

NESTLÉ S.A.

2022 THREE MONTH SALES INVESTOR CALL TRANSCRIPT

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Speakers:

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François-Xavier Roger, Chief Financial Officer, Nestlé S.A.
Luca Borlini, Head of Investor Relations, Nestlé S.A.

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

Good afternoon, and good morning to everyone. Welcome to the Nestlé three-month 2022 sales webcast. I am Luca Borlini, Head of Nestlé's Investor Relations. Today, I am joined by our Chief Executive Officer, Mark Schneider, and our Chief Financial Officer, François Roger. Mark will begin with our usual the key messages and discuss the full year 2022 guidance. François will follow with a review of the three-month 2022 sales figures. We will then open the lines for your questions.

Slide: Disclaimer

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

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

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

Slide: Key messages

We are pleased to report another strong start to the year. We reached 7.6% organic sales growth in Q1, with increased pricing and resilient Real Internal Growth. Building on the strong starts in 2020 and 2021, this brings our three-year compound annual organic sales growth rate to 6.5% for Q1. It is literally a story of growth on growth on growth.

In a year that saw significant and increasing input cost inflation, we stepped up pricing in a responsible manner. At the same time, we launched meaningful innovations and saw strong growth in our affordable offerings, which ensures that consumers retain access to our products.

The Nestlé team did a superb job navigating continued supply chain challenges, taking mitigating actions to offset cost increases and staying focused on mid-to-long term business and sustainability priorities. This is the third year in a row where the entire team has to operate under external crisis conditions, and I tip my hat in admiration for their commitment, energy and perseverance.

The war in Ukraine brought unspeakable human suffering. It also exacerbated supply chain disruptions and inflationary pressures in the food industry. Our values as a food company are more needed than ever to avoid unintended consequences and unnecessary suffering and shortages. I am particularly proud of all the help and support that the Nestlé Team has been providing on the ground in Ukraine and to Ukrainian refugees in neighboring countries.

Turning to business development, I am pleased to confirm that our acquisition of a majority stake in Orgain closed on April 1st. We had announced this transaction on February 2nd and are pleased with the prompt closing which creates strong momentum for the integration in Nestlé Health Science. We welcome Orgain's founder, Dr. Andrew Abraham, who will continue as CEO of Orgain, to our team. We share a common vision of what healthy and nutritious food can do and look forward to learning from each other.

Slide: 2022 Guidance confirmed

Before handing it over to François, let me turn to our guidance. As you can see on slide 5, we are confirming our full-year guidance for 2022. Obviously, a lot has happened since our full-year 2021 publication on February 17th.

Our start into the year was stronger than expected and we believe that our organic sales growth guidance is conservative at this point. At the same time, inflationary pressures have increased a lot since then and in ways that were not foreseeable at that time. As a result of this changing context, our guidance range of 17.0% – 17.5% for the Underlying Trading Operating Profit Margin has become more challenging than before when we described it as conservative.

With this, I would like to hand it over to François for the detailed financials. I look forward to answering your questions later.

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

Slide: Title slide

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

Slide: Three-month sales growth

Let me start with the highlights for the first quarter of 2022.

Organic growth was 7.6%. Pricing stepped up to 5.2% to reflect significant cost inflation. RIG was resilient at 2.4%.

We now exclude the Russia region from organic growth, given disrupted trading conditions and our decision to focus on essential food in Russia, as announced on March 23rd. This is a conservative approach, as our organic growth would have been higher if we had included the Russia region.

Net divestitures reduced sales by 1.3%, largely related to the Nestlé Waters North America transaction, which closed on March 31, 2021. Divestitures were partially offset by acquisitions, including the core brands of The Bountiful Company.

The negative impact on sales from foreign exchange moderated to 0.8%.

Total sales for the first three months were CHF 22.2 billion, a 5.4% increase versus last year on a reported basis.

Slide: Strong growth across developed and emerging markets

Turning to the distribution of growth between developed and emerging markets.

Organic growth in developed markets was 6.7%, based on increased pricing and resilient RIG.

Growth in emerging markets reached 8.8%, with balanced contribution from RIG and pricing. Growth was supported by strong momentum for affordable offerings, particularly in AOA.

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

Let's now consider the breakdown of sales by channel.

Organic growth for retail sales remained strong at 5.9%, with a high base of comparison in 2021. Growth remained well above pre-COVID levels.

Within retail, e-commerce sales grew by 5.0%, building on very strong growth of 39.6% in the first quarter of 2021.

Organic growth in out-of-home channels reached 35.6%, with sales now exceeding 2019 levels.

Slide: Increased pricing reflects significant cost inflation

Pricing stepped up to 5.2% in Q1. We expect further price increases over the course of the year to reflect significant cost inflation. Increases will continue to be implemented in a progressive and responsible manner.

The impact from cost inflation is expected to be significantly higher in 2022 versus 2021. Compared to when we talked to you in February, we now expect an even greater inflationary impact as a result of the war in Ukraine.

Slide: 2-year average real internal growth (RIG)

So far, we have not seen any material evidence of negative RIG elasticity linked to price increases. We expect to see some going forward as we increase pricing further following higher levels of inflation. Market share trends continue to evolve favorably.

RIG was 2.4% in Q1-2022, following a high base of comparison. Just as a reminder, RIG was exceptionally high at 6.4% in Q1-2021, based on strong COVID-related demand.

This chart shows the 2-year average RIG, which provides a more meaningful view of our underlying performance as it reduces the volatility of COVID-related demand. The 2-year stack for RIG was 4.4% in the first quarter, which is broadly in line with the trend we have seen over the last few quarters and higher than pre-COVID levels.

Slide: Zone North America

Let's now look at the results of our seven operating segments, beginning with Zone North America, where we saw 9.9% organic growth.

Growth was supported by increased pricing, strong momentum in e-commerce and premium products, as well as a further recovery of out-of-home channels. The Zone saw continued broad-based market share gains, led by Pet food, Coffee and Creamers.

By product category, Purina PetCare, Nestlé Professional, Starbucks out-of-home products and Water posted double-digit growth. Within Water, Essentia posted close to 40% growth.

The Beverages category reported high single-digit growth, with strong demand for Starbucks at-home products and Coffee-mate.

Frozen food saw positive growth, despite supply chain constraints and a high base of comparison in 2021.

Slide: Zone Europe

Shifting to Zone Europe, which reported high single-digit organic growth, supported by increased pricing, sustained e-commerce momentum and a further recovery in out-of-home channels. The Zone continued to see market share gains, particularly in Pet food, Coffee, Infant nutrition and Plant-based food.

By product category, the key growth driver was Nestlé Professional, with sales exceeding 2019 levels. Purina PetCare, Infant nutrition and Water all grew at double-digit rates. Confectionery reported mid-single-digit growth, with a strong recovery for KitKat and gifting products. Growth in Coffee was almost flat, following double-digit growth in the first quarter of 2021. Culinary saw a sales decrease, impacted by a high base of comparison. Garden Gourmet plant-based products continued to see strong momentum.

Slide: Zone Asia, Oceania and Africa

Moving next to Zone AOA. The Zone reported mid-single-digit organic growth, with particular strength in South Asia and Sub-Saharan Africa, Japan and South Korea.

Growth was supported by increased pricing, a further recovery in out-of-home channels and continued momentum for affordable offerings, which delivered close to double-digit growth. The Zone saw market share gains in most categories, particularly Culinary, Coffee and Ice cream.

By product category, Culinary and Nestlé Professional grew at a double-digit rate. Coffee, Cocoa and malt beverages as well as Confectionery posted high single-digit growth. Growth in Infant nutrition was positive, driven by Lactogen.

Slide: Zone Latin America

Next is Zone Latin America, which reported double-digit organic growth, building on a high base of comparison in 2021. RIG remained resilient despite significantly higher pricing. It is worth highlighting that foreign exchange had a positive effect of 1.8% on sales growth.

Growth was supported by strong execution and continued e-commerce momentum, with broad-based contributions across most geographies and product categories. The Zone saw market share gains in Pet food, Infant nutrition and Chilled dairy.

By geography, the Zone's three largest markets, Brazil, Mexico and Chile, all reported double-digit growth.

By product category, Confectionery, Purina PetCare and Nestlé Professional reported strong double-digit growth. Within Confectionery, Garoto in Brazil performed strongly in the first quarter. Infant Nutrition saw mid-single-digit growth, based on robust demand for Nido and NAN functional products. Growth in Dairy was flat, following a high base of comparison in 2021.

Slide: Zone Greater China

Moving now to Zone Greater China. Organic growth was 3.4%, partly impacted by the timing of Chinese New Year. Pricing was slightly negative, reflecting low food-related inflation in the region.

Excluding Infant nutrition, the Zone reported close to double-digit growth supported by innovation and market share gains, particularly in Culinary, Ready-to-drink coffee and Confectionery.

By product category, strong sales developments in most categories were partly offset by a sales decline in Infant nutrition, where turnaround initiatives continued. Sales in Coffee and Culinary grew at a double-digit rate, supported by new product launches, including Starbucks mini-cups and Totole Oyster Sauce. Nestlé Professional reported high single-digit growth, despite regional lockdowns and a high base of comparison in 2021. Confectionery posted high single-digit growth, led by strong demand for Shark wafer chocolate and solid growth for Hsu Fu Chi.

Slide: Nespresso

Next is Nespresso, which reported low single-digit organic growth, following 17.1% growth in the first quarter of 2021.

The Vertuo system saw continued momentum and out-of-home channels recovered further, particularly in Hotel, Restaurant and Catering segments. New product launches also supported growth. Boutique sales increased strongly with the lifting of movement restrictions.

By geography, North America posted double-digit growth with continued market share gains. Europe reported a sales decrease following double-digit growth in 2021. Other regions combined recorded double-digit growth.

Slide: Nestlé Health Science

Finally looking at Nestlé Health Science, the business posted mid-single-digit growth, building on two consecutive years of double-digit growth. Innovation and geographic expansion were key growth contributors.

Consumer care saw low single-digit growth. Healthy-aging products grew at a double-digit rate, supported by Boost in the United States and Canada, and Nutren in Brazil. Vitamins, minerals and supplements posted slightly positive growth, following a high base of comparison in early 2021 during the pandemic. Vital Proteins and Solgar continued to see strong momentum. We also saw strong growth for Optifast, a weight-management solution. Medical Nutrition reported double-digit growth, with continued strong sales developments for pediatric products. Palforzia, the peanut allergy treatment, saw signs of increased adoption after COVID-related delays.

By geography, sales in North America grew at a mid-single-digit rate. Europe saw a slight sales decrease, while other regions posted double-digit growth.

Slide: Broad-based growth across categories

Let's now look at product categories. Growth was broad-based and supported by increased pricing, with market share gains, particularly in Coffee, Pet food, Culinary and Nestlé Health Science.

When looking at growth for the first quarter, we see consumer demand somewhat normalizing by channel. Categories with greater at-home consumption, such as Culinary and Dairy, saw softer growth over a high base of comparison, but sales remained ahead of pre-

pandemic levels. By contrast, categories with greater exposure to out-of-home channels and on-the-go consumption, such as Confectionery and Water saw a strong recovery over a low base of comparison.

Within Powdered and liquid beverages, Coffee saw high single-digit growth over a high base of comparison in 2021, with broad-based contributions from all brands. Sales of Nescafé Ready-to-drink and Starbucks products grew at a double-digit rate, supported by new product launches. Cocoa and malt beverages reported high single-digit growth, driven by strong demand for Milo.

PetCare maintained double-digit growth with strong pricing and solid RIG. Sales in most segments and geographies grew at a double-digit rate with market share gains. Purina's performance was driven by sustained strong demand for premium products Purina Proplan and Purina ONE, as well as veterinary products. The recently launched ProPlan LiveClear continues to resonate strongly with consumers and organic growth reached 65%. The product is now distributed in 25 markets.

Nutrition and Health Science posted 4.5% growth. Sales in Infant nutrition grew by 3.9%, led by the Americas and Europe. In North America, growth was helped by supply shortages in the market. Outside of China, Infant nutrition saw market share gains helped by double-digit growth for HMO products. We have already discussed Nestlé Health Science.

Prepared dishes and cooking aids saw 2.9% growth, based on strong sales development for Ambient culinary in Zone AOA and China. Plant-based food products continued to deliver double-digit growth.

Milk products and Ice cream recorded 4.2% growth. The key growth drivers were Coffee creamers and Ice cream. Ambient dairy saw positive growth, building on a mid-teen base of comparison for 2021.

Growth in Confectionery reached 10.5%, reflecting a continued recovery in impulse and gifting products. Within Confectionery, sales of KitKat grew at a double-digit rate.

Waters posted 21.3% growth, composed of 7.2% pricing and 14.1% RIG. Growth was supported by a steady recovery in out-of-home channels and strong growth for international premium brands.

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

Q & A Session

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

Thank you, François. With that, we move to the Q&A session. We move the lines for questions from financial analysts. Please limit yourself to no more than two questions. The first question is from Céline Pannuti, JPMorgan.

Questions on:	Margin guidance Consumer demand and performance of PPP and Premium in Q1
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Céline Pannuti, JPMorgan

Thank you for taking my question. First, I would like to rebound on Mark, your commentary at the beginning about your guidance on margin that has become more challenging. Can you talk about whether the 17% to 17.5% is still something that you would expect the year end margin to land within? And can we have a bit of an understanding of how your COGS inflation has moved relative to where you thought in February and whether we should expect, as a consequence, H2 margin to be down as well as H1?

My second question is on consumer demand. You said that you saw very little evidence of elasticity. Is it possible to see where you are looking forward maybe to some pressure in the future? Can you talk about where exactly you would expect that by region or category? And is it possible to know how your PPP and your premium products grew in the quarter?

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

Céline, thank you. When it comes to the guidance, it's very important as we confirm the guidance in all elements. Just because I did qualify the underlying trading operating profit margin for you as conservative in February, given of course all the changes that have happened since, I felt it was necessary to point out that, that description no longer applies, that it has become more aggressive. So this is just in the spirit of giving you up-to-date information.

Let me also circle back to that spirit mid of February and before the Russian invasion in Ukraine. I think some people had expected that we would share some inflation expectation, which we didn't do at the time. I hope everyone understands in hindsight that this was prudent. This is a highly volatile situation and I think the company is fully focused on navigating this very particular circumstance where we have significant input cost inflation. Then, of course, we have to take responsible pricing action. But this is not an environment

where it's easy to share detailed forecasts. It's really literally day-to-day, week by week, and this is what we're fully focused on right now.

When it comes to comparing elasticities and RIG and so forth, we can clearly try and give you some helpful hints. But it's also important when you compare different quarters here, that we are dealing with significant supply chain constraints. So for example, when you look at North America, we could have sold more, and we were clearly supply chain constrained in some areas. This applies to raw materials. But also to labor, sometimes we couldn't run lines that we wanted to run. And it also applies to distribution because distribution capacity is super tight. So that's why it's important, as much as we're trying to give transparency, not to jump to wrong conclusions.

I think so far, the punchline is that consumer demand has proven to be resilient. Then obviously, we do expect now some elasticity later in the year because of the fact that simply, when you stack all of these price increases on top of each other, it does have some impact on what the consumer has to pay for the basket.

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

Maybe, François, you want to take the question on premium and affordability?

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

On PPP and premium yes indeed, both of them have grown at a higher rate than the average of Nestlé during the first quarter of 2022. So this is good news. This is the same trend as we have seen in the past, which means that there is a polarization of the market towards the extremes, if I can say so, both premium and PPP. So no change versus what we have seen in the past.

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

Great. Next question is from Guillaume Delmas at UBS.

Questions on:	Nestlé Health Science Product safety and production plant audits
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Guillaume Delmas, UBS:

Two questions for me, please. The first one is on Nestlé Health Science, where you've reported mid-single-digit organic sales growth. I think that's the lowest quarterly organic sales growth we've seen from this division in more than three years, and it seems to be mostly due to vitamins.

Looking ahead, the base of comparison doesn't get any easier. So I'm wondering if 2022 should be viewed as a year of normalization for Nestlé Health Science, as you lap two very strong years, or if you expect some sequential acceleration over the coming quarters?

Then my second question is on the tragic death of two children in France and also a dozen children apparently suffering permanent injuries. Public authorities in France have confirmed the link between these cases of E.coli infection and the consumption of Buitoni frozen pizza. And we've also had the French media, some former employees of the Nestlé manufacturing plant, talking about poor hygiene conditions in the plant. So my question on this is, do you think Nestlé today has adequate processes in place and also adequate CapEx to minimize any product safety or quality risk? And I guess, typically, how many audits of your plants do you do every year? Is it an outsourced audit or is it done in-house?

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

Let me address both of these questions. So first of on Nestlé Health Science. It's important to recap what that first quarter of 2021 looked like in the Northern Hemisphere. So this was one of the peak COVID quarters. It was before the time that most of us received the first COVID jab. And hence, it was one of those moments when interest in all matters related to personal health and boosting the immune system were at their peak.

So clearly, that translated into a super strong quarter. You see some of that when you look at François' slide. Clearly out-of-home was still severely impacted in Q1 and then retail was basically the strongest for all year in Q1 last year. So clearly, this was an unusual quarter, and it proves to be a very high level of comps, in particular then for Nestlé Health Science.

We're actually quite happy with how the first quarter went, including in vitamins, minerals and supplements. As François mentioned, growth was more muted than before, but it was still positive. And in fact, some of the early scenarios, when we looked at the situation from last year, were actually pointing to a potentially slight negative dip for one or two quarters, and we have been able to avoid that.

It's going to be smoother sailing for the rest of the year. This first quarter was clearly the most important one to lap. Also do keep in mind, the base of comparison is a little rigged here because the first quarter last year did not include The Bountiful Company yet. First quarter this year, of course, does include it.

When you look at the company now, Nestlé Health Science, on a two- or three-year stack, you're seeing double-digit growth. And overall, we're quite excited about the underlying growth dynamics of Nestlé Health Science. So no concern there.

Regarding your second question on Buitoni, let me first and foremost offer our deepest sympathy to all those affected. And also wanted to confirm to you that we, of course, give all the support we can to the people who are affected and their families. This is all the more upsetting since there's a number of children among the people who are impacted.

Let me tell you that as soon as we were informed by the French authorities on the suspicion here that in the pizza dough, there would be E. coli STEC, we immediately carried out a voluntary recall of the product out of an abundance of caution, interrupted all deliveries and suspended production.

At the moment, as you know, there's a public investigation underway. This limits also how many details we can share on the situation. But let me tell you that we're fully cooperating with the French authorities. They have a very important task to do, and that is to find the ultimate origin of this bacterial outbreak.

France does have a world-class food safety and public health system, and we also stand ready to support that investigation with all of our scientific resources. Let me assure you, we take this very seriously because consumer trust in our products is very key to us. And so in addition to the official investigation, when it comes to getting into the matter, handling all the details of the matters, trying to do maximum learnings from there, this will keep us busy for months and years to come.

So clearly, this is something that we do not cut any corners on. Let me also tell you when it comes to overall, the quality work that we're doing, we do not outsource that work on a large scale. We have 9,000 quality professionals worldwide that deal with this, including 800 scientists and 20 laboratories. And we're doing about 4 million analysis each year into the matter. We're doing audits also here from the center into our quality systems. All of those, of course, are in-house as well.

So this is clearly one where we do not cut any corners. And we consider it as core and not something we would like to outsource at any point in time.

Regarding the video, let me just tell you that these are old pictures from 2020. They're not representative of the strict sanitary and quality standards at any Nestlé factory, and they're also not related to that current situation. They're clearly taken out of context, and we do regret any misleading impression that this has created. So I hope that answers your questions.

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

Next question is from Warren Ackerman at Barclays.

Questions on:	Nespresso and Starbucks growth PetCare
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Warren Ackerman, Barclays:

It's Warren Ackerman here at Barclays. Two questions for me. Can we dive maybe into a couple of the categories, one on Coffee. I'm looking in the Nespresso growth, it has been a bit slower now for three quarters in a row. I guess it's mainly comps, but I would have thought there would have been more benefit from mobility, particularly in the Nespresso boutiques, but that's not visible in the numbers because RIG is flat. So the question is, what is the next big growth engine for Nespresso? Is it still the Vertuo rollout globally? Or is there something else you can point to? And maybe while we're on the topic of coffee, can you maybe update on the Starbucks growth this quarter, please?

Then the second category I wanted to touch on was PetCare. You mentioned, Mark, growth on growth on growth. I think PetCare is probably the best example of that, 14% growth almost this quarter, record growth last year is very, very impressive. So I was wondering whether you can kind of dive into a little bit more detail exactly where and why you're taking so much market share. Is that share gain mainly in the U.S. and Europe? Or is it global? Is it also EM? And whilst on the topic of pet food, any update to share on your ambitions for PetCare in Asia, where you are still very underweight in that geography?

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

On Coffee, Nespresso, you need to look indeed at the comps. 3.3% of organic growth may look relatively soft in Q1, but it comes on the top of 17.1% last year. So if you look at the two-year stack, we are double digit, actually, 10.2%. So we continue having a very strong growth for Nespresso and for Coffee in general.

Vertuo, you said it is the largest growth engine that we have, and it will continue to be most probably the largest growth engine that we have. Starbucks, we continue to do very well there. On all dimensions of Starbucks, Foodservice is really coming back very strongly now. As you know, we continue gaining market share as well in the Nespresso compatible capsules, and we have already captured 20% of the market worldwide in a little bit more than two years, which is really exceptional.

For Coffee in general as well, there is -- as we see that shift back from at-home consumption to out-of-home which is obviously benefiting the out-of-home business, a little bit at the expense of at-home. But we can see that there is a lot of resilience in our at-home sales for Coffee and in general for Nestlé.

For PetCare, we gained market share basically across geographies and across categories as well, on subsegments. So it's really driven by -- largely by innovation and science-based innovation. That does make a big difference.

In Asia, this is one of the areas where we are gaining market share as well. We are still at a relatively small market share relative to the one that we have in Europe or in the U.S. but gaining as well and investing. The market is still at a relatively early stage of development. So no specific concern there for PetCare in Asia.

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

Warren if I could just build on one point here on Asia. There were a number of assets coming to market in the last year or so. Not large companies, as François said, this is not a very consolidated space, but nonetheless, I think people were trying to take advantage of the good times that the pet food industry enjoys right now. And to us, largely, this was a matter of what I call acquisition price discipline. So clearly, pet food is hot right now. Even though we're gaining share, I think everyone else's numbers are up, too. And so clearly, we walked away from a number of deals simply because the financials didn't make sense. But we do continue to invest in the internal growth. We have strong brands, and we'll continue to do that.

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

Next question is from Bruno Monteyne at Bernstein.

Question on:	Retail and Out-of-home balance Infant Nutrition in China
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Bruno Monteyne, Bernstein:

My first question is back to something you said, it's quite an exceptional quarter and clearly, retail holding up so well with out-of-home rebounding. Is it simply because what you're doing out of home is a very different product mix, or special circumstances of both doing well will very soon change and therefore the retail will decline? Or is there something we're missing in the whole explanation? I struggle with it.

The second one is China Infant nutrition. It keeps being quite materially negative, dragging down the overall of China. It's been there for a while. Can you just update us on the timing when you think the drag of China Infant nutrition should get out of the system?

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

Maybe I can take a first crack and then maybe François can build, in particular, on some of the in-home, out-of-home.

So on China first. I know there were some questions about the negative pricing for the first quarter, and that is related to Infant nutrition. We have taken a number of portfolio adjustments there. And as a result of our work that we're doing to reposition the Infant nutrition business, that was one of the consequences.

We lost to a very slight extent market shares in the first quarter, but we do now expect the situation is stabilized, and we expect us to return to positive growth later in the year. As we've seen from some of our peers, again, the industry there and the situation is not as bad structurally as some people might think. So, this is mostly about doing our homework, Nestlé homework and then later on returning to positive growth, and we're confident about that.

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

François speaking. So indeed, we see a lot of resilience in the retail channel. It's amazing to see that in Q1 we grew 5.9%, but over a very strong base, 9.2% of organic growth last year. So it's very resilient.

We monitor very carefully change in consumer patterns, and we see that consumers habits have structurally changed over the last two years, and we think that some of these habits are here to stay.

Such as, for example, strong demand for e-commerce, such as increased interest for health and immunity benefits, increased pet adoption and as well the higher level of working from home. As a consequence, this may explain as well the fact that at-home consumption remains very strong.

So I would say, so far, so good. That's something that we are monitoring carefully. But very positively surprised by the fact that we see out-of-home rebounding nicely and exceeding the pre-COVID level, while at the same time, seeing a very resilient retail business.

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

Next question is from Jon Cox at Kepler.

Questions on:	Russia Margin guidance
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Jon Cox, Kepler Cheuvreux:

Just a couple of questions. One on Russia and how you're accounting for that. You said it's no longer in organic. I wonder if you'll keep that up all year. And whereabouts is it being shown then in the M&A line? And I'm wondering if you're moving to deconsolidate that business? And if so, what sort of, if any, write-down should we expect? I know the business is not particularly large for you guys anyway.

Then just back to the sort of inflation and the guidance question again. You're saying now that's more challenging. And I'm wondering, is that because you now have to go back to European retailers specifically to talk about price rises again? Or is it because you're more worried about the impacts on volumes and then capacity utilization and that having an impact on margin? Just trying to get an understanding why you think it's more challenging. Is it really because it takes more time, or is it because you think the impacts on volumes is going to be worse as we go through the year?

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

Jon, let me take a crack at the pricing side and also make some general comments about Russia and then maybe François can comment specifically on how we account for it. So clearly, the effects of this are felt worldwide. One immediate transmission belt here to every aspect of our business was the rise in energy prices, because, as you know, that's not only our own energy consumption, that's also our trucking and distribution costs. And it's also, to a large extent, our packaging materials, PET being one example.

So, it was the energy plus certain commodities shooting up that clearly, within a matter of few weeks, changed the situation. And then obviously, as we discussed in the full year conference call, different markets, different environments have different timetables for when you can review pricing. I think by now, everyone has understood that there is such a significant surge underway starting from last year that clearly, price stability is simply not on the cards.

I mean, as you know, when you compare full year margins, we're defending our margins here. We're not expanding our margins, and we're doing the pricing as responsibly as possible. But clearly, the situation has become worse. And that's what we were trying to signal because we had expressed a larger degree of conservatism when it comes to the UTOP margin as part of the full year guidance.

So again, all we were trying to do is sort of give you the latest impression on that. When it comes to Russia overall, I hope that no one has questioned our motives for the path that we have chosen regarding our presence there. This is not about gaining commercial advantage. For us, it is about a universal human right that we don't want to let go lightly. And if that didn't come across clearly enough, I would want to offer my regrets. It's very hard, as you can imagine, for a food company to tell them to stop supplying food, just like it's hard for a pharma company to stop making medicine or for a hospital to stop accepting patients. And for us, a presence on the ground is never just a business opportunity. It also comes with, what I call, extensive rainy-day responsibilities for the communities we serve.

We demonstrated that around the world when it comes to the COVID pandemic. And I think we're demonstrating it today, in particular, on the ground in the Ukraine, where we're one of the few food companies still operating and supplying the population. When it comes to Russia, consistent with this very limited approach and the trade restrictions and everything else that applies, I think we've chosen the most conservative option for computing our Q1 growth, and that is excluding it. And I think that's very consistent with the announcements that we made on March 23 regarding our plans for Russia.

But let me turn it to François for a more detailed description here on how we intend to account for this.

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

Thank you, Mark. So we decided to exclude the Russia region from the organic growth. So we redefined our APM, the alternative performance measurement, for organic growth. So we did that because we see that we have significant disruption in terms of operating conditions in the Russia region and it would bring a lot of volatility.

As Mark said, we did not need Russia to show a good quarter. It would have been even better. But I mean, we had a very strong quarter even without Russia. Just technically, so we excluded Russia from organic growth, but it remains consolidated in our accounts. So it remains reported and consolidated in our net-net sales as well as in our profit. So we needed to reconcile it somewhere and the adjustment, as far as the Russia region is concerned, goes into the FOREX and M&A line. Just for your information, in Q1, it was about 2/3 in the FOREX line and about 1/3 in the M&A line. There was a lot of FOREX impact linked to Russia because we had a significant depreciation of the Ruble during Q1.

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

Next question is from Pascal Boll at Stifel.

Question on: Nespresso RIG
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Pascal Boll, Stifel:

I have a question on Nespresso, again on the rather flat RIG. What is behind there? I mean I see the high base last year. On the other hand, you also report that declining or rather weak sales in Europe for Nespresso, but a good performance in Starbucks and Nescafé. So my question here is, as Nespresso is a D2C business, I guess, you have a pretty good insight into your consumers. So, do you have incremental new consumers? Is the flat RIG also driven by people trading down maybe also for the new Nescafé Farmer Origins ones. What's the dynamic here?

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

So Pascal, no signs of trading down for the time being. As I indicated earlier, we see premium products, and this is valid for Coffee as well, growing faster than the average of our sales. So we continue seeing a very strong momentum.

The flat RIG that you are talking about is essentially linked to the unfavorable comps with a very high growth last year, 17.1%, as far as Nespresso is concerned last year. The only change that we saw is a shift from at-home consumption to out-of-home. So we see a very

strong development in out-of-home consumption for Nespresso as well, but this is something that we expected would happen as we see less lockdowns around the globe.

So, innovation continues as well to be a significant growth factor along with Vertuo, as I indicated earlier. I think that there is no concern in terms of volume, I think that if you look at the volume of Nespresso today, it is something like 20% higher than what we were selling pre-pandemic. So we remain with a very strong base that has grown significantly in terms of consumption and volume in comparison with the beginning of the crisis.

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

Pascal, maybe I can build on that in general, not just for Nespresso. You may recall on one of the earlier conference calls, I pointed out the need, whenever possible, to build either two or potentially even three-year stacks to get a good view of how a brand or a category has performed, and that still continues to apply.

And in my opinion, any such stack should begin in 2019 or 2020, and then you should incorporate the latest data. And if something meaningful happens, you can trust us, we would try to call that out so that you have a good sense of where a category is going. But this is a time with significant gyrations, and I think prior year comps are meaningful, are important, and something that needs to be incorporated.

Obviously, then in some categories, especially in the U.S. market, you also have to take supply chain constraints into account. So that's why there's lots of noise in the system. It's important not to over-interpret. And we're trying as much as possible to separate that noise from what is the true underlying category dynamic. And I'm also not concerned about Nespresso. Just like François said, in fact, business is stepping up to a much higher level and continues to perform well based on innovation in general and then the rollout of the Vertuo system.

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

Next question is from James Targett at Berenberg.

Questions on:	Pricing negotiations Russia growth in Q1
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James Targett, Berenberg:

I just wanted to build on a couple of questions asked previously, one on pricing and one on Russia. So just on pricing, you mentioned additional price increases will be required during the year. But can you say how confident you are that in Europe in particular, retailers will be prepared to negotiate pricing, if you like, more than the typical kind of once a year that they do historically. And so therefore, if we should expect material incremental pricing in Europe before the beginning of next year, when the next window would land?

And then, on Russia, is it possible to sort of quantify what the magnitude of the growth was in Q1? I appreciate it's not part of the organic growth now, but I'd be curious to know what that was. And how big is the kind of essential food part of that Russia portfolio that you continue to produce and supply in Russia?

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

James, thank you. And look, on the pricing, obviously, we're trying to be transparent and helpful, but we don't want to handicap how next pricing moves are going to work out. Obviously, we're trying to do this with the best of our interest of shareholders in mind. So sorry that we can't be more transparent on that. Suffice it to say, people do see significant commodities and energy, as I mentioned before, going up. And so I think there's generally good understanding in the public that obviously something has to give, and we can't keep things constant in light of the significant cost pressures that are affecting everyone, and there's no exceptions. Then for Russia, let me turn it to François.

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

Yes. So if we had kept Russia in our organic growth, our organic growth at group level would have been higher, which means that Russia grew at a higher level than the average of the group. This is essentially linked to the fact that we did quite a lot of pricing in Q1 as a consequence of the significant depreciation of the Ruble, because it went down by almost 50% at a given time.

In addition to that, we have seen that there was a lot of pantry loading in the context of the crisis locally. So when you add up the pricing and pantry loading, this is the reason why we had this benefit in terms of sales in Russia in Q1.

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

Next question is from Tom Sykes at Deutsche Bank.

Questions on:	Pricing in North America Consumer behavior – Online vs Offline
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Tom Sykes, Deutsche Bank:

Yes. Firstly, just on the North American pricing, which was obviously very high. Could you maybe give a little bit more detail as to some of the categories where you saw some of the highest pricing there? And is that sort of peak level of increase and was there any impact of the supply chain constraints you spoke about, shorter-term impact in that pricing, which may alleviate a bit?

And then just on consumer behavior, offline versus online, is it at all easier to engage in net revenue management? And is that potentially a bit less price sensitivity offline versus online? And are you benefiting from that at the moment as some of the channels re-balance a bit, please?

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

Tom, let me take a crack at the pricing side and then hand over to François. Look, I can't go into too much detail on the categories. But I think the picture you've seen and that is higher pricing in the U.S. market than comparatively in Europe or elsewhere. I think that's not unusual. And I think it's very consistent with some of the peers reporting I've seen. I think a lot has to do with the fact that, in addition to commodities, you've also seen significant labor cost inflation plus the distribution cost inflation. There's a real distribution shortage there and crisis, and that has an impact on trucking costs. And of course, it's something that we need to reflect.

So I think we are just, as I said, we're trying to be responsible in pricing. But when we see these cost items shoot up, we need to take appropriate action, and that is what the U.S. team has done.

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

Tom, one complement I can give to that. which is linked to two other questions that you asked in terms of consumer behavior and trade spend as well. In certain markets, and it has happened in the U.S., and that explains part as well as the high level of pricing that we had, given that we were facing supply chain constraints, we did less promotional activities. As you can understand, if we were very tight to supply the market, there was no necessary point to maintain heavy promotional activities for some of our categories or some of our SKUs and products. So this is part of the reason why you see a lot of pricing in the U.S.

As you know, in the U.S. as well, it's usually easier to implement pricing because we have less constraints than in Europe, timing-wise, which means that we can usually react faster than in some other markets and more specifically in Europe.

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

Next question is from Pinar Ergun at Morgan Stanley.

Questions on:	State of the consumer globally Supply chain
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Pinar Ergun, Morgan Stanley:

I have a high-level one. Could you please share your perspectives on the state of the consumer globally? Is the consumer in a much better shape than what some of us fear? Or are we yet to see the impact of the rising cost of living on consumer behavior when it comes to demand or down trading and things like that?

And then the second question is on supply chain. Back in February at the full year results, you mentioned that you had been facing significant supply chain constraints in the U.S., especially on the logistics side. How did those evolve in Q1 beyond Frozen foods? And could you please give us any update on the latest situation, both for Nestlé and your views on the industry-wide supply chain constraints?

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

Thanks, Pinar. Let me start with the second one. I think when we reported in January -- in February, we were still very much under the influence of how constrained January was. This was probably the peak of the Omicron crisis in the U.S. So the absenteeism here among our own workers, but also absenteeism everywhere among our suppliers and in our distribution was pretty significant, and that really exacerbated the supply chain constraints. I think since then, the situation has slightly improved. And clearly, that COVID part has certainly relieved itself. I think what we're still seeing as a result of this significant step-up in demand now in '22 over, let's say, 2019 levels, we still have some catching up to do when it comes to capacity and installed capacity.

Pet food is one good example. So this may hit some categories more than others. But I think overall, the situation has slightly improved simply because the Omicron wave has come and gone.

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

Pinar, on the consumer behavior, as we indicated, we have not seen any evidence of down-trading today. The evidence of it is the fact that we see, for example, our premium products growing faster than the average of Nestlé.

And we have not seen any evidence either of negative elasticity on volume. We do expect that there will be some, probably as we progress further in the year and as we raise prices. I'm not saying that it came as a surprise. But I mean, as we raise prices to levels that we have not seen for at least 15 years, we could have expected probably more.

There might be one reason, to be seen, but is the fact that probably during the COVID crisis, probably a lot of consumers did increase their savings level and continue to consume at a relatively high level. I mean we see that across FMCG by the way. You did listen, I'm sure to many of our peers as well, and you can see that the level of consumption is relatively solid across segments and industries as well. So that might be one of the explanations. Certainly something that we are monitoring carefully and pleased to see so far that we have not seen neither down trading nor negative elasticity, not to a significant level.

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

We have our last question of the day coming from Jeremy Fialko at HSBC.

Questions on:	Margin headwind from Russia Southeast Asia Inflationary pressure
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Jeremy Fialko, HSBC:

One follow-up on Russia and then a question on Asia. So firstly, on Russia, clearly, you are still recording sales in that market. But you've said that you're not going to be booking any profit. So naturally that is a little bit of a headwind to your margins. So can you quantify what that might be? And also, is that kind of included within the 17% to 17.5% margin guidance? Or is that margin guidance now completely excluding Russia? That's the first one.

Then secondly, on Southeast Asia, clearly these economies are facing the typical inflationary pressure issues. But at the same time, these economies, which actually saw quite a severe COVID impact, they're now reopening as restrictions are removed. So could you talk a little bit about how you see the kind of puts and takes of that over the coming quarters in terms

of whether actually the COVID reopening could outweigh any sort of broader inflationary impact on demand?

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

Jeremy, on Russia, let me start there. So this is, of course, a situation with lots of moving parts right now. As François mentioned, currency is gyrating. We have significant supply chain constraints. We are also, as you know, in the middle of suspending key brands and really focusing on just essentials. So lots of moving parts, which I think fully vindicate the decision here to not count it towards organic growth.

When it comes to consolidating the business, you don't have a choice. As long as you control it, you have to consolidate it. And so this is not something we can simply say, I don't. So this is the difference between organic growth, which is an alternative performance measure, and then simply consolidating. Our guidance here is not qualified. So this is the guidance and something that you can use as a good point to navigate from. And so we're not making this dependent on a specific decision regarding Russia.

And on Southeast Asia, let me hand it to François. But here again, it's always important at times of lots of volatility and lack of visibility, the more prudent course is not to be out there with grandiose forecast and expectations. So clearly, it's very hard to gauge at this point where some of the COVID, for example, in Greater China and other Southeast Asian countries is going.

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

Yes. And Jeremy, just to complement. So in Southeast Asia, we had low single-digit growth with robust demand, for example, for some products like Maggi and Nescafé. We have some countries that did very well and were key contributors to growth, like Malaysia and Thailand, with strong demand for Coffee and Culinary and we even launched new products like Milo Soy that resonated very strongly with consumers.

Then we have countries with totally different behaviors, the Philippines and Vietnam. We had a slight sales decrease with negative category dynamics in some categories. So it's very difficult to draw a conclusion. As you know, many of these countries are also very dependent on tourism, and they have been suffering quite a lot over the last two years as a consequence. And so we see diverse behaviors and fortunes there.

We remain very positive on the outlook for these countries, and they should come back to growth as we progress over time.

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

Well, we have no further questions. We come to an end of our session today. So we thank you very much for your interest in Nestlé. If you have any further questions, the IR team is available. We thank you very much. Wish you all the best. Stay safe and healthy.

End of Q&A session

End of Transcript