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Structurally gearing our portfolio for mid single-digit growth

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

Slide: Title slide

Good morning everyone.

Slide: Disclaimer

I will take the disclaimer as read.

Slide: Our business is global, balanced and diversified

During my presentation today I will explain how our portfolio is now structurally geared to deliver sustainable mid single-digit organic growth.

I will start with a summary of our business profile and our full-year 2021 results just as a reminder.

Nestlé is the largest Food and Beverage company in the world with annual sales of CHF 87.1 billion last year.

Our portfolio is well diversified in terms of geography, category and channel and our strategy is focused on product differentiation and innovation.

We have a unique geographic footprint, with sales in 186 countries. Marco will cover Zone Europe in more detail later.

We operate in attractive high-growth categories within the Food and Beverage industry, with leading market positions.

We are less labor and capital intensive than we were in 2015, with almost 20% less employees and 82 less factories, on slightly lower sales. We are also the largest investor in R&D in our industry, with annual spending of around CHF 1.7 billion.

Slide: Resilient financial results in 2021

Let me now give a quick overview of the full-year 2021 highlights.

We delivered resilient financial results in the context of the pandemic and inflationary pressures.

Organic growth accelerated to 7.5%, supported by continued momentum in retail sales, steady recovery of out-of-home channels, increased pricing and market share gains.

The underlying trading operating profit margin decreased by 30 basis points to 17.4%, reflecting time delays between cost inflation and pricing actions.

Underlying earnings per share increased by 5.8% in constant currency. Sales growth was the main contributor to the increase.

Return on invested capital decreased slightly to 14.2% excluding the Wyeth business impairment.

Free cash flow was CHF 8.7 billion as we increased capex temporarily to support growth.

We returned CHF 13.9 billion to our shareholders through dividends and share buybacks. We also proposed a 27th consecutive increase of our dividend to CHF 2.80.

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

Over the last few years, we have done a lot of work to position our portfolio for sustainable mid single-digit growth.

Our organic growth has steadily increased since 2017, with an acceleration in 2021 to 7.5% partly due to higher demand in the context of the pandemic. While we would not expect growth to continue at such exceptional levels, we expect to deliver mid single-digit growth consistently going forward.

The key factors behind our transformation and market share gains have been investments in high growth categories and geographies, the acceleration of innovation and the stepping up of digitalization. In addition, we have made a number of important portfolio changes through acquisitions and divestitures, resulting in a more focused portfolio.

Slide: Playing in the fastest growing categories in Food and Beverage

Within Food & Beverage, we operate in seven of the top ten fastest growing categories. We command leading positions in most of these categories, being the number one or number two player in five of the top ten.

This is the result of deliberate strategic choices over many years to focus on attractive high-growth categories where we can continuously differentiate our offerings and where we have the ability to win.

Slide: Portfolio increasingly focused, premiumized and digital

Our portfolio has evolved significantly over the last ten years and is now more focused on Food, Beverage and Nutritional health.

Fast-growing categories such as Coffee, PetCare, Health Science and Plant-based now represent more than half of our sales compared to a third in 2012. These categories represent an even greater proportion of our underlying trading operating profit.

We have also significantly shifted our portfolio towards premium products, where we see faster growth, higher margins and better protection from commoditization. Today, premium products represent 35% of our sales versus 11% in 2012.

Our portfolio has also evolved by channel. Today, 14.3% of our sales are in e-commerce, almost five times more than in 2012.

This portfolio evolution has not happened only through M&A activity, but also through significant developments in our existing businesses from innovation to premiumization.

Slide: Outperforming in our largest categories and future growth platforms

Our portfolio is well-positioned in our largest categories and in segments where we are sowing the seeds for future success.

In our two largest categories, PetCare and Coffee, Nestlé has grown faster than the market over the last five years and we have been gaining or holding market share in more than 70% of our business cells.

We are also investing to build platforms for the future, such as vitamins, minerals and supplements as well as meat alternatives where we have also been growing consistently faster than the market.

Slide: Increasing differentiation across categories, with market share gains

Beyond our largest categories and future platforms, we have done a lot of work to strengthen our market positioning and increase differentiation across all of our categories.

We focus on value-added products in categories such as Confectionery, Infant nutrition, Food and Water. We have been shifting our portfolio away from commoditized offerings to focus on differentiation, through innovation as well as portfolio management.

We are applying our expertise in Nutrition, Health and Wellness to develop breakthrough nutritional solutions. For example, in 2021 we further enhanced our human milk oligosaccharides offering with the launch of an infant formula made with five types of HMOs. In our Dairy business in China, we continue to add new premium formulations to the Yiyang collection, including products to support mobility and immunity. Yiyang senior nutrition exceeded CHF 100 million of sales and has grown by a factor of thirteen over the past thirteen years.

Local relevance is also an important element of differentiation. We ensure products are tailored to local tastes and preferences. Our work to increase affordable offerings is a good example. To make good nutrition affordable and accessible, we adjust processes and recipes, use local raw materials and fortify products with locally relevant micronutrients.

As a result of our focus on differentiation and accelerated innovation, we have seen a step up in market share performance across our business. For the third year in a row, more than 60% of our business cells are gaining or holding share.

We have also been focusing on businesses where we have strong market positions. Today, we have around 80% of our sales where we are the market leader or close follower.

Slide: Rapid innovation to better capture consumer trends
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As I mentioned, innovation has been a key driver of our organic growth acceleration and market share gains. There has been a major shift to the way we approach innovation at Nestlé.

We have significantly reduced the time to market to capture consumer trends faster. To translate science into products more quickly, we use enhanced prototyping capabilities in our R&D centres and we fund fast-track projects. In 2021, more than sixty fast-track projects resulted in launches in six to twelve months. We have also been increasing the number of multi-market launches with greater sales impact.

Innovation takes different shapes and form and we are focusing on the following key consumer trends:

Premiumization and offering new benefits to consumers.

Affordable offerings, particularly those that meet nutritional needs in emerging markets.

Plant-based, both in born-pure brands like Garden Gourmet, as well as more broadly across our portfolio with brands such as Stouffer's. We have around CHF 800 million of sales in plant-based food, with strong growth.

Sustainability, with a key focus on carbon reduction and sustainable packaging. We have several brands that achieved the carbon-neutral milestone in 2021, including Garden of Life. Other brands are expected to follow and become carbon neutral by the end of 2022 including Nespresso, Garden Gourmet and San Pellegrino.

Digitalization. As discussed at our recent investor seminar, data and technology are a key driver to accelerate growth. Sales in e-commerce grew by 15.1% in 2021, following a high base of comparison in 2020.

Slide: Stepping up investments behind growth platforms

We have been stepping up our investments to support growth opportunities.

In recent years, capex has been between 4 to 5% of sales.

In 2021, capex reached 5.8% of sales and we expect it to be in the 6 to 7% range in 2022, reflecting accelerated demand in some of our categories. In 2022, around two thirds of capex is expected to be allocated to PetCare and Coffee.

The level of capex should start to normalize from 2023 onwards.

Slide: Combined with continuous prudent M&A activity

Portfolio management has also played an important role in positioning our portfolio for growth, ensuring we focus on categories and geographies with attractive dynamics where Nestlé has an ability to win.

Over the last five years we have rotated around 20% of our portfolio, including buying and selling. There has been a steady stream of activity with more than eighty-five transactions.

Significant recent actions have included the transformation of our global water business, including the sale of mainstream waters brands in North America and the acquisition of Essentia in functional water. We also continued to build Nestlé Health Science into the leading global nutrition and health platform through targeted acquisitions, including core brands of the Bountiful Company in VMS and Nuun in functional hydration.

Overall, portfolio management has had a meaningful positive impact on our financial performance. Acquired businesses since 2017 generated sales of CHF 6.8 billion in 2021, growing on average by 18% and contributing 80 basis points to organic growth. Acquisitions and divestitures have also supported our margin expansion, contributing around 30% of our progress since 2017.

We continue to look for opportunities and are determined to remain disciplined to protect and increase our ROIC, as we have demonstrated over the last few years.

Slide: Creating significant value for shareholders

Through our actions we have been creating significant value for our shareholders.

We believe strongly in being dependable and have a practice of providing sustainable year-on-year dividend increases in Swiss francs, a currency that typically revalues against others.

In-line with our capital allocation priorities, we undertake share buybacks when we have excess cash. Our share buyback programs have reduced our share count by ~30% since 2005. The average share buyback price over this period was around CHF 63 compared to a share price which is almost twice as high today.

Since 2005, the total cash returned to shareholders from dividends and share buybacks was CHF 182 billion.

Overall, we have delivered a strong total shareholder return over the last fifteen years with a compounded annual growth rate of 14%, significantly exceeding the STOXX Food and Beverage index at 10%.

Slide: Our mid-term value creation model

To summarize, we believe we have a portfolio that is now structurally geared to deliver sustainable mid-single digit organic growth.

We have achieved this through sharpening our focus on food, beverage and nutritional health, accelerating innovation and increasing differentiation across our portfolio.

Delivering mid single-digit growth forms part of our value creation model, which is based on having a balance between sustainable growth, profitability and capital efficiency.

Ultimately in the long-term, we will be successful by creating value for both society and our shareholders.

Thank you for listening and I will now hand over to Marco who will cover regenerative performance in Zone Europe.

Nestlé Zone Europe: Towards regenerative performance

Marco Settembri, CEO Zone Europe, Nestlé S.A.

Slide: Our business in Zone EMENA

Thank you, François. Our business in Zone EMENA represents 24% of the group. With a workforce of less than 70 000 people we operate in all key Nestle categories, with significant share of Coffee, PetCare, Food and Confectionery in our portfolio.

Our iconic brands are Nescafé, Felix and KitKat, as well as NAN, San Pellegrino and Perrier and of course many others. We operate a manufacturing base of above 100 factories.

Slide: Transformed to be a more focused, competitive and agile organization

Over the last few years we have undergone a significant transformation to become more focused, competitive and agile.

To strengthen our consumer-centricity and achieve an edge in category expertise, we have reshaped our organization with the establishment of seven categories with full P&L responsibility. This has enabled stronger portfolio management and resource optimization at a regional level. As markets remain the place where business is happening, we have evolved our ways of working to a true matrix, leveraging the most of expertise of both sides.

Some of the smaller countries in our region have been federated into bigger markets, achieving significant efficiency, while maintaining consumer and customer proximity.

This new organization, including above-market decision rights in operations has enabled strong efficiencies in the value chain, delivering over 600 million cost savings over the last four years.

Slide: Delivering strong operating performance

Our model is proving itself through the improved operational results, delivering stronger growth, reduced structural costs and increased profitability and market share gains in most of our categories.

We have also enhanced our portfolio with new business models in the rapidly growing segments specifically in PetCare and Food, and also accelerated carbon neutrality achievements. We have passed our carbon peak in 2019 and have further reduced total CO2 footprint last year – with 0.9 million tons in CO2 reduction and 2.6 million tons CO2 removal.

We are fit and ready to start the next chapter of our growth, as of January this year in the scope of Zone Europe.

Slide: Consumers more pro-active on environmental topics in Europe

Consumers in Europe are demonstrating many of the same dynamics as in the rest of the world but are quite special in one important dimension – their stance on environmental and social agenda.

Already today, eco-active consumers, who are highly concerned about the environment and feel responsibility to behave more sustainably, represent a larger share of population in Europe, up to a half in Germany for instance. These consumers take more responsible behaviors personally, and the gap between “I wish” and “I do” on such behaviors is the smallest in Europe.

This has strong implications for the brands, as those which succeed with eco-actives enjoy much faster growth rates. We also observe a large share of population choosing better impact brands vs. alternatives.

Much as personal active behavior is high, European consumers attribute responsibility for environment-related challenges almost equally to the business and the government.

Slide: Europe stepping up regulation to become carbon neutral

And the government is standing to these expectations. Europe has ambitioned to become the first climate neutral continent and is putting action and money to where the discussion is.

Already now European Union is spending 25% of its budget on climate and is accelerating its Green Deal agenda with strong legislation, with rewards and penalties on key environmental and social dimensions.

We are seeing legally-binding net zero targets for countries, and specifically in the Food and Beverage industry, introduction of eco-labelling, support to sustainable agriculture and strong efforts towards collection and recycling infrastructure with extended responsibility for brand owners.

Slide: Towards regenerative performance

Being in the middle of this dense external context evolution, but most importantly, fulfilling our company's purpose and regeneration promise, we are laying out our way forward towards regenerative performance.

For many years Nestlé has been strong in its sustainability journey. We realize however, that to move with required acceleration, we must integrate sustainability in each part of our business, on a daily basis and in all areas of decision making.

Going beyond strong financial performance of the business to fund sustainability investments, to a model in which delivering better impact on environment and society drives better business performance, and then in turn amplifies the positive impact we can deliver.

Slide: Evolving the Virtuous Circle, our operating model

To move in the direction of regenerative performance we had to evolve our operating model, the engine of our business - the Virtuous Circle.

From investing in growth platforms, we will invest in growth for good. This includes innovation driving consumer relevance, brands with purpose to take the consumer with us towards more sustainable choices and behaviors, portfolio choices driving growth of less carbon-intensive businesses and sustainability investments to improve impact of our products.

From focusing directly on market share gains, we will target to grow trust with our consumers and customers, and importantly with external counterparts to advance those areas of change which are only collaboratively solvable. This will drive favorable consumer choice and lead to organic growth and share gains.

From successfully delivering profitable growth, we will target to grow total shared value, as return to all stakeholders – from moderate improvement of underlying TOP margin, to reduction of CO2 emissions and contributing to better diets.

To close the circle, remaining an independent commercial organization, we will strive to generate resources internally to enable our performance, through discipline in structural costs and via growth leverage – all as one team, categories, markets, and functions.

Slide: A clear path to regenerative performance

Our portfolio is a key element on the way to regenerative performance. Its evolution will take place along three areas: for all of our products we will work to reduce their environmental impact, through acceleration of sustainable sourcing, evolution of packaging, use of renewable energy and logistics.

While these efforts are part of our sustainability program globally, in Europe we have an accelerated roadmap for their completion. Transformation of our portfolio will also take place through prioritization, along our virtuous circle, of growth that has a better impact footprint, as well as entry and growth of born-pure products.

Along all these three areas, the fundamental effects of strong consumer relevance and differentiation remain at the core, as we stay in the business of delighting consumers. At the same time, in more and more categories, our sustainability performance will be an important choice driver for consumers and customers.

The next few slides are intended to show with a few examples what is already happening in our business. The first area illustrated with Coffee, second with Petcare and third with Plant-based food category.

Slide: Coffee category thrives on taste, pleasure and convenience

Coffee is a fantastic category, enjoying a continued growth momentum and strong consumer involvement in Europe. Taste, pleasure and convenience are driving consumer choice, and albeit not much volume momentum, coffee being extremely well penetrated in Europe, Coffee continues its growth via premiumization.

Sustainability has certain awareness in this category but is only emerging as a differentiating factor for consumers. Behind this vibrant facade, the broader Coffee industry is facing challenges as packaging like everybody, green-coffee sourcing specifically and livelihoods of farmers. These are all issues that are only partially solved.

Slide: Nestlé is building a regenerative future for coffee

Nestlé has sustainability at the core when it comes to Coffee. As market leader, with strong innovation that drives category growth, mega brands which shape consumer's expectations and scaled and robust execution capabilities, we have taken the leading role to address these industry challenges and ensure long-term health for the category.

With many years of work behind us in this area, in 2022 we are 100% sustainably sourced and by the end of the year 100% of energy in our fourteen plants will be renewable. With major initiatives underway for recycling-ready packaging, regenerative agricultural practices for coffee and contribution to farmer's livelihoods we are building a regenerative future for Coffee and shaping consumer choices for positive impact with the strength of our brands and their communication.

Slide: Driving growth of better impact products and services: PetCare

As laid out in our virtuous circle of regenerative performance, making choices to drive growth of better impact products is a key element in our portfolio transformation.

This is a live example of Lily's Kitchen, a beautiful modern PetCare brand born in the UK. Already today, a certified B-Corp, Lily's Kitchen provides thousands of pet parents with 100% natural and healthy meals that enable family mealtimes with their furry friends. Lily's Kitchen has found a way to a millennial-skewing audience, catering to their humanized relationship with their pet, and delivering through an omnichannel presence, including a strong direct to consumer relationship. With strong capability complementarity in our Purina business, Lily's Kitchen has a large space ahead for growth.

Slide: Transforming our product portfolio: Plant-based

Born-pure products will play an increasing role in the evolution of our portfolio, and plant-based is a great example of our progress.

In Europe, plant-based segment continues to enjoy strong double-digit growth, driven by solid underlying consumer pull with increasing penetration and a high willingness to try among total population. With consumers who retain plant-based products in their diets, we observe a doubling of purchase frequency with each next year, a strong indication of future category growth.

Nestlé has all capabilities needed to win: already a market leader with growing share and further geographical expansion potential, we have an advantage on taste and sensorial properties that is critical in cooking plant-based meals, as well as strong nutritional advantage with majority of our products with A and B Nutri-score.

Strong route-to-market and manufacturing capacities are enablers to continued growth for our Garden Gourmet brand, which will become carbon neutral in 2022.

Slide: Levers to evolve our business towards regenerative performance
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Across all our business, our regenerative performance value creation is enabled by these important levers.

Starting with people and organization, we realize and invest in capability and talent to drive our sustainability effort at scale, while upskilling our total organization. Our brands play an immense role to drive consumer choice and nudge towards better behaviors. Over ten of our brands will become carbon neutral by 2025.

Premiumization is key to drive relevance and performance in Europe demonstrated by the last years performances, and this part of our portfolio enjoys accretive growth.

Digitalization plays many roles, both in winning where our consumers and shoppers are, but importantly in enabling a sustainability transformation with technology for speed and scale.

Growing consumer relevance remains at the heart of our business, where innovative business models, including sustainable by design, as well as strong R&D capabilities are critical.

Relying on organic growth leverage and structural cost discipline to deliver total shared value, we are taking our employees, consumers and customers, as well as stakeholders and shareholders with us – towards regenerative performance, which we believe is the future for the business.

Slide: Key takeaways

Thanks to all of you for listening and see you soon for the Q&A session.

End of presentation.

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