NESTLÉ S.A.

2021 JP MORGAN NESTLÉ CEO FIRESIDE CHAT TRANSCRIPT

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Speakers:

Mark Schneider, Chief Executive Officer, Nestlé S.A.
Céline Pannuti, Head European Consumer Staples and Beverages, J P Morgan

Céline Pannuti, JP Morgan:

Thank you very much. Ladies and gentlemen, good afternoon and good morning to you. I am Céline Pannuti, Head of JP Morgan European Consumer Staples and Beverages team. I am honoured today to host the discussion with our guest, Mark Schneider, CEO of Nestlé. Good afternoon, Mark.

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

Good afternoon. Thanks for having me.

Question on:	2021 Growth Outlook

Céline Pannuti, JP Morgan:

Thank you all of you who have submitted questions. We will try to address as many subjects as possible over the next hour with Mark. We'll first start with a question on the 2021 growth outlook. Nestlé delivered one of its best quarters in a decade with an organic growth of 7.7%. This increased your confidence in delivering above 4% for 2021, though you may update us after the first half results.

Mark, can you tell us what has surprised you the most in the business performance so far this year? And also, as you did not flag any one-off specific factors that helped this performance, how do you explain the acceleration in growth?

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

Thanks, Céline. I think it's been a very strong quarter and we were quite pleased with it. I think the most surprising element is how evenly strong the performance was. So, it was not like one or two success stories carrying the day, but it was a fairly broad-based success story. And in market after market, where we had tough comps to beat, we were, nonetheless, coming in with a successful March. So clearly, in-home consumption around the world remained very strong, and that certainly helped that first quarter.

Question on:	Outlook for Margin

Céline Pannuti, JP Morgan:

Maybe if I also turn to the outlook for margin. For 2021, you've been rather cautious on your margin outlook, expecting a moderate increase, despite a higher confidence on the growth front. I would presume that there should be some operational leverage benefits from this higher growth and along with mix from categories with higher margins. So, I think one of the issues you've mentioned is the higher material cost.

Can you talk specifically about your ability to raise prices and why shouldn't this price rise be enough to compensate this higher raw material cost? And beyond this, and I think you also flagged higher ESG related spending, are there any other costs or investments that we should be thinking about?

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

It was important for me, against the backdrop of this very strong Q1 performance, to be sure that expectations are not getting out of control. As you know, usually, since this is only a sales update, we don't talk about the earnings situation. But it has been remarkable to see how some of our major cost positions have been starting to inflate. Some of these, we have a bit of hedging cover, our classical commodities, of course.

Others, such as packaging costs and, most notably, transportation costs, really started to skyrocket. And those are items, for which, you cannot hedge, so they are a straight hit to your P&L. And since not everyone has the same visibility we have, I just wanted people to be aware of this and factor it into the equation when it comes to margin assumptions for the year.

So, clearly, with a strong growth, as we saw it in Q1, it would have been easy to get to excessive expectations on the margin as well, and hence, I flagged the item. Even for the price increases, which, of course, in the entire industry now across the board, people are considering, do keep in mind that as a manufacturer, we are in what are called automatic long positions. So, we buy things, we process, and we sell later.

So, to some extent, when you are at a turning point like this, and your costs go up and some pricing action does have lead time, there is, for a certain period of time, some pressure on your gross margin, and also, on your underlying trading operating profit margin, and that's unavoidable. Remember, we're coming from a fairly long period here of fairly benign raw materials prices and now we're seeing that turning point, and it takes a while until the entire system adjusts to that new environment.

Question on:	**Pricing Environment**

Céline Pannuti, JP Morgan:

Thank you. Can you talk, because that's what the question that investors were interested it, on your ability to raise prices? How do you feel the environment is at the moment?

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

It's pretty hard to comment with an across the board statement here, because it really all comes down to which category, specifically, and which market. But obviously, people around the world are seeing that some of these major input costs are increasing, and hence, there's a certain understanding here that this needs to be reflected in higher prices. So, I think there is some more room for pricing, compared to previous years.

I think you've already seen, over the past three quarters, a somewhat accelerating pricing picture. But again, it all breaks down and boils down to specific categories and market circumstances. You also asked about sustainability costs. I think this is not so much of a major item yet for '21. As you know, these costs are ramping up over the next few years. So, to me, it's more about commodity inflation, transportation cost inflation, and packaging cost inflation at this present point in time.

Question on: Post Lock-down Consumption Trends

Céline Pannuti, JP Morgan:

You were mentioning earlier that one of the salient figures has been the resilience of the in-home consumption. To what degree are you expecting this demand in-home to remain across your portfolio? And which categories are you expecting to normalise, maybe more quickly, once mobility restrictions are removed and, in that regard, is there any example from maybe Israel or Australia that you could share with us?

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

I'm happy to share my thoughts with you, but let me also say, as a cautionary statement, that of course, this is a new and unprecedented situation. So, it's pretty easy to get it wrong. And I think that applies to everyone, including me. But it is safe to say that even when the travel restrictions are eased and more people go back to the office, we will not go back to a carbon copy of our lifestyles in the year 2019.

I think company after company is offering more flexibility, when it comes to somewhat remote work arrangements or a combination of remote and office based. And so, it's safe to assume that a fraction of people that before, used to commute to the office five days a week, will probably spend a certain number of days, and it's anyone's expectation, per week, working remotely. And remote, for many people, means home.

So, I think there's reason to assume that on a longer lasting basis, you will have stronger at home consumption going forward. We've also seen, in the crisis, a renewed interest in large, trusted brands, and I think that will also have a certain stickiness and not go away right away. It's going to be easiest for the categories to snap back where it's just related to people's habits, so Coffee and Food. PetCare, I think, will have a very long tail end, because as you can imagine, if someone adopted a pet, then they will hold onto that pet for a long period of time. Some people may give up their pet, but I think the majority will hold onto them over time, and even after their pet will have deceased in the future, I think it's very likely that people will have warmed to the idea of being pet owners and, hence, get a new one.

Céline Pannuti, JP Morgan:

I was going to ask about the mid-term perspective on the categories. I think you've flagged some, like PetCare, that maybe has benefitted somehow from the pandemic. Are there other categories where you think the growth prospect may be less buoyant than for before COVID?

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

I think we also have seen quite a bit of turbulence in infant nutrition. Clearly, at the beginning of the COVID crisis, there was this question, is this going to be the start of a baby boom or baby bust? I think that for most markets around the world, it's now clear that birth rates have declined pretty sharply. It's clear, in hindsight, that this was not an economic or health related situation where people wanted to start a family or enlarge a family.

And at the same time, I think some people will probably want to change course now, when the crisis subsides, so I would assume that this step back is going to be temporary and will actually snap back to normal birth rates over time.

Questions on:	**Market share** **Innovation and Speed to market**

Céline Pannuti, JP Morgan:

We will go into some of these categories, as well, as we go through, but I think one of the points that you mentioned at the Q1 stage is that clearly, market share momentum remains quite good. In fact, you mentioned 63% of your business gaining or holding share, the best level since 2013. I also note that three of the biggest divisions, like Coffee and PetCare, are gaining share and somehow, are at quite a turnaround since you became CEO when these categories were losing share.

So, in trying to understand this, I think first, you were mentioning before the stickiness of people wanting to buy big brands. How long do you think that, effectively, will last? And second, I remember when we met in the US two years ago for your capital markets day, you put the emphasis on the relevance of innovation and speed to market.

Can you try to help us understand how this has progressed, and to what extent this momentum that you see in your business is linked to that? Because I think there is a view that it's linked to the acquisitions you've made, so it's really quite interesting to understand what has changed organically at Nestlé.

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

I think the two questions are related in that big brands have to earn their relevance with consumers every day through strong, fast, meaningful innovation. And I think when the entire industry was having a bit of a growth dip in the middle of the past decade, you saw a lot of it had to do with strong innovation coming from smaller, more focused companies. We have retooled our entire innovation area. I think the rate of innovation has increased meaningfully.

Time to market, from concept to store shelf, has been reduced significantly. And with this, we were really giving some of our key brands added additional significance and relevance to consumers. And so, if we keep that up, and of course, we're very dedicated to that and committed to it, then I think there is good reason to believe that some of these market share gains will stay with us for a longer period of time.

But it's in our hands, so this is something that we have to work on, and if we let up, then of course, others will out- innovate us and earn that consumer trust. So, this is where the two questions are related. I couldn't be happier with the strong continued improvements I'm seeing in our innovation area. So, clearly, even throughout the pandemic, as I look at 2020, our concept to shelf times continue to come down and very exciting projects in our pipelines.

So, I think we're well-positioned. Coffee is certainly one of those categories where we're absolutely excited by the pipeline. PetCare as well, especially in some of the science base innovations, very exciting launches the last few years, and also, very interesting projects here in our pipelines. So, I think we're well positioned to hold on to these gains.

Question on: Vitamin, Mineral and Supplements

Céline Pannuti, JP Morgan:

In fact, now let's move to another category that seems to have done well during the pandemic, vitamin, minerals and supplements, VMS. You announced, a month ago, the acquisition of The Bountiful

Company, and this is your second biggest acquisition since you became CEO after Starbucks. This acquisition, along with your existing platform of Atrium and Persona, position Nestlé as one of the global leaders in the VMS category. So, two questions on that.

First, can we start with understanding what you think is the growth prospect of this category? To which extent do you think is the mid-term growth versus maybe last year's consumption having been boosted by the pandemic? Maybe your rates of demand are fading, post crisis. And also, you were mentioning science based, when you were talking about PetCare before, but if I relate your science based approach versus some academic studies who have discredited the benefit of VMS to health, how do you see that within the Nestlé vision of science based products?

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

Absolutely. It's a very clear event. There has been strong interest in vitamins, minerals, and supplements during the pandemic and that boosted growth rates. We're aware of that. It's also a realistic assumption to assume that when we see some of these very strong quarters now lapping, specifically, the second half of the year, you may have a temporary slowdown in the growth rates, because that's simply the mechanics of lapping these very, very strong quarters. Especially in the second half of last year and during the winter now.

But beyond that, all signs point to continued strong category growth to the tune of 4% to 5%. And it's a category that's clearly here to stay. People's interest in supplementation is very strong, and I think rightfully so. People are so much more attuned to analysing which are the vitamins, minerals, and supplements they might be short of, and how can they add those to their diets. And I think, overall, the interest in this is not supposed to let up.

I know that occasionally, just as with any category, there are people who hold a critical view here, I think there are very strong science suggesting that especially during wintertime, and given our modern lifestyles, it's very hard, even with a pretty balanced diet, to achieve a satisfactory vitamin and mineral level across the board. And so, everyone's biological situation is a little different, but I think a thoughtful, and science based and fact-based supplementation, I believe there's a very strong case for that.

Obviously, as always in research, you have people agreeing or disagreeing, but as I look at the different opinions here, I think there's a very good, strong case for this. So, to me, this has all the elements of being another category that stays very true to our purpose and gives people a better nutritional situation. Of course, it has to be science based, which I think it is, in our case. It has to be high quality. But I think this one has clearly showing a lot of promise for the future.

Question on: Expansion for VMS category

Céline Pannuti, JP Morgan:

On that, can you talk about your ambitions for this deal, in terms of the platform you are creating in the US, as well as the potential for internationalisation and maybe the growth ahead?

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

Specifically, as we put this together, and given that this is still a very hard to judge environment here, coming out of COVID, and then talking about the longer-term growth rates, we have stayed away from specific guidance, either for the acquisition or for the US market for the near-term. And I think that's prudent, given the current turbulent environment. But the overall opportunity is a significant one in that we now have assets across the full spectrum here.

Things that you would pick up in a drugstore or pharmacy. Things that you purchase online, things that you purchase direct to consumer, following an extensive consultation, and solutions that are tailormade for you. So, across the full spectrum here, I think, we are commanding pretty significant assets and brand names, and have a great way to reach the consumer.

Question on: Advantages of Creating a Global Platform for VMS

Céline Pannuti, JP Morgan:

And maybe, the last one on this one, I think the deal is quite different from the Starbucks deal where the power of the brand benefitted from the Nestlé platform and institution. Here, VMS remains quite a fragmented category with only a few global brands and is, relatively, still small scale. So, can you tell us what you think are your advantages to create a global sizable platform and why this category has not seen a consolidation before?

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

You're right, it's still a fairly fragmented industry and we expect it to remain fragmented for a while. But I think there are opportunities for creating exciting platforms, and certainly, in the US market, we are in the process of building one of these exciting platforms. As you take, then, the business model from the US to other markets, we are also very open towards using other local brand names using the technology we have.

But then rather than forcing a new product name on consumers, using trusted brand names that they may enjoy locally. So, to me, this is not so much about the Starbucks-like global brand name business model, but one that uses the same core technology, and then, in a very opportunistic fashion, we make a decision whether we use one of our existing brand names and take them international, or whether we actually use some of our local brand names.

So, I think with our global presence in Nestlé Health Science, we have a number of vehicles and brand names to reach the consumer, and we just make that choice, depending on local market circumstance. So, some of the brands that we acquire, such as Garden of Life and Pure, have seen very strong international interest. And in other cases, we've actually stayed with the local brand names that we had before. So, it's really a case-by-case decision.

Question on: D2C and Online Platforms

Céline Pannuti, JP Morgan:

I'm sure we'll hear more about VMS in the coming quarters. Let's move on to digitalisation. Clearly, that, as well, has been a channel that has accelerated through the pandemic, and Nestlé has delivered strong growth in e-commerce, close to 48% last year, being exposed, as well, to categories, which I think are quite interesting in terms of personalisation or the potential for subscription models, like PetCare, or infant milk formula, or Coffee, or even VMS.

Now, can you talk about the split of your sales in D2C versus online platforms and what mix and opportunity you see for D2C? And on the same subject, can you talk about the profitability of the e-commerce channel and whether you have yet reached enough critical mass to see such a margin rise?

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

I'm happy to comment. And let me say that the good news is that from all we can see now, the gains we've made during the pandemic are very likely here to stay. And I think you will see that after the usual lapping effect has taken place, you will see continued growth from there. Beyond the immediate health concerns that people had during the pandemic, which drove them to digital solutions, people have now fully embraced the notion of e-commerce and online shopping in food and beverage, as well.

As you know, before it was one of the lagging categories and it's certainly got a shot in the arm, as a result of the pandemic and it'll continue to grow. So, that's good news, because I think in food and beverage, we're seen as one of the stronger, more advanced players, when it comes to digital, so it's playing right into our strengths.

When it comes to the split between direct to consumer and broader online platforms, we've not provided that precise split in the past. Obviously, we do have a very strong direct to consumer base, simply owing to the traditional direct to consumer nature of our Nespresso business model. But we've also been very successful in dealing with the various online platforms and online arms of our traditional retail partners. So, I think it's a fairly broad-based success.

Direct to consumer, in my opinion, makes most sense for either very premium articles that involve high involvement from the consumer side, or where there's some degree of personalisation. So, think about Tails.com or think about our vitamins business Persona, where a solution gets created tailormade for you, so this is where it makes sense.

For everyday articles that are part of a product basket that you normally purchase, I think it's a harder case, because imagine if every one of the articles was something that you buy from a specific site. Your life would be fairly complicated, when it comes to tracking all these shipments and all these invoices. So, that's where I think some aggregation through some online platform does makes sense, and that's why we're very open to work with these online platforms and traditional merchants.

When it comes to profitability, it's pretty hard to give you one across the board answer. On direct to consumer business models, they're very scale sensitive. Initially, you're facing a lot of fixed costs here that you need to overcome through volume. Once you're beyond that point, it's a very nice business. You've seen that with the development of Nespresso over time.

We're also seeing it, for example, with our Freshly business in the US, where clearly, the pandemic has helped it to advance volume significantly. Dealing with online merchants and the online arm of traditional retail partners is not that dissimilar from our traditional retail relationship, so this is where maybe there's less scale sensitivity.

Question on: Further Development of Nestlé's digital competence

Céline Pannuti, JP Morgan:

And then maybe another one on this. From the outside, it seems you have upped your game, as far as digitalisation is concerned. Can you tell us what are the few areas where you think Nestlé has yet to catch up? I don't know whether it's, for example, technology, big data, AI, or the overall end-to-end digitalisation in the organisation.

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

I see us, overall, in the industry really well positioned, especially on all of the activities that are consumer facing. I think the one challenge that we have, and everyone else has, is, over time, how you really create a front to back digital seamless experience. So, harmonising, integrating all the various efforts we're having, so that you have one front to back experience and full transparency inside the company, I think that's the longer-term goal.

Depending on the category and market, there are exciting artificial intelligence opportunities, there are exciting factory automation opportunities. But again, to me, bring it all together, this is where, longer term, the Holy Grail is.

Question on: Improving the Nutrition Business in China

Céline Pannuti, JP Morgan:

Now, we'd like to turn to the nutrition business you mentioned earlier. It's a business that you have moved under the Zone management early in your tenure, yet even pre-COVID, the turnaround in performance was not really there and now, effectively, it seems that the business is under pressure by demographics, and maybe, as well, increasing competition.

Can you talk about what actions you are taking to improve the execution, especially China, in the context of changing preferences for local brands. And also, you have mentioned, in the past, opportunities to extend the category remit maybe to older children or the mother's nutrition. How big of an opportunity is that and what progress has been made there?

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

I'm happy to comment, Céline. So, overall, the fact that we migrated this business from a globally managed business to one that is part of our geographic zone architecture, we have no regrets on this. In fact, it was a move that brought us so much more granular information from each Zone and each market. And it was also a cost saving move in the sense that it avoided a whole lot of very expensive overheard structure related to this globally managed business, which was not really adding value at the time.

So, I think it was the right move and you've seen this, we've replicated this in a few other categories as well, because our experience was so positive. When it comes to the category, we fully acknowledge, and I've acknowledged in the past in several calls, that we have work to do. So, we have our own share of operational issues, in particular, in the Chinese market and we're at work there.

When it comes to strengthening our presence, in particular in lower tier markets, C and D category type cities, or when it comes to some of the innovation in the market. So, I think we're on a good path there. Obviously, the low birth rates at the present time, and also, the strong local competition, doesn't help, at a snapshot when it comes to the picture. But I'm confident here, given enough time, that those steps will show positive results for us and we're committed to them.

China is the largest infant formula market and we're very committed to succeeding in this market in the long-term. For the rest of the world, as you pointed out earlier, in some markets, we have seen market share gains, even though the markets, themselves, overall, the category growth didn't develop so well. And here, again, when some of these birth rates are coming back, I think these market share gains position us well.

The wider picture is that there is nutrition opportunity at the very beginning of life, and that covers the pregnancy of the mother, it covers, then, the first two years of the child's life. Meeting all the nutritional needs of that period, I think, is very much part of our purpose and something that we're very committed to. And it's true that we have, in the past, maybe defined our business opportunity in those first 1,000 days very narrowly, and looked too much at infant formula only, and then baby food, meals and drinks, and infant cereals.

But I think there's a wider opportunity here, so we're very much looking at meaningful adjacencies in that timespan that make sense for us and that are part of fulfilling that purpose of providing the perfect start into life, from a nutritional point of view. At this point, I can only confirm the direction. It's not that we have specific launches or steps to talk about yet. But it is an area we're quite interested in and focusing on.

Question on: Nestlé Waters

Céline Pannuti, JP Morgan:

Thank you for that. I'll also touch on the subject of Water, which has been another problem. You recently disposed a US value portfolio, but Water is now only 4% of your proforma Group sales, with a strategy to concentrate on international premium. Do you think this portfolio of brands is enough? What ambitions do you have for this category? And do you envision a wider definition of beverages and hydration that may take you into a wider variety of beverages?

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

Clearly, we would like to expand this category from this post-deal smaller footprint, through successful organic growth and, where it makes sense, also targeted acquisitions. You're right, the focus is international premium brands and it is functional water offerings, where I think we can bring some of our specific nutritional expertise to the table in addressing any functional needs that consumers may have. It starts with adding caffeine, or certain vitamins, minerals, and supplements, or an exciting flavour. So, I feel there's a good way to add value to the basic water offering, to brand it, and in this way, to create some additional value here. Again, it was important to get out of the basic value segment only. I think these higher positioned segments, such as international premium waters and functional waters, allow you much more differentiation and premiumisation.

Through that, there's also more money available to pursue more ambitious sustainability goals, which, of course, is a key focus area in Waters. And so, I think it's much more consistent with the kind of strategy we're pursuing. Then, over time, from that smaller base, we will grow again, but it was important to go back to that most promising smaller base and rebuild from there.

Question on: Outlook for Portioned Coffee

Céline Pannuti, JP Morgan:

If I turn now to Coffee, you mentioned it earlier in terms of the strength and the pipeline. And clearly, the category is entering a strong momentum on the back of the Starbucks share gain. But I think it's a dynamic category, especially for single-serve machines and penetration. What is your outlook for portioned coffee in Europe, after last year's acceleration? And, in general, what is the outlook for portioned coffee in emerging markets? That's on the market side.

Then more on the competitive side, how do you see the landscape for single-serve in western Europe? And then finally, on Nespresso. It has established itself as the key single-serve system probably globally, with six billion of sales last year. We are far from the one billion sales already that 20 years ago, when there was still a vision about an IPO. Six billion sales later, do you think a potential IPO of this unit would make sense?

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

Céline, let me start with the last question first and let me confirm that nothing could be further from our plans than an IPO. We love, love, love this business. We created it from scratch. As you can see from the latest updates, it is flying and it has a great future ahead of itself. It is one of our three leading global Coffee brands and it has a very distinct personality. So, no, in a core business, why would we IPO one of our absolute jewels?

This is a wonderful business, I couldn't be happier with it, and it's in very capable hands. So, overall, the success story for portioned coffee is far from over. I think there are tremendous opportunities at different price levels with different brands. But behind it is the significant technology gain and insight that has been brought to us by the Nespresso success story. You saw us replicate some of that with Starbucks and the Starbucks by Nespresso line of business, which has been a fantastic success.

We're now in various markets, offering Nescafé Farmers Origins. So, here, again, the aluminium capsule with Nescafé coffee in it. So, there is tremendous opportunity, including local brands, for example, we're using our local Buondi brand in Portugal on that small aluminium capsule. So, tremendous opportunities here to tailor the offering to what are specifically local market demands.

And then for the more milk-based offerings, we have the Nestlé Dolce Gusto variety. So, in portioned coffee, it's hard to find a company that is better positioned to capture the various segments, be it by price, brand, or our features. And we expect to develop this as hard as we can.

Question on: Competition in Portioned Coffee in Europe

Céline Pannuti, JP Morgan:

In terms of competitive environment, how do you feel about the situation in Europe?

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

Well, I think that there was a time, starting from 2017, when you saw other aluminium capsules in the market, and we only had Nespresso, where our ability to actually fight back was limited, because you don't want to endanger the premium positioning of Nespresso. So, fighting back would have been tempting, but in doing so, you basically take down a product from its premium positioning.
I think now, especially with Nescafé Farmers Origin, we have a different way of doing that. And we have another key premium retail offering through Starbucks, which has taken very nice shares in most European markets. So, I feel, of course, there's competitor intensity and we have to face that, but we're now much better equipped to do this and thrive in that market.

Question on: Product Portfolio

Céline Pannuti, JP Morgan:

Thank you. That brings me to look at the rest of your portfolio outside of the growth categories. I wanted to ask where do you see the main opportunities there? Obviously, I would like, also, if you could touch upon plant based with the recent news of the launching of pea-based products. But also, about your acquisition of Freshly.

These are two hot areas in the global food market with many start-ups vying for a share of the cake. So, can you talk about how big you see this as an opportunity and how Nestlé can effectively compete, specifically in those two segments?

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

Freshly is a fantastic investment in the US market. Certainly, as mentioned before, it got a tremendous boost, as a result of COVID, but I think that also convinced a lot of consumers on how good that offer truly is. And I think it's a very flexible subscription plan that really adjusts itself around the consumer and their lifestyle. Tremendous choices, tremendous taste. So, overwhelming positive feedback, as I look at sometimes consumers approaching me directly about this. So, I couldn't be happier. I think tremendous opportunity.

On plant based, I think we've been quite successful over the past three years now with our plant-based food offering. Obviously, we're building on 30 years of plant-based protein processing experience. And in this no compromise sector, where you try to replicate hamburgers, sausages, chicken, and other products, tuna is an example, in category after category, we've been coming up with very competitive offerings that really carry the day, both in retail and out of home.

So, I think very good development there. In some of the recent conference calls, I was trying to highlight the difference between just the narrow meat analogues and how we're doing there. Which, in and for itself, may be not materially yet for the Nestlé Group. But then the wider picture, which is how can it help us to reinvigorate the broader food sector, which, of course, is a major sector for Nestlé.

And there, I think you're seeing, essentially, a business that is very fast approaching CHF 1 billion in size and has double-digit growth rates and is very much on trend with health conscious and environmentally conscious consumers. So, couldn't be happier with that. Plant based dairy, you mentioned the recent Wunda launch here, in Europe. Fantastic product. Everyone who tried it is just absolutely excited. And this gets as close as possible to the original, when it comes to taste and when it comes to the protein content, which I think, so far, has been a weakness with so many plant-based dairy alternatives. So, very committed to it. This is the product where the minute you give it to someone to sample, they want to know where they can buy it. So, it's a real winner, and it feels like a winner. So, we're quite committed to it.

It's important to us because Dairy is not just a good business opportunity in and of itself, but also, it's kind of the entry opportunity for several other categories that we're leading in. Think about Coffee creamers, think about Confectionary, think about Ice cream, think about even some of the Infant nutrition products. So, to have an important and strong dairy alternative product is also invigorating some of these follow-on categories, and that's why it was so important for us to have a competitive offering there as well.

Question on: Competitive advantage of ESG

Céline Pannuti, JP Morgan:

This subject leads me to talk a bit about the ESG angle. You've committed a lot of investment, a CHF 3.2 billion investment behind climate up to 2025, on top of CHF 1.5 billion behind sustainable packaging. While these ESG investments and pledges position you well among the most ambitious group in the staples sector, what I would like to understand is how this creates a competitive advantage, when it comes to consumer preferences?

So, do you have evidence that consumer preference is influenced by the ESG angle on the product and whether this has changed or accelerated during the pandemic? Do we believe that the industry will go into a carbon labelling scheme, for instance? And are consumers willing to pay more for these products that are more relevant from either a sustainable or societal angle?

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

Céline, it's important that with the kind of investment that we're talking about, that we do see a business case. So, clearly, at that size, we can't talk about pro bono investments here. So, to me, this is one of those cases of doing well and doing good at the same time. The important thing on the business cases is not only the consumer. I think there's also a regulatory angle.

As you see, for the first time, between the essential economies in North America, and Europe, and Asia, there is some sort of broad regulatory convergence, where, very clearly, the cost of business for non-compliant companies will be going up. And companies that lead and that actually reduce, for example, their carbon footprint, or plastic waste, or some other environmental burdens, will actually have a lower cost of doing business, from a regulatory point of view.

But leaving that aside and focusing on the consumer, it's hard to come up here with one statement for all consumers in all categories. Obviously, the most discerning consumers, especially for premium products, these days, are very environmentally conscious. In some cases, for very premium products, you can charge a premium. In other cases, it may not be so much a premium but a consumer facing a choice for two equally priced products, one that has good environmental credentials and the other one, not, will probably pick the former. And that's where, just like with innovation, you're basically trying to gain market share.

But in both cases, I feel that over time, with meaningful investments and then communicating through the brands and through the products, why this product has a good environmental footprint and good credentials, I think yes, there is a business case, either through increased prices or increased market share, to earn back what we're spending.

Question on: Accelerating Growth in China

Céline Pannuti, JP Morgan:

Thank you for that. Maybe now if we turn to some of the regions, starting with China. The market performance have been somehow patchy already before COVID, and it is a market where a lot of companies seem to enjoy high growth opportunities, but Nestlé doesn't seem to have the same opportunity, due to the weight of the IMF portfolio. You recently sold the Yinlu peanut milk. What can be done to build growth or to accelerate growth further in this country?

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

China is our second largest market globally. We are very committed to it and certainly eager and optimistic about the future in China. Having said that, we were quite open in the past that we do have to deal with a few legacy situations and legacy issues, and we're very actively doing that. But with those addressed and under control, over time, I do believe that we will stand to benefit very much from the strong consumer dynamics and market dynamics we are seeing in China.

So, we're very committed to it. Very much excited by the sheer amount of online and digital opportunities. But also, the first one to acknowledge that we have a few areas that we have to focus on and prove, so that the true underlying success in China starts to shine through more strongly. I think you have seen a few quarters in the past when things came in right. When it all came together, it showed how much China can contribute and we will get back there. And it's certainly a top priority for our Zone leadership and also for me personally, to get that straight.

Question on: Consumer Demand in Emerging Markets

Céline Pannuti, JP Morgan:

And if I think about the rest of emerging markets, can you share your views on how you expect the consumer demand to evolve? I think especially India, Mexico, Brazil, which have been quite resilient from a category standpoint, despite what we are seeing. How do you expect the next six, twelve, eighteen months in these countries? And overall, what is the outlook to be able to pass on higher inflation in these markets?

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

It's a little difficult to find one description for all of these markets. A lot depends on local circumstances right now, and where exactly the pandemic stands, and how these economies will recover from the pandemic. Obviously, in all of them right now, at-home consumption is very strong. The question is how much economic damage is done and how quickly will the economies recovery? And what is that post-COVID economic situation going to look like? And that is, at this point, a bit hard to judge.

Obviously, for straightforward inflation, I think that can be passed on. I think many of these markets are more used to this, compared to some of the western industrialised countries that had seen a more deflationary environment before COVID. So, for the true cost increases, I think those can be rolled forward in a meaningful way.

Question on: Cash Deployment and Acquisitions

Céline Pannuti, JP Morgan:

I'd like to talk now about maybe cash deployment. We got the news, a month ago, about the Bountiful acquisition. What is your appetite for further deals here? And if there were acquisitions, what kind of leverage would you feel comfortable with, before you consider either stopping your share buyback or adjusting part of the L'Oréal stake? In fact, if you could also mention how you would arbitrage between those two options?

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

When it comes to our continued interest in acquisitions across the board, I'm happy to confirm that. But also, at the same time, I would underline that we will continue to do that with the same prudence and patience that we've exercised in the past. So, when we see something that is a strong fit and when it comes at good and compelling financials, we're the first ones to move.

And I think with the broad-based organisation we have, the advantage is that we can handle a number of transactions in different areas at the same time. But again, we're not losing our head here. Obviously, valuations around the world are pretty high right now, and that's why it's important to be selective. I've been quite outspoken in the past that the mistakes that you make upon signing an overpriced deal are very hard to correct later on, hence, it's important here to stay disciplined, and we will.

But yes, meaningful acquisition opportunities across the board when it comes to our product categories and geographies, we will always be interested in. We are open for business, when it comes to that. In terms of leverage, I think we, in the past, have mentioned to you a rough corridor of one and a half to two times net debt to EBITDA.

We're very comfortable with that, and obviously, there's a bit of flex on both sides here, at the lower and the higher end. But it's that kind of range that we're talking about, so nothing has changed there from the kind of indications we've given to you when we started our 2017 share buyback programme, and then when we commenced the new share buyback programme at the beginning of 2020.

And then when it comes to these investments and when it comes to the sheer debt capability that we have and the cash generation we have, I don't see any immediate need here to talk about trade-offs between either reducing equity stakes and other participations or not doing the deal. I think there's a lot of flexibility here in our strong balance sheet that gives us easy financing capability for meaningful acquisition targets for years to come.

Question on: Guidance

Céline Pannuti, JP Morgan:

We are coming close to an end of this discussion. I would like to conclude, as I look at the portfolio today, we've been talking about higher end market exposures to fast growing categories, more premium exposed business. And with evidence that Nestlé has the capacity to accelerate innovation, execution, and win market share.

Now, while you have increased your confidence in 2021 to be above 4%, has your confidence and visibility on building a track record of consistent growth at mid-single digits over the coming years also increased? And if I remember well, that mid-single digit definition would be around 4% to 6%. So, could you comment on how you see the mid-term, given how well you have turned the portfolio so far?

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

I'm happy to confirm that our definition of mid-single digit is 4% to 6%. And let me also say that going back to some of the past meetings and investor conferences we held, getting there is not only portfolio management. Remember, we've always talked about three buckets, like fixing some of the underperformers, portfolio management, and the continued driving of innovation and digitalisation. So, it's really all three of those that get us there in a sustainable fashion.

When you think back to last February, so February 2020, right before COVID went global, we had told you that for 2020, we had not yet been in a position to commit to the 4% entry level organic growth rate. We were committing, at the time, to improvement over the 3.5% we had seen in 2019, but we knew we just didn't quite have the upward momentum there to confirm the 4% to you yet. This is how it played out in 2020.

And in hindsight now, you saw us taking care of a few problem situations, Waters North America being one of them, or Yinlu being another one. And clearly, with those behind us, we're much better positioned now to get to the 4% or above, and hence, you saw the way we interest you, as investors, in February and as part of the Q1 call, that our confidence level here in getting above that for this year has significantly increased.

And then, of course, we also stressed to you, it's not only about getting above that level once, it's important to position the business, so that you do it in a sustainable way. We are a compounding business, and so, to me, the value through compounding really comes through doing it in repeated ways.

So, getting above 4%, getting to that 4% to 6% band in a sustained way. This is really what we're after. Hence, the importance of sustained innovation and just being vigilant, when it comes to portfolio management, adjusting the portfolio over time. And also, aggressively fixing the underperformers that we're seeing in our portfolio. I think we're committed to all three of them, and hence, I feel that the future here looks very good.

We did say to you, in a very open way, that we did not adjust our guidance as part of Q1 simply out of caution over the overall COVID situation. But we're clearly updating that view, as we come to our Q2 conference call at the end of July.

Céline Pannuti, JP Morgan:

All right, Mark. We'll certainly all be tuned for the H1 results. I appreciate you sharing your thoughts with us today and I wish you and the audience a good remainder of the day. Thank you, all, for listening. Thank you, Mark.

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

Thanks, Céline, I appreciate it.