NESTLÉ S.A.

2021 THREE MONTH SALES INVESTOR 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.

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Slide – Title slide

Good afternoon, and good morning to everyone. Welcome to Nestlé's First Quarter Sales Conference Call and Webcast. I am Luca Borlini, Head of Nestlé's Investor Relations. Today, I am joined by our Chief Executive Officer, Mark Schneider, and our Chief Financial Officer, François Roger. Mark will start with the key messages. François will follow with a review of the first quarter 2021 sales performance. We will then open the lines for your questions.

Slide – Disclaimer

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

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

Slide – Title

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

Slide – Key messages

We are pleased to report an exceptionally strong quarter to you today. In a nutshell, we saw a rebounding level of business in China, based on a very low level of comparison last year, gradual recovery in our out-of-home business and continued strong demand for retail and in-home consumption around the world.

I was particularly encouraged by our progress in pricing as many of our input costs are increasing. It was reassuring to see that these pricing steps did not stand in the way of a positive market share development. In line with our expectations, e-commerce continued to thrive with a growth rate of 39.6%, bringing our e-commerce sales to 14.5% of total Nestlé sales in Q1. My sincere thanks go to the entire Nestlé team.

The challenges related to COVID-19 and global supply chain pressures are daunting, and the team navigated the situation in an outstanding manner to deliver this exceptional growth.

Just like in operations and sales, we did not miss a beat in our strategic projects, from research and development to digitalization to portfolio management. Regarding portfolio management, in particular, I would like to point your attention to the new strategic direction of our Nestlé Waters business, which is becoming quite visible now.

With the sale of Nestlé Waters North America and the acquisition of Essentia, the sharpened focus on international premium brands, local natural mineral waters and differentiated healthy hydration products, such as functional water, is taking shape. From a smaller and more focused base, our Nestlé Waters business is now well positioned to capture growth opportunities with discerning consumers around the world.

Regarding financial metrics, we are confirming our 2021 guidance today. In light of the exceptional growth in Q1, our guidance may appear to be conservative to you. Our confidence level of getting to an organic sales growth rate of more than 4% has certainly increased on the back of our Q1 performance. We are not aware of any material items that might stand in the way. Our cautious revenue growth guidance at this point is mainly based on two reasons: first, the level of comparison for the second half of the year is going to be significantly higher; and second, we wanted to have one more quarter of visibility with regards to the COVID recovery before we revisit our 2021 growth guidance.

While we will not discuss cost and margin items in this Q1 conference call, I would like to caution against excessive margin growth expectations based on this strong sales growth. We now see broad-based inflation across our various commodities, packaging materials and transportation costs. Not all of these items can be hedged, and our hedging cover for a number of commodities will run out over time. We are raising prices where appropriate, but usually there's a time lag associated with pricing. We are on top of the situation and my raising of this issue should not give you alarm.

I just wanted to caution against excessive expectations on the margin front. So please stay close to our guidance level during this turbulent time.

Slide – Our business as a force for good: COVID-19 vaccination support

Before turning it over to François, I would like to comment on how Nestlé is supporting COVID-19 vaccination efforts. As you know community support has been a key priority for us from the beginning of this crisis, right next to keeping our workplace safe and maintaining business continuity. From the onset of the pandemic, we have provided community support around the world in many different ways. The focus of this work has now shifted from addressing immediate emergencies and needs, to providing help and support on vaccinations. There is an urgent need to advance equitable access to vaccines, particularly in low-income countries.

We're not a medical firm, but we have unparalleled logistics and geographical reach to offer in addition to direct financial contributions and donations. Needless to say, all of this has been, and will be, in strict compliance with all applicable health care regulations and in close coordination with government authorities. Widespread vaccinations are the best way to overcome this pandemic and we advocate for everyone getting vaccinated in line with public health priorities. With this, let me hand it over to François for a detailed review of our Q1 results.

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

Slide – Title

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

Slide – Three-month sales growth

Let me start with the highlights for the first quarter of 2021.

Organic growth was 7.7%, with increases from all three components, volume, mix and pricing. Real internal growth was strong at 6.4%. Pricing contributed 1.2%, strengthening significantly versus the prior year. Net acquisition reduced growth by 1%. This largely relates to the divestments of Herta Charcuterie, Yinlu and U.S. Ice cream, which were partly offset by the acquisitions of Freshly, Vital Protein, Lily's Kitchen and Essentia Water, to name a few.

Foreign exchange had a negative impact of 5.3%, reflecting the continued appreciation of the Swiss franc against most currencies. The exchange rate dynamic improved during the quarter with the impact turning neutral in the month of March. Sales for the first three months were CHF 21.1 billion, a 1.3% increase versus last year on a reported basis. Overall, the acceleration in organic growth in the first quarter was driven by four main reasons: early signs of recovery in out-of-home channels, increased contribution from pricing, reflecting input cost inflation, further market share gains across most categories, particularly in Coffee and Pet food; and finally, a rebounding level of business in China due to a low base of comparison last year.

Slide – Broad-based growth

This slide illustrates the development of our sales by geography and includes both our Zones as well as our globally managed businesses. Organic growth was strong in all geographies. Growth in AOA was helped by low base of comparison in China. Pricing was positive, particularly in the Americas and EMENA, reflecting our ability to offset currency appreciation and input cost increases.

Slide – Strong growth across developed and emerging markets

Turning to the distribution of growth between developed and emerging markets, we returned to a more typical pattern compared to last year, with significantly higher growth in emerging markets. Organic growth in developed markets increased to 5%, reflecting strong RIG across all regions. Pricing turned positive. Growth in emerging markets accelerated to 11.4%, supported by broad-based improvements with BRIC markets and Mexico individually and collectively growing at a double-digit rate.

Slide – Strong momentum in retail, easier comps in out-of-home

Let's now look at the breakdown of sales by channel. Organic growth for retail sales was strong at 9.2%, reflecting sustained demand for at-home consumption. Going forward, retail sales are expected to moderate, but remain at higher levels than in 2019. We believe that some changes in consumer behavior are here to stay, such as increased working from home, pet parenting and the search for health and immunity benefits.

Within retail, e-commerce saw sustained growth of 39.6%. E-commerce now accounts for 14.5% of total sales. This growth is built on solid foundations of investments over the course of several years. The recent acceleration in e-commerce penetration reflects our ability to adapt to rapidly evolving consumer needs.

Sales declines in out-of-home channels moderated with significant improvements in Asia and Latin America. A recovery of out-of-home back to 2019 levels is expected at the earliest in 2022.

Slide – Zone AMS

Let's now look at the results of our operating segments, beginning with Zone AMS, where we saw high single-digit growth with a high base of comparison.

Sales were CHF 8.2 billion, with organic growth at 7.2% based on strong RIG of 4.8% and an increased pricing contribution of 2.4%. This strong growth reflected broad-based market share gains led by Pet food, Coffee and Dairy. North America grew at a mid single-digit rate, supported by strong RIG in most product categories with solid pricing. Frozen food, Coffee and Creamers all grew at a double-digit rate. The newly acquired Freshly business also delivered strong double-digit growth based on distribution expansion and increased consumer loyalty. Purina PetCare delivered mid single-digit growth with continued momentum in e-commerce and premium brands, particularly in wet cat, snacks and veterinary products.

Latin America delivered double-digit growth, supported by increased pricing and positive contribution across geographies, particularly Brazil and Mexico. By product category, the key growth platforms were Dairy, Purina PetCare and Coffee.

Our performance in PetCare was robust, with particular strength for Dog Chow. The region also benefited from new production capacity coming online in Mexico and Nestlé Professional saw slightly positive growth based on significant improvements in Brazil and Mexico.

Slide – Zone EMENA

Turning to Zone EMENA. Sales were CHF 5.2 billion. Organic growth was 4.4% based on strong RIG, supported by both volume and mix. Pricing turned positive, contributing 0.6%. The Zone continued to see broad-based market share gains led by Coffee, Pet food, Plant-based food products, Infant nutrition and Water. Each region posted positive growth, with strong momentum in Russia, Turkey, the United Kingdom and Italy. The key growth drivers were Coffee, Purina PetCare and Culinary products, fueled by continued momentum in e-commerce and new product launches. Sales of Ambient dairy in the Middle East and North Africa grew at a double-digit rate, supported by strong growth in Nido.

Infant nutrition posted negative growth due to consumer stockpiling in March of last year and lower birth rates in the context of the pandemic. Water and Nestlé professional reported negative growth with an improving trend towards the end of the quarter.

Slide – Zone AOA

Moving next to Zone AOA with sales of CHF 5.1 billion. Organic growth reached 9.1%, led by China, which was helped by a low base of comparison. Outside of China, the Zone grew at a mid-single digit rate. Pricing increased by 0.3%.

China posted double-digit growth, supported by a recovery in out-of-home channels and the timing of Chinese New Year. Most product categories saw strong growth with continued momentum in e-commerce and a robust innovation pipeline. Nestlé Professional saw a strong rebound in sales with broad-based contribution across categories, particularly Dairy. Growth in Infant nutrition turned positive, helped by a low base of comparison for Wyeth and positive growth in NAN. The rollout of new products focused on lower-tier cities is on track. In addition, we have expanded distribution for illuma A2 and illuma organic.

Southeast Asia posted low single-digit growth in a difficult economic environment. Positive sales development for most product categories were partially offset by sales decreases in out-of-home channels and Infant nutrition. South Asia recorded double-digit growth with positive contributions from Maggi, Nescafé and KitKat. Sub-Saharan Africa grew at a double-digit rate based on strong sales development for Maggi, Milo and Nescafé.

Japan posted mid single-digit growth led by KitKat and Starbucks products. Sales in South Korea grew at a strong double-digit rate, driven by Coffee. Oceania reported low single-digit negative growth due to a high base of comparison.

Overall for the Zone, the largest growth contributors by product category were Culinary, Dairy and Coffee. Infant nutrition posted slightly negative growth but gained market share in South Asia and Africa. Growth in Nestlé Professional turned positive, led by China and Japan.

Slide – Nespresso

From this quarter onwards, we are reporting Nespresso and Health Science separately to provide you with better transparency. Nespresso saw sales of CHF 1.6 billion. Organic growth reached 17.1% based on strong RIG of 16.3% and pricing of 0.8%. Growth was based on strong momentum for e-commerce, continued expansion of the Vertuo system and strong demand for Original line capsules.

By geography, the Americas, EMENA and AOA, all contributed positively to growth. North

America was a standout with continued double-digit growth and market share gains. After this strong start to the year, we expect growth to moderate as we cycle a higher base of comparison in the second half of 2021. During the quarter, we announced an investment of CHF 117 million in our Avenches facility on top of the CHF 160 million investment for our Romont facility communicated in July 2020.

Slide – Nestlé Health Science

Finishing with Nestlé Health Science, which reported sales of CHF 900 million. The business grew at a high single-digit rate, driven largely by RIG of 9.4%. This growth was fueled by continued momentum in e-commerce, new product launches and distribution expansion. Consumer Care posted double-digit growth with strong contribution from Garden of Life, Vital Protein and Persona. Growth was supported by innovation and sustained momentum in e-commerce.

Garden of Life and Vital Protein continued to expand internationally and are now sold in 30 and 13 markets, respectively. Healthy ageing products grew at a double-digit rate, led by Boost in North America, Nutren in Brazil and Asia as well as Meritene in Europe. Medical Nutrition saw mid single-digit growth with robust sales development for acute and adult medical care products, particularly Peptamen and Compleat. By geography, the Americas grew at a double-digit rate. EMENA and AOA reported mid single-digit growth.

Slide – Organic sales growth by category

Looking now at product categories, we saw strong growth in all segments with the exception of Infant nutrition and Water. Most categories saw market share gains, with particular strength in Coffee, Pet food and Dairy. Within Powdered and liquid beverages, Coffee grew at a double-digit rate, supported by Nespresso, Nescafé and Starbucks products. Coffee at-home continued to see double-digit growth. Out-of-home and on-the-go channels were still negatively impacted with some improvement in the quarter. Sales of the total Nespresso system, including Starbucks by Nespresso, grew by more than 20%. The month of March marks the 2-year anniversary of the launch of the first Starbucks products outside of North America. Total sales from Starbucks products reached CHF 716 million in 70 countries in the first quarter with a 15% CAGR over the last 2 years. We are not done yet, and we see further significant growth opportunities. Cocoa and malt beverages grew at a mid- single-digit rate.

PetCare continued to see outstanding growth, supported by e-commerce, strong demand for science-based products and the expansion of innovative business models with Tails.com, Lily's Kitchen and Terra Canis.

In Prepared dishes and cooking aids, growth was broad-based by region and brand, backed by new product launches and increased digital engagements with consumers. Frozen and chilled food combined, grew at a double-digit rate driven by Stouffers, Lean Cuisine and the recently acquired D2C businesses, Freshly and Mindful Chef. Vegetarian and plant-based food products continued to deliver strong double-digit growth. Ambient culinary grew at a high single-digit rate based on strong sales development for Maggi across geographies.

Nutrition & Health Science saw slightly negative growth. Organic growth for Infant nutrition was minus 4.4%. The return to positive growth in China was more than offset by sales declines in other markets due to consumer stockpiling in March last year and lower birth rates in the context of the pandemic.

We continue to roll out new products in all segments. Key highlights include the launch of NAN Supreme Pro in Mexico, the first Infant formula with a combination of 5 HMOs and new pediatric and maternal supplements. Within Baby Food, Cerelac delivered robust growth, and we have already discussed Nestlé Health Science.

Milk products and Ice cream grew in double digits, supported by sustained demand for our home baking products and fortified milks. Growth was helped by higher pricing, particularly in the Americas. Ice cream saw very strong growth supported by premiumization and the focus on key brands.

Confectionery recovered to double-digit growth, driven by Chocolate. Momentum in baking products and tablets continued. The improved contribution from gifting and impulse products was helped by the timing of Easter and Chinese New Year as well as early signs of recovery in out-of-home channels.

Waters saw negative growth, reflecting continued disruption to out-of-home channels and on-the-go consumption. We are focusing on differentiation through our international brands and functional waters, as evidenced by the recent acquisition of Essentia Waters and the launch of products such as Perrier Energize, a caffeinated sparkling water. Waters saw market share gains.

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

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

Thank you, François. With that, we move to the Q&A session. We open the lines for questions from financial analysts and investors. (Operator Instructions) The first question is from Guillaume Delmas at UBS.

Question and Answer Session

Questions on;	**Performance in Prepared dishes and cooking aids in Q1** **Nescafé capsules for Nespresso machines**

Guillaume Delmas, UBS:

My first question is on Prepared dishes and cooking aids because in Q1, you reported 9.9% RIG against what I thought was an incredibly challenging comparator. And I think in Q1 last year, you probably benefited in that division from some stockpiling. So trying to understand how your RIG came in almost in double digits in that first quarter. Is it down to share gains? Category growth accelerating? Maybe you expanding into new segments? And probably more importantly, how should we think about the next quarters for this business?

Then my second question is on the Nescafé capsules for Nespresso machine. I think you started this innovation initially in Oceania last year. You're now rolling it out in Spain. So my 2 questions on this, could this initiative become properly global? Or is it more about some markets where you have identified some gaps in your offering? Secondly, what cannibalization effect do you expect, if any, from this? I'm thinking in particular, potential risk to Nescafé Dolce Gusto or maybe the Starbucks capsules?

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

Okay. Good afternoon, Guillaume. I will take the first question, and then Mark will take the second one. On Prepared dishes and cooking aids, so indeed, we had a strong performance. We grew at a double-digit rate based essentially on RIG in spite of the fact that we had some decline in the out-of-home channel. Growth was broad-based by region and product segment. It was helped by continued strong demand for increased home cooking and the shift from out-of-home to in-home consumption. It was the case last year. As you said, in Q1, it was the case again this year. So it is true that it is growth on growth to a certain extent. But we still have some positive impact from COVID there. Innovation and increased digital consumer connection has certainly helped to elevate the role of home cooking and provided certainly their share of contribution.

By segment, so we had a high single-digit growth on Frozen, which essentially came from Stouffer's meals and Lean Cuisine in retail, and Frozen grew close to double digits. So it is true that this was a very strong momentum. The momentum that we had last year was actually more in the month of March, while this year it was for the full quarter. Chilled Culinary grew in strong double-digit growth as well. Ambient Culinary grew in strong high single digits.

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

Guillaume, let me comment on the Nescafé capsules. You're right. So we tested this in Australia and also in the Netherlands. Then we proceeded to roll out in Spain. So far, the results are very encouraging. One of the reasons why we wanted to test extensively is exactly what you mentioned. We wanted to be sure that there is no excessive cannibalization. So in that regard, the results were incredibly encouraging. I think the beauty of our brand architecture is that we have very defined target groups here between the original Nespresso brand, the Starbucks brand and now, Nescafé.

So yes, based on what we know today, we're certainly eager to also look at other markets where there might be an opportunity.

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

Next question is from Céline Pannuti at JPMorgan.

Questions on;	**Margin guidance** **Retail performance**

Céline Pannuti, JPMorgan:

My first question is on the guidance on the margin front. You have guided for moderate margin increase. I was wondering whether the top line performance and the operational delivery from a volume standpoint would lead to further EBIT. In that case, are you going to reinvest? Is that what you are trying to say when you are talking about moderate? Or is it just a question of not yet having the visibility on how long this strong performance will be and maybe looking at the margin performance guide later on in the year?

My second question is on your strong performance in the retail environment. I don't know if you have mentioned it on the call, but are you able to say what is the growth rate of the category and how you think you perform in terms of market share?

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

So on the margin, we're trying to be helpful, but I don't have very much to add to what I said in my prepared remarks. That is, clearly we saw that some of you may come to the conclusion that based on the strong sales growth that there is also an excessive margin upside in place. But it is important here to look at the inflationary environment out there on commodities, on packaging materials, on transportation costs.

This is a very volatile environment right now, very low visibility, lots of surprises happening. Again, we will take pricing action. As you've seen we have taken some pricing action already, but it's important to stay very close to the margin guidance that we have given you for the year in February.

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

On retail performance. So we had a very strong one, indeed, 9.3% in Q1, which saw further acceleration from where we were last year in any quarter. So difficult to say exactly what is the growth of the market. But that being said, we saw certain improvement in our market share. Just to give you a little bit more color, we have been gaining market share in about 63% of what we call our business cells. Cell is the combination of a geography and a category. So 63% is one of the best levels that we have seen basically since 2013. We have been holding market share in about 6% of the cells and as a consequence, we have been losing market share in 37%.

So once again, this is certainly a strong improvement versus what we have seen over the last couple of years. If we talk geography, we saw a clear improvement and acceleration in market share gains in EMENA and in AMS, I would say, across categories. If we look at it by category, we see clear market share gains in Coffee, in PetCare, in Dairy, Ice cream, Water even. Even in Water, if we have a declining business, but because of the COVID-related situation. We saw market share gains as well in Confectionery & Nestlé Health Science. So it's relatively across the board, both by geography and category.

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

Next question is from Bruno Monteyne at Bernstein.

Questions on;	Pricing Infant nutrition

Bruno Monteyne, Bernstein:

I'm a little bit confused about the pricing information. On the one hand, I can see the acceleration of pricing impact moving by 50 basis points to 1.2% this year. So it looks like pricing is coming through. But then when I look at the DM versus EM split, it looks like all the pricing sits in emerging markets. So I would imagine that most of the pricing is offset of currencies in emerging markets.

The reason I'm asking is, to what extent are you also seeing pricing coming through for the higher input costs, whether it's packaging, plastics, food commodity, cost of transport? Is that starting to come through? Or is that too early? If it still has to come through, would it be fair to expect another 50 or 100 basis points as we see the full impact of these more input cost increases in developed markets?

My second question is on Infant nutrition. Just as China is going positive again. Now the rest of the world goes negative. It feels like a hard one to catch. Now if you were to strip out the impact of the stockpiling last year, is there still enough momentum outside China to return to positive growth? Or is the impact of lower birth rates so big that actually we might see negative growth for the rest of the year?

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

Let me take, Bruno, the first question. On the source of inflation, first of all, it is true that there is one item contributing to it, which is the currency depreciation in emerging markets because we had significant currency depreciation last year, and there is always a time delay until it hits our P&L.

But it goes beyond that. We clearly see input cost inflation, which is back, with price increases for commodities, packaging material and transportation costs. We are hedging and forward buying to cover some of this exposure, but it only delays the impact for a few months. In addition, hedging is mainly available for key agricultural commodities, but it does not really apply for packaging material and transportation whose price fluctuations goes immediately to the P&L. So obviously, the main way to address input cost inflation is through

price increases.
Our strategy has been the same over the last couple of years, is to offset, over time, the input cost inflation that we receive through price increases, even if we are absorbing some of the inflation through productivity gains, industrial efficiencies and product mix and innovation. Clearly, we will see more probably coming from the input cost inflation as we progress into the year, maybe a little bit less currency depreciation because we start seeing things stabilizing. But the contribution from input cost inflation is significant, including in the developed world. If we see, for example, in EMENA, we start having positive pricing, while we had been in negative territories for a few years. So you clearly see some traction there in EMENA as well as in the U.S., same story.

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

If I could build on that, I think you are seeing, as you look at various quarterly updates, a very consistent picture here from our peers as well. Obviously, that is not lost on the public, consumers and retail partners. So I think that's giving us hope here that pricing action where appropriate, and where warranted by the cost increases, is possible.

Look, on China Nutrition, we didn't get into specific guidance here. The key messages are, I think we are seeing initial signs of progress on the work that we have described to you as part of our February conference call. The one picture we saw in China, but also in many other key geographies, is simply depressed birth rates. At the beginning of this pandemic, there was this question, was the pandemic going to lead to baby boom or baby bust? It's very clear that in most geographies, birth rates have been coming down.

You can imagine with economic uncertainty and health-related uncertainty for many potential parents, this may not have been the best time to either start or expand their families. So some of this will relieve itself. Again, as you know, we're a long-term player here. We have seen in key geographies, good market share development, which I think is giving us hope. But obviously, this category has its ups and downs and in an unusual circumstance like the pandemic here, these ups and downs are more pronounced.

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

Next question is from Warren Ackerman at Barclays.

Questions on;	PetCare growth
	Channel mix

Warren Ackerman, Barclays:

Two for me as well. First one on Pet food, I think almost 9% growth in the quarter. That's up against a 14% comp in Q1 last year. Can you tell us what the growth was in the U.S., Europe and LatAm? I mean, you said LatAm is very strong. And maybe give us some color on what kind of e-commerce growth you're seeing? I'm just trying to get a sense of how big the share gains are and what benefits you're getting from, say, personalization in Pet food and maybe even the IVC investment in pet clinics because that number is pretty exceptional in Pet food and how we should think about it for the year.

Then the second one is just around channel mix. I mean one of the things that I'm a bit confused by is that you're seeing retail sales stepping up quite markedly in the first quarter compared to the full year, but you're also seeing the out-of-home decline stepping up as well. So it looks like just consumptions going up or calories are going up. People are just eating more. Is that the right way to read it?

Is that something that you think as a trend can sustain for any kind of prolonged period of time? Or do you just think it's a timing effect? Just be interested in any kind of color on this channel mix because it seems a bit odd from the outside.

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

Well, maybe I can start with the second one and then hand it to François for the first one. Just to be clear with out-of-home, year-over-year, were down. The reduction is just less pronounced than it was in some quarters last year, and most notably the second quarter last year. And it's certainly better than the full year. But year-over-year, nonetheless, we're down. So I think what we're seeing still is a world that spends a lot of time at home and consumes a lot of their food and beverages at home. This is where our retail strength and at-home consumption strength is coming through.

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

On PetCare, so we posted high single-digit growth with strong performance across markets and segments on the top, as you say, of a strong quarter in Q1 in 2020. So it was across markets and segments. The growth was supported by continued focus on premiumization, personalization and innovation, very much what we have been doing as well over the last couple of years.

Our digital ecosystem and the expansion of innovative business model, I would mention there Tails.com, Lily's Kitchen, Terra Canis. They have remained an important growth driver as well. You talked of market share. Where we have been gaining market share is especially through e-commerce, across geographies there. Talking of the category dynamics, we stay with an attractive category dynamic with the market growing at a strong mid single-digit rate. It was the case before COVID-19. Certainly, the pandemic has led to increased pet parenting, and this is certainly helping as well. As you know, in developed markets, this is very much about innovation, while in emerging markets, it's much more about calorific conversion, and we expect that to continue in both cases.

We are obviously investing significantly to support that as well. You may have seen that we are putting significant CapEx to support the growth and the needs there. North America, just because I think you wanted to get some color, so we grew mid-single digits, which was on a very high base of comparison already last year, and we were in double-digit elsewhere.

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

Okay. Next question is from Jon Cox at Kepler.

Questions on;	**Input costs**
	Gross margin
	In-home consumption trend

Jon Cox, Kepler Cheuvreux :
Congrats on that Q1 figure. It looks, I think the best in about 10 years. So well done. A couple of questions for you. Just on the inflation side of the equation again. I wonder if you can sort of give us an idea how much you think your agri or agri logistics basket will rise this year compared to last year, just to give us a ballpark figure.

Then just on the gross margin for this year, do you think that a mixture of pricing and also the ongoing efficiency programs you have will be enough to offset the higher inflation costs? Or do you think that actually, the gross margin will actually be lower this year?

Then just an add-on to really your comments about you expect more elevated levels of in-home consumption to last indefinitely. I'm wondering where you get that idea from, what you think you're looking at in particular. And an add-on to that, what does that mean for your Baby Food business? I'm not talking about formula, I'm talking about baby food because it seems like when people are home, they spend a lot more time maybe making baby food rather than buying it off the shelf. Any thoughts you have on that?

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

Jon, let me start perhaps on the second one, and I'll share with François the answer to the first one. So when you look at at-home consumption now, remember, this pandemic is not over yet. Many people, as a precautionary measure, are still spending a lot of time at home or do a mix between the time they spend at home and time at their workplace. So this is not a full return to normal yet with very few exceptions.

So I think it is natural that elevated consumption trends are continuing. As you look at forecasts for the rest of the year, and this pandemic has surprised us a few times, but if we're assuming a steady recovery here, then it would mean that even for the balance of this year, people will have spent more time at home than, say, in 2019. So that's a fact, and that's pretty much pandemic-driven.

Beyond that, you have the whole notion of future at work, which gets discussed now a lot and more flexibility already signaled now by many employers post pandemic when it comes to allowing remote work styles and at least a fraction of the work being then completed from home or remotely, not at the normal workplace. So you pick your assumption of what that is going to be and for how many people.

But clearly, I mean, the 2020s when it comes to our places of work and commuting habits after this pandemic will probably look different to the decade before. Then, of course, there's a third aspect at work, which has started last year with the onset of the pandemic, and that is a consumer and retailer trend towards trusted and large brands. Of course, with our well-established brands, we benefited from that.

Here, again, you will have to pick your own assumptions how long that will last and what it will develop into after the pandemic. But as for now, we're still in the middle of this pandemic, and hence, it's not surprising that the same trends that helped us in 2020 are also at work in 2021.

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

Jon, on inflation, so the increases are taking place across the board, but it's more specifically on dairy, cereals and packaging. I would add to that, obviously, transportation cost, which is sea freight, air freight, trucking costs, you name it. Obviously, on the part that has to do with agricultural commodities, as I said earlier, we have hedging in place, and we have forward buying as well in place, which delays a little bit the impact. So we will get some of this impact later in 2021. We will get some as well in 2022. So this is not just something for this year. It will certainly be carried forward to next year as well.

So in terms of impact on our gross margin, as you know, we value gross margin as an indicator of the quality of our portfolio and our capacity to price and our capacity to manage our industrial base efficiently as well. Gross margin is impacted by a variety of factors, which include the mix, pricing, cost efficiencies and what we just discussed, commodities, packaging material price movement as well. We are acting on all levers individually in order to improve our gross margin or stabilize it over time. We always try to offset the input cost increases, commodities and packaging material to start with through pricing, and it has worked over the last couple of years. So we are confident that we can do it as well. It may not necessarily work by quarter or exactly by semester because, as Mark said in his opening remarks, there might be a time delay as well, which may lead to some specific pressure or benefit in a given quarter and a given semester. But globally, our strategy is to offset whatever we receive through pricing.

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

Let me build on that just very quickly. So, what François described, I mean, from what we can see now is very much a '21, and to some aspect, also '22 phenomenon. To what extent it will reach longer than that, we don't know yet. So it is about '21, '22 for now. Then we'll watch with you how input costs develop. The other thing, building on what François said last, that's very important to me, we're in a period now, which started last year with the onset of the pandemic, which will probably last another year or so, where you will have pretty strong gyrations from one quarter to another, top line, gross margin bottom line.

So this will not be your normal year-over-year steady comparison situation that maybe was offered in '19 over '18, or '18 over '17. That's just one thing where it's important not to overinterpret the latest information but see it more in perspective and on a full year basis.

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

Next question is from Tom Sykes at Deutsche Bank.

Question on;	**Coffee - Market share gains and post pandemic trends**

Tom Sykes, Deutsche Bank:

Yes. I just wondered on Coffee, please, could you give a little bit more detail on the share gains by geography and where these have been strongest? Then on the Nespresso, the foodservice part, and also in out-of-home coffee for Starbucks, could you maybe just talk about the growth outlook there and whether there's been any restocking benefit at all ahead of a more broader opening up in later quarters, please?

Then also just on those geographies where there has been a bit more opening up. I guess, following on from one of the earlier commentaries around the sort of double benefit of out-of-home improving and retail consumption being high, what are you seeing specifically in Coffee in those countries, which are opening up? Do you still get the same premiumization trends at-home when that's been occurring, please?

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

Tom, maybe if I could start on that reopening part. I guess the one market that we look at very closely is China. There, you're seeing a nice restart of the out-of-home activities, including, of course, Coffee. So that's going really well. It doesn't lead to major problems on the at-home side. But then again, as you know, China is a market that still has very low per capita consumption of coffee, so it's a little hard to draw conclusions from that for the rest of the world.

From what we've seen, in particular, Starbucks out-of-home, it bodes well for other markets. It's hard for us to tell as to what extent restocking goes on or its true pass-through consumption. That's pretty hard for us to guess.

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

Tom on your question on market share gains in Coffee, that's relatively simple to answer. It happened across geographies, across brands and across segments. By segments, I mean Portioned coffee, Soluble, Roast & Ground. It happened in the Americas, across Europe and in Asia and across brand, I mean, the three main brands as we have Nespresso, Nescafé and Starbucks. So no differentiation there. I'm very happy with that.

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

Next question is from Jeremy Fialko at HSBC.

Questions on;	**Emerging market situation for balance of the year** **RIG, volume and mix split**

Jeremy Fialko, HSBC:

So my two questions. First one is the growth in emerging markets was pretty strong this quarter. Now clearly, there was the China factor, given the base there, but also markets like India, Latin America did very well, too. Yet the health conditions in those markets are very, very serious at the moment. So I suppose the question is kind of how worried are you that the worsening health situation is going to then sort of manifest itself in a worsening kind of consumption and economic situation over the balance of the year? Or has what you've seen in the second half of 2020 told you that the health and economic factors are perhaps going a little bit more separate than they might have been a year ago?

Then second, just a very quick question. Within the 6% RIG that you delivered, can you roughly split that out between the volume components and the mix, which was the larger of the two?

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

Thanks, Jeremy. Let me address emerging markets first. So you're right. I think the rebounding of China is a big component of that. You're also right, we are watching, with some concern, the development of the pandemic in other large emerging markets. I think as long as you're able to operate and supply your products, the at-home strength is a strong net plus for us.

China stood out in that we had one of the most developed professional and out-of-home markets there. Hence, the hit there was harder at the time of the lockdown. In other emerging markets, the relative weight of the out-of-home business for us is not quite as strong. Hence, we believe as long as we can operate and deliver our goods that we could still come out with very good growth numbers there. Now having said that, as you know, later in the year, as we start to lap some very strong quarters in those markets, the base of comparison there is going up as well.

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

On your question on the three components of our growth, actually, I'm glad you asked the question because we have a very well-balanced growth between the three factors. If you look at it against the full year 2020, so we are comparing one quarter against a full year, as you can see, we have accelerated our growth by a factor of 2x. If you compare on pricing, you have it anyway, it's 2x as well. On volume, it's around 2x. So we had a strong volume growth and acceleration there.

But the beauty of it as well is that we continue to see mix improving again in Q1 as it did last year as well during the pandemic. So it's a very, very healthy growth profile as well with the three components of organic growth contributing to it.

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

Next question is from John Ennis at Goldman Sachs.

Questions on;	**Sales growth for Nespresso** **Full year guidance**

John Ennis, Goldman Sachs:

I wanted to ask on Coffee first. The 17% sales growth for Nespresso was, of course, a positive surprise. Can you help quantify how much of this was driven by new customer recruitment versus a higher frequency of usage per customer? As we progress through the year, do you think frequency of usage can persist?

And then my second question is a quite broad one on the full year guidance. What would you need to see in order to raise the guidance? Is it simply a strong Q2 and visibility on reopening more broadly? Or is there something specific that you are worried about or being cautious about with regards to certain categories or countries that you can highlight?

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

Let me start with the second one and then hand it to François for the first one. And I think you summarized it well. I'd like to see how Q2 is going and what we know, in July, about how the world is climbing out from this pandemic crisis. So those are, to me, the two major things to watch. Then I mentioned the fact that we have a steeper base of comparison in the second half, but that's a fact. We know that. So it's not changing very much. So it's those two that we're watching. As I mentioned in my prepared remarks, there is no specific material bad news item that we are aware of here that we're trying to watch other than these two unknowns about the second quarter and how exactly we get out of the pandemic.

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

On your question of the drivers of the 17% organic growth for Nespresso. It's a combination of increased frequency and increased penetration. So it's not one or the other. It's clearly a combination of both. I would mention as well that it came, as you could see, across geographies, because we had a very strong sales development in the U.S., but Europe grew very nicely and so did Asia, so very happy with that.

We gained market share basically across geographies as well, as far as Nespresso is concerned, as a consequence of this increase of both frequency and penetration.

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

Next question is from James Targett at Berenberg.

Question on;	**Out-of-home consumption declines** **Waters business**

James Targett, Berenberg:

A couple of questions from me. Firstly, just on the out-of-home consumption, so the 11.6% decline in Q1. Can you talk about some color on how that trended through the quarter? Also maybe what kind of the range of declines was on a sort of broader regional basis, here some regions were back in positive territory, were some significantly more negative. So any color on that would be great.

Then secondly, just on Waters following the U.S. disposal. Could you give some color on what is the split of the business now between the premium, the sparkling and the functional products that you're focusing on going forward versus more mainstream products? Should we expect further M&A here to boost those areas as well?

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

If I could just start with the second one, James. So on Waters U.S., the split now is very much all-in either premium or functional. As you know, we have a thriving business there with our international brands, Pellegrino, Perrier and Acqua Panna, and then we added Essentia to it, and we disposed of the rest. So that's pretty much a pure-play in that regard.

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

James, as far as out-of-home is concerned, so we do not want to comment by months. What I can tell you is that we should not be over excited by it either because, I mean, the rate of decline has reduced by half because we were at around minus 25% in H2 last year. We are at around minus 11% now. That being said, if you look at it in absolute value, it's not significantly better. So the improvement is, to a large extent, coming from an easier comps to a certain extent.

But we are hopeful that the situation will improve because we start seeing some signs of improvement, to be more specific, in countries like China or Japan, for example. We start seeing some interesting development. We are not exactly at the level where we were pre-COVID, but we will get there probably one of these days. The situation remains under significant pressure in Europe as well as, to a large extent, in North America. Latin America is not doing okay, but it could be worse. It could be better as well.

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

Next question is from Pinar Ergun at Morgan Stanley.

Question on;	**M&A**

Pinar Ergun, Morgan Stanley:

You were recently cited in the media around your M&A ambitions. I appreciate you cannot disclose too much about this, but when should we realistically expect acquisitions to become a more meaningful driver of Nestlé's growth? Would you please remind us of the areas of interest for Nestlé when you think about external growth?

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

Yes, you're right there's probably a limit as to how much detail we can provide here. I think the key messaging was that we are coming out of a period with pretty sizable divestments. As you know, our interest in meaningful and well-fitting acquisitions had always been undiminished. We've done some in the past. Like think about Starbucks that we talked about today. We struck that deal three years ago. Then two years ago, we launched the products.

So it's not so much anything new on the acquisition side. It was more to signal that this period of large-scale divestments that were also taking their toll on the top line that, that's over. There will be continued adjusting on the portfolio, but not to the same extent as you've seen specifically in the years 2019 and 2020. When it comes to the areas of interest, obviously, the high-growth categories are of strong interest. But we've also said repeatedly that across the whole spectrum, if something is a good fit and strengthens us, yes, we are open. If you start ruling out acquisitions in a category you're in, you're basically saying you don't want to be in that category anymore. So in the categories we're in, if something well-fitting comes along that really makes sense and advances our position there, yes, we'd be interested and open.

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

Next question is from David Hayes at Société Générale.

Questions on;	**Impact of one-off issues** **Nespresso**

David Hayes, Société Générale:

So two for me. First, is to mop up on some one-offs, and then I'm going to come back to Nespresso, if I can. So just on the one-offs, I guess there's three that maybe stand out. Some people talk about supply chain issues in the U.S. You don't seem to have seen any problems with that at all given in the numbers, but I just wonder whether there was any dynamics there in the first quarter. Then there was the leap year effect. Then I guess there was the China New Year timing. I think you put that 50 basis points when you talked about it in the fourth quarter. Was the impact around that level that you expected?

The second question is on Nespresso. Can you just talk about the fourth quarter machine-based dynamic? Have you got numbers for us at all in terms of was there a machine adoption boom because of the lockdowns that we've seen? Is that a big driver of the 17%?

And I'm surprised -- or I guess it's a question. You talked about it slowing because of tougher comps. But according to our records, you talk mid-single-digit for Nespresso all the way through last year. So is that wrong? Or is there a different dynamic that means that 17% will slow through the year?

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

David, I will take the first question, and I think Mark will take the other one. There were no one-offs really in the quarter. Okay, we had some topics on comparison base, as you know, mainly for China, but no one-offs per se. Supply chain in the U.S., it's a difficult topic. It's a daily fight. Our teams are really fighting in order to make sure that we can supply the product, but no major disruption that we can refer to.

The leap year and Chinese New Year, there were some impacts there, but you can consider that all of it was evened out between one factor and the other. So you can consider that between that and the timing of Chinese New Year, the timing of Easter, the leap year, it's more or less awash. So no impact net.

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

Then look, on Nespresso, we're trying to be helpful, but I also ask for your understanding that we can't go into more detail here when it comes to competitive signaling. I think as you saw from our step that we announced in February, we are already increasing the transparency around Nespresso very much and we would like to leave it at that.

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

Unfortunately, we are getting close to the end of our call, but we still have time for one last question. Please, Jean-Philippe Bertschy of Vontobel, please go ahead.

Question on;	**Nespresso – capital and resource deployment between channels** **Premium segment**

Jean-Philippe Bertschy, Vontobel:

I had as well one on Nespresso, but more at the group level, probably with the consumer behaviors here to stay probably. Are you thinking of redeploying your capital and your resources in a different manner? If yes, how do you see the picture going forward?

The second one is to see if the premiumization or premium segment continues to outperform the rest of the business in Q1 and if yes can give us a number, please.

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

I think on the second one, what we are seeing for Q1 is a continuation of the theme we've seen for last year in that premium is doing extremely well. But the extremely affordable segment is also doing well and it's probably more necessary than ever. Let's not forget this crisis has led to enormous economic hardship around the world and especially in emerging and low-income markets.

Unfortunately, when it comes to some of the income gains and wealth gains that have happened in the previous decade, this pandemic has wiped out a lot of that progress. So it sets us back several years. So I think both of these ends were very important, are going to be very important going forward.

I think one of the hallmarks of Nestlé under various brands, of course, is that it can really, in a meaningful way, serve both of these. Very much in line with previous downturns, we've seen that it’s more the mainstream, mid-price segments that have seen some pressure, but premium continues to do well and extremely affordable does well, too.

On Nespresso, maybe François, you can help out on capital allocation. Maybe, Jean-Philippe, if you could give us a bit more detail on what you're after.

Jean-Philippe Bertschy, Vontobel:

Yes on Nespresso, basically, probably, you'll have more working from home. The shops are probably as well an issue. So how do you see the capital allocation or resource allocation between professional, shops and all of your digital?

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

Okay. Now I get it. Look, on that one, there's not much of a shift between professional and the rest of the business because we assume that when the crisis is over, professional will also have a thriving future there. But even before the pandemic struck, we've seen a steady acceleration on digital. So the strategy of Nespresso has been pivoting more and more to that. That doesn't mean you don't need boutiques anymore. You still need them for activation, for customer service and advice and sampling. But what you don't need is a deep and dense network to cover geography. Over time, most people migrate to digital. I think the pandemic has only accelerated that trend. So there, it's clearly tilting towards digital.

End of Question and Answer session.

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

With that, we come to an end of our session today. So we thank you all for the interest that you have in Nestlé. Don't hesitate to call us if you still have outstanding questions. IR is always available. Maybe, Mark, you want to conclude?

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

Thank you. See you next quarter.

END OF TRANSCRIPT