of the question.

On digital, yes, this is a major opportunity, and I think it didn't take COVID for us to realize that. I think the fact that we were able to scale up so nicely in 2020 when that opportunity presented itself is really due to some fairly meticulous preparations we've taken inside the company. And of course, now having seen that major step-up, where we expect even further growth down the road and certainly no sliding back, we've redoubled our efforts here.

I think the best area to exemplify that is PetCare where, clearly, we've been for years patiently building up what I call a PetCare ecosystem when it comes to the total advice around pet ownership, and nutrition, of course, being a big part of that. Then increasingly bundling in e-commerce opportunities including bespoke, such as Tails.com and Just Right in the U.S. So I think this is a major opportunity. PetCare being one example. I think you're seeing similar opportunities in other major categories, but PetCare does stand out. So I agree with you that this is a key area of focus for us going forward.

Luca Borlini, Nestlé S.A., Head of Investor Relations:
Next question is from Bruno Monteyne at Bernstein.

Questions on:	**Market share** **Guidance 2021**

Bruno Monteyne, Sanford C. Bernstein:

My first question is, can you comment on what percentage of your markets are you gaining market share? And especially related to your midterm guidance for midsingle-digit growth, does that require a material improvement in execution? Or is it that the execution is in line with what you've done recently?

My second question is, at quarter four or quarter three you were very cautious in the growth guidance. If I noticed that you were at 3.9% in quarter four and you're progressing to a mid-single digit, is it again a level of caution in there? Because if I just progress from 3.9% to mid-single digits, I'm already getting at mid-single digits for 2021. So is there a reasonable amount of caution in your guidance? Or should we -- could we already be at mid-single digits in 2021?

François-Xavier Roger, Nestlé S.A., Chief Financial Officer:
I will take the first question on market share. So we have gained market share in around 60% of our business cells, which is actually made of 52% gaining and 8% holding market share. This is close to the highest level that we had since 2013. So I think that's good.

If we look at it more by maybe geography and category, we gained market share across categories in EMENA and AMS. AMS with the exclusion of water, but this is largely related to the business that we just disposed of.

If we look at it by category, we have gained market share in PetCare, in soluble and portion Coffee, Infant Cereal, Ice Cream and so forth.

And we have gained market share as well if we look at it by channel, on e-commerce channel in general.

So you are talking of the reasons behind that. It's certainly linked to stronger execution, but it is largely linked as well to the premiumization effort and to the innovation effort that we have carried out over the last couple of years.

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Thanks, Francois. And Bruno, if I could just add one element to that first answer before we sort of get to your second question.

To me, execution is key. I think this is one aspect that you probably don't see and appreciate that much from the outside. I mean, portfolio changes are so much more visible. But execution is a key element of the ramping up that we've seen in recent years. The best example is the totally new approach to R&D and innovation under the guidance of our new Chief Technology Officer and how that directly related to a faster time to market, the new and exciting stream of products that really reinvigorates our categories and how that relates then to the success we've seen over the past few years in RIG. Because product mix, in my view, which is part of RIG, really reflects a lot of that progress we've seen on innovation. Especially in a low pricing environment, that, of course, was important in order to drive OG.

It's one of many examples where execution comes in. I mean cost consciousness and tight operating parameters and capital management are others. But in innovation, I think you're seeing it most visibly, and the numbers bear it out.

Now when it comes to '21, is there caution? Yes, there is. And I think you would want us to be cautious in an environment where you still have a major unknown, and that is where COVID is going to curve. That's why I was pointing out, we are giving you guidance, we are giving you backstops, but yes, of course, we also need to have some cushion here in case the pandemic takes an unexpected turn.

A good example, when you look back at last year, was the second quarter and what the strong lockdowns and some of the impact on our out-of-home business did to our organic growth rate. So that's why we need to leave ourselves a little bit of room here.

But I think you're also sensing the underlying optimism here. As we exit 2020, we're seeing good success on pricing. We've certainly given it a lot of effort on PFME spending. Some of this will bear out in '21. We've started to address the Infant Nutrition issue in China, and that has improved already in the second half and then hopefully will give us more tailwind in '21. And of course, you're seeing the benefit of some of the portfolio changes that either have been completed recently, such as Yinlu, or where we have signed the contracts and will complete them soon, such as Nestlé Waters North America.

So when you take all of that together with some of the underlying positive fundamentals, yes, we have good reason to look at '21 with lots of optimism.

Luca Borlini, Nestlé S.A., Head of Investor Relations:
Next question is from Warren Ackerman at Barclays.

Questions on:	**China** **Margin expansion and ROIC**

Warren Ackerman, Barclays Bank:
Hope you are safe and well. Yes, two for me also.

Firstly, for Mark, just touch a bit on China. I know you got the question on the media call this morning, but I'd be interested to get a bit more time, go one level deeper, as to how you'll get China back into to good growth. It's not just Chinese New Year. The underlying Infant Nutrition, I think it was down double digit. I mean I hear that Belsol is coming, but is that going to be enough to turn around big brands like Illuma? And what about S-26, which has been a problem for a while now. How long does your patience lasts on brands like that? Just a general question on China.

Then secondly, for François, on margins and returns. I mean, could you define what moderate margin expansion means to Nestlé? And maybe give us an outline of some of the moving parts in '21 for margin around input costs, maybe COVID costs, climate investments, all the kind of pluses and minuses, to give us some feel for the modeling.

Then linked to that, on the ROIC, you've done very well on that to hit 15%, but no new target. Is there still upside on ROIC?

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Warren, thanks. So I'll start us off on the first question, and I would invite François to chime in when it comes to some of the more detailed information around S-26 and Illuma.

But let me say, first and foremost, we share your disappointment around the 2020 performance in China, no question. We had expected more. But then we also need to be fair that this has been a year -- I mean the best way to describe it would be a perfect storm, where there's been several elements here that were impacting our business, and some of these will not reoccur to the same extent in '21.

So the calendar thing, I was not trying to make excuses, the calendar element did apply in that really the year 2020 got shortchanged by the timing of the Chinese New Year on both ends. It had an early Chinese New Year in 2020, so that means most of the selling occurred in Q4 of 2019. And then the Chinese New Year this year is relatively late. So that means most of that selling occurred in January of '21. And hence, you didn't see much selling occurring in the year '20 that related to Chinese New Year. Again, I don't want to overplay the calendar, I'm not a big fan of that, but it is large enough a factor that it needs mentioning.

China was also one of those countries where when you look at the timing of COVID in the middle of Chinese New Year, this is when some of the locking down started. The Chinese consumer didn't have much time to do consumer stockpiling, inventory building. So that surge that helped us in so many Western European and North American markets and other markets around the world, that did not happen to the same extent in China.

We did have several issues, self-inflicted issues that, of course, were dragging us down in addition, Yinlu being one of the biggest contributors. And of course, with Yinlu, as you know, we have completed this transaction, and we're now focusing on our ready-to-drink products, having sold the peanut milk and the porridge business. So I think that side we have taken care of. That is not an option we're looking at for Infant Nutrition. This is one of our core businesses. So we have moved aggressively starting from last spring to fix the issues here. It is not only about Belsol. This is one example that we had mentioned as a local premium brand. It's also about a deeper push into Tier 3, Tier 4 cities, where we want to be more aggressively present and also a stronger emphasis on cross-border e-commerce, which I think is an opportunity where we've still left some room on the table for improvement. Hence, we need to do more of that.

So I think between these different elements, the timing side, the COVID side and then some of the businesses where we knew we had an issue and we have to improve, we're seeing now lots of room for improvement in '21.

Last but not least, let me also say our Chinese business has a relatively large share of out-of-home. Of course, out-of-home, during the strong lockdowns of last year got severely impacted. That already started to improve significantly in the second half of this year.

So, I hope that answers most of your questions around your first one. But maybe, François, if you could focus a bit more on Illuma, S-26 and then move on to the second question.

François-Xavier Roger, Nestlé S.A., Chief Financial Officer:
Yes, Mark. So, I can give you maybe a little bit more details. Wyeth Infant Formula saw sales contraction in 2020, which moderated in the second part of the year. But to be totally transparent, we lost market share for Wyeth. But the market share losses were stabilizing in H2. Our Wyeth business was also significantly impacted by a significant sales decline in Hong Kong, which didn't help.

But on the other hand, NAN posted positive growth and Gerber Infant Cereals saw strong double-digit growth in China.

As Mark said, we have started to see some early signs of progress in turning around our Wyeth Infant Formula business with market share stabilization. Mark talked about Belsol, which is locally manufactured, and which gives us the opportunity of entering into Tier 3 and Tier 4 cities. The launch is on track for the time being.

We are expanding our super premium offering for Illuma with new launches. We are going with A2 milk hypoallergenic formulation as well.

HMOs, it's not registered in China, but we are trying to address it through exports to China and through Hong Kong whenever possible.

We are stabilizing S-26 by entering into super premium segment like organic, which we launched in August, and that's basically what we can do.

On your question on margins, you know that over the last three years, we have generated an improvement of underlying trading operating profit margin of around 50 basis points per annum. We expect to generate, at the end of the day, probably as much as what we did over the last couple of years. But we will use some of the margin generation to support our growth, starting with sustainability investments and moving into additional marketing investment as well. So, the net will be what we said, a moderate margin improvement. I can't provide you a figure, but it will be more than 0, obviously, and less than what we have achieved over the last couple of years, but this will be a moderate improvement.

On return on invested capital, yes, indeed, we have done quite a long journey and significant improvement, moving from 10% plus in 2014 to almost 15% last year. So very happy about it. We used all levers from growth acceleration, organic growth acceleration, margin improvement, reduction of our working capital, disciplined CapEx policies and disciplined M&A as well. We will continue using the same levers.

That being said, our ROIC can also be influenced by M&A strategies and acquisitions in the future. We are confident that, bar any significant acquisition, we should be able to maintain our return on invested capital, possibly improve it, but it can vary from one year to the other, depending on what happens on the M&A front.

Luca Borlini, Nestlé S.A., Head of Investor Relations:
The question is from Céline Pannuti at JPMorgan.

Questions on:	**Acquisition and disposals balance** **Nutrition**

Céline Pannuti, JPMorgan:
Yes, my first question is really on portfolio changes. Mark, if I remember last year, you said that you would expect to have a more balanced outcome between net disposal and M&A in 2020. And what we saw is that you had a 4.6% decline on a net basis for 2020. So could you share with us what has been the hurdles for you delivering on acquisition? Was it the lack of opportunity or valuation? And could we expect that this net balance will be closer to balance as we look into 2021?
Then my second question, I'm sorry, but I'm going to come back on Nutrition, and thank you for sharing your initiatives in tackling China. I think that ex China, you said it was a low single-digit growing business. If I look at the past years, despite the reorganization, we are really at 2%, 3% type of growth. So, have you changed your mind in terms of this being one

of the growth engines, as you had talked about 3 years ago? What really is the midterm opportunity of this category?

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Thank you, Céline. Both are very important questions. So, when it comes to portfolio, I mean you have to understand my comment from last year against the backdrop of what we had seen in 2019. So we have done some significant divestments in 2019. But except for one little transaction, and that is the acquisition of Persona by Nestlé Health Science, pretty much no acquiring. As you know, Persona, at the time when we bought it, was a very, very tiny business. It has strongly grown since, but nonetheless, a very tiny acquisition. Then you had some significant divestitures such as Nestlé Skin Health.
So what I was saying is, I'm hoping that there's going to be more on the acquisition side of the ledger. And I think that part has certainly come true, the biggest standout clearly being Nestlé Health Science, and it's several acquisitions it's done. Zenpep, Vital Proteins, Aimmune as examples. But it was not the only one. I think Lily's Kitchen in PetCare was another good one. So, I think there was certainly more activity in 2020 than in 2019 on the acquisition side. It was not totally balanced. So when I was saying more balanced, I didn't mean to imply that dollar-for-dollar, it was going to be even on both sides.

Clearly, we had our plans that we wanted to go through on divestitures. I think these are to the benefit of the company's organic growth and profitability and also midterm expectations.

On the acquisition side, the one hallmark that I think we need to exercise is caution and prudence. We need to stay selective. Having said that, we do believe that in 2021 as well, we will see some good additions to our business. It will not be a repeat of 2019. Of course, having gone through Waters now, once that is closed, there will be, in the midterm, other portfolio adjustments, but I'm not expecting midterm something of similar size leaving the group.

So again, I think we will put more emphasis on growth and acquisitions, not just organic growth, but also absolute growth. But you also should count on us, we're not leaving our prudence behind here. One thing, over three decades of business and M&A experience, what you overpay day one or what you buy in the wrong category or the wrong strategy or the wrong cultural fit is very, very hard to fix down the road and bugs you for a long period of time, and hence, cautious acquisition strategies, I think, do pay off over time.

In terms of Nutrition, you are right that I think over the past few years the fundamentals of this business have certainly not improved. I'm still a big fan of the benefits I've seen from moving this business from a globally managed business to one that is handled by our Zones.

The Zones are clearly the better operators of these businesses. We're dealing with issues so much sooner. But around the world, what you have seen is a certain downdraft from declining birth rates, increasing breastfeeding rates, which, of course, we strongly salute. So, the fundamentals have not been great when it comes to the more narrow definition of Infant Formula. I think all the more for us, the piece of homework we have to do is to take a slightly wider definition around what we call the first 1,000 days from conception into the first few years of life of a newborn and then see what we can offer to both mother and child as the optimal nutritional solutions. This is something we're hard at work at between our strategic business unit in Nutrition and the market. R&D is also deeply involved.

So this is a core business of ours that we consider in the mid and long-term to be a clear growth driver. Everyone is interested in giving their children the best possible start in life. There is strong scientific evidence that if you get that right, both from a physical and mental development, you're doing the best possible thing for your child. So this to me is company DNA and certainly not something we're giving up on.

Luca Borlini, Nestlé S.A., Head of Investor Relations:
Next question is from Richard Taylor from Morgan Stanley who is going to ask the second question that he did not manage to ask some minutes ago.

Questions on:	**Digital Capabilities** **Acquisitions to build digital capabilities**

Richard Taylor, Morgan Stanley:
Thanks for having me back. I hope you can hear me properly now. So maybe I'll just start again. So, I was just saying that one of your biggest opportunities is to combine your high exposure to the big structural growth categories that work really well online with advanced digital capabilities. And combining these together will drive a higher level of top line growth for the group and enable you to reach your midterm targets consistently. So, what I wanted to ask is where you are versus where you need to be with your digital capabilities and what you think it could mean for growth in markets like China and the U.S.

And then in terms of acquisitions, besides the heavy investment you're making building up your Nestlé Health Science business and the tuck-in acquisitions in areas like PetCare, should we also expect acquisitions to build out your digital capabilities across the supply chain?

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

Thanks, Richard. And so in terms of the digital opportunity, as mentioned earlier, I fully agree, when it comes to assessing where we are, I think relative to the food and beverage space, I feel, and you can see this from the numbers, we're doing quite well. But obviously, this is now a giant that has awakened, this idea that the food and beverage industry is all of a sudden seeing a major digital component. So we need to work hard to stay ahead of this. So we're very focused on this, and our new Chief Marketing Officer, who joined us last year and who came from Google and obviously has lots of expertise in the area.

So I think relative to the industry, I feel good. But hey, there's so much more now to be done, and we want to go and capture it. You're right, we need to pair it up with the key growth categories and look for opportunity there.

In terms then of acquisitions, I mean, when it comes to just digital enablers, I feel more often, this is about partnerships and it's about licensing. When it comes to business models, yes, and take as an example our investment in Freshly, where clearly, you have a business model and there's a strong digital component to it. Or take our acquisition of majority stake several years ago in Tails.com, where you have bespoke pet food and clearly digital is the way to order pet food and to get into those subscriptions.

So, this is where I would see the sweet spot. So, we have a digital model with the business model combined. Just digital tools alone, frankly, I'm not sure we should be the only owner of that. I think there, it's better to license in or to partner.

Luca Borlini, Nestlé S.A., Head of Investor Relations:
Next question is from Guillaume Delmas at UBS.

Questions on:	**Plant-based business** **Commodity prices**

Guillaume Delmas, UBS Investment Bank:
My two questions are, firstly, on your plant-based business, and in particular on your vegan burger offering. Appreciate still very early days, category probably still very embryonic. But are you happy overall with your performance there? Because when I think about your investor event in DC a couple of years ago, you were announcing the launch of the incredible, awesome burgers, it seems Nestlé's ambition was to be one of the leaders in that category. At this stage, at least, it seems you are still more of a challenger than a leader in that part of plant-based. Or maybe altogether, are you encouraging us today not to focus so much on meat alternatives because increasingly you see it as just a tip of the plant-based opportunity?

My second question is going back to your previous question on margin. Commodity prices in 2021, wondering what your expectations are? How it compared to last year? And whether at this stage, we anticipate a marked contrast between the first and the second half of the year?

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Guillaume, let me take the first one and then hand it over to François for the second one. So, on plant-based, I have to tell you that I feel really good about the progress. And I think what you have to separate carefully here is market share and size and growth rates of the business, which I feel very good with. From share of mind, because we were certainly not the headline grabber in this industry, I think some other companies are better in doing that. I think when it comes to the pure innovation, there's been quite a few where we were first out there. So, we were the first, for example, to offer from one source a complete bacon cheeseburger. So, you have the burger patty, you have the vegan cheese and you have the vegan bacon alternative from one hand. So, we can offer a complete kit to out-of-home partners that work with us. We had seen great success last summer with the product that a few people had on the radar screen, and that is plant-based tuna alternative, which has been now one of the best-selling plant-based items in select European markets, and we're still scaling this up and can't make it fast enough.

So that's why I was saying earlier, if you reduce it simply to the hamburger patty and who is in business with what fast food chain, you're missing part of the action. Do keep in mind that for all of our ambition out-of-home, 85% of our business is retail and success on shelf. I think this is where we're doing well, and we'll continue to stay focused on that.

I was not trying to shift the attention now from plant-based food to dairy. To me, it's not an either/or, I think both on any sort of protein sources, whether it's in food or whether it's in dairy, I think we have lots of follow-on opportunities. Hence, it's important for us to be fully engaged in both areas.

François-Xavier Roger, Nestlé S.A., Chief Financial Officer:
Guillaume, François speaking. On your question on commodities. Let's start with 2020. We had a moderate increase of commodities and packaging material. We have been able to offset it with some moderate pricing, as you could see on some efficiencies as well in our supply chain. We expect for 2021 a more significant increase in input cost, which is largely coming from dairy, from cereals and packaging. So that will, by itself, trigger a higher level of pricing on our side and especially when we combine it with the impact of currency depreciation that has happened in 2020 as well. We will cover some of it as we always do through efficiencies as well.

And you were talking about the timing of it. This is more an H2 2021 event, more than H1, where we will see still a rather moderate increase of commodities and packaging material.

Luca Borlini, Nestlé S.A., Head of Investor Relations:
Next question is from Jon Cox at Kepler.

Questions on:	**Group organic growth** **COVID costs**

Jon Cox, Kepler Cheuvreux:
Just a couple of questions. Listening into the call this morning, I think you were talking about China getting back to mid-single digit. And given the fact that AOA was at mid-single-digit ex China, that could imply something like 1 point plus in terms of group growth dynamics this year. I'm just wondering if you think my reasoning is wrong. And is it because you assume that there will be a slowdown in the Americas and the rest of the world because of COVID trends, i.e., people going back outside, eating out and maybe not eating as much in home?

Second question, just on the COVID costs. If you look at your notes in the financials, you mentioned CHF 420 million net plus CHF 120 million salary costs. So that's quite a big amount of money. I'm just wondering what you think about COVID costs this year? And do you think some of that stuff flowing back is just going to be absorbed into the other things you'd mentioned like commodity costs going up and environmental things to pay for?

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Let me take the first question and then hand it over to François. So look, I mean, AOA as a Zone overall, there is no reason why that shouldn't be the growth locomotive of this group when you look at the underlying economies and how they're doing and how much opportunity there is. I think in many previous years, this is exactly what it added up to. That doesn't need to be linked with any reduced growth from the Americas or EMENA. In fact, it can be additive. So yes, I mean, if China improves this year and if the rest of AOA maintains its performance, that's good news for AOA overall, and that's good news for the group.

So, when it comes to the group organic growth expectation overall, when I was responding to Bruno earlier, yes, we are optimistic. But again, when it comes to a guidance that we're giving you, where we have a meet or exceed culture, we also need to have our usual safety margin here. In uncertain times like COVID, it's important to have a bit of cushion. I think this is what we're trying to express to you.

François-Xavier Roger, Nestlé S.A., Chief Financial Officer:
Jon, François speaking. On the COVID costs, we have north of CHF 400 million of COVID costs in total, out of which about CHF 260 million impacted our underlying trading operating

profit. The actual impact is a little bit lower because we had some savings as well. Just to the main account where we had some savings, obviously, traveling expenses. You need to understand as well that about 2/3 of these costs were actually incurred in H1, only 1/3 in H2, because we made some progress over time and we learned how to better handle the crisis and the needs related to COVID. So, I'm not saying that there won't be any in the future, but it will certainly reduce even further when we make some progress.

Luca Borlini, Nestlé S.A, Head of Investor Relations:
Next question is from David Hayes at Société Générale.

Questions on:	**Pricing** **Nespresso**

David Hayes, Société Générale:
So, my two questions, the first one on pricing, the second one on Nespresso.
On the pricing side, developed market pricing, still down, I think, 0.8% for the full year, but it looks sort of flat for the fourth quarter. You mentioned raw materials previously just now. But are there things that you're doing in the U.S. and Europe that means that, that pricing contribution could improve through next year and beyond, beyond just the raw material pricing changes?

Then the second question on Nespresso. You called out Vertuo doing particularly well. I just wondered whether you can talk about the percentage of Nespresso sales that are now in the new system, the Vertuo system, versus the traditional system and how that's changed over the last 12 months. And maybe if you've got it, over the last 12 months, what the machine sales look like. Are you moving the system much more towards Vertuo quite rapidly over that period of time?

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

David, François speaking. I will take the first question on pricing. Indeed, we have had for years, and it was the case last year as well, negative pricing in Western countries and more specifically in U.S. and in Europe. Obviously, if we see an increase of commodities and packaging material, this will probably reflect over time because we need time to get there with some higher pricing levels on our side. But it's always a little bit more complicated in U.S. and in Europe because we have negotiation with retailers that are usually valid for a year. So, there is a time delay there.

There is another way to handle pricing. Pricing is not just about raising prices whenever we can. It's about managing our promotional activities as well, because we report on net-net sales, which is after a certain level of promotional activities. There, it's not necessarily about reducing them, it's about being more efficient. We have done a lot of progress, I would say, over the last two years with what we call strategic revenue management, which allows us to not necessarily reduce, but be much more efficient in these promotional activities, which are, at the end, fairly costly.

Mark Schneider, Nestlé S.A., Chief Executive Officer:
David, on the second question with regards to Nespresso. I hope you appreciate the transparency now by separately breaking out that business and reporting on it and also the underlying confidence that we have when it comes to the future development of Nespresso. Vertuo is a major growth driver, no question about it. But having said that, we're committed to the growth of both of these systems, the original line and Vertuo. We have not gone, just to avoid competitive signaling here, we have not gone now into disclosing sort of relative performance between the two. But both of them are clearly performance drivers. And Vertuo, in particular, has been a major growth driver.

Luca Borlini, Nestlé S.A., Head of Investor Relations:
We are drawing towards the end of this Q& A session. I see that there is still a list of people who like to ask questions. But unfortunately, we have limited time available, but we will still take a few and try to close it in 5, 10 minutes. So, the next one is Jean-Philippe from Vontobel.

Questions on:	**Long-Term Incentive** **Portfolio management**

Jean-Philippe Bertschy, Bank Vontobel:
My first one is on the LTI, and I think it's very important for you to be aligned with shareholders with the earnings per share, TSR and return on invested capital.

My question is the following. Especially after the disclosure of your aggressive targets or ambition for your sustainability, are you having discussions to include those targets in the LTI? And if you can quantify that. Or would it be disclosed with some numbers and some targets?

The second one is back to Céline's question on the portfolio management. I see that when you took over Mark, Beverages, Nutrition, Nestlé Health Science and PetCare, accounted for 50%. Today, 60%. On a longer-term perspective, let's say 5 years, where do you see the trip going, considering the fact that you said you don't want to divest Confectionery?

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Thank you, Jean-Philippe. So on the long-term incentive, let me just clarify. What we have adopted for the year '21 now in the short-term bonus is also ESG-related targets for the

Executive Board. They're not yet reflected in the long-term incentive plan. This is an item that's still under discussion. We felt that it was important to get started on the short-term bonus first, learn the ropes and how this works. Remember, this is an evolving area. Any data also that you would want to use for bonus purposes needs to be rock solid, needs to be auditable and verifiable inside the company. So, this is still an area that's under development.

Our disclosures around this for the year '21 are not going to be materially different from what you've seen in the past. So, I think on the long-term incentive plan, it's the same disclosures in the plan as before because this is unchanged. In the short term, again, what we have not done in the past is disclose exactly the metrics and the detailed hurdle levels that people are working towards. So, we are confirming there is now ESG targets in there. We will soon also, with our compensation report, confirm the percentage related to that, but we will not give precise target levels. I think this is in line with the practice we're seeing in some other firms.

Longer term, on the group, I'm not sure I completely understood the question, how it related, but let me try and take a stab at it. When it comes to the revenue here from our high-growth areas and the share of revenue from the high-growth areas, I think we have, over the years, done spectacularly well in Coffee and PetCare. But I'm also the first one to say that we have not met our growth ambitions in Nutrition and in Water.

I think in Water, with the new strategy that we outlined last summer and now taking the first step towards that, we're taking one of several steps to address that issue over time and get it to competitive and attractive growth rates for us.

Then on Nutrition, we were covering that point earlier, we need to give this whole area a new rethink. We are equally committed to it as in the past. We'll have to give it a rethink to look at broader opportunities related to the first 1,000 days, in addition to fixing some of the specific market circumstances, and China was one of them that we covered earlier. There's a few other individual country markets we're not quite happy yet with the Infant Formula performance and where we need to redouble our efforts. But we're fully committed to that, and that's something I underlined.

When it comes to categories outside the high growth areas, we always made it clear that just because you're not on the high-growth list doesn't mean you're a divestiture candidate, and so we're fully committed to improving those over time.

Confectionery, last year, of course, given that there is an impulse part, and François was talking about that, the performance has been disappointing. To me, when I drill into our Confectionery business and when I separate out the Chinese situation around Hsu Fu Chi and look at chocolate, in particular, I'm seeing very encouraging signs when it comes to product innovation, when it comes to market shares, and this is what I'm betting on the future. We hope that we can expand this business and get it to very attractive growth rates.

But judging that business in a COVID setting is certainly not a fair thing to do.

Luca Borlini, Nestlé S.A., Head of Investor Relations:
Our last question from James Targett at Berenberg. We will make sure that IR will call all those who are still in the queue later on.

Questions on:	**Retail and Out-of-home growth rate balance** **Sustainability**

James Targett, Berenberg:
So obviously, your retail base sales growth nearly doubled to 7% in 2020. So I was wondering to what extent you see Nestlé's portfolio having a direct trade-off between recovery in your out-of-home sales and moderation of your retail sales growth. I appreciate you can't predict out-of-home sales recovery, but what level of in-home growth rates do you think are sustainable in '21?

Then my second question is on your sustainability, on the topic of sustainability. You mentioned your commitment to lower scope three emissions. I just wondered what role does portfolio management play in that goal?

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Thanks, James. So look, on retail and out-of-home, obviously, it's very hard at this point to predict where out-of-home is going. Our base expectation is that it will take a 2- to 3-year path of recovery. And that in addition to this being a little drawn out, the nature of out-of-home will also change slightly from what it was pre-COVID in 2019.

You've seen and heard a lot about companies becoming more flexible about remote working. So I think many of us in the future, while still being anchored to some office somewhere, may have more flexible lifestyles and work-life balance that is more remote-based and including working from home.

So I think the nature of demand in out-of-home is going to change. But that also offers new opportunities because out-of-home is not only about what you consume away from the home. It's also about the fact that someone prepares it for you. So along with the disappointment we've seen, for example, around canteens and restaurants and bars, we've also seen the rise of dark kitchens and delivery services and a blurring, if you will, of some of the out-of-home and in-home consumption.

So long-winded way of saying, in addition to waiting for the travel recovery, I think we are also very actively reimagining our out-of-home business to be sure that we capture these new opportunities and we find a way for our products into these new opportunities which I'm sure will see a continued successful future.

Then on retail, again, it's very hard to pinpoint here a precise percent number, but we believe that some of the increases for in-home consumption are here to stay. Again, this is related to this more flexible remote work lifestyle, where on some categories, take Coffee as an example, I think it is safe to expect that a larger share of these products will be consumed in home in the future. I think we're ready to stand and benefit from that.

Then some behaviors, such as, for example, teach an entire generation how to bake, I think that also will not all of a sudden drop off a cliff when the pandemic is under control.

So I think you'll see a fairly long positive tail on the retail side. It won't be to the same elevated levels, I would expect as in 2020, but certainly above 2019 levels, and that's good news for us.

On sustainability, to me, addressing this with portfolio alone is not a solution because what the planet needs is someone opening the hood and doing the hard work of rewiring operations in ways that they are having a lower environmental footprint. Just selling it and getting it out of the spotlight and then saying, look, we are fine, and then someone else continues with the same practices as before, is not a solution for anyone. So we're not seeing primarily portfolio choices here as the way to go about it. To me, this is a deeply operational manner. When I look inside the company, the people that deploy our initiatives. This is an area that reports to our Head of Operations. Then there's a strong dotted line to our strategic business units in the marketing area because obviously, whatever you do, you want to be sure it becomes part of your consumer communication and your proposition to consumers. This goes along the lines of what I said earlier, you're not only doing sustainability homework, you're also winning favor with consumers who are increasingly sustainability-minded. So, this is how we're trying to reflect that.

End of Q&A session

Luca Borlini, Nestlé S.A., Head of Investor Relations:
Well, we've come to an end of our session today. So, thank you very much for your interest in Nestlé. IR will make sure to call those who still have questions and were not able to ask their questions today. I'll leave it to Mark for the final conclusions.

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

Well, thank you for joining us today. Lots of questions. Sorry, we didn't get into all of them. We'll make sure we have a chance to get back to you and answer your questions. And then we look forward to touching base with you as we report Q1 in April. Stay healthy, stay safe, and all the best.

End of Transcript