

NESTLÉ S.A.

2021 NESTLE GLOBAL VIRTUAL INVESTOR SEMINAR TRANSCRIPT

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Speakers:

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

Good morning / good afternoon to all. We are pleased to welcome you to our virtual investor seminar. While we cannot host an in-person event, we still want to take the opportunity to engage with the investment community on some of the important work we are doing.

As the Food and Beverage industry has reached a tipping point in terms of digitalization, we want to provide greater insight on how we use data and digital technologies to unlock growth opportunities at Nestlé.

In the following pre-recorded presentation, Bernard Meunier, our Head of Strategic Business Units and Marketing and Sales, and Aude Gandon, our Global Chief Marketing Officer, outline their views on Nestlé's digital transformation. By way of brief introduction, Bernard has been a pioneer in building digitally powered business models in our PetCare business. Aude brings extensive digital and brand building experience having worked for major international brands and more recently a leading technology company.

Our CFO Francois Roger will then outline how the digital work we are doing ties into our value creation strategy.

Following the presentation, we will open up for questions from financial analysts and investors, who have pre-registered for the event. The Q&A session will be hosted by our CEO Mark Schneider, along with Francois, Bernard and Aude.

Slide: Disclaimer

Before we begin, I direct you towards the usual disclaimer. And with that, let's move to Bernard and Aude's pre-recorded presentation.

Bernard Meunier, Head of Strategic Business Units and Marketing and Sales:**Slide: Title slide**

The last 18 months have been pivotal for Nestlé, with massive shifts impacting every consumer in every market in which we operate.

Our purpose, as always, is to unlock the power of food to enhance the quality of life for everyone, today and for generations to come. This is what Good food, Good life means.

Unprecedented times call for unprecedented solutions. Our industry is transforming into one that is driven and shaped almost entirely by data and technology. Now is the time to move forward in our digital transformation with even greater purpose and determination. Now is the time to accelerate.

Slide: Acceleration is now

Today is about having a conversation with you, investors, financial analysts, and media to unpack our digital transformation strategy and answer any questions you might have concerning our ambitious and we believe exciting plans for the future.

Slide: Digitalization is dramatically reshaping consumer behaviors

Covid has without a doubt accelerated even more the changes in consumer behavior brought upon us by digitalization. We all know how that translates: more content hungry connected consumers, more demand for frictionless shopping experiences, more desire to explore the universe of food digitally, overlaying seamlessly the physical world around us.

E-commerce penetration has increased dramatically as consumers spend more time at home and value convenience as their key need. This has significant implications for our brands, our innovation and distribution strategies and for the capabilities we need to develop and attract in order to succeed.

Slide: Nestlé is leading the transformation

The speed of digitalization in the consumer goods industry has accelerated exponentially over the last ten years, initially driven by categories like electronics or beauty. However, the speed of change in the Food & Beverage industry has accelerated so rapidly in recent years that it is now comparable to these pioneering categories.

With new actors appearing along the value chain, especially in the last mile delivery space, and new competitors entering the categories through innovative business models such as meal kits & personalized subscriptions. A new competitive reality is emerging. Nestlé is not only fully embracing this reality but is consistently outperforming its peers in the industry.

Slide: Successful brands now require a different consumer engagement model

The way successful brands are being built and managed has changed completely. Today it is about designing the optimum product concept and the optimum experience. Brands need to

engage very differently with their consumers to stay relevant and earn their active brand recall.

A product proposition needs to be sustainable by design, delivering the right experience and the right content to fit different audiences, optimized for every platform they appear on.

Quick access to actionable data insights is key to understanding fast-changing consumer needs and of course, to optimizing our demand-generation activities, thus maximizing each and every one of the dollars we invest.

At the same time, we continue to see the rise in the importance of digital communities. Today more than ever those communities can exert more influence than traditional awareness vehicles and become advocates for our brands.

So, when we put together those insights, we come to our first big take away. Direct access to consumer data is not just a plus, it's a pre-requisite to be the leading data-powered experience brands company.

Slide: Acceleration is now – E-commerce and Digital marketing

We wanted to share with you our goals for 2025, and as I said in the introduction, they are ambitious but, in reality very achievable, given the power of the strategic plan that we will be revealing later on.

We believe these objectives will establish Nestlé as a leader in all key digital battlegrounds over the coming years.

Obviously, we will continue to enhance our e-commerce offerings and increase our spend in digital marketing. In parallel, we will focus on capturing more valuable consumer data points in the ongoing quest to deeply understand our consumers and build more impactful and personalized experiences for them, taking our sales online from around 13% at the end of 2020 to 25% by 2025, double the average of total consumer goods.

Marketing investment spent online will go from around 47% today to 70% in 2025, with continuous strong return on investment of digital channels.

And to create more meaningful connections with our consumers through relevant experiences, consumer data records will double over the next four years which will drive sales across all our key channels.

Slide: Strategic approach

So, our second big take away today: Acceleration is now. This is a unique time for society and a unique time in Nestlé's history and as our CEO likes to remind us when talking about digital opportunities "The best is yet to come".

Slide: Our focus is to rejuvenate the core and accelerate the new

With our scale and our complex portfolio, transformation comes through two horizons. Rejuvenate our core and amplify the digital native brands and new business models we are bringing into Nestlé.

Slide: Dual transformation roadmap

This is our dual transformation roadmap. We have built solid digital foundations for our billionaire brands; we are bringing digital intensity to all categories and we will amplify fully our digital-first brands to act as lighthouses for our organization worldwide. As an example, Tails.com for Purina or Garden of Life for Nestlé Health Science help transform our billionaire brands into digital-first brands.

I have personally witnessed it taking place in Nestlé over the last few years and recently in leading the accelerated transformation in PetCare. However, it will come as no surprise to my colleagues when I say the key to success is execution. Which is why I am so delighted to introduce Aude Gandon, my transformation partner because she's going to tell us where we are going to focus our efforts, on which strategies and how we are going to execute them. Over to you Aude.

Aude Gandon, Global Chief Marketing Officer, Nestlé S.A.

Slide: Three strategic priority areas

Thank you, Bernard. Acceleration is Now. This is the time. And I'm very excited to share with you our strategy for the years to come. This is where all the leverage is in a rapidly changing world.

We have three strategic priority areas which we believe are essential to growth. It is these three priorities which will transform our brands. It is these three priorities which will redefine the way we connect and engage with our consumers. And it is these three priorities which will ultimately change the way we drive continued growth.

Slide: 3 strategic priorities to drive growth through digital

The first, as Bernard has already mentioned, is critical: Direct access to consumer at scale, use our penetration in every household as a critical competitive advantage to collect consumer's data at scale and leverage this access to create value throughout our portfolio.

The second, channel-less commerce, make shopping effortless, something consumers don't even have to think about. A world where we focus, together with our retail partners, on the actual brand experience rather than thinking about individual channels. Consumers don't think channel. They don't care about channels. They have a need, and they think about what brands can fulfil that need. For us, it means being there at the right "demand moment", providing the right experience to each consumer's need, preference, and location.

And third, Always-on analytics, identify new growth opportunities through the strategic use of data and analytics capabilities. Tracking the ROI of every dollar we spend, using more advanced data science capabilities to improve sales performance and make smarter investment decisions.

As you can see, these three priorities feed off and are amplified by each other, to nourish one over-arching objective: to raise our Growth IQ throughout the whole organization. All categories and all markets. This is for everyone. Everyone in our organization should be concerned with raising their Growth Intelligence. The ability to detect growth potential, to deliver actionable initiatives that fuel growth.

The seeds of Growth IQ, its critical components and key enablers are all in these 3 strategic priorities.

Slide: Direct access to consumers at scale (1)

Let's go into each one of them in more detail.

Slide: Direct access to consumers at scale (2)

Direct access to consumers at scale requires more 1st party data, collected across our category ecosystems through key digital properties that have search authority to drive traffic.

In each category ecosystem, we leverage the data across the consumer journey to create more impactful experiences and identify new business opportunities for our brands and any partner we bring in this ecosystem, bringing growth for all concerned.

For example, in the Culinary category, some Nestlé recipes websites reach a monthly traffic of above 200 million visits already. We are using this asset to drive more sales of our culinary brands or connect it with our direct-to-consumer businesses we have recently invested in.

Bernard, you led the digital transformation of Nestlé's PetCare business, what can you tell us about the importance of consumer data in this business?

Bernard Meunier:

I think about the value of this data in very simple terms. It gives us a considerable competitive advantage that we never enjoyed in the analogue world: to be connected directly to our consumers more often and at the right demand moment. I also consider 1st party data as a critical asset, especially looking at our near-term future, which will, of course, eventually become cookie-less.

Aude Gandon:

You are right Bernard. In a world where the 3rd party cookie is slowly disappearing, reducing our ability to find qualified audiences in the marketplace, 1st party consumer data is even more strategic. And Nestlé is uniquely positioned to build direct relationships across the entire Food and Beverage ecosystem, which will bring business opportunities for the entire household: from babies to grandparents to pets.

Slide: Direct access to consumers at scale (3)

So how do we use that consumer data to drive growth? We take into account four personalization principles.

For our brand campaigns, the goal is to identify more precise and effective audience segments through data. This is what we refer to as "precision marketing". Enabling us to target them with more personalized content and experiences. Integrating more and more AI technology to dynamically associate the right content to the right audience.

For a more "direct engagement", the opportunity is to deliver programs across the entire consumer journey to increase loyalty throughout the category portfolio and identify new growth opportunities beyond our core product offer with personalized products or services.

We are looking at scaling and monetizing these data ecosystems over the next few years by moving from simply "reaching" consumers to really engaging and serving them.

Let's take a look at the transformation journey in PetCare.

Slide: Purina PetCare video

Video Transcript

Jeff Hamilton, CEO Purina EMENA:

Welcome, I am proud to represent Purina EMENA today. We are passionate PetCare professionals and are driven by a brand purpose 'Creating richer lives for pets and the people who love them.'

So, since 2017, we have been on a journey of digital transformation. On this journey we transformed from being a petfood to a pet care business. We have challenged ourselves to be at the forefront of consumer revolutions, to disrupt the category, creating digital experiences for pet owners and building partnerships that strength the bond between people and their pets.

So let me tell you more about this journey and what's next for Purina. The pet care competitive landscape has evolved rapidly due to digitalization, disruptive innovation, new direct-to-consumer models and hundreds of start-ups. This has increased fragmentation of the pet parenthood journey. Consumers have changed too. They are younger, more digitalized and expect a more personalized, tailor-made proposition, seamless experience and convenient shopping.

Starting from 2017, Purina EMENA began rapidly digitalizing its pet experience. We added Wamiz, the most successful digital pet publisher and adoption platform in France to our portfolio for granting access to a large audience of pet lovers and pet owners.

In 2018, Nestlé acquired a majority stake in Tails.com, the most advanced player in the direct-to-consumer tailor-made petfood category, boosting our data and analytic capabilities.

In 2019 and 2021, through our IVC EVIDENSIA partnership, we strengthened our collaboration with scientists, veterinarians and pet care professionals to help deliver petfood solutions and first-class pet care services.

In parallel, we enriched our petfood portfolio by acquiring two leading natural petfood brands: Terra Canis in Germany and Lily's Kitchen in the UK. These strategic investments have delivered strong business results, demonstrating growth against all of our key success metrics. Leading in direct to consumer in EMENA above 30% market share, leading in digital pet media and making a step change in 1st party data.

We are now focused on scaling and rolling out our strategic investments across EMENA to help our portfolio thrive in this transformed PetCare market. Thanks to this momentum, we have become an attractive partner of choice for start-ups in Europe. In 2020, we launched Unleashed; the Purina accelerator lab designed to be at the cutting edge of next generation pet services. Novel nutrition and health technologies, always aiming to strengthen the bond between pets and their owners. This year more than 300 start-ups from 50 countries applied to part of our 2021 cohort.

We are proud of how, with our ecosystem powered by data, we have been able to re-define the category by consolidating a network of partners, alliances and investments which leverage the expertise, people and resources of Purina. And that is why we will continue to accelerate the consolidation of our ecosystem to become the first and most trusted PetCare company across Europe, the Middle East and North Africa.

Slide: Channel-less commerce

Bernard Meunier:

As you saw in the video, this journey from petfood to pet care will accelerate further, solidifying our leadership in pet data, in pet media and in e-commerce, driving solid growth by delivering first class data-powered experiences through our brands. A blueprint and source of inspiration for other categories and brands at Nestlé

Now, let's move now to our second priority.

Slide: Next phase of retail is channel-less

Aude Gandon:

Channel-less commerce. Now I know that omnichannel is a word you have heard a lot over the past few years, and it of course focuses on connecting more channels to the consumer. The more the merrier. Well, we believe that this traditional approach no longer really reflects what's actually going on in the world. In reality, consumers are not in love with a channel or channels, they are in love with getting their needs met as quickly and as seamlessly as possible. This is an important distinction.

With channel-less commerce, we are anticipating a world where the focus is about the actual brand experience and not in which channel or where it takes place. This paradigm shift positions shopping as being effortless, something consumers don't even have to think about. This means, of course, they don't necessarily see the fragmented ecosystem of partners delivering the experiences. For them, it "feels like" there are no channels. Hence "Channel-less commerce".

As an example, say a family wants to enjoy a last-minute meal at home on a Friday night, nowadays with the blurring of lines between out of home channels and at home consumption, which has accelerated during COVID, this family has many options to get this meal delivered to their door. But the channel is not the driver, it is the experience itself and the brand recall that is the driver.

So, for us, it means providing the relevant solutions in every channel to deliver that friction-less shopping journey for each and every consumer. The opportunity here is to be ready to create best in class experiences across the full consumer journey with partners, to excel in every outlet, anywhere, at any time. This is where Nestlé has to focus Growth IQ and deploy resources, to fully leverage this emerging reality: channel-less commerce.

Bernard, you spoke about Nestlé e-commerce intensity in your introduction, can you tell us more about where we are in 2021 and how you see the progress er have made in this new reality?

Slide: Maintaining momentum

Bernard Meunier:

Our investment and focus to date have already delivered strong results with enhanced organic growth in 2021 after a big acceleration in 2020. This has been driven by a combined acceleration of all e-commerce models. Through pure players and click & mortar models where we outperformed competition in almost 2/3rds of the cells we monitor with growth

continuing even beyond the COVID peak, and through direct-to-consumer models already representing 6% of total group sales.

Our e-commerce teams in the markets have been able to work strategically with our retail partners to retain new online shoppers acquired during the pandemic and maintain strong profitability levels.

So, what are the critical enablers we are investing in for this second priority?

Slide: Investing in critical enablers

With our scale and our understanding of online shoppers and online retailers, we have equipped our business operations with new capabilities: new e-commerce packaging solutions and a more agile supply chain to handle different logistic challenges. Already more than 40% of our e-commerce sales are in fit-for-purpose packaging formats and our supply chain has been strengthened to cope with the increased demand, especially in Petcare and Coffee.

Since 2019, our e-retail media investment, made directly with e-commerce platforms, has more than doubled.

We know we need to win in every shelf everywhere, from organic search to advanced content. This is what drives the highest conversion rates. So, like digital native brands, we currently track daily all key online stores that carry our brands in more than 60 markets to ensure content accuracy, product availability and to review consumer feedback, critical details that can increase our products add-to-cart rate by up to 30%.

This is the new reality of our markets to support the e-commerce acceleration.

This is how we win every day when we sell directly online and build a full channel-less experience.

Slide: Nespresso

Aude Gandon:

Now let me tell you a little more about a perfect example of excellence in consumer experience that is driving considerable business growth that I'm sure you all know very well – Nespresso.

Nespresso has always been about elevating the simple act of drinking coffee as a daily routine into a true experience for the consumer. In a very competitive environment, our unique direct-to-consumer business model is a true competitive advantage. It, above all, enables us to know, understand and serve our consumers where and when they expect us, with a truly seamless experience, especially through digital, and the strategic use of data and personalization at scale.

A few weeks back, I spoke with Guillaume Le Cunff, Nespresso's CEO about data and technology and how they have transformed their business model.

Slide: Nespresso Video

Video Transcript

Aude Gandon:

Hello Guillaume. Thank you so much for welcoming us in one of your 800 stores.

Guillaume Le Cunff, CEO Nespresso:

Welcome.

What does consumer experience mean for Nespresso?

Obviously, it starts with a great cup of coffee. That's why we put so much effort and expertise to really craft the best coffee experience from a product standpoint. Now once you have that, that's where you can start to build an experience around this cup and welcoming in our boutique is definitely one great example. Obviously when you are on-line it has to be absolutely frictionless. We are directly connected with our customers. We can personalize and customize any experience you might have. But while it has to be relevant, it also has to be different from one touchpoint to another one. When you mix channels this is where we have the best customers.

Does channel still matter for Nespresso customers?

Working with Chiara Ferragni is the perfect example of when the channels merge. When she started to post on this partnership, the same minute you had people lining up at the door of this boutique. There was no wall anymore between the online activities, even starting up in the funnel on social media activation, till the product sales.

How does consumer data and technology help drive your business today?

Data is a great asset if we use it to better serve you. We have an amazing set of data and make this data talk and being able to move into actions through the algorithms that we put behind that, we can adapt the experience, anything we will offer you and it has to be real-time. That is what we call personalization at scale. Now we can also predict the risk. We can also, based on different algorithms, know depending on your first contact to the brand how much risk we have for you to stay or leave. As we want you to stay, we can adapt and react in advance.

What's next for Nespresso?

Innovation has been at the core of what we have been doing for years. To innovate, be it on coffee or any kind of experiences. But I see Nespresso becoming even more a relational brand. We have the chance to be connected with many stakeholders, from the farms to the end consumers. It's a unique opportunity to create relations. We can connect you directly to the farmers who produced this cup of coffee. I think this is the future. You know just building and leveraging the business model to create new relations.

Slide: Always-on-analytics

Aude Gandon:

With Nespresso, we talked about using consumer data to identify consumers who were at risk of leaving. Obviously, this is not just valid for Direct to Consumer. Transforming data into an asset by building new analytics capabilities is a true competitive advantage across all business models. This is why Always on Analytics is our third priority.

Slide: Harness the power of data

Because of our scale we have access to a very large quantity of data, granular information such as store level data, e-commerce sales data or online consumer behavior data. On a weekly basis, we speak with more than 200 000 consumers, we monitor 500 000 product reviews every month and analyze millions of interactions.

We have developed advanced data science capabilities to use these data sources strategically, build predictive analytical models to help improve sales outcomes and consumer lifetime value and surface these in real time to identify early trends and innovation opportunities.

Let's see how this translates into specific advantages in different areas of the world, with many retail partners. First up the US, then India and finally China.

Slide: Examples in US and India

In the US, we now use predictive capability to identify potential opportunities for new items, detect possible out of stock and propose to our retail partners store level personalized recommendations on pricing, promotion or assortment optimization. Taking Strategic Revenue Management to a different level to drive incremental sales for us and the retailer.

In India, in a much more fragmented and traditional trading landscape, we consolidated all store data to capture the effect of generating demand activities (media, trade investment and promotions) so as to identify optimal allocation of resources, depending on the geography or the channel we operate in.

We use data solutions to better segment retail outlets, suggesting "must sell SKUs" per store and mapping more strategical areas to focus our sales force effort, helping us to enhance significantly distribution, availability, and visibility.

We use predictive models to improve sales demand accuracy and better anticipate "out of stock". These capabilities combined drove incremental sales from 2% to 4% and help us optimize 10% of our investment to be more productive. These are all examples of concrete applications of Growth IQ in action. Of course, the US and India are just illustrations of what is happening worldwide.

Those new capabilities now power our commercial teams in many markets to drive significant investment optimization and growth opportunities, transforming the way we engage with all our retail partners.

Slide: Nestlé China: Innovation agility through real-time consumer data

Now let's look at how we bring consumer data into our innovation engine. For this we wanted to share some insights from China. China is arguably the most innovation-led market in Food & Beverages. Incredibly competitive, with a pace for new product launches that is unmatched in the rest of the world.

Rashid Qureshi our Nestlé Greater China CEO will tell us more about what they doing at the moment.

Slide: Nestlé Greater China region video**Video Transcript**

Rashid Qureshi CEO and Chairman, Nestlé Greater China region:

I'm Rashid Qureshi Chairman and CEO of Nestlé Greater China region. Today I would like to talk about innovation agility.

No matter how you describe innovation, it's happening right now in China and provides us with challenges and opportunities that keep defining our future success.

China is arguably the most innovation-led market in F&B. Brands are rising exponentially in China. This is powered by the digitization of the business environment and an open data ecosystem. In fact most CPGs are challenged by the overall velocity of the market. Nestlé stepped up to this challenge by digitizing the innovation process to fast-track output and to fine tune concepts based on data insights.

We can now leverage our innovation big data tool to screen-out key trends and innovation opportunities using real-time social data. This data and insights get translated into innovation ideas and concepts which are accelerated through our local Product Innovation Centers and manufacturing capabilities.

With our e-commerce partner platform we are capable of testing these concepts very rapidly. Looking back at some results, Nestlé China multiplied its innovation intensity by 3, in three years.

Let's take an example. Some of you may have heard of our Nescafé Youth Line. With Tmall innovation center we verified the concept and fruit flavor recommendations, within two weeks and even identified specific target audience profiles. Youth Line was launched in three flavors, penetrated over 3 million families. 20% were new category users, demonstrating a strong recruiter role to the brand, and in six months-time Nescafé's 1+2 shares drove up by +50bps. With the positive feedback gained from the test launch we expanded to always-on formats, plus seasonal editions to continuously excite consumers. This case truly exemplifies how we can leverage data and technology to innovate faster and increase success rates. And we are rolling out these capabilities to more categories.

We will keep on elevating our innovations as this demand keeps increasing. This edge is truly where everything begins.

Aude Gandon:

Thank you, Rashid and the team in China for giving us a glimpse of what the future might look like for other parts of the world in just a few years from now.

Slide: Three priorities

So there you have our three priorities. This is where we will be focusing our energy. Of all the predictions about what's going to happen over the next thirty years, I think we can be sure of one thing. The world's population will increase and will be even more connected.

Slide: Growth IQ

To meet that challenge as a business, our entire organization has to evolve fast, creating the conditions for our talents to grow across the different dimensions of our digital transformation. The pre-requisite of our success will be our people, empowered by the right technology.

This is where Growth IQ takes center stage.

Slide: Raising Growth IQ through our people

Nestlé has been investing tremendously in its workforce over the past years. Getting ourselves ready for the accelerated transformation we are all experiencing today.

Slide: Investing in our people

We have been investing in upskilling more than 31,000 marketing and sales employees, representing 75% of our generating demand population. Enhancing their digital literacy, using cutting edge training developed in partnership with our technology platform partners Facebook and Google. That means that from Nigeria to the Philippines, from Brazil to the US and Europe, our people will follow the same world-class bespoke training delivered by the finest in the digital world.

We have integrated new talents & experts to further accelerate in areas such as data science, digital experience and digital media: more than 500 digital experts worldwide and even more account managers dedicated to e-commerce.

Creating a culture where our people are not afraid to experiment, to innovate and to lead. This is what Growth IQ is all about: to champion innovation and digital creativity across the organization.

This agile mindset is already embedded in our innovation cycle, orchestrated with our R&D colleagues. Bernard, can you explain how we do it consistently?

Slide: Fast-paced trial and error

Bernard Meunier:

Yes, Aude. In the last few years, we have created multiple R&D accelerators to embrace a test & learn mindset and accelerate our speed to market for our innovative new concepts. This test and learn methodology is a critical enabler as it allows us to quickly validate our ideas with consumers and make faster, smarter go-to-market decisions.

Our multi-disciplinary teams are equipped with the latest technology to create products & experiences. They can test and validate them with consumers – all in record time. It's what we call fast-paced trial and error.

An example you may have heard of is the development of Wunda where we utilized those capabilities to develop and test a new non-dairy drink in record time. The product concept and branding was tested first with consumers online with a Direct-to-Consumer website set up in 4 weeks. Following successful reactions gathered online, the product is now rolling out across Europe.

Slide: In-housing talents to build more effective end-to-end content engines

We have taken a similarly digital-agile approach in the way we communicate. As the number of digital platforms soars, the need for creative assets has dramatically increased. To answer this challenge we created a more effective, more agile end-to-end content production model. Let me now show you a short video that brings it all to life.

Slide: Content Studio video

Video voiceover:

Our brands today they need to connect with consumers in millions of micro moments. To connect where and when they're receptive. To be relevant in a world of extreme competition for attention, the need for digital creative assets has never been greater.

To answer this challenge we have built more effective, more agile content production model powered by Nestlé in-house content studios operating across our Zones and markets.

Consolidating the creation and adaptation of original brand content for all digital channels.

Removing the inefficiency of multiple specialized digital agencies.

Since 2017, we moved from five to a network of 35 content studios with over 400 dedicated resources and have reduced our number of digital agencies by 60%. Today our studios are at the forefront of our digital transformation journey. They're filled by world-class digital creators, powered by social listening tools and always on insights to drive effectiveness and relevance. And supported by best-in-class digital technology services to localize creative assets faster.

For hundreds of brands across Nestlé, this new model is delivering hard-working digital content 40% faster and helped us reduce production costs by 50%. A true competitive advantage for our brands to be agile and remain current in a fast-changing digital world.

Slide: Starbucks global roll-out: leveraging new digital content capabilities

Aude Gandon:

New content production, new digital experience capabilities are available in markets and for central teams to roll out more efficiently for best-in class digital communication for global brands. The best example to bring this transformation to life is Starbucks at-home, where new capabilities helped us deploy successfully the launch campaign in 70 countries in record time.

Slide: Starbucks video

Video Transcript

Video voiceover:

Over the last two and half years Starbucks coffee has come home with the launch of the global coffee alliance between Nestlé and the iconic coffeehouse brand from Seattle. To support the ambitious roll-out of Starbucks at-home our coffee team leveraged our new content operating model to deliver at scale the new 'Starbucks is coming home' campaign and all creative assets designed to deliver a unique brand experience in all major digital platforms and retailers worldwide.

How did we do this?

An integrated communication plan with more than 600 master creative assets created centrally by our lead agency partner and newly created Coffee content studio.

Rich content tailored for every social media platform. Product content design to win the e-shelf and a full website experience to drive consumer awareness and engagement with the new coffee offerings.

Localization of global master assets operated through our integrated marketing services. With fully automated process, CGI product images technology. Accelerated by AI capability for content identification.

So far 30,000 local assets have been developed in 60 languages and deployed one master website into 49 local Starbucks websites operated by digital experts in content management and search engine optimization.

With this new model Starbucks at-home is now live in 79 markets, ensuring a consistent and premium brand experience across the globe. Bringing agility and speed with efficiencies of 65% for content creation and website deployment. An industry leading practice to support the successful rollout of Starbucks at-home, becoming one of the fastest growing billionaire brands at Nestlé. Setting the new standard for all Nestlé global brands rolling out this new content operating model.

Slide: Key takeaways

Bernard Meunier:

So with that final inspiring example from Starbucks, we would like to bring this presentation to a conclusion and then answer any questions you might have.

Slide: Acceleration is now

The accelerated phase of Nestlé's transformation journey has begun. Acceleration is Now.

The future of the food and beverage industry is technology and data-driven and Nestlé will lead this transformation.

Slide: 3 strategic pillars

Aude Gandon:

With 3 strategic pillars: First, direct access to consumer at scale to move from selling to serving, to build category ecosystems, to partnering disruptive start-ups with our lighthouse brands.

Second, channel-less commerce is our new normal to win with shoppers anywhere.

Third, Always-on analytics to identify growth opportunities through data. Innovation, M&A, marketing investment decisions, and portfolio choices.

Slide: Growth IQ takes center stage

We have the right people in place worldwide, they have the necessary state of the art digital knowledge, they are equipped with the right tools, R&D, and content engines.

This is the right time, now, to bring Growth IQ center stage to champion a culture of innovation and digital creativity across the whole organization.

Bernard Meunier:

Through this transformation journey to a more data & technology driven company, led by our teams across all our categories and markets, we will continue to deliver profitable growth while serving our purpose of enhancing quality of life for people and pets.

As the leading experience brands company in the food and beverage industry, Nestlé will ensure that “Good food, Good life” remains a reality in today’s world, and for generations to come.

I am delighted to hand over to François Roger for some closing remarks before we move to Q&A.

François Xavier Roger, Chief Financial Officer, Nestlé S.A.**Slide: Title slide**

Thank you, Bernard and good morning / good afternoon to all.

Slide: Our virtuous circle of value creation

I would like to start with a reminder of our model for value creation at Nestlé and the important role that digital transformation plays.

Our value creation model starts with freeing up financial resources, which allows us to invest for future growth. We have been generating such resources over recent years through a combination of disciplined control of our structural cost base and acceleration of our organic growth. We expect to follow a similar model going forward, with more of the freed-up resources being used to invest behind growth platforms with a key focus on digitalization and sustainability.

Our focused investments are driving market share gains. This is clearly evidenced by our recent strong market share performance, gaining or holding share in more than 60% of business cells, the highest level since 2013.

We expect our value creation model to enable the delivery of profitable growth and capital efficiency.

Of course, we believe our company will only be successful in the long term if we create value for both society and our shareholders.

When all these elements come together, the result is a virtuous circle of value creation.

Slide: Driving efficiencies to invest for growth

We have delivered on this value creation strategy over the last few years.

Since 2016, we have reduced our structural cost base by around 300 basis points as a percentage of sales. Structural costs amount to around 16 billion Swiss francs, representing 19% of our 2020 sales, and include fixed industrial costs, fixed distribution costs and G&A.

At the same time, we stepped up our growth investments. Since 2016, we have increased our investment in trade spend, consumer-facing marketing and R&D by around 200 basis points as a percentage of sales.

Over the last 4 years a lot of our value creation came from reductions and improvements with items such as structural costs and working capital. Going forward, while further opportunities exist in these areas, increasingly we expect value creation to be driven by “softer” elements such as digitalization and data analytics. The digital transformation of Nestlé should not only drive growth, but it can also generate savings and free up financial resources.

Slide: Increasing the return on marketing investments

Over the last few years, we have been very focused on increasing the returns on our investments. For example, last year we improved our return on invested capital for the 6th consecutive year.

Looking at our marketing spend more specifically, we have been increasing the return on our investments through 2 key pillars.

Firstly, we are increasing the share of our marketing investment that is tracked and assessed systematically for ROI. Today we conduct systematic ROI analysis on around 50% of our media investments. We can do more, and we are accelerating our coverage to better track every Swiss franc we invest. Last year, we increased tracking by 40% and this resulted in a 10% increase in ROI in our test markets.

Secondly, we have been increasing the proportion of our media spend that is digital. Last year, digital media spend represented 47% of our total spend, a significant increase compared to 32% in 2017. Importantly, the shift to digital media generates even higher returns as it enables us to move faster, to better focus investments and to increase personalization. Indeed, we estimate that the return on digital media spend at Nestlé is around two times higher compared to traditional media. We see that across categories and geographies, for example: Dog Chow in Mexico or KitKat in Spain have seen double the return on digital spend versus traditional media. And even if we look at Nescafé in South Africa has even seen three times the return.

Enhancing our efficiency and effectiveness goes beyond marketing spend. We are significantly investing in Artificial Intelligence, in data analytics and algorithms, as well as in talents and competencies to support our digital journey. For example, we have built three data and analytics hubs starting with Barcelona in 2018, which has now been expanded to Argentina and India. Since the digital hubs started, they have rolled out over 500 initiatives in 40 countries. Digitalization is clearly an area where we see a lot of value creation going forward across the entire company.

Slide: Supporting our value creation model

So, to conclude, we are moving faster, we are becoming more effective and more efficient with our investments across the board.

In turn, this frees up resources that can be invested behind key growth platforms. Accelerating our digital transformation is clearly an important area of investment to support growth, along with technology, innovation and sustainability. Our digital investments are clearly not limited to marketing and we are also digitalizing other functions such as R&D, operations, finance and HR.

Such investments support our medium-term outlook to deliver sustainable mid single-digit growth, continued moderate margin improvement, and prudent capital allocation, as well as value creation for both society and our shareholders.

I will now hand over to Luca for the Q&A session.

Luca Borlini, Head of IR, Nestlé S.A.

Thank you, Francois. With that we move to the Q&A session. We open the lines for questions from investors. As a friendly reminder, please focus your questions on the topic of today’s presentation and also please limit yourself to a maximum of two questions.

The first question is coming from Warren Ackerman at Barclays.

Questions on:	Key timelines and priorities Cost
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Warren Ackerman, Barclays:

A very interesting presentation on digital. My two questions are, firstly on that doubling to 25% by 2025, that’s quite a big step up. Are you able maybe to share some details on key timelines so we can track how quickly you get there, and maybe can you say how different categories or geographies will get there at different times? It would be interesting to understand what the near-time priorities are and what categories will require more investment in either AI or other digital tools to get you there. I would just be interested to understand that.

Secondly, just on the cost side, clearly what you are trying to do is to transform your entire business digitally and some of these investments do sound pretty expensive. I know that it is baked into the value creation model, but would you be able to give us some idea of how much per annum or maybe a Swiss franc number over five years to digitalize Nestlé. Given the size of Nestlé, I am sure it is a very significant number and give us some confidence that there is going to be a payback on this. I imagine that everyone else in the industry is doing the same thing, so what I am trying to understand is how much is it going to cost, what’s the payback and where are you going to have a genuine competitive advantage relative to everybody else who is doing the same thing?

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

Warren, thanks so much. I’ll take the lead and then hand over to François for some more information on the cost. Let me say that as much we are trying to be helpful here when it comes to the years ahead towards 2025, we believe we have very good initiatives to make that happen, but I think a turbulent moment like this, as we’re hopefully exiting the COVID pandemic, is a very difficult time for pinpoint accuracy when it comes to forecasting.

Our solution is something that you have already seen for the last few quarters, and that is every quarter we are giving you that data point on how these e-commerce sales are developing and we are committing to doing that going forward as well. So, you will be able, quarter by quarter, to track our progress. Obviously, between now and 2025, the one thing that's for certain is that there will be changes in that plan. We have very good building blocks, we're very confident about what we are forecasting but there will be changes in that plan, just simply because the world around us is changing so fast and nimbleness is key.

The other thing I would like to assure you about is I have zero doubt about the return. I think some of the metrics that François has shared with you make it very clear. The returns are there because the consumer is there. Consumers reward those types of investments, so the returns I am very certain about, even if everyone else is doing the same thing because consumers reward leadership in that space.

And I hope what you took away from the presentation is that this is not just an abstract concept. But in some parts, like in Starbucks, the rollout there internationally or PetCare EMENA, we made it happen. So, this is essentially something that we've already experienced and that we're now scaling to some of the other categories.

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

Maybe, yes, Warren, I can add a couple of things. Obviously, I won't be able to give you a cost because it hits different lines of the P&L. What I can tell you, though, is that there is very little in terms of CAPEX. It's essentially about cost items in the P&L, but it hits some lines in IS-IT, some of them in marketing, and so forth. So, it's difficult to provide you a number.

It's exactly as Mark said, and as I did during my presentation as well, a lot of it we will self-finance through savings and efficiencies. You saw it, for example, when we invest in digital media, usually we have a return which is two times better than on traditional media. So, we have been able to free up resources in order to be able to invest on that. Digitalization as a whole, and for e-commerce totally valid as well, we are really driving growth, we are driving market share, and we can absolutely self-finance all of these investments that are essentially hitting the P&L.

Luca Borlini, Head of IR, Nestlé S.A.

Thanks, Warren, for your questions. Next question is from Jon Cox at Kepler.

Question on:	Direct-to-consumer increase Costs and benefits of digital
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Jon Cox, Kepler Cheuvreux:

Yes. Thanks, Luca. Two questions on my side. Really, just on the first one on the goal of 25% again. Currently, your direct-to-consumer, as you mentioned, I think, is less than 6 points of the 13 points in 2020, which is digital. Just wondering where you think that figure will go and whether you really want to do more direct-to-consumer. And so, as a result, would you imagine by 2025 that maybe closer to 15 points is direct-to-consumer rather than less than half currently. That's the first question.

Then the second question, just to come back really on the costs and the benefits. Should we really look at this as maintaining the Nestlé model or enhancing, potentially, the Nestlé model? I know you don't really want to talk about how much would be savings and that sort of stuff. But I'm just wondering what would be existing spending on those lines, which will then just be shifting to digital? That would be 80%, but you still need to find 20% savings, something like that, more of an abstract thought rather than a number if you're uncomfortable mentioning numbers specifically.

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

Jon, I think that we are trying to find as many efficiencies and savings as we can. And I think that we have demonstrated historically that we are in a good position to say that. I can't attach necessarily one saving to one investment either. So, we try to generate as many efficiencies as we can, by the way, not only in marketing, but we do that in manufacturing, we do that in G&A as well. And then to direct these resources into areas where we will drive growth. And certainly, digitalization is one of them. And we are investing, as well, a lot, as you know, in sustainability. But we can't necessarily attach one saving to one investment. So, I think it's a little bit difficult to link the two.

And as far as DTC is concerned, we are not providing any guidance in terms of DTC as a percentage of sales of where we will be in the future. One of the reasons why we don't do it either it could be impacted by M&A as well. And you have seen that we have invested quite a lot as well recently in assets in the DTC space.

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

Rest assured that DTC, of course, is also projected to be up steeply, even though, as François explained, we're not thinking at this point about pinpointing a specific number. I

think that's understandable. In terms of maintaining or enhancing the Nestlé model, clearly, what we're still sticking to is the Nestlé model. And what we're showing you is that even in this new world, in this turbulent world of the 2020s, we have a very good shot of keeping that incredibly attractive financial model.

Luca Borlini, Head of IR, Nestlé S.A.

Jon, thanks for your questions. The next question comes from Céline Pannuti at JP Morgan.

Questions on:	Data points and collection Online and DTC in China
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Céline Pannuti, JPMorgan:

My first question is on data. I'm a bit surprised you took 400 million data points. That doesn't sound to be a lot. So, what's the definition of this data point exactly? And can you say how much of that is yours, directly through your website and how much you buy from a third party, and who are these third parties? Altogether data collection, how big in terms of your investment, how big is it? Is that included in A&P? Where do you include that? Then finally, the same on data, are there links between your categories? Are you able to see if someone who buys Pet also buys Starbucks, for instance?

My second question will be shorter, I promise, on China. Can you remind us how much of your sales are online? And how much -- if there is any DTC in China. Also, given the changes that are happening in terms of regulation, do you think that will impact the way the digital ecosystem in China works?

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

Aude, on the first question. And then François takes the second one.

Aude Gandon, Global Chief Marketing Officer, Nestlé S.A.:

Hello Céline, so 400 million. So today, we are at 205 million data points. We are talking first party data. We already have properties. If I take an example, we have some Nestlé recipe sites today who have more than 200 million visitors every month. So, this is exactly the type of data that we're talking about. So, we are very confident that we will reach the 400 million by 2025. And it's first party data only.

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

So, on China, Céline, our e-commerce today and even digital investments are highly concentrated in 5 or 6 countries, starting with the U.S., U.K., France, Germany, Japan and China. China is certainly the most advanced country that we have as far as e-commerce is concerned and digital investment as well. Rashid talked a lot about it during the video, which is the reason why we are really much more advanced. Just for your information, even in some categories, we have up to 1/3 of our business which is actually sold through digital channels in China. But I can't provide you with more granularity because this is commercially sensitive information.

Luca Borlini, Head of IR, Nestlé S.A:

Céline, thanks for your questions. Next question is coming from James Targett at Berenberg.

Questions on:	Percentage of new products and innovation complexity Expansion of e-commerce by market
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James Targett, Berenberg:

Two from me. So, I mean it's clear that one of the big focus of digital transformation is on innovation and speed to market. So, I wonder if you could update us with what new products account for as a percentage of sales on an annual basis? And how has that been trending over the last few years? Are there any issues with the increased complexity in terms of manufacturing, et cetera, as you increase the rate of innovation?

Then my second question is on, I guess you just mentioned how the e-commerce is weighted towards particular markets. When you think about the 25%, how much of that is coming from those markets, really driven by those same markets, or whether it's the newer markets really seeing a big increase of penetration as well?

Bernard Meunier, Head of Strategic Business Units and Marketing & Sales, Nestlé S.A.:

Yes. So, starting with the second one, 25% is, of course, the average. You know that sales are very much weighted towards e-com in the big markets like the U.S. and also Europe and China. So, we see this progression everywhere. We were 40% up last year and again this year on the basis of the 40%, we have another 20% up in sales. So even through COVID, with COVID now recessing in some geographies, we do not see a return to pre-COVID numbers. So, the 25% will be weighted strongly, of course, in the geographies where today already, it's above the 14% average that we have.

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

I can take the first one on innovation James. I think that there are many different ways to calculate innovation. It's always a little bit complicated because we could throw numbers of the number of SKUs that we have, new SKUs in the market, and so forth. I would like to point out to one KPI, which is the composition within organic growth that is coming from product mix. Consistently over the last couple of years, we had about 2.5 percentage points of organic growth coming from mix. And product mix is an excellent illustration of premiumization and innovation. So, I think that it speaks by itself, we had with the exception of last year, but because of COVID, around 2/3 of our growth is coming from mix, which shows the power of innovation. And we saw that clearly accelerating four to five years ago when we really reduced time to market in terms of innovation from formerly two years to develop new products to about six months, and we did see a difference. And we saw the difference at the same time in our market share dynamics. As you know, we started to regain market share already significantly over the last two years to the point now where we have more than 60% of our business cells gaining or holding market share, and we are at the highest level since 2013.

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

James, if I can build on that. I think what the presentation made clear is that our innovation model and the digital business model are really two sides of the same coin, and they kind of build on each other, and they're highly synergistic. I think before, when we had quarterly calls and investor meetings, we did not have the chance yet to fully make that point. I think it's no coincidence that some of the most digitally advanced categories are also our highest growth categories. So, this is where we bring that innovation strength to the table, and then we use digital tools to actually get it out to the market.

Luca Borlini, Head of IR, Nestlé S.A.:

James, thanks for your questions. Next question is coming from Bruno Monteyne at Bernstein.

Question on: Measuring the brand experience in digital**Bruno Monteyne, Sanford C. Bernstein:**

My question is, how do you know -- how do you measure your brands, are better off in this digital world? Are you able to measure whether relations with your customer, their experience is stronger? Because obviously, there's an alternative storyline which potentially is that the digital world is more transactional. Nestlé might be ahead, but you might end up

being the first in the world is a lot more transactional and less attractive for brands. I'm not saying that's the case, but how do you know and measure that your brand experience is better, more profitable, and sustainable online than in the old world, please?

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

Bruno, I think the fast and easy answer to that is a consistent market share performance over time. Then, of course, incrementally, as you look ahead, it's about the ROI on specific marketing decisions that you take. I think both of these need to go hand in hand. So, if you only have high ROI marketing investments and then it turns out the product is suffering something's off. And if both of these apply, then I think it's a good indication that you're on the right track.

Luca Borlini, Head of IR, Nestlé S.A.:

Thanks, Bruno, for your question. Next question is from Pinar Ergun at Morgan Stanley.

Questions on:	Data and analytics Categories which may benefit from digital
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Pinar Ergun, Morgan Stanley:

The first one is how centralized are your data and analytics capabilities across the organization? And would you look at M&A to enhance Nestlé's data analytics capabilities?

And the second one is, it's interesting to see how digital has enhanced your expansion from pet food further into pet care. Do you see similar opportunities in other large categories where digital can open up new horizons for Nestlé?

Aude Gandon, Global Chief Marketing Officer, Nestlé S.A.

Hello Pinar, thank you very much. So, obviously data is now being housed both at a market level, but we also can bring it above market on the categories to make sure that we actually have access to it and deliver the best experience, but also the best analytics on all the marketing effort that we're doing. So, the access to data has really increased more and more. On M&A, you want to take that, Bernard?

Bernard Meunier, Head of Strategic Business Units and Marketing & Sales, Nestlé S.A.:

Yes. So, if you think of ecosystems as connected platforms of digital assets that are brought in by partners through either M&A or partnership. So, through these ecosystems of digital assets that cover all the consumer journey, all the pain points, all the need states of

consumers along their journey. That opens up, obviously, new opportunities for brand experience, going beyond product into services, content, information. So that's indeed the transformation from pet food to pet care. You can think of the same from baby food to baby care, and also in food, from ingredients to menu planning to healthy and balanced diets. So yes, this opens up this orchestration of these connected ecosystems, a lot of new opportunities for seamless brand experiences.

Luca Borlini, Head of IR, Nestlé S.A.:

Pinar, thanks for your question. Next question is from James Edwardes Jones at RBC.

Questions on:	Environmental and Sustainability footprint of e-Com Replication by competitors
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James Edwardes Jones, RBC Capital Markets:

A couple of things. How does the environmental and sustainability footprint of e-com sales compare with conventional sales? And secondly, can I go back to Warren's question, which I don't think really got an answer. You've told us a lot about your plans. What parts of those fundamentally differentiate Nestlé so the competition won't be able to replicate them rapidly?

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

On the sustainability side, of course, it depends a lot on what exactly the type of business model is. Obviously, there is a part that goes through our e-commerce partners. There are others that are direct-to-consumer. I think for direct-to-consumer for what we have the best under our control. You see with Nespresso significant efforts to reduce the environmental footprint from a packaging point of view and distribution and recycling point of view. Being able to access the consumer directly and communicate with the consumer directly also gives us many more chances to nudge them towards the right behavior and suggest best-in-class behaviors when it comes to environmental friendliness. So, it's hard to judge at this point where exactly this will stack up and how exactly it compares to a retail environment. But we do believe we have good chances here to improve our environmental footprint with the e-commerce model just as much as on the retail side. François, do you want to comment on the question about competitiveness.

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

I think that if I take back what Bernard said during the presentation, I think that a certain number of things of what we do can be obviously copied by competitors, but a lot has to do with execution. And I think that this is really what is going to make a difference. I think that we will execute, and we are executing extremely well. You see it through our market share

gains. And we have a lot of experience as well because we have been in the digital world and in this e-commerce world for a very long with Nespresso. And that we have rolled out, for example, with PetCare and we're expanding into new categories and all categories now. So, I think that the mere fact of having experience, having a lot of capabilities in terms of execution, I think you see through the results that we are really differentiating ourselves from the competition.

Luca Borlini, Head of IR, Nestlé S.A:

James, thanks for your question. Next question is from Tom Sykes at Deutsche Bank.

Question on:	When is DTC used Business model behind DTC
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Tom Sykes, Deutsche Bank:

A couple of questions, just on the specifics on one brand and the route you chose. So, I think Purina.com to transact you use a *where to buy* basket, and on Purina.co.uk, you have a direct business model. So just wondering why you would go down different routes and what the thought process was on that? What are the different economics behind the two models and how we should think therefore about which routes you would take?

And then, if you do go down the direct route, is that an outsourced business model? Obviously, the delivery is probably largely outsourced. But will you use third party logistics providers, warehousing, et cetera, please?

Bernard Meunier, Head of Strategic Business Units and Marketing & Sales, Nestlé S.A.:

Yes. Thank you, Tom, for your questions. First of all, when do we use DTC, what would be the trigger to go DTC. First of all, if we have consumer pain points, which are not well answered by the regular B2B2C business model. So recurrent high-value purchases, which are very regular by nature is a good example. Then if we have a chance to personalize also the relationship and the product or the service that we offer, this is another reason to go DTC.

So, in the case of Purina, in the U.K., I think the examples you've picked on is that we leverage the learnings we have from the Tails.com platform. And we now are bringing those back to our traditional brands like Felix, like Pro Plan. So, leveraging all the learnings and the digital capabilities that we have acquired through the Tails.com acquisition.

On the outsourced versus in-source, so yes, we use third parties. And you have a whole spectrum of DTC business models from the lightest ones, which are basically fully leveraging third parties for the fulfillment, the payment, the delivery, all the way to the more integrated business models such as, of course, Nespresso, where we are capable of processing up to 100,000 orders in a given day.

Luca Borlini, Head of IR, Nestlé S.A.:

Next question is from Guillaume Delmas at UBS.

Questions on;	Impact of e-commerce on gross margin Predictive algorithms
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Guillaume Delmas, UBS:

Two questions for me, please. The first one is, could you talk about the gross margin impact from e-commerce becoming a larger proportion of your total turnover. Basically, would it be fair to assume it is overall nicely accretive to gross margin and primarily, I would think, because of a favorable category and regional mix. Also, how should we think about your online gross margin going forward? I would think that with better, more personalized content experience and services, we should see some further premiumization occurring online, and this is providing a nice tailwind to your online gross margin.

And then my second question, it's about your predictive algorithms. I mean, could you provide some granularity on how you're using this at the moment as you are looking at passing some of the inflationary pressures you are facing on to consumers. So effectively, do these tools help you predict the potential knock-on impact on your volumes that could arise from price increases.

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

Guillaume, I will take the first question on the gross margin. You are right that directionally, the gross margin on e-commerce is slightly better than the average of our Nestlé products. But that being said, I mean, we have higher distribution costs as well, so which tends to neutralize it. I would rather focus on the operating margin. I would say that today, overall, our total e-commerce business is not dilutive to the group. That being said it's an average so I would be a little bit prudent in drawing any conclusion from that because it's a mixed bag of geographies and categories. But directionally, at least for the time being, no dilution at all, but it's very different if you look by geography, by category, and even in terms of profile of some of these assets because you have some like Nespresso where we have been in business for

long and you have new assets where, obviously, we are clearly in an investment position and having a significant negative operating margin. But we are very comfortable with that because we are really investing and growing extremely fast.

Aude Gandon, Global Chief Marketing Officer, Nestlé S.A.

Hello Guillaume, and so, on the predictive algorithm we use. Digital is now really kind of being spread across the different aspects of sales and marketing. So, what we do is, as we were showing, for example, in the example in India, we're really using for our sales force, very fragmented environment, which helps us to really see where should we focus our sales effort, what type of product, where we are at risk of out of stock. But also, it enables us to really run some pricing elasticity -- on different categories, different products, different SKUs, and also different markets and different types of retailers. So, that's kind of where today it's a very helpful tool for us.

Luca Borlini, Head of IR, Nestlé S.A.:

Thanks for your question. Next question is from John Ennis at Goldman Sachs. Please go ahead, John.

Question on: Content creation and redeployment of agency savings

John Ennis, Goldman Sachs:

Just one question from me, please, on content creation. I guess you're doing more in-house and, therefore saving on agency fees. And at the same time, you're also spending more on total marketing and R&D expenditure. So, can you detail where these agency savings are being redeployed? Is more of it going on internal personnel costs as you build out effectively your own content hubs? Or are you able to use that saving to buy more ad slots, effectively more airtime for your brands?

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

I would say, John, that it's a combination of both. So, I think that -- anyway, we like investing in any driver in terms of growth, be it R&D, be it commercial operations and marketing. And if you look over the last couple of years, we have increased our marketing investment year after year in absolute value and very happy with that.

But part of it is exactly as you said. Part of the reinvestment that we are doing is even in structural cost internally because we have built all of these content studios and we have a large number of them by now. Obviously, it's creating structural cost within the organization,

but we are saving on external costs as well. So, we are really looking at it on a case by case. Ideally, the more we can invest in terms of projects and airtime, for example, that is driving growth. The more we will do, the more we will do it. But that being said, we do not have hesitate to invest in infrastructure and organization as we do with these content studios if it contributes either to savings or to accelerating our growth as well.

Luca Borlini, Head of IR, Nestlé S.A.:

Thank you, John. We have no further questions at this point in time. So, we come to the end of our session today. I now hand over to Mark for his closing remarks.

End of Q&A

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

Luca, thank you and thank you to all of you for joining us today. I think it was a great opportunity to bring you up to speed on our recent work in digital and how it has accelerated and how much opportunity we see in that space down the line.

I also hope that it showed you the connectedness between the digital model and our plans in the digital arena and the innovation model that we have been steadfastly pursuing now for a number of years and which I think has already started to pay off very nice dividends for our company.

Then François rounded it off with the underlying financial model that connects it all. Where we built on some of the efficiencies in order to invest and drive growth and keep that flywheel going. I think it was also a great opportunity for Bernard and Aude to firsthand show you some of the really exciting work that they have kicked off. Again, it was important to us to not only show you concepts, but also proof points, specifically in some of our categories and geographies and how we make it happen. So, in a world where there is no rule book that you follow, where you have to do a lot of the learning by yourself, I think a lot of exciting learning has been done already. Now we're in the process of actually scaling that up, rolling it out to other categories, other geographies. So, a lot of the heavy lifting has been done, and we're looking forward to the next few years and bringing that to full fruition.

So, thanks again for joining us today, and we look forward to talking to you again in February for our full-year update and the outlook towards the year 2022. Thanks.

END OF TRANSCRIPT