NNESTLÉ S.A.

2021 HALF-YEAR RESULTS INVESTOR CALL TRANSCRIPT

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Speakers:

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

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

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

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

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Good afternoon, and good morning to everyone. Welcome to the Nestlé First Half 2021 Results Webcast. I am Luca Borlini, Head of Nestle Investor Relations.

Today, I'm joined by our Chief Executive Officer, Mark Schneider, and our Chief Financial Officer, François Roger. Mark will begin with key messages and discuss the full year 2021 guidance. François will follow with a review of the first half 2021 sales and profit figures. 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, Nestlé S.A. Chief Executive Officer:

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

Slide: Key Messages

In all modesty, it has been an exceptionally strong first half, with organic growth beyond our expectations. Continued strong at-home consumption, recovering sales in the out-of-home setting and in China, as well as market share gains in several categories were behind this stellar performance.

My sincere thanks go out to the Nestle community around the world for truly rising to the challenge. It took strong efforts to deliver this growth in a period that still saw significant COVID restrictions and daunting supply chain challenges due to major transportation and logistics problems worldwide. We managed to navigate those challenges, neutralize unexpected transportation, packaging and commodity price increases, jack up spending behind our brands and still deliver a constant underlying trading operating profit margin compared to H1 last year.

Meanwhile, our portfolio transformation continued. Significant growth steps are taking our Nestlé Health Science business to the next level. And the expansion of our Starbucks partnership into ready-to-drink coffee in Southeast Asia, Oceania and Latin America, will add to the outstanding success story of our global coffee alliance with Starbucks.

Our sustainability agenda continues to advance, with new projects and commitments in our Waters business, which I'll outline later.

Slide: Creating a global leader in vitamins, minerals and supplements

I would like to spend a bit of time on the expansion of our Nestlé Health Science business, which has seen tremendous growth in recent years. The headline grabber this year was certainly our acquisition of the core brands of the Bountiful Company. But there's a lot more at work here, and I would like to ensure that you have the full picture.

The Nestlé Health Science business has three main pillars, which are all focused on nutrition and metabolism and which are highly synergistic with regards to the underlying science and technology.

The first and oldest pillar is Medical Nutrition, a well-known and established category where we are one of the leading companies worldwide. We cover special nutritional needs for pediatrics, specific diseases, and the elderly population in hospital, long-term care and home care settings.

The second pillar has seen the most significant expansion in recent years. It is our Consumer Care segment, which includes nutritional health products, such as Boost, and which has increasingly focused on the attractive vitamins, minerals and supplements space. Our Vital Proteins collagen business and Nuun, our recent electrolyte hydration acquisition, are also part of this pillar.

The third pillar is Novel Therapeutic Nutrition, which we also refer to as pharma. It includes true nutritional specialties in the Rx or prescription area. They focus on gastrointestinal and food processing disorders as well as food-borne allergies. While regulatory hurdles are higher, the technologies are well within the scope of our capabilities.

With our recent acquisitions, Nestlé Health Science has now reached an annual revenue run rate of CHF 5 billion to CHF 6 billion and continues to enjoy a very attractive organic growth profile. The Bountiful transaction makes us a global market leader in the vitamins, minerals and supplement space. We initially expanded in this segment with premium-priced specialty offerings, such as Garden of Life, Pure and Persona. The business acquired from Bountiful will build on these highly successful investments and add major leading brands such as Nature's Bounty, Solgar and Puritan's Pride, giving us a broad-based leading presence across products and channels. We will also benefit from state-of-the-art manufacturing capacity, which will create synergies for all of our brands.

Finally, our extensive international presence will help the acquired brands to advance the global growth journey. We welcome the accomplished Bountiful executive leadership team in our group and are confident that we will take their and our business to amazing places. As indicated in our press release, we expect this transaction to close in August.

Slide: Business as a force for good: towards a water positive future

Under the business as a force for good section, I would like to focus today on our recent water management announcement. As you know, we have refocused our Nestlé Waters business to position it for profitable growth from a smaller and more attractive base. The new growth strategy includes an accelerated approach to improving the environmental footprint of this category. A key aspect is the carbon footprint, and we already started to address that with last year's commitment to make our international premium water brands carbon-neutral by 2022. Another one is packaging, and we are seen as a leader in the ramping up of recycled PET material for our bottles. In June, we announced enhanced water stewardship plans at the 48 sites where we operate.

Through more than 100 projects at or near these sites, we will help to manage water resources sustainably and help regenerate local water cycles. As of 2025, these measures will help nature near each of our sites to retain more water than the business currently uses in its operations. Water is life, and these projects will have plenty of positive impacts, such as improved biodiversity and soil quality.

Slide: 2021 guidance updated

Before turning it over to François, I would like to cover our updated guidance for this year. Based on the strong first half, we now expect organic sales growth in the range of 5% to 6%. As indicated before, we will start to lap two strong 2020 quarters in the second half of this year. We remain optimistic and see continued strength in our market share and growth prospects.

While the pandemic has made the evaluation of our true current run rate for organic revenue growth harder, I would like to confirm that we have now what it takes to deliver consistent mid-single-digit organic sales growth going forward.

Regarding our underlying trading operating profit margin, we have been able to avoid a decline in the first half despite significant input cost increases and strong marketing investments.

In the second half, we will face two additional items. One is an even stronger impact from input cost inflation. The second one is onetime integration costs related to the acquisition of core assets of the Bountiful Company, which we had flagged already as part of the deal announcement in April.

While our efficiency gains and structural cost savings continue to progress, these two items will temporarily reduce our underlying trading operating profit margin in H2. We're taking a cautious view here and now expect a margin of around 17.5% for the full year 2021. I would like to point out that we consider this as transitory. We are all facing a surprising uptick in inflation this year, and it takes a few months for pricing to catch up with input cost increases. For 2022 and beyond, we expect to return to steady and moderate increases in our underlying trading operating profit margin.

Finally, we would like to confirm our previous guidance regarding underlying earnings per share and capital efficiency for this year. With this, I would like to hand it to François and I look forward to answering your questions later.

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

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

Slide: Half-year sales growth

Let me start with the highlights for the first half of 2021.Organic growth was 8.1% in the half, RIG was strong at 6.8% and pricing increased to 1.3%. Mix remained solid and consistent with prior years. Acquisition net of divestitures reduced sales by 3.1%, largely related to the divestment of the Nestlé Waters in North America, the Herta charcuterie business and the Yinlu peanut milk and canned rice porridge businesses. Foreign exchange reduced sales by 3.5%, reflecting the appreciation of the Swiss Franc versus most currencies. Total reported sales for the first 6 months were CHF 41.8 billion, a 1.5% increase versus last year on a reported basis.

Overall, strong organic growth in the first half was driven by three key factors: continued momentum in retail sales and a return to growth in out-of-home channels; increased contribution from pricing, reflecting input cost inflation; further market share gains across most categories. At the end of June, we were gaining or holding share in more than 60% of business cells.

Slide: Broad-based growth

These slides illustrate 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. Pricing improved, particularly in the Americas and EMENA, reflecting our ability to offset input cost increases and currency appreciation.

Slide: Strong growth across developed and emerging markets

In both developed and emerging markets, we saw an acceleration of RIG and increased pricing. Organic growth in developed markets increased to 6.7%, reflecting positive contribution for most regions. Growth in emerging markets was 10%, with particularly strong contributions from BRIC markets and Mexico.

Slide: Strong momentum in retail, gradual recovery in out-of-home

Let's now look at the breakdown of sales by channel. Organic growth for retail sales was 7.3%, moderating to a mid-single-digit rate in the second quarter due to a high base of comparison in 2020. Within retail, e-commerce saw sustained growth of 19.2%. E-commerce now accounts for 14.6% of total sales. Most categories saw strong momentum, particularly Coffee, Purina PetCare and Culinary.

Sales growth in out-of-home channels accelerated to 21.3%, helped by a low base of comparison and the easing of movement restrictions in some geographies. Going forward, we expect a continued recovery in out-of-home channels.

Growth in retail is expected to moderate. However, sales should 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.

Slide: Managing cost inflation

Since the start of 2021, we have seen significant input cost inflation related to agricultural commodities, packaging material and freight costs. In the first half, the inflationary impact on the P&L was still moderate, given hedging and forward buying in place. However, there was already some effect in the second quarter for costs that cannot be hedged, such as packaging materials and freight. Since we last talked in April, the full year impact of input cost inflation has materially increased. We now expect our cost of goods sold to increase by around 4% for full year 2021. This is based on what we know at the end of July, and the situation may evolve.

We are proactively addressing inflationary pressures and have already materially increased prices over the last three quarters. We expect to step up pricing progressively and in a responsible manner over the remainder of 2021 and 2022, with different trends by geography and category. At the same time, we are strengthening the development of affordable offerings, particularly those that meet nutritional needs in emerging markets. These efforts help to soften the effect of inflation for those most impacted.

Beyond pricing, we are also using other levers such as product mix, disciplined cost management and the rollout of strategic revenue management tools. We have also benefited from increased centralized procurement. While we expect to offset input cost inflation over time, its impact may not be fully compensated in the same quarter or same semester. In some cases, there will be a lag between inflation headwinds and our actions taking effect.

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 in 2020.

Sales were CHF 16.2 billion, with organic growth of 7.6%, based on strong RIG of 5.3%, supported by volume and mix and a significant step-up in pricing to 2.3%. Growth was based on new product launches, continued momentum in e-commerce and a recovery in out-of-home channels.

The Zone also reported broad-based market share gains, led by Coffee, Pet food, Dairy and Infant nutrition.

North America grew at a mid-single-digit rate, with particularly strong growth in Purina PetCare and Beverages. Sales in frozen and chilled food grew at a mid-single-digit rate, with double-digit growth for Stouffer’s, Lean Cuisine and Freshly. During the first half, Freshly expanded its production capacity with new manufacturing operations in California. Pizza posted a sales decrease following elevated demand in 2020. Nestlé Professional, Water and Starbucks out-of-home products returned to positive growth in the second quarter.

Latin America reached double-digit growth, with broad-based contributions across geographies and categories led by Brazil and Mexico.

The Zone's underlying trading operating profit margin increased by 40 basis points. The increase was driven by operating leverage, structural cost reduction and product mix, which more than offset input cost inflation and increased consumer-facing marketing expenses.

Slide: Zone EMENA

Shifting to Zone EMENA. Sales were CHF 10.2 billion. Organic growth was 7.3% based on strong RIG, supported by volume and mix. Pricing in the semester turned positive for the first time in 4 years, contributing 0.6%.

Growth was supported by successful innovation and continued strong momentum in e-commerce. The Zone continued to see broad-based market share gains, particularly for Pet food, Coffee, Plant-based food and Water. Each region posted positive growth, with strong sales development in Russia, Turkey, the United Kingdom and Italy. The key growth drivers were Coffee and Purina PetCare, which grew at a double-digit rate. Sales growth in Nestlé Professional and Water turned strongly positive as movement restrictions eased. Sales in Confectionery reached a mid-single-digit rate based on improved demand for impulse and gifting products.

The Zone continued to focus on opportunities in Plant-based offerings. Within Food, sales in Garden Gourmet grew by 40% with market share gains. Within milk alternatives, we launched Wunda, a new pea-based beverage, across a number of European markets. The product's neutral taste and high protein content allows it to be fully versatile for many different uses. Peas are also one of the most environmentally friendly sources of plant-based protein.

The Zone's underlying trading operating profit margin increased by 50 basis points. Operating leverage, structural cost reduction and product mix more than offset increased consumer-facing marketing expenses and commodity inflation.

Slide: Zone AOA

Moving next to Zone AOA, with sales of CHF 10.2 billion. Organic growth was 6.8%, showing resilience in a difficult environment. Most categories gained market share, particularly Pet food, Coffee, Confectionery and Culinary.

China posted double-digit growth, supported by a recovery in out-of-home channels and the timing of Chinese New Year. The largest growth contributor was Nestlé Professional, with sales exceeding 2019 levels. Nescafé, Totole, Dairy and Purina PetCare all grew at strong double-digit rates. Infant Nutrition saw a sales decrease, impacted by challenging market dynamics. We continue to focus on our turnaround initiatives, particularly in the lower tier cities. While still losing market share, the level of market share losses is slowly stabilizing. In Hong Kong, we continue to gain share.

Outside of China, the Zone reported mid-single-digit growth, led by South Asia, sub-Saharan Africa and Japan. Southeast Asia saw slightly negative growth in a difficult economic environment. Overall for the Zone, Culinary, Coffee, Confectionery and Ice cream posted double-digit growth. Within Culinary, Harvest Gourmet, a plant-based food offering, was launched in China and Malaysia. Sales in Dairy grew at a mid-single-digit rate, led by strong demand for adult milks. Infant Nutrition posted negative growth but continued to gain market share in South Asia and Africa. Growth in Nestlé Professional was double-digit and positive across all regions.

The Zone's underlying trading operating profit margin decreased by 40 basis points. Commodity inflation and product mix more than offset operating leverage and structural cost reductions.

Slide: Nespresso

Next is Nespresso, which saw sales of CHF 3.2 billion. Organic growth was 14.6%, based on strong RIG of 13.8% and pricing of 0.8%. The Vertuo system continued to grow strongly, with further extension in new markets, including a launch in Brazil in March. The original system also saw robust consumer demand. Overall, growth was fueled by new customer adoption, a return to positive growth in boutiques and out-of-home channels, as well as innovation.

New products included a new range of ice coffees, and Kahawa ya Congo, the first organic coffee in the Reviving Origins range. Nespresso also rolled out Momento, a versatile touchless machine that creates specialty coffees with fresh milk for out-of-home channels. By geography, the Americas, EMENA and AOA all grew at a double-digit rate.

Overall, Nespresso gained market share across most markets. Underlying trading operating profit margin increased by 10 basis points. Operating leverage and structural cost reduction more than offset increased consumer-facing marketing expenses. Following an exceptional first half of the year, we expect growth to moderate in the second half of 2021 as we cycle a high base of comparison. It should also be noted that margin in the second half is traditionally lower, given higher marketing spend linked to seasonal events.

Slide: Nestlé Health Science

Finishing with Nestlé Health Science, which reported sales of CHF 1.9 billion. The business grew at a double-digit rate, with a high base of comparison in 2020. Growth was driven by sustained momentum in e-commerce, new product launches and geographic expansion. E-commerce grew by 31% and now represents 21% of sales.

Consumer Care posted double-digit growth. Vitamins, minerals and supplements that support health and the immune system continued to see strong demand. Vital Proteins and Persona more than doubled their sales. Pure Encapsulation, mainly sold through health care practitioners, posted strong double-digit growth in the U.S. Garden of Life saw continued strength in e-commerce channels. Healthy ageing products grew at a double-digit rate, with market share gains for Boost in North America, Nutren in emerging markets and Meritene in Europe.

Medical Nutrition saw mid-single-digit growth, with robust demand for Compleat, an adult medical care product as well as for Althéra, Alfaré and Alfamino pediatric care products. The underlying trading operating profit margin of Nestlé Health Science decreased by 580 basis points. As expected, investments in Aimmune and consumer-facing marketing expenses more than offset operating leverage.

Aimmune's margin dilution reflects initial commercial investments behind Palforzia. The rollout of this peanut allergy treatment has been impacted by the pandemic, but it is expected to ramp up as visits to allergists resume and schools reopen. Increased consumer-facing marketing expenses included the highly successful celebrity campaign for Vital Protein.

Slide: All categories back to growth

Looking now at product categories. We saw strong growth in all segments with the exception of Infant Nutrition. Most categories saw market share gains with particular strength in Coffee and Pet food. Within Powdered and liquid beverages, Coffee grew at a double-digit rate, supported by Nescafé, Nespresso and Starbucks products. Coffee at home continued to grow strongly, while out-of-home and on-the-go channels improved.

Sales of the Nespresso system, including Starbucks by Nespresso, grew by 17%. And sales of Starbucks products also grew by 17% to reach CHF 1.4 billion across 79 markets. We have captured close to 20% share of the Nespresso compatible capsule market globally over the last two years. Cocoa and malt beverages grew at a mid-single-digit rate, led by increased demand for ready-to-drink formats.

PetCare continued to see outstanding growth globally. Most segments grew at a double-digit rate with market share gains. Purina's performance was driven by continued strong momentum in e-commerce and increased demand for premium products. The rollout of Pro Plan LiveClear, the first allergen-reducing cat food, continues to gather pace, and we have now expanded into 23 markets.

Nutrition & Health Science grew at 1%. Organic growth in Infant Nutrition was - 4%, reflecting a sales decrease in China and a slowdown in birth rate across geographies in the context of the pandemic. Outside of China, we continued to gain market share. We have already discussed Nestlé Health Science.

Prepared dishes and cooking aids saw 8% growth, with double-digit growth in Ambient culinary and Chilled, driven by Maggi and the recently acquired D2C businesses, Freshly and Mindful Chef. Plant-based food products continued to deliver strong double-digit growth. Milk products and Ice cream grew at 8.2%. The key growth driver were Fortified milks, Coffee creamers and Ice cream. Dairy culinary products saw high single-digit growth but moderated in the second quarter following exceptional sales in 2020. Waters returned to positive growth, helped by a recovery in out-of-home channels. Market share gains were broad-based across all three zones with strong contributions from international premium brands and the newly acquired functional water brand, Essentia.

Growth in Confectionery rebounded sharply, reflecting a recovery in impulse and gifting products, which more than offset reduced demand for baking products in the United States. Innovation supported growth, with new product launches such as Incoa, a vegan KitKat and Shark Nut wafer in China.

Slide: Underlying trading operating profit margin by category

Moving now to profit margin by product categories. As a word of caution, we see contrasted dynamics by category versus 2020 as the base of comparison had been impacted by the pandemic.

Powdered and liquid beverages saw a significant increase, reflecting strong sales growth and the benefit of operating leverage. Purina PetCare posted a decrease, as higher commodity and distribution costs more than offset operating leverage. Prepared dishes and Culinary products saw a decline, reflecting increased consumer-facing marketing expenses and investments behind recently acquired D2C businesses.

Nutrition & Health Science saw a margin decline in both Infant Nutrition and Nestlé Health Science. We have already discussed Nestlé Health Science. In Infant Nutrition, the margin decline reflected reduced sales as well as a higher commodity and freight costs. Margin in Milk products and Ice cream increased materially, reflecting the benefit of strong sales growth and portfolio management, more specifically, Yinlu and U.S. Ice cream. Confectionery & Waters saw improvements as sales recovered, following a low base of comparison in 2020.

Slide: Underlying trading operating profit margin

Moving next to underlying trading operating profit margin. In the first half, gross margin increased by 20 basis points. Distribution costs as a percentage of sales decreased mainly as a result of the disposal of the Nestlé Water brands in North America. We continued to deliver structural cost reduction across the P&L, leading to a strong operating leverage. COVID-19 related costs were also materially lower. Consumer-facing marketing expenses increased by around 80 basis points over 2020 when we could not fully activate in-store promotions. On a like-for-like basis, we are now slightly above 2019 levels. We increased media spend to support brand building and consumer engagement, including in digital media, which now accounts for 48% of total media spend. R&D expenses also increased, mainly in Nestle Health Science as a result of investments in Aimmune.

The impact of portfolio management was slightly positive, as the divestitures of Yinlu, Herta and the Nestlé Water brands in North America more than offset investments behind new growth platforms such as Aimmune and Freshly.

Overall, for the first half, our underlying trading operating profit margin was unchanged at 17.4%. In the second half of 2021, the impact of input cost inflation will be significantly larger, and as a result, pricing is expected to increase further. The possible time delay between both factors could put more pressure on our margins. In the second half, we will also absorb one-off items related to the acquisition of the core brands of the Bountiful Company. These one-off items are mainly related to the inventory step-up. This will have a 10 basis points impact for the full year for the group and will largely fall in the second half. This is reflected in our revised guidance, and our mid-term outlook for moderate margin improvement remains unchanged. Our guidance is cautious given the ongoing macro volatility.

Slide: Underlying earnings per share

Moving to underlying EPS. Underlying earnings per share increased by 10.5% in constant currency and 8.3% on a reported basis to CHF 2.17. The main driver of the underlying EPS improvement was organic growth, combined with lower finance costs and underlying tax rates as well as the benefit of share buybacks. Given our midterm ambition of sustainable mid-single-digit organic growth and moderate margin improvement, we can expect that going forward, organic growth will be the main driver of underlying EPS growth, as we see in this first half.

Our average cost of net debt has decreased from 2.6% to 2%. The line others in the chart largely relates to income from associates and joint ventures, particularly L'Oréal.

Slide: Free cash flow

Cash flow generation is a priority. In the first half, it remains strong, as illustrated by the fact that cash generated from operations, which means before CapEx, was almost unchanged at CHF 5.8 billion. This is equivalent to 14% of sales, a level consistent with previous years. Free cash flow, which means including CapEx, decreased from CHF 3.3 billion to CHF 2.8 billion, mainly due to a temporary increase in capital expenditure to meet strong volume demand, particularly for Purina PetCare and Coffee. The slight increase in adjusted EBITDA reflects improved operating performance, which more than offset the negative impact of exchange rates and divestitures. We continue to make progress on working capital management with a further reduction of net working capital by 52 basis points on a 5-quarter average basis.

Let me now hand over to Luca, who will monitor the Q&A.

Q & A Session

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

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

The first question comes from Patrik Schwendimann at Zürcher Kantonalbank.

Questions on:	Growth expectation for PetCare and Coffee Margin impact and expectations for Aimmune

Patrik Schwendimann, Zürcher Kantonalbank:

Congrats from my side. Very impressive growth. I couldn't find actually a higher RIG in my spreadsheet since '89. So, my questions. Outstanding growth for PetCare and Coffee. You have mentioned, there are more pet owners, more premium products, et cetera. What is the new normal growth for the PetCare division and Coffee category for the next couple of years? What's your assumption here? That's my first question.

And second question, regarding Aimmune, this was a drag as expected on your margin. What was the margin impact on the group level stemming from Aimmune? And what are your expectations for Aimmune for the next couple of years?

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

Patrik, thank you. Let me start with the first one and then hand over to François for Aimmune. It's very clear that in the aftermath of COVID, both of these categories, which were high-growth categories to begin with, will see improved dynamics. So I can't point you to a specific number, but it's better than before. And it's different reasons, I think with PetCare, it's the higher rate of pet adoptions that we have seen all throughout the COVID crisis. And I think I had discussed this on previous occasions. I mean everyone has to work from their own assumptions, how long these pets will stay with their owners, how many of them will actually like having a pet and go for a follow-up pet as well. But there's going to be a long, long positive tail to this, and we'll benefit from it.

And in Coffee, I think it's fair to assume, as most of you look at your own work-life arrangements, that we will spend a larger part of our time going forward, even after the pandemic, working remotely. And remote for most people means working from home. And hence, this is exactly our wheelhouse, the at-home consumption of coffee. This is where we're strongest. And so, we stand to benefit with cups consumed at home.

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

So the margin of Nestlé Health Science decreased by 580 basis points in the semester to 13.5%, and a large part of it was coming from Aimmune. This is fully in line with what we expected. These investments in Aimmune are margin dilutive, but there is no issue at all.

Part of what we have been seeing at Aimmune is linked to the fact that the pandemic impacted the rollout of Palforzia, the peanut allergy treatment. But overall, the business of Palforzia is in an early investment phase. And given the nature of the business and the development of new products, we are fully comfortable with that. As you know, we expect Palforzia over time to become a blockbuster, a product with more than $1 billion in sales. But we are clearly in an investment position upfront, and this is fully in line with what we expected.

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

Next question is from Martin Deboo at Jefferies.

Question on:	**Resilience of in-home with return of out-of-home**

Martin Deboo, Jefferies:

I think there are many ways of conceptualizing your strong top line performance. But I think the way I'm thinking about it brought out very nicely in your Slide 35 on quarterly retail and out-of-home sales progress. And it shows, I think, that what's striking is that retail growth is holding up much better than you would expect given the swing back to out-of-home growth. So I'd like to ask you a question. I think it was asked on the previous call, but I think it's worth asking again.

What is your view of why this is happening? Is it that people are actually consuming more calories in aggregate, and you're benefiting and taking a fair share of that? Or is there something in the relative mix of your in-home versus out-of-home categories that's driving it? Or is it something to do with relative price points in-home, out-of-home. But the question is, just why are we seeing this resilience of in-home as out-of-home comes back so strongly? That's the essential question.

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

Let me take a stab at this and maybe François can also build on it. I don't think people are consuming more calories. I think the answer is simply that while we're seeing a strong recovery in out-of-home, we're not back yet to pre-COVID levels. So you know, either because of remaining fears over COVID or because simply people are enjoying that new, more flexible remote working style, people still spend more time at home, and hence, they consume more at home. Our market shares across the various products we sell in-home and out-of-home are always larger for the in-home part. There's no question about that. And hence, we stand to benefit from that trend. So that's my best crack at it. All I can tell you, judging from most people's waistlines, I don't think that there's more categories being consumed. If anything, people are more health conscious, which are, of course, playing into another strength of ours, offering products that cater to health and boosting the immune system. That's another one that's right going into our direction.

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

Maybe, to complement what Mark said, for out-of-home channels, the growth will benefit from a low base of comparison. But at the same time, we expect growth in retail to moderate, but it will stay at a higher level than what we have experienced in the pre-COVID levels in 2019, given structural changes in consumer behavior. And I would mention three, are here to stay, such as increased working from home, pet parenting as well as a search for health and immunity benefits. So I think that, that will stay and will help us to maintain a strong level of at-home consumption.

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

Next question is from Céline Pannuti at JPMorgan.

Questions on:	**Margin target** **Infant milk formula performance**

Céline Pannuti, JPMorgan:

My first question is on the margin target for the year. Could you say what kind of raw material inflation you are looking at in H2? And what kind of pricing you are assuming to get to the 17.5% margin. And while I appreciate, I mean, not guiding for next year, you did say that from next year, we should go back to moderate margin increase. I just want to -- if you could explain why -- what visibility you have that the raw material and pricing equation will be balanced in 2022.

And then my second question is on Infant milk formula. We calculated that it was down 3% in Q2. Could you say what was the number? And you said that China was negative. What was Infant milk ex-China performance? And why the margin in that specific business was down a lot? I think, around 500 basis point in the first half.

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

Let me take the first question. The impact of increased input cost will be certainly much stronger in H2 than it was in H1. In H1, it was still relatively moderate because we had some hedging in place. Actually, we saw a very strong acceleration in input cost inflation coming in Q2, especially on items that we could not hedge, like transportation cost and packaging material. So much larger impact in H2. We will have more pricing as well.

What is important to understand as well is that in H1, we could have a benefit of pricing, combined with mix, combined with cost efficiencies and combined with other items like strategic revenue management. That allowed us to exceed in terms of benefit the input cost inflation. We will even do more in pricing. We will do more in mix. We will do more in cost efficiencies as well in H2. We may not be necessarily in a position to fully compensate, as we have indicated, all of this input cost inflation in H2, but we are working on it. And still early to conclude at this stage, but certainly a much stronger impact in H2.

On -- the second question was on the impact of the margin on Nutrition. So the margin on Nutrition is obviously significantly down. This is largely linked to the fact that we have lower sales to start with, combined with an input cost that has increased as well, as you know, Dairy is one of the categories where we have seen the largest cost increase.

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

Maybe I can add one high-level thought on inflation and our way of thinking about it. I think the issue this year is simply that we have experienced a turning point on inflation, where we didn't see much of inflation before. Then starting from March, April, we've seen this tremendous acceleration. And I think it's this turning point that's posing the problem because some of these cost items, as François explained, are hitting us straight on and basically from one day to another, especially around transportation, which has seen very chaotic situations all throughout the spring. And we in turn, as we look at our pricing towards our retail partners, we, usually, depending on the contractual arrangements we have in place, there is a lead time until pricing becomes effective. And hence, this is where you take some temporary hit.

If inflation is here to stay, going forward, and if there's a regular pattern, then you can much better adjust to it. So it's not that inflation per se is an automatic hit to our profitability. It's just that when you are at the turning point of when it's pointing up, then certainly, it is a headwind for a limited period of time.

When it comes to '22, I think this is anyone's guess whether this is a 1- to 2-year blip or whether this is something that's here to stay. This is where we need to stay flexible. But either way, either through continued pricing or through the normal operating and structural cost improvements, we feel confident about the underlying mid- to longer-term guidance that we had given you before, and that is to expect these moderate margin improvements.

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

Next question is from Bruno Monteyne at Bernstein.

Questions on:	Margin guidance Market share losses in China

Bruno Monteyne, Sanford C. Bernstein:

My first question is, again, on the margin guidance and whether that is effectively a double margin guidance. You have the usual medium-term outlook, I guess, about 10, 20 basis points per year. But you also have the temporary nature of this inflation impact. So you're effectively saying, when you've had time to pass through the pricing, we should have a bigger step-up in underlying margin next year because you combine the usual increase, plus the recovery of the temporary cost.

The second question is around the progress of China. I just wanted to isolate where the market share losses are. Is it only in Infant milk? Or do you have market share losses in brands like Gerber in Baby food or other categories as well?

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

So the margin guidance, as we have indicated for 2021, so we will be around 17.5% due to the timing difference between input cost inflation and pricing. Going forward, we maintain our indication for the medium term, which is for a moderate margin improvement, and that remains absolutely valid from '22 onwards. So no change at all there.

Coming back to the second question. Now in Infant Nutrition, the market share losses that we have seen are essentially on Infant formula. We have seen a little bit of pressure on Gerber as well, but this was for a totally different reason. As you know, we had some marketing issues in – not marketing issues, but some issues in the U.S. that had some effect as well in China. But it looks like we are recovering as we progress over time. But the main market share losses were essentially in Infant formula in China.

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

This is following the congressional inquiry into some of the baby foods in the U.S. which, of course, these days through the Internet, also made its way to China. That led to temporarily a fairly strong hit. But as François said, we are recovering from that. So mainly, as you said, it's Infant formula.

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

Next question is from John Ennis at Goldman Sachs.

Questions on:	**Nespresso** **Margin reduction in Nestlé Health Science**

John Ennis, Goldman Sachs:

My first question is on Nespresso. I wonder if you could give us an indication of machine growth over the half. I guess if we break down the 15% growth in 1H, I mean how much would be attributed to increased usage per existing customer versus new machine registration? Any kind of rough steer there would be helpful.

Then my second question is to come back to the margin reduction in Nestlé Health Science. Was Aimmune more than 50% of the margin reduction in that segment? And if not, can you give us a bit of a rough steer in terms of percentage contribution? And should any of the consumer-facing investments reverse into the second half? Or should we expect them to largely persist?

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

Thanks, John. Let me try and take a crack at the first one and then hand it to François for the second one. So look, we're trying to be as helpful and transparent with Nespresso as possible. But I would prefer to stay away specifically from machine growth, park numbers. I think it's fair to assume during the pandemic that the usage per machine was more of a driver than the machine park growth because this was usually not the best time to go out and get advice on which machine exactly to buy. But again, as much as we're trying to open up here on Nespresso, I think for whatever involves competitive signaling, we will prefer to stay away from that.

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

John, your question was -- on margin was for the group or for NHS? Sorry, I missed it.

John Ennis, Goldman Sachs:

Sorry, it was for Nestlé Health Science.

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

Okay. For Nestlé Health Science. So we have increased significantly consumer-facing marketing expenses in H1. And we had a low base of comparison in last year in the first semester because we could not activate quite a lot of activities in-store. So the increased consumer or marketing expenses included as well in H1, this very successful campaign that we have for Vital Protein. And Vital Protein is doing actually extremely well. Sales have more than doubled over last year.

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

Next question is from Guillaume Delmas at UBS.

Questions on:	Tax rate guidance Opportunities for VMS category

Guillaume Delmas, UBS:

First question, it's very much a housekeeping question, and apologies if I missed it. But tax rate was lower than anticipated in the first half. François, does it change your assessment for your full year guidance for the tax rate and even potentially for your medium-term guidance for your tax rate?

And then my second question is on the VMS category. Nestlé now becoming a global leader here with the acquisition of Bountiful. I mean I appreciate it's early stage. But your business today is very much skewed towards North America. So where do you see the biggest opportunity in the short term? Is it about expanding your reach, offering, innovation in the region? Or do you think geographical rollout could rapidly be a meaningful contributor to your growth there?

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

The question on tax. What happened is that we have seen a decrease of the corporate income tax rate in two countries which are significant for us, namely France and the Philippines. And this is what it was about in H1. Obviously, since it has decreased, we will benefit from it in H2 as well.

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

Thank you. Let me comment on the VMS space. I think the first priority for us, of course, given the size of the business that we acquired here is a picture-perfect integration. So that’s step one and something that the entire Nestlé Health Science team is very much focused on.

I think you're right, there is a significant international opportunity, because these brands, that's both our existing brands and the new ones that we acquire, are having a very strong global appeal. And we see significant inbound interest from all four corners of the world to do more with that. So think about brands like Solgar, which I think has a very devoted international following already. If you couple that now with our stronger global footprint, clearly, there's upside there, down the road. And we're doing the same already on some of our existing brands, such as Garden of Life and Pure, which are making their way into Europe and select Asian markets. So yes, that will give strong upside going forward.

Obviously, you can imagine, as the pandemic subsides, there may be a period, and I think we flagged that from the beginning of 1 or 2 or 3 quarters, where the year-over-year growth will not be as stellar as usual. But when you look at the fundamental underlying usage of VMS around the world, it has been very steadily increasing. It's a strong growth category as people become more aware of which vitamins, minerals and supplements they may be lacking. And as part of the whole immune boosting and self-medication trend, we believe we are right on the trend here.

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

Next question is from Tom Sykes at Deutsche Bank.

Questions on:	**E-commerce growth** **Coffee price increases**

Tom Sykes, Deutsche Bank:

Two questions. One, just on e-commerce growth. And e-commerce growth, it looks like obviously that's slowing down somewhat. Maybe could you give some view on the stickiness of habit in e-commerce? And is it a little bit harder as maybe some of those ease back a little to continue to get the same level of share gains and operational leverage that you had whilst that was growing more quickly, please?

And then just on Coffee, obviously, we've seen some exponential rise in the coffee price on our screens over the last few weeks and days. Could you maybe just help us with a little bit more detail of how you will build that in and how you'll compensate for that through the different parts of your Coffee business and the different parts of the price ladder that you have there, please?

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

Tom, François speaking. I will take the first question. It looks indeed that we see a slowdown in e-commerce growth. It's not really the case. What happened is that we had an exceptional growth last year in Q2 at the beginning of the pandemic. It was actually 67% in Q2 last year. So this is mainly due to the fact that the comparison base was very high. We continue to be very happy with e-commerce. We have, as you know, a higher market share online than offline, and we continue to gain market share as well. So no issue whatsoever. And it accounts now for, as you know, almost 15% of our total sales. And there is no dilution impact on the bottom line as far as e-commerce is concerned.

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

Tom, let me comment here on coffee prices. So obviously, as the world's largest producer, we watch this very carefully. As you can imagine, we do pursue a very careful hedging policy in this area so that the increases you've seen here are not immediately translating into like-for-like bottom line hits or pressures for pricing. So for '21, we're certainly quite well covered, and some of the cover also stretches into '22. And I think what needs to happen now is we need to track this very carefully and then see how and if we should take appropriate pricing action. But unlike some of the other items that were hitting us literally without any warning and had an impact on the bottom line right away. I think here in Coffee, this being one of our signature commodities, we are having a good degree of protection through hedging. So we'll look at this going forward and then, where needed, adjust the pricing. Also, do keep in mind for a growth category that has a large share of premium products, usually, that type of pricing action is easier to take than for some of the others.

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

Next question is from Jeremy Fialko at HSBC.

Question on:	**Pricing level**

Jeremy Fialko, HSBC:

So here, just one question for me. Could you clarify the sort of pricing that you're going to be expecting? I know there's a comment on Bloomberg from earlier where Mark talked about getting 2% pricing for the full year to fully offset the commodity. So would that imply that the pricing would be approaching 3% in the second half? Or you were saying it's going to be a little bit lower than that because of the fact you don't expect to fully offset this year? Just a little bit more color on that point, please.

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

Yes, Jeremy. Happy to comment. And just to be sure that the Bloomberg interview is not misunderstood, I wasn't trying to give a 2% target for the pricing, because I think it's in our best interest not to give a specific target pricing here given that this is all subject to negotiations with our retail partners. All I was trying to do is I was trying to explain if you have -- or if you're expecting a 4% increase to your cost of goods sold at about a 50% gross profit situation, then that means you would need 2% pricing to offset that.

But as François explained earlier in his comments, this is not the only angle we're looking at. So we're looking at centralized purchasing, revenue management, structural cost reductions, operational efficiency improvement. So where the Swiss Franc is coming from to offset it is not so important as long as it helps to offset it. And then so we will see stronger pricing action in the second half than the first half. But in the interest of our own commercial strategies here, it's important that we're not targeting how much pricing exactly we will do.

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

Next question is from Jon Cox at Kepler.

Questions on:	**Free cash flow** **M&A impacts** **Starbucks development and JV in Asia**

Jon Cox, Kepler Cheuvreux:

A couple of questions. Just wondering on the free cash flow for the year. What we should think about that after maybe some unusual activity in the first half of the year?

Second question, just on the M&A line. Obviously, a lot of stuff moving in and out. I wonder if you can just give us the best guess what you think the M&A impacts will be this year and next. At the moment, I've got negative 2 points this year and next year a positive 50 basis points. Wondering you to think that's sort of in the right ballpark?

And then just the last question. I know Starbucks is not included in the Nespresso reporting. Just wondering how Starbucks developed in the period. And as a bit of an add-on, just wondering why you're going into a joint venture with Starbucks in Asia on the ready-to-drink rather than going it alone? Or is it just the wording of the document was just being polite to Starbucks, and they won't really have much to do with it.

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

I'll take the first question on the free cash flow. So we value obviously cash flow. And this is an area where we have made strong progress over the last couple of years. If we start by talking operating free cash flow, which means before CapEx. We were in H1, and we expect to be probably around that level as well for the full year, at the same level as where we were over the last couple of years, which is around 14% of sales. So that strong level, that showed that we are really using all the levers from growth to margin and cost discipline as well.

Free cash flow is -- will be lower this year as a percentage of sales than it was last year, for one single reason, is that as you saw in H1, we are ramping up our CapEx investment, mainly around Coffee and PetCare, to meet increased demand and the fact that we are gaining market share as well. So you can expect a little bit of a higher level of CapEx this year 2021 and 2022 as well. But this is, to a large extent, good news.

On the M&A impact, you saw that it was about a little bit more than 2% negative this first half. It will be lower in the second half because we will have the same headwind coming from North American Water and Yinlu for the full year, but we will have the benefit of the Bountiful Company because we are just confirming now that we expect that transaction to close in the month of August. So we'll get some benefit from that asset.

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

Let me briefly comment on Starbucks. So look, we couldn't be more pleased with how this partnership is going. The sales of Starbucks products in the first half of this year increased by 16.7%. So very solid, very strong performance. And we also have a very exciting pipeline here to keep refreshing that product lineup for years to come. So a wonderful partnership where I think the Coffee expertise of both companies is really building upon each other, excellent personal relationships and a very constructive smooth execution here from both sides. When it comes to ready-to-drink and Southeast Asia, we have been, of course, active in this space already under some other brands. Most notably, the Nescafé brand does have a number of very exciting ready-to-drink offerings in Southeast Asia because this is a way of consuming coffee there, and we had catered to it early on. But Starbucks, I think, is one other way to approach that market, usually at a much more premium positioning.

And we're building on the iconic strength of that brand name that really resonates around the world, including Southeast Asia. We've also seen very strong success with our Starbucks retail offerings there. So I think it really shows that the consumer is ready for that brand. So I think one doesn't exclude the other. We're having a thriving ready-to-drink business there already. And now we're having one more exciting tool in the tool shed here, and that is the Starbucks rollout.

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

Next question is from James Targett at Berenberg.

Question on:	**Capacity to meet demand** **Brands included in Bountiful acquisition**

James Targett, Berenberg:

Two questions from me. Firstly, just on the CapEx increase that you just referenced. Following your extra investments in PetCare and Coffee, do you have enough capacity to support demand now if current growth rates continue? And with the growth you're experiencing at the moment, generally, are there any other categories where capacity is tight or where there's material supply disruptions?

And then my second question is on the Bountiful acquisition. I was just wondering, given Nestlé's experience in Dairy and plant-based proteins, why you didn't include the Sports Nutrition brands in the transaction?

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

I'll take the first question. We have enough capacity to meet the demand in PetCare. That's not been an easy one, and especially last year because we saw a lot of volatility in terms of demand, by SKU and so forth. So congratulations by the way to our teams because they have been really able to do that. We had to use a little bit of co-packing as well to support the demand. But overall, we have been able to meet the demand. But it is necessary given the growth rate that we have, which is largely volume-led as well that we invest in CapEx. This is what we are doing, both in North America and in Europe.

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

Could you repeat the second question? I'm not sure I totally got it.

James Targett, Berenberg:

On the Bountiful acquisition? I think you mentioned that you weren't going to include the Sports Nutrition brands in the acquisition. And I just wondered, considering you have good expertise in your Dairy and plant-based proteins, why you didn't want to have those brands as part of the transaction?

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

Yes. So look, we were very much focused on these three brands that we believe are the most synergistic ones to the Nestlé Health Science business that is going to be running this company going forward. And that is the ones I mentioned. So that's why we felt carving it up into different categories here was probably not the best way going forward. We appreciate the seller's flexibility in handling this in a way that we were able to focus on the brands that we were most interested in.

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

Next question is from David Hayes at Société Générale.

Question on:	**Price and input costs** **Margin guidance**

David Hayes, Société Générale:

So two questions from me, connected, I guess, in a way, the first one on price versus inputs and then the second one on the margin guidance again. So on the first one, price versus inputs. The way you're talking about it, it sounds like it's a case of inputs have gone up. Contract negotiations take a while, but eventually it catches up. But I guess beyond that, are there any markets today where you'd like to take pricing but you're delaying it because of consumer weakness, maybe retailer reactions connected to that? And your competitor reactions, you're seeing smaller players, local players getting back up to speed post COVID, and it's just not the right time to take pricing for those reasons. So it's a conscious decision rather than the mechanics.

And then related to that. I feel the answer might be it's too soon to talk about this in some ways. But if I go back to the guidance pre and post the results today, you were looking at 17.8%, let's say, roughly this year. Up again, we assume modestly next year, which would have got you to 18%. You're talking about 17.5% now, up again modestly to 17.6%. So the point being, you're kind of guiding in effect to about 40 basis points lower for next year if you just put the two statements together. Is that a fair representation of what's going on? Is there a step drop down? Or should we start to assume that next year, you have modest increase, plus a bit because you catch up on the dynamics that I just mentioned?

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

Thanks, David. And let me try and take a stab at both. So I think on pricing, as you can imagine, this has dominated the conversation in the industry ever since it accelerated so much -- the inflation accelerated so much in the spring. So I think this is, by and large, understood and accepted because people see and they have transparency here, that input costs are increasing. So the only area where we may have acted a little slower in the spirit of pricing responsibly is, in particular, in emerging markets, in developing countries. I'm sure you've heard for some of the extremely affordable products, in the poorest of the countries, there are what's called magic price points like price points beyond which people simply cannot afford the product anymore.

And so it's important to really keep those in mind and act responsibly there because you're essentially providing a part of the daily nutrition there. And especially at this time of economic stress, you don't want to price it out of reach. That's also a good reason why in Zone AOA, you're seeing a bit less pricing action than in the two other zones. But other than that, I think the conversations with our retail partners are very straightforward, and they're hearing a very consistent message here from everyone. And it reflects the facts on where input costs are going. So no particular issue there.

When it comes to 2022, yes, you were right. It's too early to talk about that in detail. And when it comes to the math you were setting up, what I would want to point you to is caution here on our side. So rather than saying it's one or the other, let's give us that time. Let's see where we land the year 2021. And based on that, we would then articulate our guidance expectations for '22. The one thing I can certainly confirm is that, as François said, the 10 basis points that refer to the inventory step-up at the Bountiful brands, that's clearly something that's strictly related to '21 and will not be recurring in '22. And then on everything that's pricing related, I think we're learning so much more here month by month, where it's headed and how our hedging position looks like. So let's revisit that as we go through the year and then into next year.

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

Next question is from Jean-Philippe Bertschy at Vontobel.

Questions on:	**Recent acquisitions in VMS** **Pricing and margins**

Jean-Philippe Bertschy,Vontobel:

The first one is on your recent acquisitions. And it looks like Vital and Persona really super performing. We saw a very strong acceleration in the second quarter in Nestlé Health Science. The question is how much you have of the acquisition in the organic growth in the second quarter? And maybe as well, it looks like the fit with Nestlé is fantastic. So what can you learn from those acquisitions, the smaller bolt-ons you made and what you can replicate in the network.

And the second is probably more like a remark, focusing on this margin and pricing. But as you're taking some pricing action to offset the cost inflation, this is kind of a net net zero game from a cash point of view as it is just like a time lag, but then you will recover the cash, just wanted to get your view here.

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

Jean-Philippe, you were referring, I'm sure I got the name, to Vital Protein?

Jean-Philippe Bertschy,Vontobel:

Vital Protein, yes.

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

Okay. So no, indeed, the Vital Protein is doing extremely well. We're very happy with this acquisition because this is a leading company in collagen in North America. Collagen is a category that is not very developed for the time being in Europe, for example. So we are currently leveraging on our presence in Europe absolutely and our global footprint in order to rollout the success of this product in other geographies. So very, very happy with it. And so that's the reason why we continue doing other acquisitions. That in the same spirit as what we did with Nuun as well. Very happy with what we have seen so far. Interesting base of business in the U.S., with the possibility to expand it in the U.S. to start with and expand it to other geographies as well.

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

And Jean-Philippe, we didn't break out the specific contribution of Vital Proteins. But you're right. It's been a strong growth year for that company. But all the other brands, especially including those latest acquisitions in the VMS space for us, have performed really well. And I think the pattern is one that we intend to apply to the Bountiful brands as well. And that is in the leading market for these VMS products, and that is the U.S., acquire some of these leading companies, continue to run them well, with most of the existing management team in place, and then go for the global opportunity and the global appeal of these products.

So Vital Proteins now is taken internationally at a very rapid clip. The celebrity campaign that François had mentioned is helping with that a lot. And so it becomes a household name. And as François mentioned, in Europe, for example, the use of these products per capita is still way below what is in the U.S. So I think there's some catching up to do here, and we intend to take that. So I think that pattern has worked really well for us. And I think the Nestlé Health Science leadership team has also been able to create a very good cohesive consumer care team out of these various executives that came to us with that acquisition.

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

Next question is from Pinar Ergun from Morgan Stanley.

Question on:	**Categories at risk of losing share due to pricing**

Pinar Ergun, Morgan Stanley:

If inflation persists and Nestlé responds with further pricing, which of your categories would be more at risk of losing share to private label? And how would you respond in that scenario?

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

Yes. Pinar, maybe François and I can both take a stab at this. I guess my first reaction would be, with the kind of input cost inflation we're seeing here, it's not that private label is spared from that. So these were real input cost increases that hit everyone, which is also why the conversations with our retail partners on this were pretty straightforward, because, I mean, no one can deny that something has gone up. So obviously, the categories that allow for more differentiation by brand and product, Coffee and PetCare being again the best examples here. I think in those categories, it's easier to escape any share loss as prices go up. But again, generally, I think it is not so much a question of elasticity that people switch to another brand or private label. It's more like maybe that some people at some point would consume less because the products get more expensive and become less affordable. But -- so I'm not so sure that anyone is escaping right now that inflation hit that's been taking hold.

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

Just to complement what Mark is saying. I think beyond the categories, it may be more a matter of positioning of our products. So for example, if we look at premium products, obviously, we are far less exposed. The good news as well is that premium products now account for almost 1/3 of our total sales. Just as a reminder, it was 11% in 2012. So that's a very good positioning that we have there in the premium segment, especially in the context of higher inflation for this year or next year.

But at the other extreme when we talked about affordability earlier, that's something that we want to develop further offerings into, into affordable segment as well. This is important, as we said, because some people will suffer from inflation. And then we need to make sure that we are offering affordable products to them, especially nutritional products and especially in emerging markets. So this is the reason why we have increased our offering there. Affordable product for us have grown by 9% in H1. So very happy with that. And just as a side comment, affordable products are not dilutive margin-wise. So no issue whatsoever there. So we are really pushing at the two extremes, affordables and premium.

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

I see no further questions here. But I also wanted to conclude with one point that I briefly touched upon in the intro and that I wanted to drive home. And that is, I hope you're seeing the underlying strength with which we handled the situation and especially all the good work that has gone into boosting our organic growth. Clearly, we are seeing tailwinds here related to COVID. But I wanted to draw your attention to what I said in my section of the prepared remarks. And that is, we believe now, from a portfolio setup, innovation rate, marketing spend point of view, that we have what it takes to consistently deliver mid-single-digit growth. And that is not a COVID statement. That's basically a statement on us and the engine here that supports the growth.

As you know, that was an important milestone we have been working towards for several years. We had told you before COVID in the beginning of 2020 that we weren't quite there yet, close but not quite there yet. We can tell you now we're there. And I think that is an important growth driver for us and of course, also an important value driver down the road.

On that note, thanks for joining us. Have a great summer, and we look forward to talking to you as part of Q3.

End of Q&A session.

End of transcript.