

NESTLÉ S.A.

2021 NINE-MONTH SALES CONFERENCE 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.

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Luca Borlini, Nestlé S.A, Head of Investor Relations:**Slide: Title slide**

Good afternoon and good morning to everyone. Welcome to the Nestlé 9-Month 2021 Sales Webcast. I'm Luca Borlini, Head of Nestle's Investor Relations. Today, I'm joined by our Chief Executive Officer, Mark Schneider, and our Chief Financial Officer, François Roger.

Mark will begin with our key messages and discuss the full year 2021 guidance. François will follow with a review of the 9-month 2021 sales figures. We will then open the lines for your questions.

Slide: Disclaimer

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

Mark Schneider, Nestlé S.A. Chief Executive Officer:**Slide: Title slide**

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

Slide: Key messages

We are pleased to report another quarter of exceptionally strong organic sales growth. As you know, we also had a strong comparable quarter last year when we posted an organic sales growth rate of 4.9%. So it was no small feat to get to 6.5% in Q3 of this year. As you can see from the slide, our year-to-date organic sales growth is 7.6%.

As in previous quarters, growth was broad-based across most geographies and categories, which is reassuring. The only real exception was our Infant Nutrition business, which suffers from globally reduced birth rates in the context of the COVID pandemic and a strong sales decline in China.

I can assure you that we're working hard to fix our issues in China and find new growth opportunities globally for this key category of Nestlé.

We completed the acquisition of core brands of The Bountiful Company in line with our schedule and are very pleased with the company's performance and our progress with regards to integrating this business. Interest in personal health, in particular in boosting the immune

system, continues to be high as we're entering the second Northern Hemisphere winter of the COVID pandemic.

Slide: Sharpening geographical focus to drive sustained profitable growth

I would also like to comment on last week's announcement regarding Nestlé's future organizational structure. Local relevance in everything we do and staying close to local consumers around the world has long been a hallmark of Nestlé.

We're now taking this approach to the next level and fully reflect the importance of our 2 largest global markets, North America and China, in our geographic zone structure. In doing so, we will sharpen the geographic focus of all 5 of our Zones and increase agility in a fast-moving consumer environment. The new structure has broad support inside our company and with our executive leadership team. It will be effective January 1, 2022.

Slide: Business as force for good: regenerative agriculture

Under the business as a force for good section this quarter, we're focusing on our actions to promote regenerative agriculture. This initiative is a direct follow-on from our net zero carbon road map published last December. The road map made it clear that for a food and beverage company like ours, the key challenge on the road to net zero lies in our agricultural supply chain. This is where about 2/3 of our greenhouse gas emissions lie, and so this deserves our full attention.

The move towards regenerative agriculture requires patient effort on the ground around the world in order to find local solutions that work for a specific environment and agricultural product. In our approach to this, we are firmly committed to the notion of what we call a just transition. It will not be sufficient to just raise the environmental specifications of the commodities we buy. This will be unfair to many farmers who do not have the know-how or the resources to comply. We provide first-hand technical assistance and help to arrange financial support.

While there are many benefits related to regenerative agriculture, the concept of restoring soil health stands out. Improved soil health stores more carbon in the ground, improves water retention and water management and supports biodiversity.

In this context, and ahead of COP26 in Glasgow next month, I would like to comment on the development of our greenhouse gas emissions. Reducing them is no longer just a future plan for us. It is a reality, and I'm proud to say that we have left peak carbon behind us. Since 2019, our greenhouse gas emissions are decreasing, even though Nestlé keeps growing. We are on

our glide path down and fully on track for our first intermediate target, a 20% reduction in greenhouse gas emissions by 2025.

Slide: 2021 guidance updated

Before handing it over to François, I would like to comment on our updated guidance. We are now expecting organic sales growth for the full year in the range of 6% to 7%. This reflects the strong performance in the third quarter and our continued good prospects for the remainder of the year. We leave all other guidance aspects unchanged.

It will be tempting for some to translate the higher sales growth expectations into higher expectations for our underlying trading operating profit margin. I would like to caution against that in the current cost inflation environment, where input costs are rising faster than we can roll forward through pricing. As you know, we have consistently cautioned on this aspect as from our Q1 conference call in April. The situation has not improved. If anything, we're seeing further downsides compared to what we told you in the summer.

With this, let me hand it over to François.

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

Slide: Title slide

Thank you, Mark, and good morning, good afternoon to all. Let me start with the highlights for the nine months of 2021.

Slide: Nine-month sales growth

Organic growth was 7.6%. RIG was strong at 6%, with increased contribution from volume and solid mix. Pricing increased to 1.6%. Acquisitions, net of divestitures, reduced sales by 3.3%, largely related to the divestment of the Nestlé Waters brands in North America, Yinlu peanut milk and canned rice porridge businesses in China, as well as the Herta charcuterie business. The negative impact on sales from foreign exchange moderated to 2.0%, turning positive in the third quarter.

Total reported sales for the nine months were CHF 63.3 billion, a 2.2% increase versus last year on a reported basis.

Overall, the strong growth in the nine months was driven by three key factors: continued momentum in retail sales with a steady recovery in out-of-home channels; increased pricing for a fourth consecutive quarter, reflecting input cost inflation; further market share gains

across most categories. The latest available data show that we were gaining or holding share in more than 60% of business cells.

Slide: Broad-based growth

This slide illustrates the development of our sales by geography and includes both our Zones as well as our globally managed businesses. Organic growth was strong in all geographies. Pricing improved, particularly in the Americas and EMENA, while RIG remained strong. The increase in pricing reflects our ability to offset input cost increases and currency appreciation, supported by the strength of our brands, product differentiation and leading market positions.

Slide: Strong growth across both developed and emerging markets

Growth was balanced with strong contributions from developed and emerging markets. Organic growth in developed markets increased to 7.1%, reflecting positive contribution from all regions and a significant increase in pricing, particularly for North America. Growth in emerging markets was 8.3%, with strong contribution from Brazil, India, Russia and Mexico.

Slide: Sustained growth in retail, steady recovery in out-of-home

Let's now look at the breakdown of sales by channel. Organic growth for retail sales was 6.6%, with a mid-single-digit rate in the third quarter following a high base of comparison in 2020

Within retail, e-commerce saw sustained growth of 17.2%. E-commerce now accounts for 14.1% of total sales. Most categories saw strong momentum in e-commerce, particularly Coffee, Purina PetCare and Culinary.

Sales growth in out-of-home channels reached 22.8%, helped by a low base of comparison last year and the further easing of movement restrictions in some geographies. The level of sales remained below 2019.

Slide: Increased pricing reflecting input cost inflation

We confirm that the impact from input cost inflation is expected to be around 4% of cost of goods sold for the full year 2021. However, one thing that we would draw your attention to is the rise in energy and freight costs. So if anything, the situation has, therefore, slightly worsened versus July. We continue to proactively address these inflationary pressures and have steadily increased prices over the last 4 quarters, with pricing accelerating to 2.1% in the third quarter. In the 9 months, pricing reached 1.6%, a level that we have not seen for the last 6 years. We expect to progressively increase pricing in a responsible manner over the remainder of 2021 and 2022 with different trends by geography and category.

Beyond pricing, we continue to strengthen the development of affordable offerings, particularly those that meet nutritional needs in emerging markets. These efforts helped to soften the effect of inflation for those most impacted. In addition, we are using other levers such as product mix, disciplined cost management and the further rollout of strategic revenue management tools. We have also benefited from increased centralized procurement.

Slide: Zone AMS

Let's now look at the results of our 5 operating segments, beginning with Zone AMS, where we saw high single-digit growth with a high base of comparison in 2020.,

Sales were CHF 24.6 billion with organic growth at 8.4% based on robust RIG of 5.2% and a further increase in pricing to 3.2%. Pricing was 5% in the third quarter. Growth was supported by continued innovation, strong momentum in e-commerce and a further recovery in out-of-home channels. The Zone also saw continued broad-based market share gains led by Coffee, Pet food and Dairy.

North America grew at a mid-single-digit rate in the context of significant supply chain constraints. The largest contributors to growth were Purina PetCare and Nestlé Professional. Growth in Purina PetCare was driven by science-based premium brands Purina Pro Plan, Fancy Feast and Purina One.

Sales in Frozen and Chilled food grew at a mid-single-digit rate, with strong sales development for Stouffer's, Lean Cuisine, Freshly and Hot Pockets, partially offset by a sales decrease in Pizza following a high base of comparison in 2020.

The Beverages category, including Starbucks at-home products, Coffee-mate and Nescafé posted mid-single-digit growth. Sales in Water grew at a mid-single-digit rate with double-digit growth in the third quarter driven by strong sales development for Essentia. Following increased consumer demand, Essentia introduced a large format of its ionized alkaline water.

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

By product categories, the largest contributor to growth was Purina PetCare, with strong sales developments across all brands, markets and channels. Sales in Confectionery, Coffee and Nestlé Professional all grew at a strong double-digit rate. Infant Nutrition saw mid-single-digit growth, accelerating to a high single-digit rate in the third quarter based on robust demand for new premium and functional products.

Slide: Zone EMENA

Shifting to Zone EMENA. Sales were CHF 15.5 billion. Organic growth was 7.2% based on strong RIG, supported by both volume and mix. Pricing increased to 0.8%, with Western Europe turning positive in the third quarter. Growth was driven by successful innovation and continued strong momentum in e-commerce and specialist channels. The Zone continued to see broad-based market share gains, particularly for Pet food, Coffee, Plant-based products and Infant Nutrition. Each market posted positive growth, with strong sales development in Russia, Turkey, the United Kingdom and Italy.

The key growth drivers continue to be Purina PetCare and Coffee, supported by continued innovation across all brands. In PetCare, new business models including Tails.com and Lily's Kitchen all saw strong double-digit growth. Nestlé Professional reported double-digit growth. Sales in Water grew at a mid-single-digit rate despite unfavorable weather conditions in Central Europe in the third quarter. Sales in Confectionery grew at a mid-single-digit rate, with double-digit growth for premium brands such as Les Recettes de l'Atelier.

Culinary saw low single-digit growth. Strong demand for Garden Gourmet and Mindful Chef was partially offset by slightly negative growth in Cooking aids and Pizza following elevated demand in 2020. Nestlé also introduced Mezeast, a new Middle Eastern Cuisine food brand.

Infant Nutrition posted slightly negative growth due to lower birth rate in the context of the pandemic but saw high single-digit growth in the third quarter with continued market share gains.

Slide: Zone AOA

Moving next to Zone AOA with sales of CHF 15.2 billion. Organic growth was 4.1%, reflecting a difficult environment, still impacted by regional lockdowns. Growth turned slightly negative in the third quarter, following a sales decline in Infant Nutrition in China and a high base of comparison in 2020. Most categories gained market share led by Coffee, Culinary and Pet food.

China posted low single-digit growth. Excluding Infant Nutrition, China saw double-digit growth driven by Nestlé Professional, Coffee, Culinary, Dairy and Purina.

Infant Nutrition posted a sales decline, impacted by challenging market conditions. Turnaround initiatives continue to progress with further actions being implemented, including a review of our portfolio and distribution strategy.

Outside of China Infant Nutrition, the Zone reported high single-digit growth. South Asia, sub-Saharan Africa, Japan and Korea all saw strong sales developments. Southeast Asia continued to be impacted by movement restrictions and regional lockdowns.

By product category, the key growth drivers were Culinary, Coffee and Nestlé Professional. Sales in Confectionery and Ice cream grew at a high single-digit rate. Dairy reported mid-single-digit growth, led by strong demands for fortified milks. Infant Nutrition saw a sales decline, with growth turning positive outside of China in the third quarter, supported by strong sales development in South Asia and Africa.

Slide: Nespresso

Next is Nespresso, which saw sales of CHF 4.7 billion. Organic growth reached 11.0% based on strong RIG of 10.4% and pricing of 0.6%. Growth was mid-single digit in the third quarter due to a high base of comparison in 2020.

The Vertuo system continued to drive growth, with the original system also contributing positively. Increased consumer adoption and innovation supported growth.

Nespresso expanded coffee offerings across the Vertuo system, including Peru Organic. Nespresso also added Novecento and Millennio to the Italian Heritage Range for the original system. Chiara Ferragni's summer collection and social media campaign resonated strongly with consumers.

By channel, boutiques and out-of-home channels saw a further recovery, with continued positive sales development in e-commerce.

By geography, the Americas and AOA all grew at a double-digit rate. EMENA saw high single-digit growth.

Overall, Nespresso gained market share with contribution from most markets.

Slide: Nestlé Health Science

Finishing with Nestlé Health Science, which reported sales of CHF 3.2 billion. The business grew at a double-digit rate, building on a strong sales development in 2020. Vitamin, minerals and supplements that support health and the immune system continued to see strong demand, with broad-based market share gains across channels and markets. Growth was supported by e-commerce momentum, new product launches, geographic expansion and strong supply chain execution.

Consumer Care posted double-digit growth, with strong contribution from Vital Proteins, Garden of Life, Persona and Pure Encapsulations.

Healthy aging products such as Boost, Meritene and Nutren also saw robust growth. The newly acquired core brands of The Bountiful Company, in particular Nature's Bounty and Solgar posted strong double-digit growth. Nuun functional hydration products also grew at a strong double-digit rate.

Medical Nutrition saw mid-single-digit growth with robust demand for Compleat, a comprehensive nutritional tube feeding formula and pediatric care products such as Althéra, Alfaré and Alfamino.

By geography, the Americas, EMENA and AOA all posted double-digit growth.

Slide: Strong growth across most categories

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, Pet food and Nestlé Health Science.

Within Powdered and Liquid beverages, Coffee grew by more than 10%, supported by Nescafé, Nespresso and Starbucks products. Growth was supported by new product launches across all brands. Sales of Starbucks products grew by 15.5% to reach CHF 2.2 billion across 79 markets. Cocoa and malt beverages grew at mid-single-digit rate, with particular strength for ready-to-drink formats.

PetCare continued to see very strong growth globally. Most segments and geographies grew at a double-digit rate with market share gains. Purina's performance was driven by continued strong demand for premium products, supported by successful innovation and momentum across all channels.

Nutrition and Health Science grew at 0.8%. Organic growth in Infant Nutrition was minus 5.2%, reflecting a sales decrease in China and the slowdown in birth rates across geographies in the context of the pandemic. Outside of China, growth was positive in the third quarter, and we continue to gain market share, led by human milk oligosaccharides and functional formula products.

We have already discussed Nestlé Health Science.

Growth was 7.5% for Prepared dishes and cooking aids. Ambient Culinary grew at a high single-digit rate, supported by Maggi. Chilled Culinary reported double-digit growth fueled by the recently acquired D2C businesses, Freshly and Mindful Chef.

Frozen saw mid-single-digit growth. Vegetarian and Plant-based food products continued to deliver double-digit growth led by Garden Gourmet. In early October, we expanded the Garden Gourmet range with the launches of vEGGie, a plant-based alternative to eggs, and Vrimp, a plant-based seafood offering.

Milk products and Ice cream grew at 6.4%. The key growth drivers were fortified milks, coffee creamers and Ice cream.

Waters grew 4.3%, helped by a recovery in out-of-home channels and with strong contribution from North America and emerging markets in the third quarter.

Growth in Confectionery reached 9.5%, reflecting a further recovery in impulse and gifting products.

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

Q & A Session

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

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

The first question is from Guillaume Delmas at UBS.

Questions on:	Margin guidance Pricing and effect on volumes
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Guillaume Delmas, UBS Investment Bank:

Good afternoon Mark and François, my first question is on your margin guidance of around 17.5%. Because back in July, you were indicating that this guidance was cautious and conservative. Today, you are reiterating this guidance. But in light of the last 3 months' development in commodity, packaging, transportation costs, do you still view this guidance as being conservative?

And then my second question is on pricing. So we clearly saw a sequential step-up in the third quarter. But could you shed more light on the percentage of your portfolio where you took some pricing at the end of Q3? And where do you expect to be by the end of this year?

And also, if I can add on my pricing question, I mean, despite your very strong RIG performance in Q3, can I ask if you've seen some instances where pricing had a knock-on impact on your volumes?

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

Guillaume, this is Mark. Thanks for your questions. I'll take a first crack at them and then hand over to François.

And I guess on the margin guidance, as you know, being conservative and cautious is one of our hallmarks. So that is not changing. What you're seeing here, following the presentation from François and mine, there are some pluses and minuses. So clearly, the input cost situation has slightly worsened from the summer. But then, of course, if you are aiming to post an organic sales growth rate that is basically a full percentage point higher than guided in the summer, that also has some operating efficiencies stemming from it. So there's puts and takes. And by and large, we still feel comfortable with that guidance range of around 17.5%.

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

François speaking, Guillaume. On the question on pricing, it's difficult to say what is the percentage of our products to which we apply pricing. You can see that pricing has been increasing sequentially. And you can expect, since you were asking about the outlook in terms of pricing, without providing any guidance, but you can expect that pricing will ramp up further in Q4 and next year as well because we do expect to have higher input cost inflation next year in 2022.

It's difficult to look at it as a percentage of our sales. It's more related to the specific categories that have been hit by input cost inflation. If you look at it this year in 2021, it's much more about, for example, Dairy or PetCare. So this is where we really started to put through some pricing. As far as Coffee is concerned, we did less so far, but we can expect that we will have more pricing on Coffee next year because this is really when we will start feeling the pressure on input cost inflation by category.

As far as volume and elasticity, you can see that still we have a strong RIG, which is largely led by volume as well as we have a positive contribution from mix. So volume remains very positive and very attractive. Part of it is linked to some tailwind that we had in the context of the pandemic, with higher consumption at home. So we see the volume growth slowing down a little bit as we progress over time but remaining still very attractive. Is it linked to pricing? There is no evidence of it. We believe that it is more linked to the exit of the pandemic to a

large extent and the fact that we have a little bit maybe less consumption at home and more consumption out of home, but there is no direct link for the time being with pricing.

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

Next question is from Warren Ackerman at Barclays.

Questions on:	China Infant Nutrition Input cost inflation and margin in 2022
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Warren Ackerman, Barclays Bank PLC:

Warren here at Barclays. Two questions from me as well. The first one is on China Infant Formula. I think I heard you rightly saying you're doing a full review of the portfolio and distribution strategy. I think maybe, Mark, could you maybe elaborate a little bit on the kind of options you're looking at in China. It seems to me to be one of the few remaining underperforming parts of the portfolio. And it was underperforming even before COVID. Moving to Zone China, does that help on the agility to try and sort of fix the illumina and S-26 brands. I was interested to know what kind of scope you're looking at in terms of that kind of review.

And the second one just following on from the whole pricing-margin-commodity question. François, are you able to give us an early feel for what the COGS inflation might look like for 2022 given some of the hedging rolling off? I know you said 4% confirmed for 2021. How much higher do you expect it to be for 2022?

And then maybe could you help us with some of the building blocks for the 2022 margin. I know it's perhaps a little bit early and there's lots of moving parts, but, for example, you've said that you'll be spending CHF 1 billion on climate change investments. Is that still a number that is valid? Or what other offsets do you have going into next year given COGS inflation is higher and presumably climate costs are also higher?

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

Thanks, Warren. So let me start on China, and before turning specifically to Nutrition, let me comment quickly on the Zone structure. As you know, Greater China will be the smallest of the five Zones. And the fact that we elevated it to a Zone, you should see that as a sign of complete commitment and also future optimism when it comes to the potential of that market. And we are all in on China, and we will do what it takes to win there over time. We recognize that in quite a few categories we did have some performance issues over the past decade or so. We are absolutely focused on fixing those and succeeding in that market because it has such a lot of promise for the future.

In that context, you're right, Nutrition is a standout. We made no pretenses that Nutrition in China was underperforming before COVID. So we're not blaming it on COVID. COVID has made it worse, not only in China but also elsewhere. But we need to dig deeper here, and we need to find a winning formula for our Nutrition business in China.

As we do that, I mean we hinted at some of the levers we have in the past, like a clearer and more articulated channel strategy, top-notch innovation and then also a stronger local offering and also increased cross-border e-commerce, as an example. When it comes to some of the details we're looking at now, I'm also asking for your understanding that I wouldn't want to go too deep into any future steps that might involve competitive signaling. I think for our shareholders, it's in our best interest here that we basically publish those moves as and when they happen.

But what I want to reassure you about is, we will stay totally committed to this business in China. What we're doing is not a retrenchment. We're not pulling out of there. We believe that winning there is going to be essential. This is the largest and most demanding Infant Formula market in the world. And we are committed to being a very competitive player in that market.

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

Warren, François speaking. On the input cost inflation for 2022, I'm afraid I can't give you a figure now. The main reason is that we see still a lot of volatility. So I mean it's really moving almost by the day. What we know, though, is that it will be higher than in 2021. But I would say more than the amount, what matters is the way we can mitigate it and the way we can offset it. Given the impact, the main way to offset and mitigate input cost inflation will be pricing, but there are other ways as well like strategic revenue management, like increasing our efficiency program and so forth, and we have covered, I think, part of it. So clearly, no full visibility at this stage and we are still two and half months before the beginning of the year.

What we see though, just to give you a little bit more color, As I mentioned earlier, we see that in some areas like coffee and aluminum, for example, for packaging, we see a clear increase coming in for next year.

Just since you were touching on the climate issue, we did make a commitment indeed, if we include ESG at large and sustainability at large, it's about CHF 1 billion a year over the next 5 years, between '21 and '25. This is something that we want to ring-fence anyway. This is not because we see input cost inflation in commodities, packaging, transportation and so forth that we are going to start saving on the climate commitment and climate investment that we want to do.

So, I would say, in the same way as back into 2016 when we started to look at efficiency programs, we ring-fenced marketing and R&D, and I think it was very wise to do it. We can add to the list to a very large extent climate and ESG. We have made commitments. We need to get there. That being said, we need to be efficient in managing those investments as well. This is very much what we are on the top of.

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

Warren, let me add one aspect here on a very high level, and that is I want to make it clear, our industry, in general, is not an industry that is in normal times pinched by inflation. So when you are in a regular inflationary rhythm, if you roughly know what is going to be happening next, this industry can adjust and can basically maintain its financial performance. It was specifically the turning point that came out of the blue this year and I think took the entire industry by surprise that led to some of the compression that we described in the summer.

But once, and I want to make that point, just in case this inflationary cycle extends beyond '22, on a longer-term basis, once we know what to expect, I think we can pretty much adjust to that and in our pricing behavior and some of the other levers we have, make the best of it. It was specifically the turning point that created a challenge for this year.

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

Next question is from Céline Pannuti at JPMorgan.

Questions on:	Pricing in AOA and Europe Margin guidance
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Céline Pannuti, JP Morgan:

My first question is on pricing. We just talked about, but pricing was quite low in Zone AOA and even in Europe. I think you said it turned positive in Western Europe. I was wondering why such a low level, especially in emerging markets in AOA. And how confident are you about the acceleration in these regions?

My second question, maybe coming back on the guide on margins for this year. You said that the COGS inflation is around 4%. It has not really changed. Can you say what is the impact that you see from energy and distribution costs? And am I right in understanding that you are confident about this around 17.5%, but maybe a notch below that specific number?

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

Céline, let me start off on the pricing and then hand it to François. So AOA is really, for the most part, the consequence of a number of one-off steps that we've taken in China and Nutrition there specifically. And so this is what dragged down the Zone. The rest of the performance there was actually quite satisfactory to us.

Then EMENA is, to most part, the consequence of our contractual relationships to retailers in Europe where when it comes to the contract dates where you can adjust pricing, you don't have the same flexibility as in some other parts of the world. So going forward, of course, we will have to take pricing there as well. We've taken some already, but it doesn't go as fast as it goes in some other geographies.

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

Good afternoon Céline, François speaking. On the input cost inflation and pricing, indeed we confirm the value of around 4% of cost of goods equivalent for 2021. What we see that since we talked to you in July, this has been relatively stable as far as commodities and packaging is concerned. The main reason, especially as far as the commodities is concerned, is that we had some hedging in place as well as some forward buying. So this is the reason why it didn't move much.

But as we said, the deterioration that we saw is clearly on energy and transportation costs and, to a lesser extent, a little bit in salaries and social costs as well, but mainly on energy and transportation which hits our P&L directly, which is the reason why we are just saying, even if we confirm the 4% of cost of goods, we have seen some deterioration since July. I can't quantify it. Once again, the year is not over either. So we still see some volatility and these items are hitting the P&L straight away

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

Next question is from Bruno Monteyne at Bernstein.

Questions on:	Forward-looking margin guidance Sales growth guidance
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Bruno Monteyne, Sanford C. Bernstein :

The first question is on your forward-looking margin guidance. You normally talk about moderate margin improvement in coming years. But given that next year you should have the benefit of Bountiful costs that are falling out, those temporary commodity costs that you say is a temporary problem, so next year should come back when you've been updating the pricing.

Am I right to think that you're still thinking next year should be a bit more than a very small moderate margin improvement?

And the second question is related to your sales growth guidance typically mid-single-digit. This year was an exceptionally good year. And I'm trying to gauge to what extent there's some one-offs in there. So you still feel that the full mid-single-digit, 4% to 6% is achievable next year despite the amazingly strong year this year? Or should we already factor in some sort of tough comps discussions next year?

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

Thanks, Bruno. And let me start off and maybe François can also build on a few points. So when it comes to the midterm margin improvement, you will see that the language we use in our guidance is very much unchanged from previous quarters and what we issued at the beginning of the year. So this is our standard ambition that we're aiming for.

I understand your optimism and love your optimism, but it's also important not to get too greedy here, because I think that turning point that I described is probably also extending into at least the first half of next year. I mean it really only started this spring and summer. And I think a year of an adjustment here is probably a reasonable estimate. And then from there, we have to see where pricing develops.

So again, good momentum, hard work on the margin. But it's important that we're not racing here to a 2022 guidance at a moment when we haven't even finished 2021 yet.

On the 4% to 6%, or mid-single-digit as we described it, I think in a day and age of volatility where we live, it's a good band. It's good to have that wider band compared to the old 5% to 6% of the Nestlé model.

I think when it comes to next year, we're looking at the year with optimism because we still see continued good volume. We see continued good mix. And of course, as we just discussed, there will be more activity on pricing. And so that year-over-year fear that you have, I'm probably a bit more on the optimistic side when it comes to that.

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

Next question is from Patrik Schwendimann at Zürcher Kantonalbank.

Questions on:	Expected growth pattern in retail and out-of-home Organic growth contribution from pricing in '22
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Patrik Schwendimann, Zürcher Kantonalbank:

Congrats for the outstanding results. Both the out-of-home channel and the retail channel have been very strong in the third quarter. Typically, you would expect some slowdown in the retail channel when your out-of-home is recovering. Was there some inventory buildup here before the further price increase in the retail and out-of-home channel? Or do you expect a similar growth pattern in the near future? That's my first question.

And second question, would you say it would be a fair assumption to say that in '22 the price contribution to the organic growth will be higher than the RIG contribution?

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

Patrik, let me start on the first one and then hand it to François for the second one. So the out-of-home recovery is reassuring. But you're right, it's not a push-pull relationship that whatever we gain there is then taken away from the retail side of the house.

I think in out-of-home, we're still not back to the levels from before the crisis. So I think there's still some upward room for improvement here. And as you know, in earlier calls, we had pointed to the year '22 as a point in time when, hopefully, we're reaching 2019 levels again. And this is, of course, provided that we see no surprises from the pandemic.

But I think we have reached a situation where people are returning back to traveling for business or vacation. And yet at the same time, there's also more working from home and more in-home consumption, Coffee being a good example. People have adopted more pets. And hence, as you know, there was a sort of a one time step-up here and now growth from a higher base when it comes to pet food for dogs and cats.

So I feel that there is an underlying positive that happened to the overall picture and the relationship between out-of-home and retail.

You asked about people maybe buying ahead of inflation and stockpiling. We have seen no evidence of that. And I think when you look at the pricing action here, it is still a reasonably moderate pricing action. And so nothing that would lead now people to fill up their pantries, fill up their basement to be guarded for the future.

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

François speaking. Just to answer your question on the pricing contribution next year. Yes, indeed, it is a fair assumption to assume that pricing will have a stronger impact on our total

organic growth. You see it already, we are at 1.6% year-to-date nine-months, but we were already at 2.1% in Q3. Do expect further higher pricing in Q4 and again next year. So indeed, it will come certainly to a higher level next year.

That being said, it's important to understand as well that there is a certain likelihood that volume growth will slow down while remaining positive and probably higher than what it was pre-pandemic. So we are very optimistic still on volume. And the volume growth slowdown is not necessarily linked to pricing. We believe that it is much more linked to the fact that we are exiting the pandemic step by step. And as a consequence of that, we are comparing against a high level of comps precisely for what we just discussed, which is a higher level of at-home consumption. And this is probably what is going to slow down our volume growth more than the pricing.

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

Next question is from Jon Cox at Kepler.

Questions on:	Volume growth and pricing Slowdown in Coffee in Q3
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Jon Cox, Kepler Cheuvreux:

Yes, congrats from my side as well, a great print for Q3 and probably reflects the amount of work you guys have been doing on the business over the last couple of years as much as COVID and the rest of it. A couple of questions from my side. So just to clarify what you're saying there in terms of volume growth. You expect it to be higher than, say, the 3% you've seen pre pandemic. And then in addition, you expect the pricing to be -- you're talking about over 2%, maybe 3%. It's quite easy then to start adding up to 5% or 6% organic sales growth next year. I'm not sure if you meant to do that.

Second question, just on Coffee. Looking at Nespresso, it looks like there was a slowdown in Q3. And then you talked about very strong growth elsewhere in the Coffee portfolio. But when I look at the Powdered drinks business, it looks like there was a slowdown in Q3. Can you just tell us what's happening in Q3? Is it just more like phasing or -- I know the comps were pretty tricky as well Q3 a year ago, but it seems there's actually a slowdown in Coffee during the third quarter.

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

Jon, let me take the first question. On the volume, just to avoid any misunderstanding, we didn't give any figure of 3%. When I was referring to the pre-pandemic level, we were growing

in 2018, '19 at around 1% to 1.5% by volume. So we expect to be at that level or at a higher level going forward. But currently, we are running at a significantly higher rate, once again, mainly benefiting from a tailwind from COVID and the at-home consumption. So we expect some volume growth slowdown, but back to the level that we had pre pandemic or at a higher level.

On the Coffee slowdown in Q3, you said it, it is largely linked to high comps. And we mentioned it, for example, for Nespresso. And Nespresso is still in Q3 at mid-single-digit growth, which is attractive, which is where we were at the pre-pandemic level. But let's not forget that this comes on the top of a double-digit growth last year on Q3. And to a large extent, this applies as well to the other brands that we have like Nescafé. Doesn't apply to Starbucks, which is a different story because it's relatively recent. But as you know, for example, since the beginning of the year, we have been growing north of 15% as far as Starbucks is concerned.

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

Next question is from David Hayes at Société Générale.

Question on: Slowdown in China
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David Hayes, Société Générale:

Just a couple of questions, just digging back into the China dynamic. Obviously, as you've talked about double-digit growth for China the first half, down to low single digit for the nine-months, would suggest that China overall was down about 10%, I guess, in the third quarter. I guess the first part of the question is, is that correct in terms of the math?

And then if it is down that kind of quantum, given that the rest of the business sounds pretty good apart from Infant Formula, is Infant Formula down around 20% or so in the quarter?

And then related, if that's true. The two questions are, was that because of some resetting of the portfolio from a volume perspective, some destocking that you often get in China?

And I guess, picking up on a comment you made earlier, Mark, I think you said there was a pricing reduction in Infant Formula that then contributed to the AOA. So is that a strategic move that you took that you lowered the price point in China as part of addressing the strategic direction of that business?

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

David, let me take the question. So indeed, we have seen a slowdown in China. Once again, it is absolutely linked to the negative performance that we saw on Infant Nutrition, and we

touched on it. It affected the pricing, which we saw even for the emerging market pricing dynamics. This is essentially linked in Q3 to one-offs. And so we don't expect that it will happen again in Q4. And this is not at all linked to the fact that we reduced pricing, but this is linked to one-offs, which are related to the review that we are doing of our product portfolio and our distribution strategy as well.

But once again, it will not happen in Q4 and not linked to price decreases.

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

Next question is from John Ennis at Goldman Sachs.

Questions on: Investment plans
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John Ennis, Goldman Sachs:

I'll stick to one, and it's on your investment plans in an inflationary environment. So during historic inflation cycles, I guess when margins came under pressure in 2011, for instance, marketing was used as a partial offset to support EBIT margins by Nestlé. And then likewise reinvested when the cycle turned deflationary. So I guess my question is, are you planning on doing something similar during this cycle? Or is there a bigger commitment to hold or even increase investments? And any update on how those are trending would be helpful.

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

John, I guess my high-level answer to that would be, we don't even know yet whether it's going to be a longer-term inflation cycle. As you know, some of our projects take years to put into the ground when it comes to a new greenfield facility or so forth. And so at this point, especially given the elevated demand levels we've seen in so many categories for the past few years, getting us closer to capacity limits, it's more about assuring capacity to be able to supply, to be able to cater to all that growth and making sure that we our ability to deliver is not diminished.

So at this point, it's not so much about financial fine tuning. It's really, in quite a few categories, we've been positively surprised by the strength of demand, by the strength of our success in the market. And so it's about really making sure that we have enough headroom that, under all circumstances, we can satisfy our retail partners and our consumers.

John Ennis, Goldman Sachs:

Does that hold true for marketing?

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

John, I think that your question was also about marketing. So maybe let me complement what Mark said. It is true that in the past, we may have had deviations in an adjustment at the end of the year in marketing investment according to the commodity cycle. We don't have much of it now because, as you know, over the last couple of years, we consolidated our procurement activities largely above market, so which means that we have a much, much better visibility going forward on what's going to happen. So as a consequence of that, we are in a better position to anticipate the impact of commodities on our P&L for the current year and even for the next year to a large extent, which means that we have far less adjustments, if any, today in our marketing investment. Marketing has to be driven by innovation, it has to be driven by marketing needs, not as a variable for adjustment for procurement. So we don't do much of that now.

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

Next question is from Tom Sykes at Deutsche Bank.

Questions on:	Promotion cost level Outlook for out-of-home Coffee growth
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Tom Sykes, Deutsche Bank:

Just firstly on -- a couple of questions on promotions. I just wondered if you could say something on the changes in the level of promotion costs, either sequentially or year-on-year relative to sales. It does look like in some of the scanner data there's a reversal of the year-on-year increases you saw in Q2 as we went through Q3 and the degree -- interested in the degree to which that may have helped organic growth. And also, can I just check from an accounting point of view that, that does sit within pricing and not within RIG, please?

And then just on the Coffee business, could you please just remind us how much of Coffee is out-of-home, excluding the boutiques. And the degree to which the out-of-home footprint has expanded maybe due to investment that you've put in through the pandemic. What the outlook for out-of-home Coffee growth is? I know you mentioned it a bit before, but if you could expand on that, that would be great.

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

Tom, François speaking. So I will take the first part of the question. On the promotional costs, the year 2021, especially when comparing to 2020, is a little bit difficult to review by quarter because we had a lot of volatility. It happened that last year in Q2 we had to hold and freeze some promotional activities during the peak of the pandemic because we could not activate in-store promotional activities. So as a consequence, we caught up to a large extent, because we like investing in promotional marketing, that we caught up in the latter part of the year, last year in 2020. So by difference and by comparison, obviously, this is creating some ups and downs this year. Once again, we like investing in marketing and promotional activities, which is the reason why this is traditionally not something that we want to cut.

On what you were mentioning, the trade spend from an accounting point, some promotional activities are recorded above net net sales, which means in trade spend, which means that you don't necessarily see them. And some of them, depending on their nature, are recorded in SG&A. So once again, it depends on their nature.

Maybe on Coffee, I assume your question was more related to Nespresso. Historically, before the pandemic, we had about 50% of the sales which were through our boutiques and 50% through our e-commerce platform. As you can understand, during the pandemic, it was, even at some time, probably closer to 90% through our e-commerce platform and 10% through the boutiques. Now I think it's probably back to maybe 60% through our e-commerce platform and 40% through the boutiques. So we have really seen the boutiques coming back.

Boutiques are important as well because this is very much about consumer experience as well. So we do value these outlets, and they complement each other.

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

Tom you were asking also about the out-of-home, around 10%-15% of Coffee sales are based on out-of-home activities.

Next question and the last one is from Andreas von Arx from Baader.

Questions on:	Anticipated restructuring spend Fit of high sugar products in the portfolio
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Andreas von Arx, Baader-Helvec:

First question, given the input cost environment and your commitment to deliver a moderate margin improvement in 2022, I was wondering if you could comment on the restructuring spending you anticipate. I mean, can that margin improvement be achieved with a similar level

of restructuring spending? Or shall we expect here a step-up in restructuring spending next year?

And then the second question is on the interview you gave in a Swiss newspaper recently on healthy food. Confectionery, and I assume sugar-based drinks will be a part of your portfolio going forward. You say this is a more impulse-driven product. I was wondering, what would make you change that view? Especially since in the same interview, you provided picture of trendsetting young generations that seem to avoid exact same categories and that trend setting should be what we could see in the future, i.e., there would be much less demand for these high sugar products. How does this go together?

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

Thanks, Andreas. We're trying to be helpful regarding the first part of the question, but we're not there yet when it comes to '22 guidance. So at this point, it's all eyes on landing '21 in a highly volatile environment, as François pointed out.

So in that context, I also wanted to clarify there is no guidance or commitment for 2022 now to increase margins. We don't even know yet what the margin for '21 is going to be. There is a mid-term ambition that we have reiterated in our guidance text today that applies to future years. So I just wanted to be clear here that our statements are not being misconstrued.

And obviously, restructuring is one of several levers that we can use in order to increase operating efficiency. And where exactly that mix is going to be, we'll give you an update then as we report our full year '21 and also provide the '22 guidance in February.

Regarding the recent interview with the Swiss newspaper you highlighted, so I just wanted to be clear, when it comes to categories that are more enjoyment-related and that are not per se health-driven, so Confectionery is a good example, we are committed to that as well, and that's no change from the past. And the point I was trying to make there, of course, we try to offer best-in-class nutritionals there, too. But rather than trying to make these foods into the next health food, I think it's more important to switch to a different dimension, and that is guidelines for responsible consumption. So that could be portion size. That could be perfect transparency on the ingredients, including sugar content. And also, of course, very strict rules when it comes to marketing to children.

So generally, when it comes to these products, they are part of a complete diet that people keep. I mean even the younger generation is not only about health, I think enjoyment also is

registering very high on the agenda. But the ambition changes a little bit from just offering health alone to offering enjoyment in a responsible framework, if you will.

And then separately, you're right, in that interview, I mentioned something that I mentioned on previous speeches as well, youth never goes out of fashion. So as you spend time in university towns around the world, you basically see what the next generation is very interested in. And getting inspired by that to me is no contradiction to offering products that are more enjoyment-related.

So the next generation will be just as much about enjoyment as the previous one. Obviously, preferences shift. But I think, for us, as a food and beverage company, nutrition is one important dimension, but enjoyment is another one that we're not stepping away from.

End of Q&A session

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

Thank you. With no further questions, we come to the end of our session today. I'll leave it to Mark to say hello to everyone.

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

Yes. Thanks a lot. Appreciate you staying with us here. And then again, highly volatile environment and looking forward to reporting to you the full year '21 when we talk to each other in '22. Thanks.

End of Transcript