2021 FULL YEAR RESULTS 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.

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

Slide: Title slide

Good afternoon and good morning to everyone. Welcome to the Nestlé Full Year 2021 Results Webcast. I'm Luca Borlini, Head of Nestlé Investor Relations. Today, I'm joined by our Chief Executive Officer, Mark Schneider and our Chief Financial Officer, François Roger.

Mark will begin with an overview of 2021 and discuss the 2022 guidance as well as the midterm outlook. François will follow with a review of the full year 2021 sales and profit figures. We will then open up 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

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

Slide: Key messages 2021

I would like to turn straight to the key messages for 2021. And in all modesty, I think it's been an exceptional year, with organic sales growth at the highest level in more than a decade and also in light of the significant inflationary pressures we've seen, a very respectable underlying trading operating profit margin performance.

I won't go through all the details on the slide. But to me, the key message of '21 is that in a year that was still very much marked by significant pandemic-related and supply chain headwinds and issues, we navigated all of that. We delivered very strong financial results. At the same time, we kept investing for the future. And we did not lose sight of our key strategic priorities that focus around growth and innovation, portfolio development, and also increasingly, our ESG commitments in advancing the state of the art on those.

So very strong performance your seeing underlying EPS growth of 5.8% in constant currency. And then all of that also then rewarded with another dividend increase of 5 centimes to CHF 2.80 per share. This is our 27th consecutive dividend increase and the 62nd consecutive year of either a stable or rising dividend.

So clearly, in a year that was marked by a lot of turbulence, another year of very consistent and dependable performance, which is one of the hallmarks of our company.

Slide: Portfolio geared for mid single-digit organic sales growth

Moving now for the next two pages to organic sales growth. So while the 7.5% for last year did stand out, I think, to me, the key message is that we now consistently will deliver mid-single-digit organic sales growth performance. We hinted to you in previous quarterly calls that we have now what it takes from a setup and portfolio point of view to do that. You see it reflected in our guidance for this year and you also see it reflected in our midterm outlook.

So how do we do this? Well, it is essentially the continuation of investments in fast-growing categories and geographies, fast-paced innovation that's at par or even better than some of our smaller and start-up competitors, increased digitalization, market share gains as a result of that, and also portfolio rotation.

Slide: Key drivers of accelerated organic sales growth in 2021

Taking a closer look at the growth drivers for organic sales growth in 2021. Let's focus first on the high-growth categories and channels.

So to me, PetCare, Coffee and Nestlé Health Science were clearly the star performers in '21, kick the lights out when it comes to organic growth. PetCare and Nestlé Health Science delivering double-digit organic sales growth, and Coffee just a shade under at 9.7%.

Let's take a quick look at all three of them because I think in addition to that stellar performance in '21, they stand to benefit from some mid- to long-term growth drivers that are going to be very beneficial to us.

So PetCare, clearly, pet adoptions around the world are up in '20 and '21 during the pandemic, and that bodes to a permanent step-up and growth from a higher base when it comes to pet food and pet care products, hence, very good prospects here. As you know, we have invested significantly in meeting the capacity demands of this attractive and growing category.

Coffee to me is the signature category to benefit from what I call the at-home revolution. That's the fact that aside from the pandemic and some of the lockdowns, as a part of more flexible workstyles and more work being done remotely from home even after the pandemic, more coffee will be consumed at home. That plays right into our retail strength. We may lose a cup of coffee out-of-home, but obviously, our market share in-home is so much stronger so we stand to benefit net-net from this development, which I believe is here to stay.

Then on Nestlé Health Science, clearly, demand was up significantly at the time of the pandemic and continues to be very strong as people do have concerns over their health and they also want to boost their immune systems. But we also have increasing evidence that, that interest is here to stay. So a strong immune system, the benefits of that and taking good care of your health in a forward-looking way, I think both of these notions are very much on trend with consumers around the world, and Nestlé Health Science is ideally suited to benefit from that.

Plant-based food, as you know, is something that we account for under our Food category, also good, strong double-digit organic sales growth. I think here, our foray into specialties has really paid off. So, we're not just offering the plain straightforward products, such as burger parties and chicken pieces, but rather we go into specialties, just think about, for example, our tuna or shrimp plant-based alternatives. We're also increasingly pushing into ready-made meals that benefit from high-quality plant-based ingredients. So this is a good way to differentiate.

In addition to that, we also have a strategy that rests on two pillars. There's the retail side of the house. Then, of course, there's also the out-of-home presence, which really benefits us. So very good position here for continued growth. I believe and continue to believe that plant-based food is one of these once-in-a-generation opportunities to revitalize and upgrade our Food category, and we're taking advantage of that.

E-commerce. Some of you may have followed the event we had in November this year, so I think nothing much to add to the ambitious targets from there. You saw that even in a year and at a time when the pandemic is abating, the interest in e-commerce is on the rise, hence, our share of sales from that is also increasing. We're targeting another significant increase towards the year 2025. Bernard, our Chief Marketing Officer, and Aude, they are both very much into that. So if you haven't seen the presentation, I think it's still available on replay, and I would encourage you to take a look at that because it details the strategies behind our e-commerce push.

Portfolio management, I'll focus on that on the next slide. But suffice it to say for 2021, two major steps. One is pushing deeper into the vitamins, minerals and supplements opportunity with Nestlé Health Science, and building that into a leading global nutrition and health platform, and at the same time, also putting the defining steps on the transformation of our global water business, trading out of some brands, trading into another one called Essentia.

And I think we're seeing on the growth side, the first benefits of that transformation. Now, of course, we also have to manage for better profitability.

It was not only about portfolio management, as always, fixing underperforming and/or recovering businesses is also part of the hallmark. I think this is how a business like ours continues to create value by really getting the most out of the business we're in. Two examples for '21, one is the bounce back of the out-of-home channels, almost 25% growth here, very close back to 2019 levels. This is more than just a bounce back. This is also a lot of reimagining and rethinking of the out-of-home business in order to take advantage of new and different consumer behavior. Then the other one I'd like to point out is the frozen meals in the U.S., close to 10% organic sales growth. Here as well, this is more than just the bounce back and the support from pandemic times. This is also about just revitalizing some of the brand offerings and also improving our recipes and updating those.

Slide: Further developing our portfolio

The next slide focuses on our portfolio. Here, you see the summary for the time since 2017, more than 85 transactions, some divesting activities, some acquiring and investing activity. All in all, a rotation equivalent to about 20% of group sales.

It's been giving us a good contribution to organic sales growth. You see that at the bottom right-hand corner of the slide, around 80 basis points are coming from that portfolio rotation activity. Just in case you're wondering, are we buying growth? No, we are not. So, when you look at the margin development from 2016 to now, about 1/3 of that margin improvement is also due to the portfolio rotation activity. So on both fronts, sales and margin, I think a positive contribution from that portfolio trading activity. And so while it's certainly not a panacea, it is an essential part of our value creation strategy, and I think we have the numbers to bear that out.

Slide: Sustainable livelihoods: reducing child labor risks in cocoa

On the next two slides, I'd like to focus on two ESG issues.

Here, on the first one, talking about the novel program that we have launched at the end of January to address child labor risk in cocoa farming.

This program was launched with the support of the government of Cote d'Ivoire. It builds on our long-standing Nestlé Cocoa Plan and also some of the insights we got from extensive pilot programs that we ran on the ground in Cote d'Ivoire and Ghana.

What's new about this is that we're paying direct premiums for practices such as school enrollment of children, sustainable agricultural activities, most often pruning, for example, and also planting shade trees, and also income diversification so that people don't depend on cocoa income alone.

The program is designed to really help people achieve a living income level because that also is one of the best drivers to avoid child labor. It's important that we de-link it from production volume because we also wanted to have a sustainable benefit for small hold farmers.

That program will be complemented by a significant upgrade in our supply chain over the coming years. So over the next 5, 6, 7 years, we attempt to make our supply chain in cocoa fully traceable. I think that's important to build consumer trust and really give consumers that confidence that this comes from very sustainable and socially just farming practices.

Slide: Nestlé climate roadmap progress update

Then hot off the press, I would like to focus on our latest greenhouse gas emissions data. I think this is also timely because there was quite a bit of discussion around this issue last week following an NGO report. I think it's probably best to let the facts speak for themselves. To me, the most important statement is that peak carbon is clearly behind us. So, we topped out somewhere around 2019 at about 96 - 97 million tonnes. And even though we have kept growing strongly since then, we have been able now for the year 2021 to get down to a level of 94.3 million tonnes. So this is adjusting fully reflecting the growth, and it's fully based on true reductions. These numbers have been reviewed by Ernst & Young, our auditors. They're also fully aligned with the principles of what we consider to be the gold standard here, and that is the science-based targets initiative.

As you know, that initiative has the full backing of the UN Global Compact, and most scientists see them as the most rigorous approach in this field. Obviously, everyone has their own opinions about this, but we believe this is a very solid plan to follow. We'd like to confirm, we're fully on track for our targets that we have issued with our time-bound plan. Those targets call for a 20% reduction by 2025 and a 50% reduction by 2030.

So I know there's lots of discussions when you think back to COP26 and some of the media coverage about what people intend to do in 2040, 2050. But the focus to me is about what happens in this decade to really bring down greenhouse gas emissions and put a dent in the curve here and really have that curve point down. To me, the defining question when it comes to either companies or governments or whoever is, are you already on your way down, as we are? Or are you still on your way up? So, I think here, the facts clearly show we are on the way down. This overcompensates the growth our business has, which we always said it would. I think the data here is very convincing, and I wanted to share that with you firsthand.

Slide: 2022 guidance

For the next two slides, I'd like to focus on the 2022 guidance and also our midterm outlook. So for 2022, we expect organic sales growth of around 5% and an underlying trading operating profit margin between 17.0% and 17.5%. The underlying earnings per share in constant currency and capital efficiency are expected to increase.

Obviously, looking at the attention and some of the questions we got this morning, yes, there is the question, is that expectation around the underlying trading operating profit margin conservative? And my answer to that is, yes, it is. And I think in light of the turbulence and volatility that we see around us, inflation and supply chain issues, it's a good thing to be conservative. And it's fully in line with our meet or exceed approach when it comes to giving guidance.

So, the same applies to organic sales growth, where, of course, a lot depends on inflation and pricing activity. So, we see a very good chance here of being around 5%. But depending on where inflation goes, it also could take us higher.

Slide: Mid-term outlook

Turning then to the midterm outlook, we are again confirming that sustained mid-single-digit organic sales growth. Then I think it's also important that we point you to expect continued moderate underlying trading operating profit margin improvements. So, this is a return to, I think, one of the hallmarks of the Nestlé Model where, with increasing our growth and operating leverage, we also expect to have some margin benefit.

So that should also give you confidence that whatever margin compression we've been seeing now in '21 and that we might see in '22, that, that compression is temporary and over time then will lead to that normal pattern of continued moderate improvements. And of course, for the long term and midterm, we also continued to practice prudent capital allocation and we also expect capital efficiency improvements.

That concludes my part of the presentation. Let me hand it over to François, and then we'll be both back for Q&A. Thank you.

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

Slide: Title Slide

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

Slide: Full-year sales growth

I will now go into further details on our financial performance in 2021, starting first with the breakdown of the components of growth.

Organic growth was 7.5%. RIG was strong at 5.5%, with increased contribution from volume and solid mix. Pricing increased to 2%, with an acceleration to 3.1% in the fourth quarter.

Acquisitions net of divestitures reduced sales by 2.9%, largely relating to the Nestlé Waters North America, Yinlu and Herta transactions, which more than offset the acquisition of the core brands of the Bountiful Company and Freshly.

The negative impact on sales from foreign exchange moderated to 1.3%, turning positive in the second half.

Total sales were CHF 87.1 billion, a 3.3% increase versus last year on a reported basis.

Slide: Broad-based growth across geographies

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 increased particularly in the Americas, and RIG remained strong across all Zones. Pricing in AOA also improved to 2.2% in the fourth quarter.

Slide: Strong growth across developed and emerging markets

Growth was balanced, with strong contributions from developed and emerging markets.

Organic growth in developed markets reached 7.2%, the highest level in more than a decade, based mostly on RIG. Pricing was positive, led by North America.

Growth in emerging markets was 7.8%, with robust RIG and positive pricing, based on strong contributions from Brazil, India, Russia and Mexico.

Slide: Strong momentum in retail and partial recovery in out-of-home

Let's now look at the breakdown of sales by channel.

Organic growth for retail sales remained strong at 6.4%, with a high base of comparison in 2020.

Within retail, e-commerce saw sustained growth of 15.1%, led by the United States, Russia and the United Kingdom. E-commerce now accounts for 14.3% of total sales. Most categories saw strong momentum in e-commerce, particularly Purina PetCare, Coffee and Nestlé Health Science.

Growth in out-of-home channels reached 24.5%, helped by a low base of comparison due to the pandemic.

Slide: Using multiple levers to offset cost inflation

In 2021, pricing reached 2%, accelerating to 3.1% in the fourth quarter. We have proactively and responsibly addressed inflationary pressures and steadily increased prices over the course of 2021.

The strength of our brands, product differentiation and leading market positions enhances our ability to pass through pricing. So far, we have not seen any material evidence of demand elasticity, and we are closely monitoring for any signs of change. Volume growth has remained above pre-pandemic levels over the last several quarters.

For 2022, we expect to continue to progressively increase pricing in a responsible manner. We continue to offer products across price points and are focused on the development of affordable offerings, particularly those that meet nutritional needs in emerging markets. These efforts helped to soften the effects of inflation for those most impacted. We are also using other levers, such as product mix, disciplined cost management and the further rollout of strategic revenue management tools.

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 33.8 billion. Organic growth was 8.5%, with robust RIG of 4.8%. Pricing increased by 3.7%, reaching 5.2% in the fourth quarter. Growth was supported by new product launches, continued 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 Frozen food.

North America saw high single-digit growth in the context of significant supply chain constraints. The largest contributors to growth were Purina PetCare and Nestlé Professional, which grew at double-digit rates. The Beverages category, including Starbucks at Home products, Coffee Mate and Nescafé, saw mid-single-digit growth. Sales in Frozen and Chilled food grew at a mid-single-digit rate, with strong sales development for Stouffer's, Lean Cuisine and Hot Pockets. Water saw mid-single-digit growth, reaching a double-digit rate in the fourth quarter, driven by Essentia, and a recovery for international premium brands, San Pellegrino and Perrier.

Latin America posted double-digit growth, with broad-based contributions across geographies, led by Mexico, Brazil and Chile. By product category, the largest contributors to growth were Purina PetCare and Confectionery. Sales in Coffee and Nestlé Professional also grew at a strong double-digit rate. Infant Nutrition saw mid-single-digit growth, supported by the expansion of our human milk oligosaccharides products.

The Zone's underlying trading operating profit margin increased by 30 basis points, with a positive margin impact of the divestments of Nestlé Waters North America brands more than offsetting significant cost inflation.

Slide: Zone EMENA

Shifting to Zone EMENA. Sales were CHF 21.1 billion.

Organic growth was 7.2%, the highest level in the last decade. RIG was strong. Pricing increased by 1.2% and reached 2.5% in the fourth quarter.

Growth was supported by continued evolution of the portfolio towards fast-growing categories and channels as well as innovation. The Zone continued to see broad-based market share gains, particularly for Pet food, Coffee, as well as ambient and chilled Culinary. All market posted positive growth, with strong sales developments led by the United Kingdom, Russia, Italy and France.

By product category, the key growth drivers continued to be Purina PetCare and Coffee, supported by continued innovation across all brands. Nestlé Professional reported double-digit growth. Water saw high single-digit growth. Sales in Confectionery grew at a mid-single-digit rate, with strong growth for KitKat. Culinary reported low single-digit growth, with a high base of comparison for Maggi and strong growth for plant-based food. Garden Gourmet sales increased by more than 40%. And Infant Nutrition posted positive growth, with continued market share gains despite lower birth rates in the context of the pandemic.

The Zone's underlying trading operating profit margin decreased by 10 basis points. Cost inflation, particularly in the second half, as well as increased consumer-facing marketing expenses, more than offset operating leverage and product mix. There is a time delay between cost inflation and pricing actions, particularly in Western Europe, where pricing is often fixed for a one-year period.

Slide: Zone AOA

Moving next to Zone AOA, with sales of CHF 20.7 billion.

Organic growth was 4.2%, showing resilience in a difficult economic environment. The Zone saw market share gains in Culinary, Coffee and Pet food. Infant Nutrition reported market share losses.

China posted low single-digit growth. Infant Nutrition saw a sales decline, impacted by challenging market conditions. Turnaround initiatives continued to progress, including a review of our product portfolio and distribution strategy. Excluding Infant Nutrition, China reported double-digit growth, driven by Nestlé Professional, Coffee, Culinary and Purina PetCare.

Outside of China, the Zone reported high single-digit growth. South Asia, Sub-Saharan Africa, Japan and Korea all saw strong sales development. Southeast Asia saw positive growth despite continued movement restrictions.

By product category, the key growth drivers were Coffee, Culinary and Nestlé Professional. Sales in Confectionery, Ice cream and Purina PetCare grew at a high single-digit rate. Infant Nutrition saw a sales decline, with growth turning positive outside of China in the second half.

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

Slide: Nespresso

Next is Nespresso, which saw sales of CHF 6.4 billion.

Organic growth was 8.8%, based on strong RIG of 8.2% and pricing of 0.6%.

Growth was fuelled by new consumer adoption, particularly for the Vertuo system, continued momentum in e-commerce, and the recovery in boutiques and out-of-home channels.

By geography, the Americas and AOA both grew at a double-digit rate. EMENA saw mid-single-digit growth. And overall Nespresso gained market share, with contribution from most markets.

During the year, Nespresso also continued to progress on its sustainability agenda, achieving carbon neutrality certification in five markets, including its two largest, the United States and France. The underlying trading operating profit margin decreased by 60 basis points. Increased growth investments more than offset operating leverage.

Slide: Nestlé Health Science

Finishing with Nestlé Health Science, which reported sales of CHF 4.8 billion. The business grew at a double-digit rate, building on a strong sales development in 2020, with broad-based market share gains across channels and markets. Growth was supported by e-commerce momentum, new product launches and geographic expansion.

Consumer Care posted double-digit growth, with strong contribution from Vital Proteins, Garden of Life, Persona and Pure Encapsulations. Healthy ageing such as Boost, Meritene and Nutren all grew at a double-digit rate. The newly acquired core brands of the Bountiful Company posted high single-digit growth, led by Nature’s Bounty and Solgar. Nuun functional hydration products grew at a strong double-digit rate. Garden of Life achieved carbon neutrality certification.

Medical Nutrition saw high single-digit growth, with robust demand for pediatric and adult medical care products. The rollout of Palforzia, the peanut allergy treatment, was impacted by the pandemic. In the fourth quarter, the product started to see increased adoption in the United States and was also launched in the United Kingdom and Germany.

By geography, the Americas and AOA posted double-digit growth. Sales in EMENA grew at a high single-digit rate.

The underlying trading operating profit margin decreased by 290 basis points, mainly due to investments in Palforzia, increased consumer-facing marketing expenses and one-off integration costs related to the acquisition of the core brands of the Bountiful Company.

Slide: Strong growth across most categories

Looking now at product categories, we saw strong growth in all segments, with the exception of Infant Nutrition. Categories with strong market share gains included Coffee, Pet Food, Culinary and Nestlé Health Science.

Within Powdered and Liquid beverages, Coffee saw growth of close to 10%, supported by Nescafé, Nespresso and Starbucks products. Sales of Starbucks products grew by 17.1% to reach CHF 3.1 billion. This business is now 50% bigger than it was 3 years ago. We have now captured close to 20% of the Nespresso compatible capsules market globally. Cocoa and malt beverages grew at a mid-single-digit rate, with particular strength for ready-to-drink formats.

PetCare maintained its strong growth momentum. Most segments and geographies grew at a double-digit rate with market share gains. Purina's performance was driven by continued e-commerce growth and increased demand for premium products. Key science-based innovations such as ProPlan LiveClear, the first allergen-reducing cat food, saw almost triple-digit growth. Nutrition & Health Science grew at 1.4%.

Organic growth in Infant Nutrition was -4.6%, reflecting a sales decrease in China and the slowdown in birth rate across geographies. Sales of HMO products continued to see robust growth, reaching CHF 1.2 billion in sales. We have already discussed Nestlé Health Science.

Prepared dishes and cooking aids saw 6.6% growth, led by ambient Culinary and Frozen meals. Plant-based food products continued to deliver strong double-digit growth, with sales reaching around CHF 800 million. Milk products and Ice cream grew at 5.9%, with a high base of comparison in 2020, particularly for home baking products. The key growth drivers were premium and fortified milks as well as coffee creamers and ice cream.

Growth in Confectionery reflected a continued recovery in impulse and gifting products. Within Confectionery, KitKat grew at a double-digit rate. And innovation supported growth with new launches, such as Incoa, a vegan KitKat and Shark Nuts wafer in China.

Waters posted 6.8% growth, supported by a steady recovery in out-of-home channels and a low base of comparison. The recently acquired functional Water brands, Essentia, grew at a strong double-digit rate. International premium brands also saw strong growth, particularly in the fourth quarter.

Slide: Underlying trading operating margin by category

Moving now to profit margin by product category. The extent on timing of cost inflation varied significantly by product, with contrasted impact on category margins, particularly in the second half of the year.

Powdered and Liquid beverages saw a substantial margin increase, reflecting strong sales growth and the benefit of operating leverage. We did not yet see any meaningful effects from green coffee price increases in 2021, but the impact will be material in 2022.

Purina PetCare posted a margin decrease as higher commodity and distribution costs more than offset operating leverage and pricing.

Nutrition and Health Science saw a margin decline in both Infant Nutrition and Nestlé Health Science. We have already discussed Nestlé Health Science. In Infant Nutrition, the margin decline reflected reduced sales as well as higher commodity and freight costs.

Prepared dishes and Culinary product saw a margin decline, reflecting higher commodity and distribution costs as well as investments behind newly acquired D2C businesses and plant-based food.

The margin increase in Milk products and Ice cream was supported by portfolio management, more specifically, the divestitures of Yinlu and U.S. Ice creams as well as operating leverage.

Confectionery saw a substantial margin improvement, reflecting the benefit of operating leverage.

Water saw a margin decline due to increased freight and commodity costs.

Slide: Gross margin impacted by delay between cost inflation and pricing actions

Gross margin is a key component of our value creation model, evidenced by our track record of increases in 7 of the last 10 years. 2021 was exceptional with a gross margin decrease of 130 basis points to 47.8%, reflecting time delays between cost inflation and pricing actions. Inflation was significant and broad-based across raw and packaging materials as well as freight and energy costs, particularly in the second half. Overall, the impact of cost inflation was slightly above 4% of cost of goods sold, higher than expected, and mainly related to items that could not be hedged or bought forward.

The impact of cost inflation is expected to be significantly higher in 2022, particularly in the first half, with the most material increases coming from coffee and metals. We expect to offset increased inflation through mitigating actions, including pricing, operating leverage and efficiencies.

Slide: Strong growth leverage largely offsetting cost inflation

Moving next to underlying trading operating profit margin.

Overall, for 2021, our underlying trading operating profit margin decreased by 30 basis points to 17.4%. One-off integration costs related to the acquisition of the core brands of the

Bountiful Company had a negative impact of around 10 basis points. The remaining decrease reflects time delays between cost inflation and pricing actions.

As discussed earlier, gross margin decreased by 130 basis points.

Distribution costs as a percentage of sales decreased by 20 basis points, mainly as a result of the disposal of the Nestlé Water brands in North America.

Administration and marketing expenses decreased by around 80 basis point as a percentage of sales based on strong operating leverage and efficiencies. At the same time, we continued to invest for growth, increasing our consumer-facing marketing expenses in constant currency.

R&D expenses were flat as a percentage of sales. Investments in Aimmune have been financed through efficiencies in R&D.

We have made good progress and delivered on most of the internal sustainability targets we set ourselves for 2021. So far, we are on the right trajectory to meet our 2025 ambitions. In 2021, our sustainability investments were around CHF 0.5 billion, a material increase versus 2020. As expected, our sustainability investments were fully self-financed through growth leverage and disciplined control of our structural cost.

Looking forward to 2022, we expect our underlying trading operating profit margin to be between 17.0% and 17.5%. In terms of phasing, given the ongoing impact of inflation, we expect a margin decrease in the first half of 2022 before improving in the second half.

Slide: Significant net profit increase

Moving on to the P&L items, from underlying trading operating profit down to underlying EPS.

Restructuring expenses and net other trading items increased by 260 basis points, largely reflecting impairments related to the Wyeth business.

As a result, the trading operating profit margin was 14%, a decrease of 290 basis points on a reported basis.

Higher income from associates and joint venture, reflecting the L'Oréal transaction as well, as lower taxes more than offset lower gains on disposals.

As a result, the net profit margin increased by 490 basis points to 19.4%.

Slide: Underlying earnings per share

Moving to underlying EPS.

Underlying earnings per share increased by 5.8% in constant currency.

The main driver of the underlying earnings per share improvement was operating performance, more specifically, organic growth. All other items, such as finance cost, underlying tax rate and share buybacks, net of finance cost, also contributed positively.

Slide: Free cash flow

Free cash flow decreased from CHF 10.2 billion to CHF 8.7 billion, reflecting temporarily higher inventory levels and an increase in capital expenditure to meet strong volume demand, particularly for Purina PetCare and Coffee.

Slide: Continued discipline in working capital management

Moving on to working capital.

This chart shows our working capital levels based on a 5-quarter rolling average.

Working capital was essentially stable in 2021. The group was able to offset the temporary increase in inventory through further improvements in payables. The decision to increase inventory levels should be seen in the context of significant supply chain disruptions.

Slide: Return on invested capital

The Group's return on invested capital before goodwill and intangibles increased by 60 basis points to 41.7%, reflecting improved operating performance, particularly sales growth.

The Group's return on invested capital was 14.2% when excluding the Wyeth impairment, with a decrease of 50 basis points, mainly reflecting the acquisition of the core brands of The Bountiful Company.

Slide: Net debt

Net debt increased by CHF 1.6 billion to reach CHF 32.9 billion as at December 31, 2021. The dividend payment, share buybacks and the net cash outflow from M&A more than offset proceeds from the disposal of L'Oréal shares and free cash flow generation.

During 2021, we returned CHF13.9 billion of cash to our shareholders in dividend and share buybacks.

We are committed to maintaining our practice of increasing the dividend every year in Swiss francs. At the next Annual General Meeting, the Board of Director will propose a dividend of

CHF 2.80 per share. If approved, this will be the 27th consecutive annual dividend increase. The company has maintained or increased its dividend in Swiss francs over the last 62 years.

This concludes my remarks. I now hand over to Luca to open 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 comes from Warren Ackerman at Barclays.

Questions on:	**2022 margin guidance and inflation** **M&A focus and criteria**

Warren Ackerman, Barclays Bank:

Warren Ackerman here at Barclays. I hope you're all doing well. So two questions.

The first one is for François. I just wanted to understand the 2022 margin guidance and inflation. You said inflation will be significantly higher in 2022. How high could it be? We talked about COGS inflation pushing 10%. And could you say something about your visibility on that and hedging? I'm trying to understand, is gross margin actually going to be down in 2022? How do you actually make that up down the P&L? Or are we going to see another 80 bp benefit from admin and marketing in 2022? I'm just trying to understand the difference between the top and the bottom of the range of 17%-17.5%, how do you get there?

The second one is for Mark. It's a question on M&A. In an interview this morning, you said that you were open to a big deal, although you're not compelled to do one. I know you said in this interview it's not a major change of focus. But it does feel to me a little bit like a different tone. I'd always assume that deals above CHF 10 billion, you'd worry about execution risk. I'm just wondering whether that's changed and whether you can share with us your thinking on what you might define as big. Maybe at the same time, you can remind us of what your M&A criteria is.

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

Warren, I will start with the first question. So our margin guidance for 2022 is between 17% and 17.5%. We do expect a significantly higher impact of input cost inflation in 2022 over

2021. We cannot really give you a figure as of now even if we have a view, and we have a fairly clear view as of now, but we are just 6 weeks into the year. There are still a lot of moving parts. So we are really focusing on the actions in order to mitigate this input cost inflation. Pricing will be obviously the main one. But it goes beyond that because we can look into efficiencies, mix, strategic revenue management and so forth.

We do have hedging in place. We usually don't share the timing and the length of the hedging because we consider that it is a commercially and price-sensitive information. But we do have hedging in place. But be aware of the fact that a significant portion of the input cost inflation that we are receiving actually cannot be hedged or cannot be covered through forward buying. I would mention there a lot of the packaging that we do. I would mention transportation, ocean freight and so forth, which cannot be hedged or bought forward. So we are confident overall. We are really putting everything in place in order to offset as much as we can during the year, and we will obviously continue to benefit as well from the growth leverage as well.

In terms of timing, it is important to understand that we do expect a decrease of underlying trading operating profit margin in H1 2022 versus H1 2021. In H1, we will still have some of this negative impact from the timing difference between input cost inflation and pricing as we will have some pricing ramping up.

Let me just give you one example, one concrete example. In Europe, we have not fully completed the negotiation on pricing because the timing is still going on for some of the retailers or some of the markets. So which means that in a certain number of cases, not all, but in a certain number of cases, we will get the benefit of price increase only from Q2. And we are planning in other geographies as well some further pricing activities that will take place later in the year.

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

Warren, this is Mark, and thanks for the question. Look, I wasn't trying to send any signals to the market this morning. We have always been open for deals in all size categories, all geographies and all categories. So no change there. What also continues to apply is what you mentioned. That is, yes, our interest level in small to midsized deals is much larger, because at a time of pretty full valuations out in the market, our chances of making our money back are much better there because they tend to be easier integration jobs, and usually, there's less antitrust leakage involved with those transactions. So the bias is still the same. But obviously, I also don't want to rule out anything. But from my end, no change. Across the full spectrum, we remain interested, but we have our focus. When you look at our actual acquisition activity, I think given that our narrative on this hasn't changed in 5 years, you see it exactly bear out this way. It was all kind of in that size bracket you indicated, below CHF 10 billion. As you saw from the summary slide, it really benefited our company.

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

Next question is from John Ennis at Goldman Sachs.

Questions on:	**Organic sales growth guidance** **Pet adoption and contribution to growth in PetCare**

John Ennis, Goldman Sachs:

My first is to come back on the organic sales growth guidance. You said in your opening remarks that, that could be seen as conservative. Can I push you with a bit more detail on exactly what you're assuming within that 5%? Is it a higher degree of volume elasticity than may be in your base case? Or is it that perhaps you don't take as much pricing because commodities roll over? A little bit of detail as to how you got to 5% would be helpful.

Then my second question is actually a follow-up on PetCare. Again, in your opening remarks, you talked about pet adoption being favorable for 2021 and 2020. Can you share the contribution from that to your overall growth? What is your outlook for pet adoption as a contribution to growth in 2022?

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

Thanks, John. So look, I can try and give you a bit more color on the organic sales growth. But obviously, at a time of significant turbulence, what's hard to do is to give you a precise breakdown here. So obviously, we're dealing with a number of unknowns. Where exactly inflation is going? How much pricing we can get away with? Also, what the volume elasticity is going to look like exactly? Because that's also an open out question there. François confirmed that we haven't seen any significant volume elasticity so far. But that doesn't mean that assumption is going to apply to the full year '22. So that's why I feel that 5% range is a very reasonable middle-of-the-road estimate. Then depending on where pricing goes and what exactly volume elasticity is doing, we may be going higher than that. But at this point, a precise breakdown, frankly, is not telling you very much because the assumptions may be changing so much from one month to another. So, we feel very confident about that level. I think that should also give you confidence here. And obviously, it's the highest level we've been guiding to in a number of years. But again, we need to stay flexible as we go throughout the year. I think that's the one lesson we learned from '21.

Regarding PetCare, it's hard to give you a precise step-up that relates to pet adoption. But just looking at circumstantial evidence here, it's not that there was tremendous flowback that these pets that were adopted have been going back in huge numbers to animal shelters or so. And from what I know from circumstantial evidence, waiting list with many breeders are still very long. So, I think this has truly ignited interest in pet ownership, which is a good thing and something we always promoted.

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

Next question is from Patrik Schwendimann at Zurcher Kantonalbank.

Questions on:	**RIG in 2022** **Nestlé Health Science underlying margin**

Patrik Schwendimann, Zürcher Kantonalbank:

First question, developed countries had a very strong RIG of 5.9% in '21. As the world is hopefully going into a post COVID mode, would you expect that RIG could be negative in the developed countries in '22, in the current year? Bearing in a strong basis, or in other words, if you want to achieve a positive RIG in '22, this has to come predominantly from the emerging markets? What's your opinion here? That's my first question.

And second question, in Nestlé Health Science, the underlying EBIT margin was down by 420 basis points to 17.5%. What is your best guess? How long will it take to get back to an underlying margin of above 20%?

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

Patrick, so the RIG was indeed strong in emerging markets in 2021, 5.1%. We still see a very good momentum. And even in Q4, it remained at an attractive level. We are monitoring the situation very carefully because we know that in emerging markets, there is more sensitivity to price and especially whenever we are in the affordability segment. So we are tracking that. It's very dependent. The situation -- and the elasticity might be very dependent by category, by market and even by SKU at the end. So, this is something we are monitoring very closely.

So, no clear evidence, once again of any sign of significant negative elasticity so far. But this is something that may happen a little bit during the year. By the way we are tracking not only the elasticity on volume, we are tracking the elasticity on mix as well. Because in a certain number of cases, people will have to eat anyway, but they may have to trade down in terms of shopping habits. So, it might impact as well, the mix, which is something that we are carefully monitoring, because as you know, historically, mix has been a very strong component of our growth, and it remains the case still as we as we speak today.

Patrik Schwendimann, Zürcher Kantonalbank:

And in the developed countries?

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

In developed countries, I would say it's exactly the same story, except that we are probably less exposed to affordability offerings in the developed world. So we have a portfolio which is more premiumized. You have seen that 35% of our total sales today at group level are in the premium segment where price increases and input cost inflation is less of an issue. I mean, we need, first of all, to increase prices by less, and consumers are more likely to accept it. So I would say the challenge is probably less acute there. But once again, we are monitoring the situation very closely. I would say the comment that I made on mix does apply equally to developed countries as well.

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

Maybe Patrik, I could build on that. Clearly, one of the strong points here of our organic growth composition for 2021 was that nice balance that François pointed out earlier between the volume growth, the pricing and the mix. I think that is so much more resilient than any one trick pony. And if it gives you any confidence, we entered the year '22 with very nice momentum, and that's nice stable multi-pillar mix continue to apply. So at least as of now, we're looking good on that front.

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

Patrik, on the margin question for Nestlé Health Science. So, we expect clearly the margin of Nestlé Health Science to go up, and you will see it already in 2022. This is largely the result of growth leverage, because as you saw, they are growing. They have been growing at a double-digit level. And this is linked as well to the fact that we will start Aimmune and its main product Palforzia to start to gain momentum as well, and 2022 will be an interesting year from that point of view. And in addition to that, we do expect to get some synergies, especially between The Bountiful Company and other VMS businesses that we have, more specifically, Atrium that we bought 5 years ago.

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

Next question is from Céline Pannuti at JPMorgan.

Question on:	Wyeth goodwill impairment and development of the business Consumer Health

Céline Pannuti, JPMorgan:

Yes. My first question is on the China -- the Wyeth goodwill impairment that you made. Could you -- I'm sure that you've been looking at your long-term assumption on this business and on this country. Could you share with us what is happening on the ground in this business? And also, what those long-term assumption? How you see this market and your business developing?

And my second question is on Consumer Health. Well, you certainly are integrating the Bountiful and the VMS, and there seems to be others of your competitors as well, interested in that same category. Could you tell us whether you still really focus on Consumer Health and Nutrition, or whether scale would make you look at different adjacent categories within that bigger segment?

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

Thanks, Céline. This is Mark. So, on Wyeth, obviously, we've been very transparent with you over the last two years that we were not satisfied with the performance in the Chinese market. So while the impairment only was announced today following the review from our auditors and the approval of our Board. I think it was very clear that there was trouble brewing. We had to reflect the carrying value and had to adjust it for the latest assumption on where the trading is today and what we expect going forward. Having said that, we are committed to this business. I just wanted to be very clear on this because the question has come in a few times. Are you potentially retreating from that market? No, we won't. Then we are strongly believing in this core business of ours. We strongly believe in the fact that China is the largest and most advanced Infant Formula market. And so if you want to stay committed to this business, I think it's important to stay there and compete and win. And that's firmly what we intend to do. And so more than the numbers suggest, I think management has taken very energetic action there, and we expect improvement already to become visible this year. There was another question that we got like, do you expect to be back in positive territory this year? Yes, I think we have a good chance of being back in positive territory this year and then over time recovering from there.

Basically, it's about improving our channel presence. It's about improving our presence in lower-tier cities, and also continued innovation and offering cutting-edge products. So, we believe there's a space for us there to compete and to be successful, and we're fully committed to that.

When it comes to Consumer Health, interesting question, I sense the background of this question. So let me just be very clear. We are very deeply committed to Nestlé Health Science. But exactly along the lines of what we told you very consistently since 2017, and that is we don't want to create a soup to nuts portfolio of all sorts of Consumer Health care assets. What we want to do is consistently grow and develop around nutrition and metabolism as our angle into Consumer Health, and vitamins, minerals and supplements are the largest part of that, but medical nutrition and some of the sports additives that we are offering are other good examples. So, we will stay focused. You see now that this patient strategy of doing it is paying off. We're coming here to a very nice size and presence of this business. It's also very synergistic inside the company, which is good. And that's what's paying off here. A broad-based Consumer Health Care portfolio is something that we kind of signalled low interest in from the beginning, and we stay true to that. I think it is truly paying off.

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

Next question is from Bruno Monteyne at Bernstein.

Questions on:	**Marketing spend and growth rate** **Margin outlook**

Bruno Monteyne, Bernstein:

The marketing spend in brand support is down by 80 basis points year-on-year. I read what you said about operating leverage and efficiencies. But if I were to phrase the question as such, like if the gross margin pressure hadn't been as bad as it's been, would the marketing spend have ended up at the current number or would it have been higher? Are there any implications really for the growth rate you're expecting this year, the 5%?

And the second one is on your margin outlook, 17% to 17.5%. Are you making any assumptions of the nature that commodities will roll over? Are there any of those kind of, things will get better in the external market, that you're relying on? Or do you not need those assumptions to hit those numbers?

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

Bruno, let me take the first question. First of all, I think it's important to clarify, we did not cut marketing expense. Actually, we increased the amount of marketing spend during the year in absolute value in Swiss francs. And even in H2, because I saw that there was a perception that we cut marketing spend in H2 in order to reach a certain level of profit, we did not.

Actually, we spent more in absolute value in H2 than in H1 2021. So we did raise our investment.

What could be maybe misleading is the fact that, indeed, we reduced our spending in marketing in H2 2021 versus H2 2020. Because in H2 2020, we had spent quite a lot after having cut in the first part of the year, which was just the starting point of the pandemic. So -- no, no, we have raised our investment last year. I think that this is something that is, to a certain extent, the beauty of what we have achieved in 2021. Because in spite of very difficult conditions, with the significant impact of input cost inflation, we have been able to invest for the future, in marketing, in sustainability, I mentioned it in my comments earlier, as well as in CapEx. So we are really investing for the long term. And marketing spend is really at the heart of it.

Would we have spent more if we had not been facing input cost inflation? Difficult to answer. But we don't look at it that way. We look at what are the needs to protect our brands, develop our brands and to launch our innovation. So I think that we were happy with the amount of investment that we have done last year.

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

Bruno, let me just build on that and then also address your second question. So clearly, some of the year-over-year effects matter here because there was a lot of marketing spend in the second half of 2020 after that low in the first half of 2020. And so year-over-year, that's also something to keep in mind. And then tactically, given that we did have supply chain pressures and sometimes shortages of products, when you know that you're not able to deliver 100%, you become so much more tactical on your marketing and promotion spend because the last thing you want to do is promote something you can't deliver. So that also had some bearing more than any financial headroom that may have been a governor. So it's really about doing the best you can under the circumstances and your supply chain availability.

So on the guidance for this year, that's exactly why I'm stressing the caution. So to me, giving you a guidance on the hope that something turns better, frankly, I would never gamble on that. Okay? So that's why, yes, we're taking very cautious approaches here because we want to be sure we meet or exceed expectations. Then, of course, as we go through the quarters, we'll keep you updated. You may have noticed, for example, in Q3 that we broke with the practice that we never discuss something that's related to inflation and pricing and profitability because we knew that in a volatile environment, people wanted to have some kind of sense of where things stand. So all we can do -- as we go throughout the year, is to share very transparently with you where we stand and then give you the best possible help you on margin expectations.

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

Next question is from Pascal Boll at Stifel.

Question on:	**Consumer trends and private label** **Nescafé capsules for Nespresso machines**

Pascal Boll, Stifel:

My first question touches on consumer trends. We have seen since the pandemic constant market share decrease of private labelling now that prices of packaged food increase globally. What do you think is the risk that we see that consumers start to down trade then to other lower-priced food and also to maybe private label food?

My second question touches on coffee. If I interpreted correctly, that you start to roll out the Nescafé capsules for the Nespresso machines on a larger scale. What do you see in terms of potential for this product? Could this be a new growth driver for the category?

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

Thanks, Pascal. So, on the consumer trends, obviously, as François pointed out, we do watch out with a lot of intensity for any sign of either down trading or volume elasticity. And as you mentioned, so far, with a few emerging market exceptions, we have not seen any significant sign of that.

At the end of the day, everyone needs to eat and drink. While there has been inflation in the packaged goods area, remember, on prepared meals, it's even more dramatic because those inputs are increasing, plus you have the labor shortages in many markets that also lead to cost inflation. At the end of the day, while everything is inflating, packaged goods and nutrition coming from the retail sector may still be the best deal in town. That's why I think we are reasonably protected here from some serious volume elasticity.

With regards to your second question, Nescafé Farmers Origin, that's the name of these capsules. Yes, they have been very successful in markets where we introduced them. And I think that's giving us the opportunity to capture a larger share of this analog market. So basically people that offer similar formats. As François pointed out, we're already at 20% share. And I think this is one other very popular brand that we can bring to the consumer in this format.

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

Thanks, Pascal. Next question is from Guillaume Delmas at UBS.

Questions on:	US organic sales growth At home consumption levels

Guillaume Delmas, UBS:

Two questions for me, please. The first one is on your largest market, the U.S., because there seems to have been a sequential pickup or acceleration in organic sales growth in the U.S. in the fourth quarter. So just wondering what were the main drivers behind this, whether it was pricing, less supply chain constraints or maybe just a rebound in Pizza and acceleration in PetCare? Also curious to hear if you've seen any kind of inventory anomaly in the U.S. So if you remain confident on maintaining that kind of run rate into 2022.

Then my second question is on the concept of at home revolution. Mark, does it effectively mean that you do not anticipate any significant normalization in at home consumption? And I'm thinking, particularly for categories such as prepared dishes or coffee. And thus, if we can continue to grow -- or you can continue to grow volumes competitively from these already elevated levels.

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

Thanks, Guillaume. Let me start with the second one and then hand it over to François for the U.S. market. So look, that at-home revolution, I think made it clear when I described that, that this is not something that continues at exactly the same growth rates as we've seen in '21. So as the pandemic hopefully continues to subside, just mathematically, when you look at quarter-over-quarter, year-over-year, as people return, at least partially, to their offices and places of work, yes, you will have a temporary period where the growth rates subside. But as you can see from our all-in group growth rate that we guide to, around 5%, it's not leading to a serious hangover. Because remember a year ago, there was this question, well, will you have a serious hangover when this pandemic ends? And I think the answer is no.

What I'm pointing to is permanently elevated levels of demand compared to the pre-pandemic situation because there will be more work done remotely. And for most people, that means at home. People still have to eat. They will still want to consume coffee and many other products that otherwise they would have been consumed in an office environment and out-of-home setting. I think this plays into our strengths because our at-home market shares and retail market shares are higher. But I just want to be sure that people don't just take that as an indication that the growth rates from '21 will basically continue unabated. You have to compare it to pre-crisis levels.

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

Guillaume, François speaking. On the question of the acceleration of our growth in North America, it is true that we have seen an acceleration of the growth, which has happened essentially because of pricing. So we had pricing at mid-single-digit level in Q4, including in the U.S. And it happened across categories basically. But we saw a very resilient RIG as well at the same time, which is the beauty of the exercise.

You were asking if we had been facing supply chain constraints in the U.S., yes, a significant one. It was much more on the logistics side. I can tell you, even in the months of November, December, for example, we could produce. But we were not totally sure at that time that we would be in a position to ship everything, and therefore, to invoice everything. So that's been quite tough. Eventually, we managed to do it. But it was very, very tight, more on the logistics and transportation side than manufacturing side itself.

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

Next question is from James Targett at Berenberg.

Questions on:	**Water margins** **Market share**

James Targett, Berenberg:

Two questions from me. Firstly, just on Water. Obviously, you had good growth in Water this year. And you mentioned the focus is now on managing margins, managing business for better profitability. Now with the greater premium brand focus, can you speak to where you think margins could go in Water? Maybe even hitting the group average. That's my first question.

Then just secondly, on market share, I was wondering if you could update your usual stats for the percentage of the business gaining and holding share.

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

Thanks, James. Let me take the Water question first and then hand it to François. So look, we definitely wanted to improve. But I think it would be difficult at this time of so much volatility and also so much changing in the business as we transform it to give you a precise target range. As you know, there was a time when we were tracking significantly higher, about 200, 300 basis points higher than now. Obviously, we want to claw back as much of that as possible. But at a time when you have everything gyrating, like transportation costs, costs for both virgin PET material and recycled PET material and so many supply chain issues, I think it would be hard to point to something more precise. But I made it very clear. We're not resting where we are. We want to have this business perform better from a profit point of view. It's going to be a several-year effort. But the most important thing when you compare this now to where the business stood a few years ago, I think we are back to an exciting growth proposition, and that's borne out in the numbers.

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

James, François speaking. On the market share question, so this is the third year in a row that we see our market share improving, with more than 60% of our business cells, a cell is a mix of category and geography. So more than 60% of our business cells gaining or holding share for three years in a row. This is close actually to the highest level that we had experienced, which was in 2013. This is really the consequence of our fast innovation, differentiation, premiumization, and I think execution to retain this level. It is the case we are gaining or holding market share across categories, with obviously one exception, which is Infant Nutrition in China. And in Confectionery, we are not really gaining market share or holding market share because of count lines, which is a very specific submarket. But apart from that, across categories, we are gaining market share.

The same applies in terms of geographies. If I take AMS, for example, it's very much the case in Coffee, Pet food, Frozen food, in EMENA, in Pet food, Coffee, ambient and chilled Culinary. And we are gaining market share as well in e-commerce, outside of Infant Nutrition. Can we hold it? Obviously, we are working on it. And we are using the same levers from innovation, premiumization, differentiation. This is something that we are monitoring very closely as well. And even when we do price increases, we do monitor the elasticity that it has on volume, on mix, as well as on market share. So this is something that we are very focused on.

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

Next question is from David Hayes at Société Générale.

Questions on:	**US market momentum** **Strategic review of Infant formula nutrition**

David Hayes, Société Générale:

So two for me, just following up on the U.S. and then one on Nutrition -- Infant Nutrition. So on the U.S., just following up on the early question from Guillaume. Obviously, I know you said it was pricing. But it does feel like the U.S. has got this momentum even as people are moving -- or not at home as much. So, I guess the first part of that, is there anything in the U.S. that you can point to say that you really learned something which is why it's doing so well that you can apply and planning to apply elsewhere?

I guess related to that, maybe just in terms of risks of slowdown, is there anything you'd say, beyond returning to the office, et cetera, that the slowdown risk is there? I'm thinking maybe snap vouchers. You've seen a doubling, I think, of snap voucher payouts by the government in two years, and we assume that's going to drop off. Is that something that you would say has an effect on underlying demand?

And the second question is just to clarify. Last quarter, I think you talked about a global strategic review of Infant formula nutrition. So I guess the question was, is that correct? Is that what you did say? And if so, are we going to see findings and an update on that? How is that progressing if that is the case?

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

David, so let me try and address both. So for the U.S., I think this is a business that for a long period of time have been one of our growth locomotives. And we did have mid past decades kind of a growth low. That is true. But I think it's only restoring its position to its proper place. And this is a leading market where consumer trends play out, where premiumization gets rewarded, and people like top-notch quality and strong brands. So I think on a midterm perspective, I am very bullish on the opportunity in the U.S. market.

Short term, exactly where now that equation between some of these support vouchers and savings and then pricing goes, that is something that we all need to watch and we need to update you on. But I'm very glad about the strong management we have in place in the U.S. market. And the good results, that didn't just come up overnight. I think you've seen a very consistent improvement here ever since 2018. And I think it's fully playing out now.

So on Infant Nutrition, that question came up a few times, and my apologies if there was a misunderstanding. So, we may have meant or referred to a review of certain minor segments. But overall, on Infant Nutrition, Infant formula, we remain as committed as it gets. We do understand this is not the best moment in time, because clearly, in the face of the pandemic, birth rates took another steep drop. Clearly, with all the medical and financial uncertainty that people felt, this was not the best time to either start a family or enlarge your family. Some of that will come back over time. And then, of course, you have some specific situations. And the most notable one is the one in China, where we know that we have homework to do, and we're fully committed to doing it. So no, we're not reviewing this. We stand up and compete. And you will see us improve the business and its results.

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

Next question is from Tom Sykes, Deutsche Bank.

Question on:	**Coffee profitability** **Omicron impact on Q4**

Tom Sykes, Deutsche Bank:

I wondered if you could just spend a bit of time talking about the profitability in Coffee. Obviously we see what's happened to the green coffee prices and aluminum. Could you maybe talk about the scale of price increases that you might need to push through? Are you as hedged now on the major inputs as you would normally be, or are you taking much of a forward view? And do you think about it as managing absolute EBIT at the moment? Or do you think about it in margin terms, just given the scale of some of the input increases, please?

And then just to follow on some of the others. But do you think there was any Omicron benefit in Q4 to the overall growth rate, please?

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

Maybe Tom, if I could start with the last one. I think Omicron really only had an impact the last few weeks of December. And so that, to me, it may have helped. But it was certainly not the material driver and it was not making the difference between a disappointing Q4 and the successful Q4 that we've seen. So it may have had some benefits to us, but again, not material. I think Q4 was shaping up to be a strong Q4 even beforehand. As mentioned, we also continued with very good momentum into January. And then on Coffee profitability, I'll hand it to François.

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

Yes. Thank you, Mark. Tom, the profitability of Coffee was very attractive and good in 2021. We did not face -- I mentioned it during my comments, I think we had not any impact of increased coffee bean prices in 2021 because we had hedging in place a little bit as well at the beginning of 2022. But this will disappear as we progress during the year, even if we have put new hedging in place. But clearly, there will be an increase of input cost inflation for

Coffee. It goes anyway beyond coffee beans, but it goes into transportation and other items. So, we will need to increase prices for Coffee in 2022. But obviously, as you can understand, we are not going to share anything because this is a commercially sensitive information. The same applies as well to hedging.

You were asking if we look at our margin in absolute value or in percentage. At group level, we look at it as a percentage of sales. And this is the way that we provide our guidance as well. And this applies, to a large extent, on each and every single category or market. This is the way we work and this is the way we operate within the organization.

Tom Sykes, Deutsche Bank:

Okay. Would it be fair to say that the potential variability is a bit greater than the 17% to 17.5% sort of level of range that you have for the group as a whole in Coffee or Powder and liquid beverages?

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

Tom, for the group. I mean, we've given the guidance, 17% to 17.5%. That's what we guide to and what we stand by. And we believe that's the best estimate. Then so it's already a reasonably wide range compared to what we've done in the past, and so we feel good about it.

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

Thank you. We have no further questions, and we come to an end of our session today. We thank you very much for the interest in Nestlé. And if you have a further question, don't hesitate to reach out to our IR team. We wish you well. Stay safe and healthy.

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

Thanks again for joining us, and we look forward to seeing you again in Q1.

End of Q&A session

End of Transcript