NESTLÉ S.A.

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Speakers:

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Slide: Our business is global, balanced and diversified

During my presentation today I will cover the Nestlé way to create value through sustainability leadership. I will start with a quick summary of our business and our full-year 2020 results just as a reminder. Nestlé is the largest food and beverage company in the world with annual sales of 84.3 billion Swiss francs last year.
2020 has demonstrated the agility of our business and the strength of our diversified portfolio across geographies, product categories and channels. By geography, the Americas represented 45% of total sales in 2020. Laurent will cover Zone Americas in more detail later. By product category, Nestlé's portfolio is well diversified. We operate in attractive high-growth categories within the food and beverage industry, such as coffee and PetCare.
We are less labor and capital intensive than we were in 2015, with almost 20% less employees and 62 less factories, on slightly lower sales. We are the largest investor in R&D in our industry, with annual spending of around 1.6 billion Swiss francs.

Slide: Another year of strong financial results in 2020

Let me now give a quick overview of the full-year 2020 financial highlights. We delivered another year of strong financial results. Organic growth accelerated to 3.6%, reaching the highest level in the last 5 years. The underlying trading operating profit margin improved by 20 basis points in constant currency. Our underlying EPS grew by 3.5% in constant currency, in-line with our expectations. The disposals of Nestlé Skin Health, US ice cream and Herta had a negative impact of 3.5% on our underlying EPS growth. Return on invested capital improved to 14.7%, the 6th consecutive year of increase. It is now close to our 15% ambition. Free cash flow was 12.1% of sales. Going forward, free cash flow is expected to remain at around this level. We returned 14.5 billion Swiss francs to our shareholders through dividends and share buybacks. We also proposed a 26th consecutive increase of our dividend to 2.75 Swiss francs.

Slide: Third consecutive year of improved growth and margins

Nestlé delivered improved organic growth and profitability for the third consecutive year in 2020. We landed last year close to our organic growth ambition set in 2017. We remain very much focused on this target. On margin, we already achieved our 2020 target one year ahead of schedule.

Slide: Mid-term outlook

Our mid-term outlook is based on the balanced pursuit of top- and bottom-line growth. Our ambition is to deliver sustained mid single-digit organic growth. The sustainability of growth matters as much as the level of growth, which we want to be at the high end of our industry. At the same time, we plan to deliver continued moderate margin improvement, while taking a prudent, focused approach to capital allocation. We believe our company will be successful in the long term by creating value for both society and our shareholders.

Slide: Sustainability: business as a force for good

Indeed, Creating Shared Value is part of our value creation model. Working to create value for communities and protect the environment has been the way we have been doing business for decades. We believe that business should act as a force for good. Acting on sustainability is integral to our long-term success.

We recognize that as a company operating in nearly every country around the world, we have the scale, resources and reach to make a positive difference. We believe sustainability will support our growth agenda, as consumers increasingly expect companies and brands to act on sustainability. We can strengthen the resilience of our supply chain by supporting farmers and their communities. Our collective purpose and impact can be aspirational and help us to retain and attract a diverse talent pool. Finally, it allows us to better anticipate government regulation and policy.

Slide: Nestlé's net zero roadmap

Now, let me talk more about our actions and ambitions. In September 2019, we pledged to achieve net zero greenhouse gas emissions by 2050, embracing the Paris Agreement to limit global temperature rise to 1.5 degrees. In December 2020, we outlined a comprehensive action plan, setting clear milestones on our journey to Net Zero. We expect to achieve a 20% reduction in greenhouse gas emissions by 2025 and a 50% reduction by 2030.

Slide: Investing in sustainability

We are investing in a wide range of sustainability initiatives. As we accelerate our carbon reduction journey, we plan to spend around 3.2 billion Swiss francs over the next 5 years, of which 1.2 billion Swiss francs will be spent on regenerative agriculture. Examples include training and technical assistance provided to farmers, and premiums paid for commodities using regenerative agricultural practices.

Another key focus is sustainable packaging. We plan to invest around 1.5 billion Swiss francs to help create a market for food-grade recycled plastic by paying a premium for these materials. We are also working on many other solutions such as paperization, compostable materials and monolayer plastics. In addition, we have created a 250 million Swiss franc venture fund to invest in start-up companies that focus on packaging innovation, including new materials, refill systems and recycling solutions. So far, investments have included the Closed Loop Leadership Fund, the European Circular Bioeconomy Fund and Loop.

Aside from the venture fund, our investments are expected to be mostly P&L-related and may not be linear over time. Our plans and associated costs are expected to evolve and will be influenced by developments in technology, solutions and the effectiveness of projects.

Slide: Sustainability integral to our growth strategy

Sustainability is not only a cost. It also creates growth opportunities. It is one of the attributes that differentiates our offering, alongside health and nutrition, taste, and convenience.
To share some examples, we see many growth opportunities with low-carbon products, which are “good for you and good for the planet”, such as plant-based food and drinks. 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. All together, sales of plant-based food products are close to 700 million Swiss francs, with strong growth.

Our science and technology capabilities are also key to drive innovation, support our sustainability agenda and enhance our relevance with consumers. We have around 10% of our R&D scientists working on plant-based products. To accelerate the development of new and better packaging materials, we set up an Institute of Packaging Sciences, conducting cutting-edge research to ensure the safety and applicability of new materials.

We are increasing the number of our carbon neutral brands. We aim to achieve carbon neutrality for key brands like Nespresso, S. Pellegrino, Garden of Life and Garden Gourmet by 2022, and for Nestlé Waters and Sweet Earth by 2025.

Slide: Sustainability investments expected to be earnings-neutral

You may wonder what all of this means for our profitability. First and foremost, we do not expect our shareholders to pay for increased investment in sustainability. The best way to support our sustainability investments is to be at the top of our industry in both financial and commercial performance, which is what we are aiming for. Our sustainability investments are expected to be earnings neutral, primarily through structural cost efficiencies and growth leverage. We will use a similar model to generate resources as we did over the last 4 years, allowing us to increase our investment in growth and sustainability initiatives.

Slide: Delivering sustainable growth and investing in sustainability

We have increased organic growth for 3 consecutive years, averaging 3%. At the same time, we have reduced our structural cost base by an average of 1% per annum. Structural costs amount to around 16 billion Swiss francs, representing 19% of our sales, and include fixed industrial costs, fixed distribution costs and G&A. This model of growth leverage and cost reduction has freed up around 70 basis points of resources per annum. While some of this was reinvested behind growth initiatives, most largely flowed to the bottom line, resulting in margin expansion of close to 50 basis points per annum.

Going forward, we will use a similar model. Our ambition is to accelerate our organic growth to a sustainable mid single-digit level, while keeping our structural costs around flat. Growth leverage and disciplined control of structural costs should allow us to free up similar resources to what we have generated over the last 4 years.

What will change though is the allocation of resources, with the larger portion expected to be invested in growth and sustainability. We expect further underlying trading operating profit margin improvement, but at a more moderate pace than we have delivered over the last few years.

Slide: Strong delivery on cost reduction over the last 4 years

Now, I want to give you confidence on our resource generation model by sharing some evidence of what we have achieved over the last 4 years. In 2017, we set an ambitious target of 1.8 billion Swiss francs of yearly savings by 2020, which was later raised to between 2 and 2.5 billion Swiss francs. We more than achieved our target, delivering 2.8 billion of annual cost savings in 2020 over 2016. These savings include initiatives on both structural and variable costs, with the latter coming especially from procurement.

In Manufacturing, we reduced our footprint by 27 factories, excluding divestitures. We reduced our fixed factory overheads by 6% per annum in Swiss francs and improved the efficiency of our production lines by 10 percentage points. In Procurement, we increased buying at a global level, and this now accounts for 63% of our total procurement in 2020. This allows us to better leverage our scale. We standardized 26% of specifications for raw materials and ingredients generating hundreds of millions of savings, with a lower number of recipes. We are also using less suppliers. As an example, the number of print and point of sale agencies is now 68% lower than in 2016. In Administration, we reduced our global head office costs by 20%. We also generated annual savings of around 200 million Swiss francs from site consolidation across over 400 projects. Finally, we almost doubled the penetration of our shared service center to 33%.

Slide: Further cost savings going forward

We see a lot of potential for further cost savings going forward. We expect the level of savings to be similar to what we have achieved over the last four years. Within Manufacturing, we will continue our disciplined control of fixed factory overheads, based on continuous optimization of our manufacturing footprint and digital technologies. Each Zone has specific plans to further improve production line utilization. In addition, we expect to generate material savings as our manufacturing footprint evolves to be more category focused and less market focused. The proportion of our manufacturing that is globally managed by category will increase, with a higher number of dedicated plants supplying multiple markets.

Within Procurement, we will continue to standardize raw materials specifications. We see a similar opportunity when it comes to packaging materials and expect to generate hundreds of millions of annual savings. We expect to use 40% fewer marketing suppliers by 2023. Within Administration, we are a firm believer in the value that artificial intelligence, automation and analytics can unlock. Our experience during COVID-19 has demonstrated that these investments will boost productivity by empowering our people to make real-time and data-supported decisions. We will continue to reduce real estate costs and to accelerate the disposal of idle properties.

We are confident that such initiatives, combined with operating leverage, should enable us to invest behind growth and sustainability. This will involve some restructuring costs, but not to the same extent as we have seen between 2016 and 2019.

Slide:	**Key takeaways**

To conclude:
Sustainability has been core to the way we do business for a long time and is a key driver to deliver long-term profitable growth.
We expect our investments in sustainability to be earnings neutral.
Over the last 4 years we have successfully increased our margin through cost reduction and growth leverage. We plan to follow a similar model going forward. The resources we free up are expected to be largely reinvested in growth and sustainability. Some resources are expected to continue to flow to the bottom line, with moderate margin improvement.
Thank you for listening and I now hand over to Laurent.

Laurent Freixe, Chief Executive Officer, Zone Americas, Nestlé S.A.

Slide:	**Title Slide**

Thank you, François. It's a pleasure to be with you today and to walk you through Zone Americas' sustainable value creation strategy.

Slide:	**A strong footprint in the Americas**

Zone Americas is a very good proxy for Nestlé as a whole. The Zone accounts for more than 40% of the Group, top-line and bottom-line. We enjoy very strong positions with 87% of our sales as a market leader. We got a huge business in North America as you know, but we also have a sizeable LATAM business with CHF 10 billion in sales. I would like to highlight one point important in current times, which is the resilience of our supply chain. With 80% of what we procure sourced locally, and with a manufacturing network designed essentially local for local, more than 90% of what we sell is manufactured locally. It's a huge advantage in times of restrictions to international trade. When it comes to the categories, petcare is the largest category, but we got as well sizeable dairy, food, coffee and nutrition businesses.

Slide:	**Built upon power brands**

All of this is built upon a dozen of power brands in coffee, PetCare, nutrition and food. And next to them some iconic local jewels.

Slide: Accelerating momentum

The momentum in top- and bottom-line is very strong for the Zone. If we exclude the water business and look at the perimeter vision 2021, it's a 6.3% OG achieved in 2020 and a 135-basis point bottom-line improvement in the last 3 years.

Slide: Transforming for the long term

And we are performing while we are transforming. Thanks to an active portfolio management, we have significantly increased our exposure to high-growth categories. We have expanded our factory network with projects in petcare, in coffee, and frozen food to be able to capture current and future growth opportunities. We are constantly improving our distribution network the latest impactful project being the transformation of our DSD system for frozen food in the U.S. to a warehouse model. And we are investing to be increasingly a modern, agile and connected organization, able to manage in real-time, and we are improving constantly our environmental footprint.

Slide: While managing COVID-19 crisis

All of this, while at the same time, we are managing the COVID crisis. We keep our people safe that's number one priority; we maintain the continuity of our supply, it is critical as we are an important part of the food chain, and we support our communities, through partnerships like with the one we have with the Red Cross or with Food Banks.

Slide: Sustainability at the core of our strategic framework

The momentum is there for our business, and my objective is to keep it up and fuel this momentum. This is the focus of our strategic framework, it is to drive a strategic virtuous circle of sustainable and profitable growth, with sustainability at its core. It starts with a laser focus on efficiencies, on war on waste across the value chain.

Slide: Driving efficiencies as fuel for growth

This focus has brought a decisive contribution to the Group cost reduction initiative, through major transformational projects across the organization, from head offices to distribution networks. And we will keep this focus going forward as this is the fuel for investments. As this is the fuel for the growth. Growth requires investments.

Slide: Investing in growth

Indeed, investments are essential to growth acceleration. Investments in Brands and in innovation. Investments in manufacturing, with a number of new factories in the making, greenfields or brownfields. Investments in data and in technology to support our growth in ecommerce, and to make our focus on customization-at-scale a reality. And also of course investments in sustainability.

Slide: Sustainability driven from farm to fork and beyond

We look at sustainability in a holistic way, from farm to fork, and beyond, as the end-of-life of our products matters, and as circular business models offer new opportunities to make our business more sustainable.

Slide: Reducing our packaging: Fit for purpose

I would like to highlight a few examples, starting with one initiative, which is benefitting everyone across the supply chain, consumers, customers, Nestlé, the planet, maybe with one exception the packaging suppliers. We have the plan to reduce the amount of packaging we use to just what we need. It is about removing the head space; it is about removing the unnecessary extra packaging where relevant. With this “fit for purpose initiative” we plan to reduce 30 000 tons of packaging material and reduce by a 100 million our packaging costs.

Slide: Supporting infrastructure and circular economy

We are also supporting the development of new infrastructures, and there is a lot to do, in particular in the U.S. which is lagging behind, when it comes to recycling. We are also investing in renewable energy infrastructures to contribute to our 2025 ambition of achieving a 100% renewable energy usage. We are also investing and contributing actively to the development of new circular business models, like Loop wherever available or like Algramo in Chile.

Slide: Driving consumer engagement

For a branded goods company like Nestlé, consumer engagement is of the essence and this is done through our brands. Many of our Brands have already taken the commitment to be carbon neutral in the years to come. We are also communicating on our plans to source our key commodities sustainably, coffee, cocoa and dairy in particular. We are also investing to nudge the right consumer behaviors. Consumers by their choices, and by their behaviors are critical actors of the sustainability transformation.

Slide: Driving product innovation and new business models

And of course, sustainability is a source of inspiration for our innovation pipeline, both in terms of new products through plant-based offerings, or through new delivery systems and new business models.

Slide: Key Takeaways

As a conclusion, I just would like to highlight a few critical points with this key message that: we perform, while we transform. Nestlé has a strong ability to win across the Americas. The Zone is a key contributor to the Group. We are accelerating while we are transforming the business for the long-term. We are investing to fuel the growth. And sustainability is at the core of our strategic framework.

Q&A Session

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

Good afternoon and Good morning to everyone. I am Luca Borlini, head of Nestlé Investor Relations. I will moderate the Nestlé Q&A session today. I am joined by François Roger, our Chief Financial Officer, and Laurent Freixe, CEO Zone Americas.

Question on: Plant-based sales and opportunities

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

How much are the sales of plant-based this year? Where do you see the biggest opportunity, in Frozen meals? What kind of market share do you currently have?

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

Hello everyone. Let me take the first question. First of all, we are very happy to be with you even if it is through digital participation. Plant-based sales today, it depends on the definition that we use, but we have sales of about CHF 700 million in 2020 and we are growing in the double-digit space for that business. So, this is not only made of meat alternatives. If we look at meat alternatives, which is very often what people are looking at, it's a business of about CHF 200 million which is growing much faster actually, around 30-40%. But it goes beyond that because we have vegetable meals, like vegetable lasagna, like pasta, and especially if you look at our U.S. business, and maybe Laurent can elaborate a little bit more about it, it goes much beyond meat alternatives as well. Even beyond this close to CHF 700 million of sales, we have additional sales with dairy alternatives, it's about another CHF 120 million which brings us, in total, north of CHF 800 million. May be Laurent would you like to cover what we have in the U.S. for plant-based food?

Laurent Freixe, Chief Executive Officer, Zone Americas, Nestlé S.A.:

You are right to say there is double play there. One aspect is what we can do with our focused brands, the pure players, like Sweet Earth for instance in the U.S. or Nature's Heart more globally across the Americas. There is a lot of potential and we did indeed grow strong double-digit across the two platforms, but possibly the bigger play is to bring plant-based ingredients in to our blockbuster brands like DiGiorno, like Stouffer's, like Lean Cuisine and many others like the dairy-based brands such as Nido for instance or Ninho in Brazil. So the potential is there on both sides and we see strong double-digit growth ahead of us for the years to come.

Question on: Marketing spend and profitability of e-commerce

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

The next question is on marketing. How will your marketing budget change due to increased use of digital? Can you comment also on the relative profitability of your e-commerce business?

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

On marketing spend, first of all last year you may remember that in the first half of 2020 we had actually spent significantly less than the year before because we could not activate some in-store promotions, but we caught up very well in H2, actually if look only at H2 we spent about CHF 200 million more than in the year before. Net net during the year we were slightly below the year before. Within marketing spend and if we look at our media spend close to 50% of what we spend in media is actually digital today. It is actually 47%, which is a significant increase versus what we experienced a few years back.

If we look at the profitability of e-commerce, it is a little bit difficult to draw a final conclusion on that. First of all, it depends very much by category, by market. On the top of that the product mix that we have between channels is not exactly the same. So for example we are overweight in e-commerce in some categories like infant nutrition, like coffee, like Nestlé Health Science for example. So given that the mix is not exactly the same, it's a little bit difficult to compare. We don't have any issue in terms of margin for the time being, overall, I would say even if once again it is a little bit difficult to draw any conclusions. Which is actually reasonably good because it is only, if I can say so, 13% of our total sales. So we don't have necessarily the same scale as we what we have in the traditional retail space.

Laurent Freixe, Chief Executive Officer, Zone Americas, Nestlé S.A.:

Maybe I can add a few points that indeed the cost to serve might tend to be a bit higher than for traditional retail products, but the mix plays in our favor. The premium, super premium offerings like in PetCare or infant food tend to over index, and our approach is to customize as much as possible our offering and the end-to-end supply chain so that we can achieve similar or even better level of margins. We want the growth engines and the growth platforms to be margin accretive, so we are working hard on that side but again the mix plays in our favor. To build upon what François was saying, it's probably not the best year, 2020, to talk about PFME, because in many areas we have been capacity constrained. So it doesn't make sense to promote and push the demand when you cannot really supply to the level of the demand. But still we increased our investments, supported growth platforms and I think we can really say now that we are in a digital-first environment. Digital comes first and is, in many cases, more than 50% of our spend, this is our direction. You can customize the message, you can measure impact in a more granular way, so this is indeed the name of the game for the future. For the present and the future.

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

An additional consideration regarding e-commerce, actually the matter is less the margin, once again we don't have an issue in terms of margin in e-commerce for the time being, we see e-commerce much more as a growth driver. It is quite impressive to see what we have achieved last year. We grew by almost 50% in e-commerce and it accounted for 13% of our total sales. But we are really in an investment position, so we are building capabilities, be it in terms of IS/IT capabilities, in terms of skills, by market, we do that globally as well. The good news is that we have market share on-line, which is actually higher than the market share that we have off-line, and we keep on gaining market share for e-commerce as well.

Laurent Freixe, Chief Executive Officer, Zone Americas, Nestlé S.A.:

Let me highlight on top that for a category like pet food that indexes very well in e-commerce; there is frequency of consumption and shopping, it’s bulky, so that’s prone to subscription models so a broader e-commerce space. There we grew, in the U.S. last year, 65%, and it is close now to 20% of sales.

Question on:	Inflation

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

The next question is on inflation. How much inflation are you expecting in 2021? How much will be offset internally and how much will be passed on to customers?

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

I think we have gone through the last few years with basically no inflation or even deflation. There was deflation in our industry and more specifically in the developed world. So I would not talk of inflation for the time being. What happens though is that we clearly see an increase in terms of commodity and packaging material, and we expect a more significant increase in 2021 than we had last year. Net last year, the increase of commodities and packaging materials was relatively moderate which explains part of the reason why by the way we had a moderate level of pricing as well, which was only at 0.4%. If you look more specifically at the end of 2020 last year, we were already at 0.9% of pricing, so we start seeing some traction there, which is a reflection of this commodity increase, but which is also a reflection of the depreciation of currencies which we have been facing last year in emerging markets more specifically. Then I would mention for example Mexico, Brazil, I would mention some other countries like Russia as well, and over time this will translate into higher inflation and pricing for us. So we do expect to have more traction on pricing in 2021 than what we had in 2020.

Laurent Freixe, Chief Executive Officer, Zone Americas, Nestlé S.A.:

Maybe two specifics on Zone Americas, number one Latin America, the largest currencies have devalued significantly against hard currencies including the Dollar which has not been that strong lately. That’s particularly true for the Brazilian Real but also true for the Mexican Peso. So that’s imported inflation in those markets, especially for commodities. This on top of indeed commodity cost inflation in some areas, dairy in particular or cereals, will mean that we will see a bit more inflation in 2021. In the U.S. the additional element is the transportation costs, domestic transport, but also international transportation costs are on the rise. There is scarcity and this is pushing prices up. Our approach is always the same. We are mindful we are in a period of crisis; consumption is supported today by government packages, but there will be an end to it. So we are very mindful, and the first approach is always to focus on efficiencies and productivity to mitigate as much as we can of the cost side, and then we will use all the possible levers to capture some pricing, which can be innovation, renovation, strategic revenue management, promotional policies and ultimately price lists. But once said, yes, we will see a little bit more inflation in 2021 in the Americas and especially in Latin America.

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

Maybe something I can add on pricing as well. Pricing is important, but really the objective there is to neutralize the input costs that we receive, be it in commodities or packaging price increases or the impact of depreciation, as I mentioned earlier. But just to be clear, we don't create value through that. It is very much about passing through what we receive ourselves. I think where we create much more value is through the mix and the mix is still, in 2020 and it should be the case in 2021 as well, the largest driver of our organic growth and there we create value through premiumization and through innovation because we are driving growth with, for example, premium products which have a margin which is 3-4 percentage points higher. So when we look at premiumization, it has much more value than pricing to a certain extent; because it is driving growth, it is driving margin, and it allows us as well to differentiate our sales and protect our sales from commoditization.

Question on: Structural costs

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

Next question is on structural costs. How much lower can structural costs go as a percentage of sales? and can working capital go to negative territory, below zero in percentage of sales?

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

Structural costs, you have seen what I shared in the presentation, they have declined by 1% in the last couple of years where our growth was around 3%. So this is one of the levers that we will use in order to generate resources in the future that will be more used in order to support our growth. Be it in marketing or in sustainability. We don't necessarily expect to see our structural costs reducing given that anyway, we expect our sales to accelerate well in the mid-single digit space. We want to maintain our structural costs flat. We are confident that we can do it. It's not necessarily something that is easy, especially so if we grow in the mid single-digit space, but we are confident that we can do it. Once again, not an easy one because at the same time we need to make sure that we continue investing in sustainability, that we continue investing in e-commerce as we mentioned earlier, that we continue investing in digital, in building additional sales force, for example, which means that we need to take away from our P&L some of the costs that were there historically and that we don't need necessarily anymore.

On the working capital question, I'm quite impressed by what we have done. We were at 8% of sales in terms of working capital in 2012. We have reduced for nine consecutive years to reach zero working capital. This is not just the 31st December 2020, this is the average of five quarters. So this is strong and solid, and this is structural. The benefit of it is that obviously we will get the full cash benefit of our growth from now on, which is very attractive. Can we go into negative territories? The answer is yes. Clearly, we still have identified ways to reduce further our working capital. That comes essentially with our reverse factoring program which is about payables and we can extend our payables probably further. You need to understand as well that we managed to reach zero working capital last year in spite of the fact that, we increased materially our inventory. It was necessary last year in the context of COVID-19 and we did it, we increased our inventory, for example by the end of 2020 by almost CHF 1 billion which is quite significant. In spite of that, we have been able to reach zero working capital and we will be in negative territories most likely in 2021.

Laurent Freixe, Chief Executive Officer, Zone Americas, Nestlé S.A.:

On the structural costs, the equation that we try to manage in the framework described by François, is really to focus on decreasing our cost of running our operations to create space to be able to invest in new capabilities, so typically technology, digital, automation, robotization, AI. But as well investing in manufacturing, we have a hefty investment plan in the pipeline with new capacity, new factories coming on stream as we speak and in the years to come, in coffee, in PetCare, and in food in particular, to be able to support the growth. This is really the equation that we want to manage to keep structural costs flat, reduce the costs of running the operation to be able to invest in new capabilities, including people.

Question on:	**M&A**

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

Next question is on M&A. You have been quite active in reshaping your portfolio through M&A. The most recent example is your divestiture of your North American Water business. Can you elaborate on how you see the role of M&A for you going forward and the type and size of assets you would be looking at?

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

So M&A has been instrumental in driving our growth and to a lesser extent our margin, but essentially to drive our growth. As you know, we have quite reshaped our portfolio quite significantly because we have rotated around 18% of our portfolio. The 18% corresponds to our 2017 base. By rotation, I mean the sum of what we bought and what we disposed of. So this is quite significant. Obviously, we pulled out of some businesses that were non-core to us. For example, we were with Gerber in the U.S. in the insurance business, which is not one of our core businesses. We decided to re-define our strategic boundaries and exited some businesses like Nestlé Skin Health, for example. I think this was the right thing to do and we invested and strengthened some of our categories. You saw what we did with Starbucks, amazing to see what we delivered. We achieved CHF 2.7 billion of sales last year, and we added even in the course of 2020 another CHF 400 million of sales in that business.

So what has happened over the last couple of years and especially last year and even more the year before is that we disposed of more than we bought. This is clearly something that we would like to avoid in the future. Scale matters to a certain extent, and we would like to regain scale, so we are clearly interested in making acquisitions, but we need to strike the right balance between growing externally and making sure that we get decent returns on what we do. So we will remain disciplined on capital allocation. You have seen the interesting achievement that we reached last year with our return on invested capital that was almost at 15%, while we were at 10% in 2014. So we need to strike the right balance. Does it mean that it is going to be difficult to do acquisitions? Not necessarily, but we will have to be selective. We have been able to do sizeable ones like Starbucks, like Aimmune, like Vital Proteins and some other assets, Garden of Life and some other assets that we did for Nestlé Health Science. We are confident that we will be in a position to do so in the future. So we are interested in obviously strengthening our core categories and our high growth categories whenever we can, but it is not exclusive by the way. We could also invest, and we have done some investments, you saw it with Sweet Earth for example in the US, where we have invested in a category that is not classified as a high growth category which we are very much ready to do so as well.

Laurent Freixe, Chief Executive Officer, Zone Americas, Nestlé S.A.:

Let me highlight, on top of what François was just saying, the number one priority remains to invest in organic growth, and we see ample space in strategic categories or more local businesses to drive sustainable mid single-digit growth, so that's one aspect.

Now, of course there is this exposure, we try to reach higher exposure to growth categories that's one of the important aspects. Strengthen our exposure in what we have qualified as the strategic categories and exit businesses where we believe we are not positioned to win. So that's the approach but indeed we are eager to activate a bit more the acquisition lever going forward.

Question on:	**Consumer facing marketing expenditure**

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

The next question is on consumer-facing marketing expenditure. How do you see the marketing spend evolving in 2021?

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

Maybe Laurent I let you answer that one.

Laurent Freixe, Chief Executive Officer, Zone Americas, Nestlé S.A.:

We want to invest. We believe that there is space to invest. So the focus is on increasing investments in consumer-facing marketing. We probably will be cautious in the first part of the year, which is a little bit counter to what we would do normally. Normally we would invest to start the year strongly, but we are still pressured by the level of demand which in some categories outstrips our capacity to supply, so it doesn't make sense really to push strongly the marketing lever and increase the demand when the demand is already so strong. But for the balance of the year, you will see increased investments. We believe in the power of investing in generating demand, in strengthening consumer engagements, customizing our relationship with customers and consumers to generate growth. So that's certainly a lever we will pull very, very strongly.

Question on:	**PetCare**

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

Next question is on pet food. You have had three years of strong pet food growth. Do you see any evidence of a category slowdown in the next two years? Probably a good question for Laurent.

Laurent Freixe, Chief Executive Officer, Zone Americas, Nestlé S.A.:

Absolutely. Pet food is such an important category for Nestlé and in particular for my Zone. The best element on which I base this strong opinion is that pet adoption has increased significantly. That is one of the impacts of the COVID crisis. People have lost social contact and connections, and of course the pet is an important element of, another type of social connection. Pet adoption and we see it across the world, is at an historical high. A pet adopted is a consumer for the next ten to fifteen years, so we will see sustained demand in the pet area. The category remains really prone to innovation, to science-based innovation going forward, and to premiumization, so we are really bullish regarding the opportunity of the category going forward.

Question on: Coffee and Starbucks partnership

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

Next question is on coffee. Can you update us on coffee business and specifically the progress you are making with your Starbucks partnership? What will be the areas of focus in 2021?

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

So first of all, coffee is our largest category it accounts for almost 25% of our sales. The business grew by almost 5% last year. The good news is that it grew for the three main brands; Starbucks, *Nespresso* and *Nescafé*. So we are very happy with that. It grew across geographies as well and we gained market share basically across geographies, segments, categories and brands so we are very happy with what we have seen. More specifically for Starbucks, you know when we acquired that business, it was a CHF 2 billion business three years ago, last year it was a CHF 2.7 billion business in sales and we added another CHF 400 million in sales last year, in spite of the fact that we lost a significant portion of the business in the U.S., which corresponds to the out-of-home business. So very happy with it.

Obviously, the Starbucks development takes different shapes and forms, but one element where we have been extremely happy, beyond the roast and ground because we were not present there, is the Nespresso compatible capsules or what we call Starbucks by

Nespresso, where we have gained significant market share. As you know this is a territory where we were not present at all because this was about getting access to retail, given that with Nespresso we have an exclusive distribution through our network of boutiques and our e-commerce platform. So with Starbucks by Nespresso we got access to retail and we gained in a little bit more than a year about 16% market share of Nespresso compatible capsules, really extremely good with limited impact for Nespresso. You saw it, Nespresso had a fantastic year as well. We grew by 7% a number which reached CHF 6 billion of sales last year. Quite an amazing performance thirty-three years after the launch. Just want to take the opportunity as well, talking about that, for the Nespresso system which includes Nespresso as well as Starbucks by Nespresso as some other compatibles which we market as well, we grew double-digit both by volume and by value.

Laurent Freixe, Chief Executive Officer, Zone Americas, Nestlé S.A.:

I think we have got the best portfolio, in all modesty, in the industry. We have got such a nice and powerful set of brands between Nescafé, Nespresso, Starbucks, and I would add Coffee-Mate as well which is really a power brand in the U.S. We see opportunities to grow in all spaces. There is one area, which is impacted obviously, which is the out-of-home part. There is less office consumption, there is less coffee shop consumption, there is less transport consumption or consumption on-the-go. But part of that has translated into more consumption at-home, and our positioning of the coffee shop at home, which benefits also Nescafé Dolce Gusto which has achieved strong double-digit growth in 2020, will benefit all the brands going forward. So we are very confident regarding the growth opportunity. Maybe one of the things to highlight with the Starbucks at home offering, Starbucks by Nespresso, we are now introducing the Starbucks Vertuo line in the U.S. So that will be an additional growth lever to drive Starbucks to the next level.

Question on: Consumer behavior post COVID

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

Maybe another question for Laurent. Which consumer behaviors do you think will stick post COVID?

Laurent Freixe, Chief Executive Officer, Zone Americas, Nestlé S.A.:

It's an obsession that we have because it is clear that we got more consumers and more consumption occasions that have been triggered by COVID. Especially in the U.S., where 50% of the food was consumed out-of-home and the fact that it was down, at the peak of the crisis to 1/3, has created ample opportunities of home cooking and home baking. We believe that some of these will stick as people have started to enjoy it. That can be also a family activity especially when it comes to baking and baking with the kids which resonates very well with our Toll House brand. I believe that as we will enter the more economic side of the crisis and possibly the social side of the crisis when the economic crisis will impact more, and possibly support packages will start to fade away. People will see that in the trade-off on where do we have our meal occasions? and when we have breakfast, lunch or dinner? at home is a cheaper option than going to the restaurant. I don't say that there will not be a way back to the restaurants, that people will not go back to their previous habits, but there will be certainly less people working in the office going forward, so I am sure that part of what has been captured will stick. While we will see, at the same time, out-of-home channels progressively starting to recover.

Question on: China

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

A question on China, may be for François. With the sale of Yinlu what is the outlook for the Chinese market for Nestlé going ahead? Which categories will be the focus in China?

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

So China, this is clearly one area where we have been disappointed by our performance in 2020. There are several reasons to it. First of all, we had the timing of Chinese New Year, which didn't help in both Q1 and Q4. We have a stronger dependency as well on out-of-home and in the context of COVID it has played against us as well. The consumer behavior in China was very different during the lockdowns because there was no stockpiling by consumers. So this doesn't help but clearly we ambition to be soon in the mid single-digit space in China. For a certain number of reasons, one of them is Yinlu because it was a drag in 2020, so that one has gone. We have put together a turnaround plan for Wyeth as well, which is an area where we were significantly negative last year, and we are working actively. Already we saw some signs of an interesting turnaround in H2 and obviously the comps are going to help us, starting with the timing of New Year, which played against us last year and which will be certainly positive in 2021. So we remain optimistic. It is not necessarily an easy one. The important thing as well is to understand that outside of infant nutrition last year actually most of our businesses did well in China. So the foundation, outside of the specific issue we had with Wyeth, we are very strong and solid. I could mention many examples of our businesses; PetCare, Nespresso, some of our dairy businesses as well, which did very well. So we remain very positive about China starting in 2021.

Question on:	Emerging markets

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

Maybe we have time for a last question on emerging markets. How are you doing in emerging markets? What countries can surprise to the upside? Maybe Laurent can give us his perspective on Latin America as well?

Laurent Freixe, Chief Executive Officer, Zone Americas, Nestlé S.A.:

Latin America has been really strong for us with high single-digit growth and I see opportunities, both in volume and RIG as well as in pricing going forward. We have got very strong momentum in Brazil, including in Confectionery which is a category that has been under pressure globally, not in Brazil and we are gaining share there and it's a huge business for us, but dairy also, PetCare offer massive opportunities. I am a bit, also about Mexico, Mexico is always pulled by the U.S. remittances are also at a historical high. Even if the economy is not that strong, consumption is sustained, and we are extremely well-positioned for growth. I would mention also Central America, Chile, Peru as really strong hopes for us. So I see significant opportunities for us across the board to sustain high single-digit growth going forward.

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

We have arrived at the end of the session, so I want to thank you for your time and interest. We hope to see you face to face next year in Florida.
Thank you.

End of Transcript