

NESTLÉ S.A.

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Speakers:

Mark Schneider, CEO, Nestlé S.A.

Céline Pannuti, J.P. Morgan

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Céline Pannuti, Head of Consumer Staples Research, J.P. Morgan

Good afternoon. Good morning, everyone. Thank you for joining me today. I am Céline Pannuti head of consumer staples research at JP Morgan in Europe. And it is my pleasure today to be in Vevey and to host this discussion with Mark Schneider, CEO of Nestlé.

Good, afternoon, Mark.

Mark Schneider, CEO, Nestlé S.A.:

Good afternoon. Thanks for having me. Thanks for coming out to see us.

Question on: Nestlé post COVID

Céline Pannuti, Head of Consumer Staples Research, J.P. Morgan:

Yes, well, I'm certainly very pleased to be here. It's beautiful behind me, so thank you.

In fact, maybe as we start this discussion, that would be something I wanted to ask you. As we see the COVID crisis somewhat normalizing, while not everywhere unfortunately, I want to see with you, what this crisis has changed for Nestlé, the way you operate but as well how do you see your consumers behavior maybe having changed, post this crisis.

Mark Schneider, CEO, Nestlé S.A.:

So, a very important question as the world seems to be normalizing in a lot of regions, at this moment.

During the crisis. It was of course short-term crisis management, but what we've seen as we sort of navigate out of this, is that some consumer habits may have structurally changed for good. So one example is clearly the shift towards digital, vast step up in e-commerce activity for Food and Beverage. As you know, Food and Beverage prior to the COVID pandemic had been a bit of a laggard when it comes to the adoption of e-commerce activities.

Another good example is the mass increase in pet adoption. So here also we see little signs that people are now reducing their pet ownership. So it seems to have been a one-time step up in pet ownership around the world and then continued growth rates from there.

There's an increased interest in health and prevention, and certainly everything that's immune boosting, so that hasn't gone down and clearly meeting all the forecasts.

Then finally, there's one thing which I mentioned in our full-year conference call, that is the At-home revolution. The fact that all of us in the future are likely to be more flexible when it

comes to our working habits, certainly office-based workers will be, and it's a reasonable assumption, that part of our working week will be spent remotely and most likely that's at home and that's of course favoring retail products.

Question on:	Changes to R&D at Nestlé
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Céline Pannuti, Head of Consumer Staples Research, J.P. Morgan:

There are a lot of topics that you talk about that we will discuss. As you said, you recently had your Q1 results and updated on business, and I think you recently did another interview. So I really want to take this opportunity to focus on two strategic topics. Number one is portfolio change with a focus on the Nestlé Health Science and Consumer health care which you discussed. Number two is to understand how Nestlé is changing to adapt its products and its practices for sustainability, demands of its consumers but as well of its stakeholders.

So before we go into the future, let's step back a bit on how the journey has been over the past five years. You mentioned earlier the benefit in terms of consumption trend, and certainly Nestlé has delivered on its targets to 2020. The end market has been supportive, I think as well the portfolio has changed. But what I would like to hear from you is how some of the core skill sets at Nestlé have evolved. And we'll start with R&D, which I think was one of the first changes that you made as you came, so if you could tell us how your R&D is developing and what are the key opportunities ahead for Nestlé.

Mark Schneider, CEO, Nestlé S.A.:

I'm glad you're starting on R&D because when we talk about portfolio changes and portfolio evolution, very often from our equity owners, the first thought is towards M&A. But obviously a lot of that portfolio evolution happens, over time, through new product development and that is the most value creating way of evolving the portfolio. If you develop something, make it and sell it under your own steam rather than paying a significant multiple for that.

Yes, the cycle time from concept to shelf has been reduced significantly. This was mostly activity that happened in 2018-2019. We had a few proof points, even before COVID, for example, a fast launch of our Starbucks coffee range. But then during the COVID pandemic, we were able to continue that under the more difficult conditions that pandemic posed on us when it comes to just working remotely and, you know, keeping safety requirements in our development areas. We were not slowing down, in fact, 2020- 21 saw both acceleration in our new launch activity.

We were able to tactically to do things that we weren't able to do before. For example, when we saw, at the onset of a crisis, this vast increase in interest in immune boosting. We were able to develop products that were actually hitting the shelves right in that first pandemic winter of 2021. So, you know, spring '20 we saw the trend and then sometime in the winter 2021 they were on-shelf and that would not have been possible before. And so, aside from just being at par or faster than competition, I think tactically we were also able to explore these fast-moving trends while they're still on and not coming out with a product when the trend is gone.

Question on:	Use of digital
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Céline Pannuti, Head of Consumer Staples Research, J.P. Morgan:

When you think of those fast-moving trends, and as well what you said earlier about the adoption of e-commerce, I would like to understand as well the digitalization of the organization. Obviously, we've seen e-commerce accelerating maybe you have discussed that. We would like to understand how this enables you to maybe a better forecasting, better end-to-end supply, how you are powered by digital within Nestlé.

Mark Schneider, CEO, Nestlé S.A.:

Sure happy to comment. Look, I'll give you a few specific examples across the entire value chain. But let me also start with a high-level comment. That is, when it comes to large organizations like ours, I think the full digital build-out has only just begun. That may be astonishing to some people because we feel that smartphones and tablets and computers are so ubiquitous. But at the end of the day when you look at most processes in large organizations, it's interesting to see how many interrupts there are, they're not fully digitally linked and connected to the full potential yet. I think COVID and some of the rapid IT work that needed to happen at that time, to keep everyone connected, was almost like a starting shot for people to rethink; well, you know, was the way we handled things before optimal and couldn't we do it in a smarter, more connected and even more digital way? And so I believe over the next decade, the rest of this decade, you will see a burst of activity and of course this will include us in exploring digital opportunities across the entire value chain.

Now specifically on a few things we're doing already, it starts with digital support for sourcing, where with AI, when it comes to the fine art of commodity buying, it's always good to benchmark the gut feel that the buyer has against the recommendations that the AI system would make. And then of course, these AI systems are learning over time and so those recommendations get better and better. It's a good example on the buying side and

especially now with some of the commodity price surges it shows you that smart buying, of course, is the beginning of it all.

When you look then at the manufacturing process. During the crisis, we had to switch to a remote maintenance for a lot of activities because we couldn't fly out there anymore on some of the more complicated maintenance items. And so there's no need now after the end of the pandemic to go back to traveling when over two years, with good results, you were able to do that remotely.

There's also lots of predictive analytics when it comes to maintenance activities and manufacturing upgrades. That's something that we're exploiting very forcefully. Then downstream and think about distribution, optimizing logistics, there's lots of savings' opportunities in there and then also increasingly on shelf availability by shipping the right things to the right place at the right time. And on the consumer facing side, obviously a vast amount of work also linked to personalization of our offerings and personalization of the approach. And then overall, when it comes to the data landscape, that focus on first- and second-party data, as opposed to the old world of just working with cookies.

Question on: Portfolio management - Coffee
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Céline Pannuti, Head of Consumer Staples Research, J.P. Morgan:

As we move now to portfolio changes. I think you have rotated around 20% of your portfolio; 13% of disposal and the remainder in acquisition. As a result, in fact, I looked at your two main divisions, Coffee and PetCare, their contribution to profit has accelerated 40% to 50%. There has still been some acquisition in Coffee, but clearly, they've also been the engine of growth, if I look at the last five years in terms of their top line contribution.

So maybe if I start with Coffee, Starbucks, you alluded before you were fast and it does help to add an extra billion. What I would like to understand - so we understand Coffee, how you went into the Nestlé compatible capsule market and won there, while also increasing Nespresso. But what I would like to understand is what's next for Coffee, being in terms of regions, technologies. You were talking about R&D before, and as well retail, because I don't think we hear much about Blue Bottle.

Mark Schneider, CEO, Nestlé S.A.:

So let me start by saying we love Coffee as a category. It's vast. It's full of meaningful sub-categories and different ways of consuming coffee around the world. It has a wonderful innovation pipeline, and consumers who are willing to explore new things. And, you know,

that provides the basis for ongoing premiumization. We're already in a 30-year premiumization drive that began sometime late 80s, early 90s, and has never stopped. Looking ahead, I see no end to that and consumers' willingness to pay for meaningful good innovation and quality. It has not diminished. So that all makes it a wonderful category and to be leading in that wonderful category is a really important.

Yes, portioned, which as you know we invented, is still our key growth driver. I think it has unique consumer benefits when it comes to convenience, and also when it comes to shelf life. Especially in an at-home environment, when you think about someone on a quick coffee break, trying to have as quickly as possible, the highest quality cup of coffee available. Nothing beats using that capsule and just pulling it in a matter of seconds, without having to clean the machine afterwards. So clearly for that environment, it's so well positioned. Personally during that crisis, I got so many emails and comments from friends and relatives who were saying, 'Look, I had one Nespresso coffee machine or Nescafé Dolce Gusto machine, now I have a second one because I wanted one in my home office, I didn't want to go to the kitchen all the time'. So clearly, this is the go-to solution for the discerning consumer that wants to work from home. With Starbucks and also with the Nescafé range, I think we are successfully addressing at different price levels, the compatibles market and that's going really well for us. Then obviously we're also, in the spirit of leaving nothing uncovered, we're also doing a full-scale push into ready-to-drink because there are parts of the world and there are age groups that clearly have a strong preference for that.

I would also want to put an emphasis on another invention of ours and that's soluble. So soluble has been seen by some people as a commodity, but I think starting from Asia now, there's a renewed interest in premiumizing soluble. Remember there's lots of areas in the world, and actually some of the areas with the biggest upside, where per capita consumption is less than 10 cups a year. If you want to explore whether coffee is for you. The most riskless way to get into coffee is with soluble. It doesn't require you to buy a machine and have some upfront investment, only to find out later but maybe this is not your go-to drink solution. So in soluble I think there's a renewed interest and a new life. And still people want a top-notch product and that opened the door to premiumization. We saw that in Korea and China and now it's also catching on in Europe and in the United States. And that's a trend that of course we also intend to lead in the way of drinking coffee that we invented.

Question on: Portfolio management - PetCare

Céline Pannuti, Head of Consumer Staples Research, J. P. Morgan:

So the other category that has been also benefiting from premiumization is PetCare. Now, I think that you mentioned earlier that pet adoption has been another driver. And I think how you won online, especially in North America, and developed over the past five years, has also been a driver. So we all understand that those are structural drivers. It just feels like it has been a little boosted over the past couple of years so are we right to expect those tailwinds to fade somehow, how should we look at this? And talking about health which will be my next topic, what about pet health? Is there room for that in your portfolio, beyond pet nutrition?

Mark Schneider, CEO, Nestlé S.A.:

Yes, so clearly, we had two major growth drivers in PetCare and even before the pandemic. One is that continuing premiumization in advanced markets, people more and more seeing the pet as a fully-fledged family member and trying to do the best for their pets. Then the other one is that ongoing caloric conversion as we call it in developing markets. That is as countries and households get wealthier and have more disposable income, rather than feeding the pet with household waste, they turn to a dedicated pet food which is more hygienic, more convenient and also, most of the time, better for the pet. So those two drivers continue in an unabated fashion and there is no end in sight for both of these.

What happened in the pandemic is what I mentioned earlier, that is the one time step up in pet ownership and just from some anecdotal evidence and things may vary by country, I still feel that waiting lists and waiting times with breeders tend to be significant. So it's not like this trend is completely over. Not everyone who wanted to adopt a pet during the pandemic has been succeeding in that and so some of the people are still waiting for their pet. And we haven't seen a significant flow back. So we haven't seen you know, a significant inflow into animal shelters from people who may have concluded that a pet doesn't fit their lifestyle post pandemic.

So all in all, frankly, what we've been seeing so far has been beating our expectations. And then we see at the same time where we come up with new premium products, or when we look at our emerging market activities that the two growth drivers from before, as I said continue without much interruption. So, I think all in all, wonderful growth prospects.

The notion of pet health is important. And I think there's two opportunities. One is you see our minority investments in IVC and the whole notion of ecosystem building, because every pet owner at some point or another will also have to do a trip to the vets and obviously the vet has a lot to say when it comes to pet nutrition. And then the other one is supplements, vitamins, minerals and supplements for pets. To me that's a wonderful high value solution,

just like it is with Nestlé Health Science for humans. And it's also one where I believe we can leverage some of the existing, very strong, very trusted, brand names we have in pet food and build a nice position in that space as well.

Question on: Nestlé Health Science
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Céline Pannuti, Head of Consumer Staples Research, J.P. Morgan:

Right, so that takes me to human health in a way. So for you Nestlé Health Science is a CHF 6 billion business which has roughly doubled over the past five years. Very strong growth but as well through acquisitions. There are different bits in this business. So I think around 2 billion is Medical nutrition. And 4 billion is Consumer care, which includes VMS and the Boost business in healthy ageing. Now, Consumer health, you call it Nestlé Health Science, may mean a lot of things to different companies. Within even that I would say the Nestlé portfolio is already quite broad, so could you tell us what exactly is for you Health Science? Which are the contours of this industry that you are interested in?

Mark Schneider, CEO, Nestlé S.A.:

And it's a fair question. And we noticed with our Full-year roadshow activities and investor meetings that obviously the interest in that space is significant. People realize that we have invested a lot of money in this space over the past few years and they would like to have a better visibility. What exactly the shape and the gestalt of Nestlé Health Science is and the strategy of where we want to go.

So obviously, I'll be happy to give you some additional information. But let me also say that later this year in our Investor Relations activity and with our next investor day, we will also put special emphasis on this subject. We want people to have good clarity and visibility of what comprises Nestlé Health Science, and then also, where we want to go.

To me, it is in three subcategories, all built around the notion of nutrition and metabolism. The historic core was Medical nutrition. So this is mostly calorie replacement for people that need extra calories like for example, aging population or people before and after medical procedures. So it started from a hospital setting and then over time with brands like Boost it also got a consumer presence in markets that permit to have consumer products of this type, the US being a great example. And that one really happened, almost an historic mainstay, we're one of the four leading medical nutrition makers in the world. Given the aging population and given demographics in many emerging markets, this is clearly a growth business going forward and one that we're fully dedicated to.

As part of the consumer side of the business, we saw several years ago that significant opportunity in the vitamins, minerals and supplements and I think through a number of acquisitions, but also internal developments and geographic expansions, we have built our presence in that space pretty significantly. Why did we see an opportunity there? We saw an opportunity because traditionally, it's quite regulated, but not very intensely policed by a lot of regulatory agencies. And there were instances in the past when you had quality lapses and products not being on spec or poor ingredients being used. And so we saw an opportunity with high quality standards for a successful branding. And having basically consumers trust in the brand, replace some of the missing supervision. And so not surprisingly, we really started from the high-price level, premiumized products. The Atrium acquisition 2017 I think was a landmark step, it got us significant brands such as Garden of Life and Pure that we then very aggressively took international and very successfully. And then we complemented that with some local acquisitions because there's lots of local brands as well that have strong consumer allegiance that we wanted to capitalize on. And then obviously the landmark step last year was the acquisition of The Bountiful Company, which gives us, in addition to some more very trusted key brands such as Nature's Bounty and Solgar, it also gives a significant manufacturing heft at scale, and takes us more solidly into the mainstream of this industry. And gives us a staying power and efficiency, that's pretty hard to beat. So I think that foray overall has proven to be very successful.

The third bucket is Novel therapeutic solutions. So this is where it gets to be a little bit more high tech. We're certainly staying away from biologics, we're staying away from injectables, but we're exploring opportunities there around allergies as far as they're related to nutrition, digestive problems, and so forth. And some key acquisitions here were Zenpep and also Aimmune. So those are the three buckets we're dedicated to all three of them, we see significant opportunities in all three of them. And so far, the results have been very impressive.

Questions on: Novel therapeutic solutions

Céline Pannuti, Head of Consumer Staples Research, JPMorgan:

In fact, I want to spend a bit more time on the first two buckets you mentioned. If I look at the last one, when you bought Zenpep and even Aimmune and I think there was questions about whether you may be stretching a bit too far. Like you say it's a bit high tech so as a food company, is it really Nestlé's place to be there? And Aimmune I think the rollout has been delayed because of COVID. But at the time of acquisition, the plan was that it could be a \$1 billion business. Where are we tracking against this plan?

Mark Schneider, CEO, Nestlé S.A.:

So overall, when you look at our research and development budget and know-how, this whole notion of capitalizing on consumer health products and sometimes even Rx products that are related to nutrition and metabolism, in my view, makes sense. So there's a lot that the developers on both sides, in some of these acquired businesses and in our central research have to share and to talk about and it's been going really well in that regard. As I said, we're staying away from some of the really heavy-duty things that I know before from my days in healthcare, such as injectables, biologics, and so forth. In particular on Aimmune the impression was created that this was a biotech company because the specific approval mechanism that the FDA has used for this product, since it was the first of its kind was as a biologic. But as you know, it's a tablet with very precisely portioned, finely ground-down peanut isolate. So it's not an injectable, it's not a high tech, biologic product of any sort. It's really a very basic ingredient that's being applied in very controlled portion sizes. And we believe we handle that technology quite well. Also the manufacturing side, and also, we have some prior experience when it comes to pediatric allergy products. We had those in the Nestlé Health Science portfolio before and we also have them on the Infant Nutrition side. So we felt, this is something that we can handle well. The delay of course with COVID, since COVID has beaten everyone's expectations and how long the pandemic takes, yes, that's a fact. But I think now that rollout is in full swing in the United States, and we also got approval in Germany and the UK, and it's being rolled out there, as we speak.

Question on: VMS

Céline Pannuti, Head of Consumer Staples Research, JPMorgan:

We recently did an industry review and we looked at the VMS industry and OTC but I think VMS as you explained is more your interest. An industry that is meant to grow at 4 to 6% and certainly has been helped by COVID as you discussed earlier, the immunity needs during COVID. So I think it's on one side an interesting long-term industry, on the other hand, I think there's a bit of question mark about whether there's been a bit of a boost thanks to COVID and how much continuation of that we will see in the midterm. But as well you know in terms of quality lapse, that you discussed earlier, I think there is also question mark on whether there is a risk in going into that industry where you cannot really rest on scientific evidence. And so is that a risk Nestlé's taking going into that industry? Or on the contrary, what is Nestlé bringing to the table with R&D, digitalization and distribution to build those brands as you mentioned?

Mark Schneider, CEO, Nestlé S.A.:

Yes. So we believe in the potential of VMS, and I think as you see from our strategic moves before the pandemic, this was not something that was prompted by COVID. We discovered that as a promising growth segment before. It got an additional shot in the arm through the pandemic and the increased interest in immune boosting products. But I think you saw pretty consistent growth especially at the mid and premium price ranges even before and we believe that this will continue. I think generally, and boosted by COVID, there is an increased interest in health and prevention. People are so much more knowledgeable about micronutrients and what they may be missing or low on. Obviously, online and Dr. Google helps a lot with finding out about that. As a result, I think yes, you will have some ups and downs and some gyrations now with COVID and as you lap some of the strong COVID quarters. But even that has come out better than expected because, unlike the expectations in 2020, COVID didn't have one sharp end and then all of a sudden the pandemic is over. I think you know, the fizzling out here has been a much longer softer, more drawn-out process than expected by anyone. Hence there isn't that sharp cliff where all of a sudden sales are falling off and I think the first quarter numbers bore that out. So we believe it's strong industry

On the quality side I think it fits right into our quality aspirations when it comes to the manufacturing and the sourcing. Clearly as you see the way we handled our Garden of Life and Pure as high-quality brands, I think we continue to be good stewards of those, we didn't lessen any of the quality standards, if anything we were basically making sure that they got fully upheld and developed. There have been obviously a few black sheep in the industry when it comes to aggressive claims. So this is one where we are quite conservative, and we don't want to fall into that trap. But overall, there's also increasing medical evidence that with a modern time-constrained lifestyle, in the winter season, it's really hard to keep up, even with good nutrition, on all of your essential micronutrients. That's why we believe this whole process of supplementation, responsible good supplementation, does have medical benefits for a lot of people and is a real alternative, one that more and more people embrace.

Digital is a big factor in that because you can personalize. A good example is our Persona acquisition where it's a fully bespoke process. And you will see more and more elements of that. Then of course, even aside from personalization, this category is made, is absolutely made for e-commerce because you have something that can be shipped very easily, you have pretty good shelf life, you have something that can be defined really well and can be reviewed even on a small screen in good ways. And when it comes to the shipping process, it has a very high value to weight ratio. It's just made for e-commerce.

Céline Pannuti, Head of Consumer Staples Research, JPMorgan:

And knowledge as well, as a consumer to be able to self-medicate.

Question on: Globalization of VMS business

Céline Pannuti, Head of Consumer Staples Research, JPMorgan:

You told us about the capital market day so we are not going to steal all the thunder but just if you could quickly maybe tell us how the Bountiful and Atrium together, I think you have now have a leadership position in the US with 7% share in VMS. So how does that look now that you have owned Bountiful for six months and what should we expect outside the US because as you mentioned it's really local tastes, local habits, local brands. Can this be globalized?

Mark Schneider, CEO, Nestlé S.A.:

So a lot of the modern day thought leadership in VMS, comes from the United States. So to me it is no surprise that some of the most globally recognized and strongest brand names in the space are based in the US and I think we now own quite a few of those. They stand for very meaningful, very intuitive and strong innovation that consumers really adopted over time.

So we are in the process of not only capturing all of the synergies in North America but then from that US base what we want to do is take these brand names international. As I mentioned on Garden of Life and Pure, we've done that already. I think there's additional opportunities for, not only those brands, but also Bountiful, Nature's Bounty and Solgar. I feel that Solgar in particular has had a very strong international following over the years. And as mentioned, to me, that's no contradiction to also trying to acquire meaningful local outlets. So we can really pursue it from all ends but there's always a synergy to be had, whether it's in manufacturing and distribution or on the branding side. And also, I think from the midpoint to the premium point, we really want to cover a number of price levels and not just be relegated to one small slice of the market.

Question on: Growing Nestlé Health Science

Céline Pannuti, Head of Consumer Staples Research, JPMorgan:

At the time of the acquisition of Bountiful I remember I think it was an interview from your head of Nestlé Health Science saying that the ambition was to build a position that would be like the one you have in Coffee and PetCare. So clearly, that's a long way to go, because it's

a very fragmented industry. I would imagine, you already spent CHF10 billion in acquisitions over the past five years, in Nestlé Health Science acquisition is going to be part of that. So question is, is big better? At some point would you need a bigger acquisition in order to get ahead and increase the market share? As we look into those transactions that sometimes come with some OTC so what is the boundary? Also in terms of value creation because I know this is something you are super focused on. They come with higher multiples, so what is the value creation that could justify that you meet your return on invested capital in a good timeframe, let's say five years.

Mark Schneider, CEO, Nestlé S.A.:

So looking back over the years, the one thing I wanted to stress to all of our investors is that this acquisition drive in Nestlé Health Science would not have happened and would not have continued if those deals would not have worked out. And so clearly, in addition to all the investing activity, I think they've done a beautiful job when it comes to integrating those acquisitions and then really performing at or above plan. In particular, on Atrium, which we discussed earlier, when it comes to the times, for example, for return on invested capital to exceed our weighted average cost of capital, we've been beating our own expectations there and clearly beating our group assumptions by long stretch, which is not easy on acquisition of that size once you get into the billions. So they literally have earned the right to acquire and with the way that the business has been performing until now, that continues. Now it'll continue in good measure. As you know, publicly I said quite a few times that our focus on acquisitions is small to mid-size and so it's not like we're waking up every morning itching here for a mega deal. And with this more focused strategy we have in Nestlé Health Science which is not to build up a super broad-based consumer health portfolio, but rather the more focused portfolio around nutrition and metabolism. Most of the time, you know, it is the small to mid-size acquisitions that get you there. There isn't something mega out there. And it would not be efficient to try to buy one of these mega deals, only to take out a tiny sliver that you're interested in. So clearly the focus stays. And also, since you mentioned the amount that we have invested over the years, don't forget, we also divested the Skin Health business. And so I think when you compare the situation outside of the traditional Food and Beverage activities right now to let's say 2017. It's much, much more focused, it's more successful, it's growing better, better margins, but it's also much more focused around what is our core and that is nutrition and metabolism.

Question on:	Margins for Nestlé Health Science
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Céline Pannuti, Head of Consumer Staples Research, JPMorgan:

Just quickly, maybe to wrap up on that. And I remember effectively Nestlé Skin Health and you know, how you tried to get to a better profitability. But if I look at Nestlé Health Science, great top line growth, I think about 11% growth CAGR, over the past four years. But margin, I think was 11% last year, 13% the year before. There were some exceptional because of Bountiful, but nonetheless, let's call mid-teens, the low to mid-teens margin seems lower than peers. So what is the trajectory ahead?

Mark Schneider, CEO, Nestlé S.A.:

So those margins will improve over time. There're two drivers. One is that Bountiful integration process and the synergies it brings and we're still in the middle of reaping all of that. And obviously that takes a bit of time. Remember the deal only closed last August and I think we are at or even ahead of schedule when it comes to those integration steps but to see the full benefit of that flow through to the margin that's literally a one- or two-year process and we're in the middle of doing that.

The second one you shouldn't forget, on Aimmune that came with a pretty significant R&D budget. When you have literally close to zero in sales, you know that weighs you down but over time, this is expected, and you asked earlier, this is expected to be a billion-dollar opportunity. And so then that R&D budget gets spread over an ever-increasing amount of business and hence, the weighing here on the margin will reduce over time. So I'm not concerned about the margin because I think these two factors explain it really well. What you've seen before, you couldn't see that outside but what I saw before, since we didn't disclose the Nestlé Health Science profitability before. Before we've done these two deals there had been constant progression in the margin as a result of the synergies we had from acquisitions in the past.

Question on: Infant nutrition

Céline Pannuti, Head of Consumer Staples Research, JPMorgan:

In parallel, I would say to the good trajectory of Nestlé Health Science, there is a growth division of yours which is Infant Nutrition, which has disappointed. So I know earlier on you decided to put it back under the Zones. You have announced a restructuring in China. So maybe let's talk about what you feel in China right now. Not only the restructuring, but as a long term, international brand in this market, is that a risk or opportunity? And importantly, do you still see this category as a growth category and would you commit capital, if say an acquisition were to show its way, including in the US.

Mark Schneider, CEO, Nestlé S.A.:

So we're deeply committed to this category. And don't forget, these are products that the company, more than 150 years ago, was founded on. I also believe that the move from a globally managed business to one that is handled by the Zones in 2017/18 was the right one. You should separate that from some of the present issues we're dealing with, and I'll get to those in a second. I think it gave us not only a significant reduction in overhead costs, but also a much more focused and integrated way of dealing with Infant Nutrition. Because in many countries, this is sitting side by side with other Nestlé products on shelf and it also gave us a much more reactive, localized way of handling issues and issues are bubbling up to the top of the organization, onto my desk much faster. That global organization we have before at times slowed down that process significantly, so very much at peace with that.

What has happened around the world, but in particular in China is a significant slowdown in birth rates. That was on its way already, but it really got accentuated by the pandemic. I remember the beginning of the pandemic there was this question is this going to be baby boom or baby bust? And in hindsight it's very clear globally the answer was, it's baby bust because with all the medical and financial uncertainty, this was simply not the best time for people to either start a family or enlarge their family. And that has been weighing down on the business very significantly. On top of that, as you know, and we've been quite open about this in our various conference calls, we did have a number of homemade issues in China that accentuated the problem. And when you put all of this together, then I fully understand that these years '20, '21 and now the beginning of this year, are certainly not the best moment to talk about your commitment to nutrition. Nonetheless, it is a very important entry point to that consumer-Nestlé relationship. There is heritage there. Now we don't want to stay involved only for nostalgia, but we believe that when it comes to our purpose, when it comes to the best possible start in life through nutrition, there is opportunity there. And we believe that in addition to the core Infant formula offering, there's probably opportunities around that, that stretch into pregnancy and even pre pregnancy to offer the power of nutrition to really give the best possible start in life and the best possible pregnancy experience. Then obviously, a number of very strong good first years in life when it comes to nutrition.

So there's opportunity there. We're in the middle of addressing the operational issues. And I think that we will see later this year already some significant relief there and then over and above that, which was in that strategy question and really try to capture this opportunity in a better way. So in a prudent way, and step by step and aligned with that strategy, and we're willing to commit capital. Yes, we absolutely are. If we weren't, we should be out of it. But let me also say this, this should not be misunderstood as now trying to buy your way out of a problem. It should not be misunderstood as big-ticket reckless spending. So this is spending

in line with what I said and that is fix the operational issues we have. Be prepared to spend on innovation and be prepared to cautiously then explore opportunities just like we did with vitamins, minerals and supplements in Nestlé Health Science around that core of Infant formula that we have.

Question on: 'Healthy' products
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Céline Pannuti, Head of Consumer Staples Research, JPMorgan:

That brings me to the next subject, which is I would say an ESG related matter, but in fact translation probably would be around health that we just discussed, wellness, nutrition, a focus within the organization to provide a better-for-you product, reduced salt, reduced sugar. Nonetheless, if I look at portfolio changes within Confectionery, Prepared foods or Ice cream, there was a JV but you still own that asset at 49%. I just want to understand, how you reconcile your aims for Health, Wellness Nutrition, with still owning these assets that maybe just go even beyond indulgence?

Mark Schneider, CEO, Nestlé S.A.:

Céline as you know from some of the media reports and our own conference calls, we're in the process of really updating some of these, what we call good-for-you guidelines, and that is our nutritional strategy. Just like we update d in years before our various sustainability and ESG commitments on the sustainability front. I think the core of what we offer, the nutritional aspirations we have, that is something that this company started on very early, in the late 90s under Peter Brabeck's leadership. We've done amazing work over the years when it comes to reducing sugar, salt, saturated fats, but I think now is the time for an update and the next stage and also new commitments and new aspirations. And so we're working on that and depending on how much time we have left over when we handle all these crises and at the same time want to make strategic progress hopefully later this year, we should be out with something that is more specific here.

In my view, rather than trying to look at everything through the lens of healthfulness only, it is important to open up and to see that there are products that clearly dedicated towards health. And then there's products that clearly by their very nature are indulgent and there I think rather than looking at the health angle only, which is important, the better angle may be responsible consumption because as we all know, food is not about survival alone. It also has indulgence and enjoyment built into it. There's also social aspect built into it. And so responsible consumption, responsibly applied can be a way here to provide a good framework for these categories. So to me, rather than talking about an in and out only, like

are you in Confectionery or out of Confectionery, in Ice cream or out of Ice cream, it's more about that responsible consumption framework. So that would mean industry leading guidelines on marketing to children, it would mean complete transparency and full embrace of a consumer on pack information and rating systems. It would also mean very helpful portion guiding and also a bit of portion nudging. So those are some of the aspects we're working on for those categories. And I think this is one way to help consumers make more informed choices, but not to give up on an aspect in which we all live when we when we eat and that is yes, we are watching our health but also, we're after indulgence and enjoyment.

Question on: Plant-based opportunities and progress of Wunda

Céline Pannuti, Head of Consumer Staples Research, JPMorgan:

Another category that plays into how our diets are evolving is plant-based. And that's a category you've been very talkative about. However, its only CHF 800 million in sales or thereabouts at Nestlé so is that really an opportunity for this to play a bigger role within Nestlé. And I think last year when we spoke Wunda was just launched. So how is Wunda doing?

Mark Schneider, CEO, Nestlé S.A.:

So obviously this is coming from small and humble origins, but size is one thing, growth rate is another and the growth rates as you know were big, fat double digit, very consistently and they continue to be very strong. And if I talk to you today, for Nestlé about acquiring an CHF 800 million business with strong consistent double-digit growth rates, everyone would be jumping up and down with excitement. So yes, and you know this is connected to some of the core categories of what we serve. It's very much on trend, it's very much embraced by exactly that. better educated, younger, more affluent consumer that everyone is after. And so it would be a significant mistake not to build that and not to develop that over time.

So we're very committed to it. I think we've seen spectacular success on the plant-based food side. And then we've plant-based dairy and Wunda in particular. We knew that compared to some of the early market entrants, we were kind of late, but I think with a milk that is pea based we do have some significant innovation here when it comes to the nutritional value, protein content, and the taste has something really new to offer. One thing I can tell you from anecdotal evidence just having served it to so many people I have met no one yet that tells me I want to have my oat milk back. Okay, so clearly, I mean, this one gets so much closer to real milk and taste and you feel that it there's some more heft to it because there's a much higher protein content. And so, clearly there's excitement around the product,

We know we're late, but just like in food, the beauty is for us it's not only about success, with the core one leader offering. I mean the core one leader offering would be like the burger patty in plant-based foods. It is about what you can migrate these ingredients into and when you look at our categories, so we discussed Confectionery, Ice cream some aspects of Infant nutrition, the Nestlé Health Science, Medical nutrition offerings, coffee creamers, another example. So there's lots of offerings that actually can be premiumized, ameliorated with plant-based ingredients. And so competence in dairy alternative is pivotal for us. And so we're very committed to it and it's a great opportunity to premiumize across the range.

Question on: Water and sustainability
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Céline Pannuti, Head of Consumer Staples Research, JPMorgan:

Another one where there is debate with investors and consumers about the sustainability credentials is Water. Now it's a smaller part of your portfolio because of the divestment in the US but it's still one of the growth categories. Again here given the issues about plastic, the issue about transportation, the issue about sourcing and impact on environment. How do you feel you can reconcile, what you want to do for good and what you provide and being in Waters? And like for Infant nutrition, would you commit capital to this category from an M&A perspective?

Mark Schneider, CEO, Nestlé S.A.:

Yes. To start with the last question first, I think we have, because we purchased Essentia last year and that's doing wonderfully well. And to me, it was smack right into the center of that new strategy of either going for premiumized or functional offerings and from the year before pulling out of the plain water offerings at the lower price segment. And since you connected it to ESG questions, we do have strong ESG ambitions as you know. The best way in Water to meet all of that, be one of the leaders and at the same time be commercially successful, is in either premium or functional because that's where you have the price point where you can build the brand around these credentials, and pay for all of these extra efforts and over and above efforts compared to industry averages, and yet at the same time make ends meet and to earn a good return. And that's exactly the strategy. So clearly when it comes to improving containers over time, when it comes to doing lots of work on wetland restoration and giving back more to water cycles than we take. There's lots of landmark work going on right now. And I know some of this is also available online. So definitely for anyone who's interested, please check it out. And we believe in those segments, it makes absolute sense to continue with the business that we have pioneered when it comes to large scale commercial water operations. I think this goes back to Nestlé in the late 80s, early 90s scaling that up and

contributing also to healthier hydration because over the years you see in so many advanced markets per capita consumption of carbonated soft drinks going down per capita consumption of water products going up and we've been driving a significant part of that trend. And that trend has runway so that's why staying in it, involved with it, is good.

Question on: ESG commitments
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Céline Pannuti, Head of Consumer Staples Research, JPMorgan:

To finish on, on ESG and I think you know, we could spend a lot of time. But you've been spending a lot of money; 3.2 billion on climate, 1.5 billion on packaging, and recently you announced I think it's 1.2 billion investments behind the Cocoa initiative. Question is, is this the price to pay, the license to be in business or can you use this investment to differentiate your product offering, market that to consumers to make Nestlé stand out in terms of all the actions and investment you've made in that?

Mark Schneider, CEO, Nestlé S.A.:

Yes, so personally I'm not a big fan of this license to operate term because it makes it sound like a chore or duty that you're not really convinced about but maybe someone else is convinced about it, and hence grudgingly you do it. That's not the way I look at many of these ESG initiatives. Where yes these are significant societal problems that we're up against. Consumers are very aware of that and here again, the younger, the better educated, the more affluent the consumer, the index is higher when it comes to concerns and also for them somehow this flows more directly into purchasing considerations and decisions. And so there is an opportunity to combine it with the aspects of the brands that we sell. So look at Nespresso, which as you know, has just been certified as a B Corp and has been a key driver on a number of sustainability initiatives. To me, Nespresso, the ESG credentials are part of the cachet, and attraction of this brand. And so this is a great example of how ESG leadership and progress and premiumization go hand in hand. And to me, that's the guiding light for what a lot of other brands can do in our line-up. And so that commercial opportunity, making good things happen using business as a force for good but also building a business case for it. That's the first and foremost approach. Many of these headline numbers, of course, sound large, but remember, they're spread out over a number of years. So for anything that you can take into your P&L over time, and where you see it's coming and ramping up to me is more like an investment that you can prepare for and we always said that we would also look for corresponding synergies and savings opportunities to make it budget neutral.

Question on: Emerging markets**Céline Pannuti, Head of Consumer Staples Research, JPMorgan:**

We are almost at the end, to five minutes to go. Before we finish, first question on emerging markets to wrap up a bit the geographical review because you did extremely well in the US and that has been your focus. I think you had focus to improve China, I think IMF we discussed, and I think India. Those are two markets that strike me where Nestlé still in relative size could be bigger there. So has it been an issue to develop this market, given the current political and COVID led crisis? Or is it always it's really a lack of organic opportunity there?

Mark Schneider, CEO, Nestlé S.A.:

So I've always been a huge emerging market fan. And yes, of course, depending on what year and what particular country you look at, there are ups and downs. There is more volatility in emerging markets, that's just a hallmark of those. But when you see through that volatility, when you look at it over a number of years, they're still above par performance, and I think yet a lot of good upside to be had. So very committed to it. Very thankful, that the people before me running Nestlé have been doing early forays into emerging markets and building a truly global company that has deep roots in many emerging markets and where we're seen as a market insider on those, and so it would be a great mistake not to build on that.

So if you have seen more deal making activity in the US and in Europe, I think it's more a sign of a more vibrant M&A market and more deal flow. It's not a sign of lack of interest. So I would love to do meaningful transactions that are right at the center of our focus and with prudence of course in emerging markets at the right price. But then discipline. That discipline that applies to advanced market transactions also needs to apply to emerging markets and we've been walking away from a number of transactions where we felt the price just wasn't right or something else didn't sound good as part of our due diligence. That discipline shouldn't go away. But for the right opportunity, yes, I would love to build the footprint and believe that there's continued upside in emerging markets.

Question on: Delivering on top line and bottom line in inflationary environment**Céline Pannuti, Head of Consumer Staples Research, JPMorgan:**

Thank you, Mark. You have 30 seconds to answer this question it's going to be easy, I'm sure. The last question, you said you want to have growth, over growth, over growth. As you

look forward, we just discussed you have, it seems, the right setup, still a lot of projects for your portfolio. In an inflationary environment is it going to be even easier for you to deliver not only the top line, but as well as the bottom line?

Mark Schneider, CEO, Nestlé S.A.:

Well, we always made it clear about this onset of inflation, at the moment when it is ramping up, is a negative for the bottom line. So that's a fact of life you can't walk away from, you see that with everyone. When it comes to continued growth opportunities, both on volume, and mix and pricing. We continue to be of course fully engaged. Pricing helps but it's also important not to lose sight of volume and mix and I think that perfect balance last year was great. And even this year, where pricing had a much larger share, it was important to us when you look at the Q1 numbers that that volume and mix continue to kick in. So that to me is part of sustainable growth, not just growth that rests on one leg only and we stay committed to that.

Céline Pannuti, Head of Consumer Staples Research, J.P. Morgan:

Thank you very much, Mark. I really appreciate the time and your thoughts, and I look forward to hearing more at the capital market day later on this this year.

Thank you for hosting me.

Mark Schneider, CEO, Nestlé S.A.:

Thank you.

Céline Pannuti, Head of Consumer Staples Research, J.P. Morgan:

Bye-bye.

End of Transcript