NESTLÉ S.A.

2022 BARCLAYS FIRESIDE CHAT TRANSCRIPT

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Speakers:

Mark Schneider, CEO, Nestlé S.A.
Warren Ackerman, Barclays

Warren Ackerman, Barclays:

Hello, everybody. Hope you are well. My name's Warren Ackerman, head of Barclay's Consumer Staples Research team. I am here in London with a live Webcast Fireside chat with Nestlé's CEO, Mark Schneider. Mark, delighted to have you with us today. Thank you for your time. The format today will be roughly 45, 50 minutes of questions to Mark. We will try and leave some time at the end for some of your questions. If you do have questions, my email details will be at the bottom of the screen. If you cannot see them, it's warren.ackerman@barclays.com. So, with that, I think we will get cracking.

Question on:	Achievements and frustrations as CEO

Warren Ackerman, Barclays:

So, first question, Mark. I have covered Nestlé 25 years and the change in the last five years has been quite astounding. You have been CEO for over five years. And I want to take a little step back first of all, maybe kind of summing up when you came into Nestlé what you saw, your biggest achievements and any kind of frustrations that you had, or I don't think there's been many disappointments, but if you can kind of elaborate on your journey and where we are today, that would be a great starting point.

Mark Schneider, CEO, Nestlé S.A.:

Hello, Warren. And thanks, everyone, for joining us today. So, look, it has been an incredibly exciting five years. And when I look at what went right, clearly inside the company speeding up the innovation engine and redirecting some of that innovation work towards more specific product launches, faster concept to market cycle times and also redirecting in terms of the categories that we're prioritizing, I think that has really paid off significantly and we see it with some of the rising market shares and success in the marketplace. And clearly whatever company can develop, make, and sell under its own steam, that's where value creation happens. And I think improving that was key.

On the portfolio side, I think it is that reorientation towards Food and Beverage. So, getting out of the Skin Health activities. In Food and Beverage, slightly slimming down the focus and really becoming a bit more targeted, but then in some key categories, such as Coffee in particular, bulking up and adding the incredibly powerful Starbucks brand name to our lineup. And then also the scaling up of Nestlé Health Science, where I think from about a 2 billion run rate business, we're now at about a 6 billion run rate business. And that was very much in line with our mission and exploiting potential health aspects of food and making the most of that. So those are some of the key items.

In terms of what would have gone better, look, clearly initially there was a dip in 2017 in growth and I would have liked to turn that corner faster. And generally, more, faster is what I think every executive is striving for, and I'm no exception.

Question on:	**Next big strategic thrust**

Warren Ackerman, Barclays:

And when you became CEO, Mark, your number one thrust was to get the business growing mid-single digits, I think that is what you said back in 2017, and to do it sustainably. I think act one has been largely achieved. The share price has responded, but of course, investors always look forward and they ask, "Well, what about act two?" What is the next big strategic thrust in the next five years? How do you go about raising the bar even further from here?

Mark Schneider, CEO, Nestlé S.A.:

Yes. So, it's important to separate the financial targets from some of the strategies that get you there. In terms of the financial targets, not that much has changed from five years ago, where I think if you consistently hit mid-single digit rates in organic growth and at the same time, you have operating margins somewhere in that 17.5 to 18.5 percent bandwidth that we indicated at the time, if you do that consistently, you create a lot of value through compounding.

I think the company has done that in the past very successfully, and that is what we wanted to get back to. And mind you, even though we had some years where we were margin-wise in that band or growth-wise in or above that band, what we still have to do is be in that sweet spot on both metrics and be there consistently over time.

So those targets are unlikely to change very much. What may change over time now, in the 2020s, is the content, like this strategy on how to ensure that that happens. There is still a lot of legs in Coffee, obviously, in PetCare. I think you have seen the potential upside in Nestlé Health Science. I think for all categories, you will see that digitalization will become an ever more important part to ensure continued success, and especially when it comes to the speed of decision making and company that really grabs innovation opportunities fast.

Digitalization to me is absolute key. So those are some of the things that are changing over time, priorities shifting slightly, and some of the low-hanging fruits have been had. In terms of the financial targets however, I think nothing much will change going forward.

Question on;	**Next five years**

Warren Ackerman, Barclays:

Okay. Well, the other issue that comes up all the time with investors is succession planning. I mean, a bit early to talk about your legacy, but people do ask the question about the leadership changes that have happened under your watch. Maybe if you are able to give some reassurance about the length of time you intend to remain as CEO. Just I know you kind of answered it, but how much unfinished business is there? Because a lot of things have gone right already. And what does success look like in five years' time for Nestlé?

Mark Schneider, CEO, Nestlé S.A.:

Yes. Look, let me start with the personal part first. I usually do not do that, but I wanted to ensure there is no single modicum of doubt among our investors. I am absolutely and 100% committed to this job. This had always been my dream job. I'm enjoying it to the hilt, and I have no intention of changing it. And I told you in 2017, I am all in and I'm here for the long-term. I'm happy to reiterate that statement now. And like in 2017, I come to work in the morning with more ideas than there's time in the day to actually make them happen. And that is the way it should be. This is what it takes to drive a business forward. And I still feel that fire in the belly to make it happen.

So clearly lots of work left in terms of some of the content strategies we are pursuing. And at the same time, obviously as you look at the executive board and second and third levels of management, constantly people hitting retirement age, and then over time you make people changes. And obviously the fast moving consumer goods industry is one where priorities change. So, no one could have guessed COVID coming about. And so clearly, it is not like all of a sudden you at a point where you're saying that 80% of the agenda is done or something. The agenda gets built every single day because the consumer is changing every single day.

Question on: Adapting to new consumer habits

Warren Ackerman, Barclays:

Now maybe moving to the consumer, Mark, I mean, the consumer's obviously under considerable stress at the moment given higher food and energy prices, I'm interested to hear your thoughts about how Nestlé's adapting to the new reality. We all know that premium products have significantly increased their weighting to 35% of group revenue. Some people ask me is Nestlé as defensive as it was a decade ago given how much premium makes up as a percentage of the portfolio. And specifically, people talk about mix, because you showed a chart, I think at CAGNY a couple of years ago that mix was roughly half your organic growth. And so sometimes the question comes in around down trading and how Nestlé will adapt to that in the event that we do see that later this year and maybe into next year.

Mark Schneider, CEO, Nestlé S.A.:

Yes. It is an important set of questions. And I think some of that, we also touched upon in our Q1 call last week. And I think our CFO, François, made a very compelling case that it's not that different from downturns we've seen in the past, where the premium segment does continue to hold up quite well, and then of course, affordability becomes a bigger criterion. And both of these ends of the spectrum continue to hold up well. What gets squeezed somewhat is in the middle. And that's what we're seeing now. Premium has held up well and, I think, holds some promise. And at the same time, affordability products are very much in demand. And we also actively ramped up our efforts there because we knew that they were going to be in demand. By the way, that's not only just flavor of the day now. At the beginning of the COVID crisis, we knew that some point later down in that trend, down in that crisis, there was going to be increasing demand for affordable products. And we stepped up some of the development work at that time. And I think that is paying off now.

So, I think the defensive characteristics of the company are intact. And I think it is also a benefit of having so many different brands that you can credibly be successful on incredibly premium products while at the same time, you're meeting affordability needs for other categories.

Question on:	**Supply chain and distribution constraints**

Warren Ackerman, Barclays:

Maybe moving to the whole topic of supply chain and distribution constraints. That also came out on the Q1 call. You talked about in some geographies, you could have sold more. I think you mentioned the US as an example. I know visibility is quite low, but in your view with the knowledge that you have inside the business, do you think we are kind of getting near the trough on this? Or are you expecting these challenges to keep persisting for the rest of the year into next year? I know it is very dynamic out there, but I see for example, today, Indonesia is looking to ban palm oil exports. So, the situation is evolving day by day. Can you maybe just walk us through a little bit what you're seeing on the ground in terms of distribution and supply chain and how you're trying to respond to that challenge?

Mark Schneider, CEO, Nestlé S.A.:

Sure. And look, just like the palm oil example you mentioned shows, it is an incredibly volatile situation where from one day or week to the other things could change. On palm oil specifically, next to Indonesia, of course, we also have Malaysian sources, and we have a few others, and we're also less exposed than maybe some of the people that are into personal care products. So, I think we can handle it well. But overall, a good estimate from this point will be that key supply chain issues will continue to be around us at the very least until the end of this year, if not until the first half of next year.

And when you take the US as a good example, the low point omicron related when it comes to workers showing up was clearly in January when omicron spread so much that clearly absenteeism was an issue, I mean, people wanted to come, but they couldn't, that has improved as I indicated in the call. But you still have the truck driver's shortage. You still have congestion in the ports. You still have incredible employee turnover because clearly everyone came back from COVID with new ideas and job opportunities in mind, and there's a lot of competition here just across the street to the next factory. And so everyone's in competition for the talent that is available in the market.

So, I would assume some of that will relieve itself over time. And then of course, the big unknown is this fall to what extent there will be another pandemic wave. Will it happen? Yes, or no? And if it does happen, how bad is it going to be? But assuming that it's going to relieve itself over time from a pandemic point of view, I would assume best case scenarios end of this year, worst case probably mid next year that things will return back to normal.

Question on:	**Coffee**

Warren Ackerman, Barclays:

Maybe we can shift gear a little bit to talk about some of the categories. I mean, last year you saw Coffee, Pet food and Health Sciences all growing around double digits. And I wanted to drill into maybe each of those. Maybe if I can start with Coffee, and I've done a fair bit of work myself on the Coffee category recently, but I'd be interested to hear what your ambitions are for Starbucks, for Nescafé Pods and for the Vertuo system, Nespresso. We know that Starbucks revenues are up by 50%, from 2 billion to over 3 billion since you bought it. You are now rolling out Nescafé Pods and you are putting CapEx into the Vertuo line. It just seems to me that you are trying to close the system and capture more of the Nespresso growth for yourself and maybe squeeze competition by adding more price ladders with Starbucks and now Nescafé Pods. And I know you have said that you have taken 20% of the Nespresso compatible capsule market with those moves. Just interested how much higher that can go and how this kind of strategy of Nescafé and Starbucks and the Vertuo line all kind of gel together to give you more growth going forward in Coffee.

Mark Schneider, CEO, Nestlé S.A.:

Look, happy to comment. And as you see from that description and the set of questions, Coffee is a very multifaceted category and that makes it so exciting. There're different ways of preparing coffee, drinking coffee, enjoying coffee. And that creates so much opportunity. Now on the capsule system, we are not intending to close anything. I mean, clearly the original line, that is the small one, that is an open system, and as you've seen with Starbucks and Nescafé, we're competing there successfully and offering something in retail that consumers find incredibly compelling. And so that is wonderful and that will probably continue over time as we enter more markets and gain more share. And then Vertuo is simply consumers' desire for a large cup of Coffee being brewed with a Nespresso system. And that system to me speaks of the desire that people have for large cup. Remember the original line system was never really designed for large Coffee cups. And hence we're seeing, especially in large cup markets, such as United States, France, Germany, Holland, Northern Europe, that's where we see tremendous success for the Vertuo system.

Question on:	**PetCare**

Warren Ackerman, Barclays:

Okay. Maybe moving on to Pet food, you talked about growth on growth in the Q1 results. I think Pet food is the best example of growth on growth. But one of the things I have noticed on Pet food, you don't talk about Pet food, you talk about PetCare and the pet ecosystem. And I wonder how that kind of mindset change has also changed the addressable market opportunity for pet food as you look at adjacency. And I am thinking specifically about your investment in IVC and the pet clinics and some of the therapeutics that you've got and that you're developing in your R&D systems. I know one that François likes talking about is the one for cat allergies. But can you just talk about whether you can take that mindset or thinking about the category more holistically also to other categories? Does it change the addressable markets?

Mark Schneider, CEO, Nestlé S.A.:

I think the ecosystem thinking overall is important to connect with the consumer in as many ways as possible, help them in their thinking about the product, and position the product. But the core product is still pet food. I want to address people's concerns. We are not having mission creep here. We are not getting into dog beds or scratching trees for cats or something. It is about food, but it is about helping consumers make the best possible choices. And that happens these days increasingly through digital ways or with the help of a an expert. Hence, the investment in IVC, I think, is a good way to learn about that. It's also a good way, as you said, to improve the pet health food-related offerings. So, think about Nestlé Health Science for pets, but it's always food-based, metabolism-based, and that is our core, and we're staying committed to it.

Question on: Nestlé Health Science

Warren Ackerman, Barclays:

Okay. Makes a lot of sense. And then, maybe moving on to Health Sciences. You mentioned in the beginning revenues have trebled from, I think, CHF 2 billion to 6 billion. Could you maybe outline what your long-term ambition is for Health Sciences? Could this be a CHF 10 billion business that can be, in time, margin accretive? At the moment it's not, it's dilutitve because you're investing. But could it become accretive in time, and could it in time challenge Coffee and Pet as the third growth pillar for Nestlé?

The question people ask me all the time is, "What are the barriers to entry in this category, and how do things like Orgain fit into the strategy?" I think people just want to get clear in terms of how big an opportunity this really can be, looking even five or 10 years out.

Mark Schneider, CEO, Nestlé S.A.:

Yes, absolutely. Look, I am very bullish on this business. While I try to stay away from a specific numbers target, because, in the past, there was numbers guidance, it will definitely continue to go up significantly from the level of where it's at right now, both because of organic growth and also interesting bolt-on opportunities. As you mentioned, the margin will improve over time. A lot of it has to do with investments, in particular in research and development. As the size increases, of course, you spread that over a larger number of sales, and hence the R&D burden becomes less visible, and the margin will go up. We are also targeting significant operating synergies from some of the acquisitions we've done. This is where scale really kicks in and helps you.

In terms of the barriers to entry, depends a little bit on which of the three sub-segments of Nestlé Health Science you talk about. There’re essentially three segments here. One is Medical Nutrition, where I think it used to be top four suppliers in the world 10 years ago, and it's top four suppliers now, so no significant entrants here. R&D and also hospital relationships are key here, and we're benefiting from that and being a longstanding player.

The Consumer Care sector, I think this is where Orgain fits in. There, it's easier to build up new brands, as you saw with Orgain. I think we also have an exciting stable of brands, and we are now of course bringing exciting innovation to that. New entrants into the space are welcome, and of course they will inspire innovation for consumers. If they become something that is meaningful in size, they may also be interesting M&A targets. But I do not see market share eroding away from us because it's so easy to get into it.

Then the third one is specialties and innovative, novel therapies. Aimmune is a good example there, and that's of course where the product registration and some of the IP is your natural barrier to entry. So, it's quite protected.

Question on:	**Aimmune and Bountiful**

Warren Ackerman, Barclays:

That's great. I want to touch on Aimmune and also Bountiful, both quite sizable deals. Can you talk a little bit about your satisfaction of the progress? I know there's ups and downs on the comps, but looking through that, on Bountiful, are both in line with what you thought you were getting at the time of the deal? Are they tracking above, and what milestones should we look out for? I saw, in the UK, for example, a few weeks ago that Aimmune was certified by the National Health Service here in the UK, which I guess is a nice positive. But, if you could talk a little bit about those two businesses specifically, and what I'm interested in is how do you actually weave these together? Because they are all different end markets. How do you actually create synergies rather than a collection of just good assets that you've acquired?

Mark Schneider, CEO, Nestlé S.A.:

Sure. Look, to start with Aimmune, clearly, when we did the transaction, September 2020, we would've guessed the pandemic is over by now. And so, things were a little bit delayed simply because the pandemic took longer than anyone would have guessed in late summer, 2020. But now, as it subsides, we're also seeing patient interest increasing and people making that trip to the allergologist to get the kids examined and get the treatment. As you mentioned, in addition to the United States, we also have product registrations now in Germany and in the UK. Especially in the UK, where NICE is a very high threshold, I think it was good to get that acceptance and be ready to be in the market. So, again, whatever happened there is time-delayed, but all the fundamentals are still intact.

On Bountiful, incredibly excited. Integration has gone very smoothly. In addition to key VMS brands, it is also giving us a significantly improved manufacturing backbone. When I was talking earlier about some of the manufacturing synergies, clearly Bountiful will be responsible for a lot of that. That is going exceedingly well, so quite excited about that.

In terms of that seeming confusion, I hope that our next investor day at the end of the year will help to clean up some of that. Think about the three buckets, again: Medical nutrition, Consumer care, and the Novel therapies. Within these buckets, you do have pretty good synergy. Bountiful synergizes quite well with Atrium, the acquisition we've done in 2017 which brought us brands such as Pure and Garden of Life. Then, of course, the Aimmune acquisition synergizes quite well with some of the other novel therapies. So, it's within these three buckets, it's not so much across.

Question on:	**Organizational structure**

Warren Ackerman, Barclays:

Thanks for that color. Really helpful. And then, maybe moving to organization of Nestlé. It is always a topic that comes up. You have previously collapsed on the globally managed businesses. You have now broken out Zone LATAM from Americas and Zone China from Zone AOA. What benefits does that actually bring you, and, looking forward, are you happy with the way that Nestlé is currently structured? Are the moves that you have made a journey to something that you want to get to down the line, or are we at the end point in terms of organizational structure? Are you happy with the way that Nestlé goes to market? Just given how fast the consumer's moving, are you there with the consumer, or how do you get ahead of the consumer in terms of the way that you are organized?

Mark Schneider, CEO, Nestlé S.A.:

The move from three Zones to five Zones really reflects some of the global realities around us, where all things local are so much more important to today's consumer, and regulator for that matter. And so, what it did is it increased the geographic focus of each of these five zones and brought us closer to the consumer and regulator in each of those five.

Now, ideally, you would say, "Why five? Why not 10?" But then, of course, at some point, if you are creating a large number of zones, it becomes unwieldy. We felt that five is a reasonable compromise between that closeness that is needed. On the other hand, stop with a number of zones in the company that can be handled. Going forward, I do not have changes like that in mind. To me, it's about fine tuning, and that is how these five Zones cooperate the best way with the strategic business units we have that run each of the categories. Any company has a matrix at some level, but how smoothly that matrix runs determines a large part of organizational performance. This is work where you have to work with a screwdriver. It's incredibly fine, detailed work. So, it's not massive reorganizations, it's really minute process alignments and decision alignments that you have to do to make sure that, especially in a time when speed matter so much, that you get the speed needed.

Question on:	**Digital**

Warren Ackerman, Barclays:

Okay. Maybe shifting gear again, you had a very interesting seminar on digital where you shared with us the new targets to double your sales from 13% to 25%. Obviously, it's not just doubling it, it's doubling it as a percentage of sales. Obviously, the sales are going up as well, so, in Swiss franc terms, it's an enormous jump. My question is, you are obviously confident you can get to that number, but, if you do get there, how transformational will that be for Nestlé, and how do you harness the power of data as a genuine competitive advantage? Everybody has data, but Nestlé probably has more data than most other companies. How do you actually drill into that to make it an advantage?

Mark Schneider, CEO, Nestlé S.A.:

You are right. At the time when we held the seminar, we were at about 13% of our revenue digital. We are now at about 15%, and the target is 25%. To me, there is not so much a major organizational commitment. It is more a sign of the time on how our consumer is changing, because behind that is consumer preference. So, this is not only everything moving to direct-to-consumer, it is simply people shopping digitally as opposed to physically. That could be direct-to-consumer, it could be through pure-play online platforms, or it could be through the online arms of traditional retailers. We just see people after COVID now staying with those purchasing behaviors, and word's spreading that this is incredibly convenient. And so, this is what, in my opinion, will be the tailwind that gets us to the 25%.

There's a whole separate work stream, which you alluded to, and that is what I call the full digital buildout of the inside of a company, where, especially for a decentralized organization like we are, it's incredibly important to manage your data that you avoid unnecessary duplication and that you know as much as you can about the trends that are happening around you. That is not so much captured by this commitment. That's really something more that happens behind the curtain on how we handle our operations and the digital backbone of the company, and of course we're quite engaged in that.

Question on:	**ESG**

Warren Ackerman, Barclays:

Okay. Maybe, Mark, turning the topic to ESG. There’re many things I could ask you about ESG. There has been lots of initiatives that you've put your hand into in the last couple of years. The one I wanted to touch on was carbon. I thought your carbon 2050 roadmap was pretty groundbreaking in terms of granularity, and you were very clear that Nestlé is past peak carbon, is going down in absolute terms. How would it fundamentally change Nestlé in terms of how you buy, how you sell, how you think about regenerative agriculture? The thing that I took away from it is you have got this 20% carbon reduction by 2025, but you want to get to 50% by 2030. So, in that five-year period from '25 to 2030, there is going to be a really massive step up in reduction. So just interested in, A, how is it going to change Nestlé fundamentally in terms of how you buy/sell, and then how are we going to get that step up beyond 25?

Mark Schneider, CEO, Nestlé S.A.:

Look, incredibly important set of questions. Let me take a minute on the importance of the carbon target here. Clearly, we have lots of ESG commitments and activities underway. As we see, today's times are very worrying on a lot of dimensions, including world peace. But I think, when people will look back in 50- or 100-years’ time, decarbonization and how we handled the climate crisis will have been the defining question of this period. And so, to me, this one is front, left, and center. Obviously, you don't want to fall behind on some of the other commitments, but, on this one, we and everyone else must deliver. It's getting awfully hot on this planet. I think we all feel it, not only in record summer but also when it comes to average temperatures around the globe, and that's causing a whole lot of follow-on problems when it comes to growing crops, when it comes to migration of population, when it comes to rising sea levels.

So, this one, if we don't get a handle on this, it'll really invite a whole lot of trouble. So making progress on this one is key. You are right. The key progress needs to happen over the next 10 years, which I think is consistent with what everyone is telling us. It's not so important that we hit zero by 2045, 2050, or 2060, but kinking the curve now and being on our way down and being there sufficiently fast, I think, is the key theme.

Regenerative agriculture is the keyway for us to get there. Obviously, every industry has its own solutions, but agriculture and food production stand for about a quarter of all greenhouse gas emissions. And so, clearly, this is our calling to do something in that area. I think the key change here is that we are not just throwing our weight around and asking farmers and suppliers to meet certain criteria, but we also share the know-how with them on how best to do it. We make most of that open source, so that it is really available and spreads around as a practice, and we give technological and financial assistance to farmers to graduate to that new level of working.

Because just asking them to take all the risk for what is an incredibly difficult undertaking in the beginning would not be fair and would also probably be a prescription for failure. But, by giving that helping hand and giving that support, I think we have a chance of making it. Now, obviously, in that first 10 years, this is also where you clean up your own backyard. So, when it comes to how our offices and factories are run, our distribution systems, and we are on our way towards that.

Question on:	Nutritional standards

Warren Ackerman, Barclays;

Okay, thank you. Another big topic is nutritional standards. There were many reports last year that large parts of the Nestlé portfolio were unhealthy, and I know that Nestlé disputed a little bit that, I think, was an Australian study, but I know that you are updating your nutritional standards framework this year. I was wondering whether you could any light on that and why, for example, according to the website, only 5% of added sugar has been removed since 2017. It seems like a pretty modest reduction in what is quite an important ingredient. And are you happy with the kind of progress that you're making on this score, and can Nestlé do even better in terms of informing consumers and offering them healthier foods?

Mark Schneider, CEO, Nestlé S.A.:

There is a number of very specific points you made. And then, of course, there is a few bigger pictures. Maybe, let me just get a few specific ones out of the way. The quickest answer, why haven't we reduced more sugar since 2017? Is simply that, unlike some of our peers, we've done a whole lot already in the 15 years, 20 years before that. And so obviously, as you progress here down the curve, it's getting harder and harder. And that explains maybe the slowing rate of progress, but of course we're not giving up. And once the next 5% are done, you'll target something new, and that work will continue. When it comes to the Australian health star rating, I personally have no issues with that. I think it's one of the leading ratings out there. We had more an issue with how our progress overall was characterized in some of the media reports, and we made that clear.

We are overall totally committed to transparency. I think transparency and front-of-pack information, like Nutri-Score in Europe, is one of the best ways for informed consumer choices. And I think this is what a lot depends on, and we want to advance that. We will upgrade and improve our overall food health framework, and that's probably something that's going to be out, either later this year, at the very latest beginning of next year. We took our time, especially given that this is such a turbulent moment, with really spreading the details and working the fundamentals, because this is the core of what we do. And it's one thing to have food and beverage offerings that are environmentally safe. But of course, the key aspect is they should be delicious and healthy. And to have a proper framework that guards that and guides us in this is key, and we want to be sure we get it right. So that is why, with COVID and everything else happening, we're a little bit delayed, but making good progress. And the team is very excited about it.

And overall, I think we have all come in this industry a long way from a time when these matters didn't count for much at all, to a time when maybe we've been overdoing it, like we're trying to make even a joyful product just into a healthy product. And I think now there's a more nuanced way of looking at it, where clearly transparency is key. But then, let healthy things be healthy, and let the joyful, indulgent related things be indulgent, but help people make informed choices. Be very stringent on marketing to children, be very stringent on portion guidance. And overall, help people make the right decisions.

Question on:	**Inflation**

Warren Ackerman, Barclays:

Okay. Mark, forgive me, but I do want to go back to the topic du jour, which is inflation. And I think you said, I think maybe last quarter or the quarter before, that inflation per se isn't bad. There is not a structural erosion in profitability, but the problem was the speed of inflation, and how quickly that hit you. And the natural lag that there always is. Given inflation keeps moving higher, how are your procurement teams dealing with the extreme volatility out there? And how do you think about trying to improve supply chain resilience further? And do you think at some point you need to have more dynamic windows with retailers in terms of being able to negotiate what looks to be something that could be more persistent than what we would have thought a couple of years ago?

Mark Schneider, CEO, Nestlé S.A.:
I think it was that turning point in inflation that created the compression on our bottom line, and you see it the same with some of our peers. I think once we settle into a more regular inflationary pattern, as long as it stays within expected limits, I don't think that it needs to be a burden to the bottom line. That is the point I was trying to make. Those of you who were not economists, it's bit like rational expectations of the 1970s. As long as the inflation rate doesn't surprise you, it doesn't mean that money is taken out of anyone's pocket. People

adjust to it. And it's just that when you look at the history of 2020, and then 2021, we saw one of those turning points. And hence, everyone had some compression.

And now in early 2022, we saw inflation accelerating even some more. And hence, some of that compression would probably last for a few quarters. But then once it peters out, I do believe that you see the underlying strength of people's bottom line kick in again. That model hasn't changed. It's just that, of course, with the Russian invasion in Ukraine, inflation, energy prices have intensified. And we need to watch and see where that's going. Where that takes new windows here for negotiating remains to be seen. Are we basically seeing a blip that comes down over time? Are we seeing a steady inflation corridor? Or are we seeing wildly gyrating markets in the 2020s? I think no one really knows yet. These commercial habits usually have a bit of a one- or two-year time lag, and we'll see from there.

Question on:	**Margin**

Warren Ackerman, Barclays:

And just following on from that, I guess one of the other call outs from the results, Mark, was the margin guidance being a bit more challenging. I do not think it's that big a surprise given what's going on with inflation, as you mentioned. You normally build in some prudence to your guidance, both on top line and margin. I was wondering, how much more pricing... I mean, pricing, I think doubled in Q1 versus Q4, a massive step up just sequentially, and I guess come Q2 some more of the European pricing will come in. Where do you think, pricing can get to this year? And what kind of cost savings will you need? Will you need to step up cost savings to get into that 17.0% - 17.5% zone? I'm just trying to work out what the underlying assumption is to get you there. Because I can imagine, from a gross margin point of view, everything hitting you at the same time, it's going to be quite problematic.

Mark Schneider, CEO, Nestlé S.A.:

Sure. And look, at the point I was trying to make last week, especially given that in February I had mentioned that the UTOP margin guidance was conservative, I felt the need to now say look, this is no longer the case. I did not want to miss the opportunity and have people think, okay, he said in February it's conservative, so it's still conservative. This was not the alarm bell, it was simply just putting it in perspective, keep in mind what has happened since February. Obviously, we are looking at things from all angles, internal cost savings, recipe optimizing, supply chain optimization, qualifying second, third, and fourth suppliers.

All of these angles we explored, and the supply chain team is working overtime, and has been working overtime for the past year to make that happen. And also, no one should have been surprised by the step up from Q4 last year to Q1 this year, given that January 1 is an important reset date. And now as we go through the year, we will need to see in which markets we will have to do continued pricing adjustments and where we can do them, just in line with where inflation is going. Overall, it's important to me to stress that we all do this with a healthy level of responsibility, because it is Food and Beverage we're talking about. And we do understand that people's disposable incomes and available purchasing power is an important consideration.

Question on:	**Portfolio management**

Warren Ackerman, Barclays:

Okay. And my final question, before I move over to the investor questions, it's just around portfolio management. A favorite topic for everybody. 20% of the portfolio has been rotated, and I think the messaging seems to be most of the obvious disposals have been done and there'll be more net acquisitions. The message I think, and tell me if I'm wrong, is that you want to play in the one to 10 billion range, like Starbucks, like Bountiful. Midsize deals that move the needle, but not so big that there's execution risk. But equally, investors have seen you take down the L'Oréal stake to 20%, in part to fund the buyback.

And you've also said that you could pause the buyback in the event of a more transformational deal. I'm just trying to triangulate all those messages and trying to understand how your thinking is evolving. Would I be right in thinking that perhaps you might be considering bigger deals? And if that is case, how does that play into return on invested capital, which has really zoomed up nicely from 10% to close to 15%? And in the event of any bigger deals, does that mean ROIC has peaked? Just trying to understand your mindset going forward, that given the growth that you are delivering, are we moving into a slightly different paradigm, or are you still happy with the midsize deals?

Mark Schneider, CEO, Nestlé S.A.:

Look, very important set of questions, let me walk you through those one by one. And I think the safest assumption is that nothing much has changed from what we told you regarding acquisitions in 2017. And so that sweet spot is still exactly the sweet spot you mentioned. And obviously, when someone's asking me, would I rule out large acquisitions? Of course, I don't rule them out. I mean, why should I? Okay, why should I rule out the options that we have? But that doesn't mean that all of a sudden, they have become a sweet spot. And the benefits of these midsize and smaller transactions, the fact that they tend to be easier integration jobs, and the fact that they tend to pose less of an antitrust divestiture risk, those still fully apply. And in a world where the markets are still quite fully priced, the way to make an acquisition successful is exactly by a quick integration, and then taking the business together to new heights. And that's why integration is so important.

If you work from the assumption of getting a cheap deal, well, good luck. It is pretty hard to do that in an efficient market. It is all about what you do with it. And why the integration side tends to be front, left and center. In terms of ROIC, of course any acquisition, no matter whether it is small or large, initially burdens ROIC a little bit. That is a well-known fact. And then after a few years, as the acquisition contributes, you basically turn that into a positive. So even with the small transaction, ever so little, you have a little bit of ROIC compression. That is normal. It is larger when the deal is larger, but that shouldn't signal that ROICs have peaked. Because fundamentally, as you saw us improve our operating performance and as we continue to improve our operating performance, clearly the upward trends are there.

When you look at what compressed it last year, was two things, it was a small part due to the Bountiful acquisition. And then of course the large part came to the Wyeth write down. And in a year, that doesn't have such write downs, of course, then you see the underlying strength in ROIC still shine through.

Question on:	**CapEx**

Warren Ackerman, Barclays:

Well, listen Mark, we've got to the end of my questions, but I've got an avalanche of questions coming in from investors, and I've only got 15 minutes. I am going to try and do my best picking out ones that are common. I've got a few questions coming in around CapEx. Maybe it's more one for François than yourself, but people notice that the normal CapEx is four to 5% of sales. Whereas this year it could be as high as 7% of sales, or 6% to 7%. That is quite a big step up in CapEx. People are asking, what is behind that? Where is that going? And is that the new normal level, or does it trend back to the four or 5% in time?

Mark Schneider, CEO, Nestlé S.A.:

I am very happy to comment in detail on it. And let me assure everyone that this is not the new normal, and it is a reflection of all the good news that you've seen happening since the outbreak of COVID. That enormous bump up we have seen in PetCare sales and the at home revolution, people consuming lots of coffee at home. It is basically the mirror image of that unexpected success. I mean, us overshooting volume and growth targets pretty significantly over the past two, two and a half years. And that came with CapEx requirements that had to be accelerated.

And obviously it takes a while now to put that into place, so this is a two, three-year phenomenon. But over time, I would expect us to gravitate back to the four to 5% corridor. So, this is clearly in a steady state, what should be sufficient to help support the growth of the company. But now we just had to face that one-time bump up. But look, I mean, nothing easier to sign the cheque for than CapEx into a rising category. I mean, that is the highest return thing that you could think of, we could think of. And so, I think people should see it as a reflection of success in our business.

Question on:	**D2C Food delivery businesses**

Warren Ackerman, Barclays:

Okay, brilliant. There're a few questions coming in around food delivery, Mark. One question here, you have acquired a number of D2C food delivery businesses, like Freshly, like Mindful Chef in the UK. How are these businesses performing? Do you remain happy with your investments? Are we seeing any downturn, given consumer incomes are being stretched, or are they still performing in line with what you would expect?

Mark Schneider, CEO, Nestlé S.A.:

Obviously, these businesses are quite a bit wacked around by how the pandemic and the lockdowns were going, and sometimes hard to read the data. And you have lapping of strong quarters. But by and large, I think, for a food company it's part of the repertoire that we need to have to also have some businesses that are direct to consumer. And so, the track record has been mixed. Some of them have been performing really well, some others do have lapping issues, or issues that we need to fix over time. But overall, again, very committed to it. And this is part of what today's and tomorrow's consumer will spend like, when it comes to buying food, or ingredients for food. And hence, we have to face that and work it out.

Question on:	**Percentage margin target**

Warren Ackerman, Barclays:

Okay. There is another one, you can imagine there's quite a lot about margins, Mark. One's come in saying, "Pricing is unprecedented, does it make sense to maintain a percentage margin target in this environment? Is Nestlé really protecting percentage margin as they put through price, or are they more focused on dollar margin preservation? Is there a danger that a percentage margin target leads Nestlé to take too much pricing from a competitive perspective?"

Mark Schneider, CEO, Nestlé S.A.:

That question has come up a few times and let me give you my personal thoughts. Obviously, watching the total Swiss francs of margin is something that I always do. And when people inside the company discuss percentages, very often it's me around the table saying, "Okay, what does that translate into in total Swiss francs”, because that number is important and something that we should not lose sight of.

But I think for you, as the investors, to have that additional visibility I think is really important. Just having the target and reporting against the target I think makes sense. The mistake would have come in if we would have managed the company in the face of all this inflation in a hell bent manner where we told you 17.5% or more, so this is what it has to be. Because then you get into short-term management issues and decisions on a topic that was clearly unavoidable at this turning point when inflation shot up, and this is the trap that we shouldn't fall into. But using it as a data point and as a target, in my opinion, only flushes out some of the key issues that you as investors are really interested in.

Question on:	**Building scale in Consumer care**

Warren Ackerman, Barclays:

There is a question come in about Consumer care within Nestlé Health Science. Is there an opportunity to apply the same benefits to brand building via digital marketing, which you can grow a gap versus competition? Am I right in thinking the consumer today is bewildered by choice in an overcrowded market? So, the question is can you really build scale via digital in Consumer care? How do you cut through such a crowded marketplace?

Mark Schneider, CEO, Nestlé S.A.:

Look, I think it's a crowded marketplace but also one that has a huge spectrum from low-quality suppliers that consumers have no trust in to some of the higher-quality ones. Obviously, those are the companies that we focus on. Then, also, there has been a tremendous change in the way vitamins, minerals, and supplements are applied. In the past, it used to be tablets or capsules only, and these days a larger and larger part goes through gummies, which is a much easier and more pleasant way for people to consume the product. And so, the knowhow, the scale, and the investment to go into that, in my opinion, is key. And then, of course, you want to market it properly to inform consumers about that benefit and the differentiation. So, I believe, yes, there is a way to differentiate, and consumers are basically making those decisions every day by picking our brands.

Question on:	**India**

Warren Ackerman, Barclays:

There is a question coming in around India. The question really is, compared to some of your peers, India is a smaller percentage of sales. You have said that you want to grow it. You want to make it bigger, but your portfolio is relatively narrow compared to some other geographies. How are you thinking maybe specifically to build out India and increase the presence as a percentage of the Nestlé group? Do you need to do it inorganically? Can you do it inorganically, are multiples too high, or do you need to just go after organic growth and move into adjacencies?

Mark Schneider, CEO, Nestlé S.A.:

Look, I would love nothing more than to build our footprint and scale in India. I think it is incredibly vibrant and strong market and one that clearly has tremendous growth potential. We also have a very strong and very experienced management team there that I have complete faith in. And so, the right acquisition opportunity at the right price, I would love to jump at that. Yet, at the same time, in a market that is frothy, as you point out, it is important that we stay prudent on what such valuation could be and how it could be supported by synergies. So, the answer is yes, in the absence of acquisition opportunities, we will continue to try and build the business through organic growth. For the right target, I would love to open the purse strings, be aggressive and be supportive. But, again, it has to be financially prudent, and it has to make financial sense. So, I think the road is littered with people that were trying to go too fast in India, then overspent and never got what they wanted. That is why prudence there, I think, is important. But great market.

Question on:	**PetCare growth**

Warren Ackerman, Barclays:

Yeah. Just going back to Pet food, given the performance of Pet food, you can imagine there are lots of questions on Pet food. I have got one interesting one. Question is, "Volumes in PetCare are now around 29%, call it 30% ahead of pre-COVID levels. Would Mark be able to unpack that between the growth of the pet population and market share gain? Is this just a rising tide as just more pets, or is Nestlé really taking share? And, if it is taking share, why is it taking share, and how sustainable?" I think people want to get to what is a sustainable growth in PetCare, because you're growing 14% on double-digit comps, and it's crazy good.

Mark Schneider, CEO, Nestlé S.A.:

Look, obviously there is lots of specifics here market by market but let me point out two key trends. One is exactly what you mentioned. As the rising tide lifts all boats, and that's simply the fact that, in most advanced markets, pet adoption had been through the roof, and most people are expected to hold onto their pets going forward. That has created this one-time step-up in the market, and then you continue growing with the same growth rate as before through premiumization, but you do it on a higher base.

The second part that saw us benefit, and a few other players as well, is that, before the pandemic, you've seen a bit of a hype building up in these super-premium, all-natural brands. Over time, I think consumers discovered that they were not fully delivering what they promised. In fact, there were even some investigations into dog heart health issues. So, people have got confused about that, and hence there has been a flow-back into the more scientific brands, like our Pro Plan, for example. We stood to benefit, and people all of a sudden saw that, at a more reasonable price point, they were actually getting an incredibly safe product and a very good deal.

Question on:	**Chocolate – KitKat and Premiumization**

Warren Ackerman, Barclays:

Okay. One question coming in around chocolate, so the chocolate market. You don't often get asked as many questions on chocolate as all your other categories, but the question coming in is how is KitKat, your biggest brand, performing, and given the market seems to be premiumizing, Nestlé has got some premium brands but is of obviously behind some of the obvious players. Has there been any progress trying to attack that part of the market? So, it's two-prong, on KitKat and then on the top end of the chocolate market.

Mark Schneider, CEO, Nestlé S.A.:

Well, look, KitKat, the easy answer is kicking the lights out. Very proud, very happy with what's happening at KitKat. You will have seen in practically all markets that this is a brand that can be stretched a little bit. It doesn't just have to be the two-finger or four-finger wafer product. It could also be now more seasonal KitKat offerings, which are doing very well, and products that just have a fragment of the wafer inside the chocolate. All of those are taking off like crazy, so very happy with that.

Good point and fair point on the premiumization. Obviously, premiumization and gifting, in my opinion, is the answer to ensuring growth in the chocolate business. It's not about just selling more chocolate, making people eat more chocolate, but having them consume and enjoy higher-value products at a responsible number of occasions and with responsible portion sizes. Enhanced premiumization and gifting are the ways to go, and I know that we have some areas for improvement there.

Question on:	Cost inflation

Warren Ackerman, Barclays:

Okay. I've got a few more, Mark, quickfire ones. I know we are getting close to the buzzer, but questions coming in. "Where have you found it hardest to pass on cost inflation, and can Mark give any details on further initiatives other than pricing that's happened around pack size, or supplier changes, or any other operational changes to deal with cost inflation?" So where is it difficult maybe geographically or by category? Some sort of feeling would be great.

Mark Schneider, CEO, Nestlé S.A.:

Look, I would love to be helpful, but I also want to stay away from any competitive signaling here or retailer signaling. And so, let me just say that it has not been an easy journey all throughout, because let's remember where we're coming from. We are coming from a five-to-eight-year period that was either no pricing or even negative pricing in most advanced markets. And so, if you then restart that conversation, it is an unpleasant conversation at first. I think this is how we felt when we started this last year, and then, of course, as data point after data point was coming in, and people in their own shops realized that costs were increasing significantly, whether it's labor or transportation, energy, what have you. Then I think it became a more natural conversation, and of course you still have a lot of convincing to do here. You have to show people that this is truly justified, that you're not gouging. But, still, it was a fairly uneasy turning point that I think the entire industry was facing with retailers and with the consumer.

Question on:	E-commerce

Warren Ackerman, Barclays:

Okay. I'm going to try and squeeze in two or three more, Mark. "On e-commerce, what proportion of your sales are now through e-commerce channels? Could you maybe provide the split between pure-play, DTC, and E-retailers? What is your outlook on e-com, and are you more bullish around one type of e-com player over another?" The question then goes on to talk about e-com in China and how the China e-com market is changing, so it is slightly multifaceted.

Mark Schneider, CEO, Nestlé S.A.:

Overall, as an indicator, we are now at 15.1%. We have not provided the breakdown, and, of course, country by country and category by category, it is massively different between direct-to-consumer, pure-play e-commerce platforms, and the online arms of traditional retailers.

From my perspective, also, that is not so important because, at the end of the day, the market dynamics in each geography are so different. The average here does not tell you very much. Going forward, obviously, where we believe we can create sufficient scale, direct-to consumer is a wonderful way to go. We saw that from Nespresso, but again it is very scale sensitive, and that why you have to pick your battles wisely. It should also come with some value added, like personalization or specific consumer advice that you can give, that requires additional handholding. It is not something for low-value, everyday articles.

Question on: L'Oréal

Warren Ackerman, Barclays:

Okay. Mark, I cannot let you go without asking the L'Oréal question. It is not my question; it's coming from an investor. The question is, "Why did it only make sense to sell down 4% of L'Oréal to 20%? Why not more? Why is 20% important?"

Mark Schneider, CEO, Nestlé S.A.:

Look, I think the 20% was a very good balance between, on the one hand, retaining that very significant constructive relationship, including two board seats that give us very good visibility and influence in the governance of the company, and, on the other hand, at a very attractive price, monetizing a 3% part of a stake. So I think, when it comes to just, on the one hand, preserving what made that relationship so successful, on the other hand, at a very attractive moment in time, cashing in, I think it was a good, healthy compromise and balance. This is how most investors saw it. I also was encouraged by the fact that both companies' stock price went up at the day when it was announced.

Question on: Plant-based products

Warren Ackerman, Barclays:

Okay. Final question, Mark. On plant-based, you have built quite a nice business in plant-based, and you have not gone in for the more commoditized analogs, you've gone slightly different, which I personally think is the right way forward. But there is some evidence of the plant-based market slowing down. It has been growing strong double digit. Have you seen any evidence of a slowdown, and, if you have, where is that? Is it in Europe or is it in the US? Just an update on your outlook for your plant-based business would be super.

Mark Schneider, CEO, Nestlé S.A.:

Whatever leveling off we have seen was probably more pronounced in the US than in Europe. It is mostly focused on those items that are sold through service restaurants. So, think your normal, straightforward burger patty, hot dog, or chicken piece. Those are the ones where, under whatever reason, whether it is through the quick-service restaurants trying to focus on their core menu or because consumer interest leveling off, the traditional growth rates were not the same anymore. At the same time, we are seeing tremendous interest in new specialties. No one wants to live off burger patties, chicken pieces, and hot dogs all day long. So clearly diversity is the name of the game. I think we have great outlets and great brands to offer that, and also offer some of the components in prepared meals and frozen meals. That is why, from the beginning, we were quite consistent that a burger patty or a chicken piece is a great way to get into the business, but the true opportunity is way larger than that.

Warren Ackerman, Barclays:

Well, listen, Mark. I think we've hit the buzzer, unfortunately. I could speak to you for another few hours, but unfortunately time defeats us. It was very nice chatting to you, and I hope you found it a good experience as well. I would love to see you in London when we can do it. Again, thank you for your time, and let us do it again soon.

Mark Schneider, CEO, Nestlé S.A.:

Absolutely. Looking forward to and looking forward to reconnecting in person. Thanks again, everyone, for joining us today. All the very best. Stay healthy.

Warren Ackerman, Barclays:

Thanks, Mark. Bye-bye.

Mark Schneider, CEO, Nestlé S.A.:

Bye-bye.

End of Transcript