NESTLÉ S.A.

2022 HALF-YEAR RESULTS INVESTOR CALL TRANSCRIPT

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Speakers:

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

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

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

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

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Good afternoon, and good morning to everyone. Welcome to the Nestlé First Half 2022 Results Webcast. I am Luca Borlini, Head of Nestlé Investor Relations.

Today, I'm joined by our Chief Executive Officer, Mark Schneider, and our Chief Financial Officer, François Roger. As usual Mark will begin with key messages and discuss the full year 2022 guidance. François will follow with a review of the first half 2022 sales and profit figures. We will then open the lines for your questions.

Slide: Disclaimer

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

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

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

Slide: Key Messages

I'm pleased to report that our growth momentum increased during the second quarter, and that we reached 8.1% organic sales growth in the first half, pricing continued to increase, reflecting higher inflation levels for our commodities, energy and labor.

As before we made a point of acting responsibly in our price increases. Real internal growth remained resilient. And I'm glad to confirm that all three components of organic growth, volume, mix and price were positive in the first half. Continued supply chain issues and tough comparables from the second quarter last year, brought our real internal growth slightly down from first quarter levels. Demand elasticity is still quite limited and moderate in light of the pricing action we had to take.

If you like building stacks to measure growth consistency over time, our two-year compound annual organic sales growth rate for H1 was 8.1% and the three-year CAGR was 6.3%. No small feat. This has been a year of extraordinary supply chain challenges and input cost inflation. The situation was difficult before, but the war in Ukraine brought this to a whole new and unforeseen level, in particular for the food industry.

The development of our underlying trading operating profit margin, both at group and at Zone or business level, clearly shows that the food industry is not the cause of soaring food prices.

It is much rather impacted by geopolitical and macroeconomic circumstances that are outside of our control. That said, we do everything to address these challenges in a responsible manner. Always keeping consumers in mind.

François will show you later in his presentation that we worked hard from all angles to mitigate the unavoidable impact on our underlying trading operating profit margin. I believe we handled the situation well under the circumstances and found a reasonable balance between maintaining growth and protecting the bottom line.

Our high single-digit underlying EPS development in the first half bears this out. That balanced approach between growth and profitability will also be our guiding light when it comes to the second half of the year.

In a fast-moving environment like this operating management certainly takes center stage. Having said that, I'm all the more proud that we also saw continued progress with our strategic goals.

Regarding portfolio management, we progressed with the acquisition of a majority stake in Orgain, and the recently announced transactions to buy Puravida in Brazil and The Better Health Company in New Zealand. These transactions help Nestlé Health Science to round out its global presence in the Consumer health and Vitamins, minerals and supplements space.

Portfolio Management for us goes beyond M&A. It includes the effective management of our existing portfolio, in particular through meaningful and relevant innovation, and the prompt fixing of any underperformers. In this context, I'm proud to report that we have stabilized our Infant nutrition business in China. Growth in the first half turned positive and we're starting to see improving market share trends.

Outside of portfolio management we also continue to make progress on other key strategic initiatives including our sustainability and affordability projects.

Slide: Improving access to affordable nutrition

This brings me to a key challenge at this time of increasing food insecurity and that is improving access to affordable high-quality nutrition. The combination of the pandemic and the war in Ukraine has wiped out much of the progress over the past decade in this important area.

This is a time when help is needed. And with our long-standing presence in developing countries, we see many opportunities to do good and to do well at the same time.

As stressed before, we acted responsibly when it comes to the pricing of our products. But we go beyond responsible pricing alone. We lead the way when it comes to micronutrient fortification and in the important task of establishing and scaling up local and more resilient food supply chains, in particular in Sub-Saharan Africa. Our press release provides specific examples of our recent projects.

Slide: 2022 guidance updated

Next, I would like to comment on our updated guidance for the year. As indicated in our Q1 conference call, our start to the year was stronger than expected and we have only accelerated from there.

Based on the strong first half sales performance. We now expect organic sales growth for the full year in the range of 7% to 8%. This points to a strong second half with similar or only slightly lower performance than in H1. Any caution here is due to the geopolitical and macroeconomic concerns, while we are confident of how our products and brands will continue to perform.

Our views on the expected underlying trading operating profit margin have not changed materially from the time of our Q1 call. Being cautious about the global macro environment, we now expect a full year margin around 17% which is the low end of our previously guided range. All other expectations for the year remain unchanged.

While it is way too early today to discuss 2023 expectations and beyond. I would like to assure everyone that we're not expecting a longer term reset when it comes to our underlying trading operating profit margin. We still see the margin pressure is transitory while pricing has to catch up with input cost inflation. As a food company and being committed to responsible pricing, the price adjustment did not work quite as fast as in other consumer goods categories, such as personal and household care.

Before handing it over to Francois, I would like to make a particular point in recognizing and thanking our associates around the world. As we go through the third year in a row under external crisis conditions, your drive, energy and perseverance in coping with the situation and making the best of it is a source of pride and inspiration. It is a pleasure and a privilege to lead such a community. Thank you.

This concludes my prepared remarks. I would now like to hand it over to Francois and look forward to answering your questions later.

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

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Thank you, Mark, and good morning and good afternoon to you all. Let me start with the highlights for the first half of 2022.

Slide: Half-year sales growth

Organic growth was 8.1%. Pricing increased to 6.5%, reflecting significant and unprecedented cost inflation. RIG was resilient at 1.7%. The slowdown versus the prior year reflects a high base of comparison in 2021 and supply chain constraints.

Net acquisitions increased sales by 1.0%, largely related to the acquisition of the core brands of The Bountiful Company as well as Orgain.

Foreign exchange had a positive impact on sales growth in the first half.

Total reported sales for the first six months were CHF 45.6 billion, a 9.2% increase versus last year. This is the highest level seen for more than fifteen years.

Slide: Strong growth across developed and emerging markets

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

Organic growth in developed markets was 6.9%, based on increased pricing and positive RIG.

Growth in emerging markets reached 10.0%, with strong pricing and solid RIG. Growth was supported by continued momentum for affordable offerings, particularly in AOA.

Slide: Sustained momentum in retail and out-of-home channels

Turning next to the breakdown of sales by channel.

Organic growth for retail sales remained robust at 6.7% for the first half.

Within retail, e-commerce sales grew by 8.3%, building on 19.2% growth in the first half of 2021.

Organic growth in out-of-home channels reached 29.6%, with sales now exceeding 2019 levels.

Slide: Using multiple levers to offset cost inflation

We have continued to address inflationary pressures proactively and responsibly.

Pricing has stepped up further and reached 7.7% in the second quarter.

We aim at striking the right balance between margin protection and volume growth. The strength of our brands, product differentiation and leading market positions enhances our ability to pass through this pricing.

In addition to pricing, we are making full use of other levers, such as strategic revenue management, efficiencies and disciplined cost management, product mix, as well as portfolio management. For example, in terms of efficiencies, we expect to generate significant savings in 2022 through SKU optimization, recipe and packaging harmonization as well as the development of new technologies.

Slide: Resilient RIG

So far, RIG has remained resilient, and we have seen limited evidence of negative elasticity linked to price increases. The 2-year RIG average, which adjusts for COVID-19-related volatility, was 4.1% in the second quarter. This is broadly in line with trends seen over the last several quarters, and higher than pre-COVID levels.

Volume growth, a key component of RIG, continued to be positive in the first half of 2022, at a level consistent with pre-pandemic times. This volume growth is coming over a high base of comparison last year. Indeed, in the first half of 2021, volume growth was almost four times higher than in previous years, at around 5%. We have not seen any material downtrading yet as mix has remained positive.

Going forward, we may see some negative RIG elasticity.

Slide: Zone North America

Let's now look at the results of our seven operating segments, beginning with Zone North America, where we saw 9.6% organic growth. RIG was -0.2%, impacted by a high base of comparison in 2021 and supply chain constraints particularly for Purina PetCare and Frozen food. Growth was supported by increased pricing, strong momentum in e-commerce, as well as a further recovery of out-of-home channels. The Zone saw continued broad-based market share gains.

By product category, sales in Purina PetCare, Nestlé Professional, Starbucks out-of-home products and Water grew at a strong double-digit rate. Infant formula recorded double-digit growth, reflecting supply shortages in the market. Baby food also posted strong growth fueled by new product launches for Gerber including *Soothe'n'Chew*, the first edible teething stick. Frozen food reported low single-digit growth.

The Zone's underlying trading operating profit margin increased by 30 basis points. Excluding the impact of the divestments of the Nestlé Waters North America brands, the

Zone's margin development was negative as pricing did not fully offset significant cost inflation.

Slide: Zone Europe

Shifting to Zone Europe. Organic growth was 7.1% driven by increased pricing across most geographies and categories. RIG remained solid at 2.1%, despite a high base of comparison in 2021 and supply chain constraints. Growth was supported by further recovery of out-of-home channels and innovation. The Zone continued to see market share gains, particularly in Pet food, Coffee and Infant nutrition.

By product category, the key growth drivers were Purina PetCare and Nestlé Professional. Sales in Water and Infant nutrition grew at a double-digit rate. Coffee posted low single-digit growth, following a high base of comparison in 2021. *Garden Gourmet* plant-based products saw continued strong double-digit growth, fueled by new product launches.

The Zone's underlying trading operating profit margin decreased by 140 basis points, impacted by significant inflation, which was not fully offset by pricing and growth leverage. We also remained disciplined on cost control and efficiencies to mitigate the impact of inflation on consumers.

Slide: Zone Asia, Oceania and Africa

Moving now to Zone AOA. The Zone reported high single-digit organic growth, with contributions from all geographies and categories. Growth was driven by increased pricing, further recovery of out-of-home channels and strong supply chain execution. The Zone saw market share gains across categories, particularly in Culinary, Portioned and ready-to-drink coffee, as well as Dairy.

By geography, all regions posted positive growth with particular strength in South Asia, Africa and Malaysia.

By product category, Culinary was the largest growth contributor. Coffee and Purina PetCare posted high single-digit growth. Sales in Nestlé Professional as well as Cocoa and malt beverages grew at a double-digit rate. Infant nutrition posted mid single-digit growth, with a strong recovery in the second quarter.

The Zone's underlying trading operating profit margin decreased by 90 basis points. Significant cost inflation was not fully offset by pricing and growth leverage. Disciplined cost control and efficiencies were instrumental in ensuring price competitiveness, particularly for our affordable offerings.

Slide: Zone Latin America

Next is Zone Latin America, which reported double-digit organic growth. RIG remained strong at 4.2%, building on a high base of comparison in 2021. Growth was broad-based and supported by increased pricing, further recovery of out-of-home channels and sustained momentum for retail sales. The Zone saw market share gains in Infant nutrition, Pet food and Coffee creamers.

By geography, Brazil reported double-digit growth. Mexico grew at a high single-digit rate. Chile, Colombia and the Plata region also saw strong growth.

By product category, Confectionery was the key growth contributor. *Purina* PetCare, Coffee and Nestlé Professional all reported strong double-digit growth. Infant nutrition saw high single-digit growth. Dairy posted mid single-digit growth, led by fortified milks and Dairy Culinary solutions.

The Zone's underlying trading operating profit margin increased by 10 basis points as a result of growth leverage and disciplined cost control and efficiencies. Significant cost inflation was not fully offset by pricing.

Slide: Zone Greater China

Turning next to Zone Greater China. Organic growth was 2.3%, with RIG of 1.6% impacted by COVID-19-related movement restrictions. Pricing reached 0.7%, turning positive in the second quarter. As a reminder, inflation remains relatively limited in the region.

Growth was supported by robust demand in e-commerce channels and continued innovation. Infant nutrition returned to positive growth with improving market share trends and was led by a strong recovery in the second quarter for *NAN* and *illuma.* Categories with high exposure to out-of-home channels and on-the-go consumption, particularly Nestlé Professional and Ready-to-drink Coffee, were impacted by movement restrictions.

The Zone's underlying trading operating profit margin increased by 100 basis points. Favorable mix and disciplined cost control more than offset cost inflation.

Slide: Nespresso

Next is Nespresso, which reported low single-digit growth, following 14.6% growth in the first half of 2021. Volume and mix combined are now around 15% ahead of 2019 levels.

Growth was supported by continued momentum for the *Vertuo* system, a recovery for out-of-home channels and boutiques, as well as innovation. Online sales decreased, following a high base of comparison in 2021, but remained well above pre-pandemic levels.

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

The underlying trading operating profit margin of Nespresso decreased by 170 basis points, impacted by growth investments behind the roll-out of the *Vertuo* system and cost inflation. We continue to invest behind *Vertuo*, given strong levels of consumer adoption and the system's differentiation.

Slide: Nestlé Health Science

Finally, let's turn to Nestlé Health Science. The business posted high-single-digit growth, building on two consecutive years of double-digit growth. Growth was supported by innovation, geographic expansion and market share gains.

Consumer care posted mid single-digit growth, with strong contribution from healthy-aging products. Vitamins, minerals and supplements reported low single-digit growth, reflecting a high base of comparison and supply chain constraints.

Medical Nutrition reported double-digit growth, with strong sales developments for pediatric products. Sales for *Zenpep* grew at a double-digit rate with market share gains. *Palforzia* saw further patient adoption.

By geography, sales in North America grew at a high single-digit rate. Europe saw positive growth, while other regions combined posted double-digit growth.

The underlying trading operating profit margin of Nestlé Health Science increased by 20 basis points. Growth leverage and acquisition synergies more than offset cost inflation and growth investments.

Slide: Broad-based growth across categories

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

As a reminder, when looking at growth for the first half, we see consumer demand somewhat normalizing by channel. Categories with greater at-home consumption, such as Culinary and Dairy, saw softer growth over a high base of comparison, but sales remained ahead of pre-pandemic levels. By contrast, categories with greater exposure to out-of-home channels and on-the-go consumption, such as Confectionery and Water saw a strong recovery over a low base of comparison.

Within Powdered and liquid beverages, Coffee saw high single-digit growth over a high base of comparison in 2021. All brands contributed positively to growth, with sales of Starbucks and *Nescafé* ready-to-drink products growing at a double-digit rate. Cocoa and malt beverages reported high single-digit growth, driven by strong demand for *Milo* in Asia and Africa, *Nesquik* in North America and *Nescau* in Brazil.

PetCare reported strong double-digit growth, driven by continued demand for premium and veterinary products. Growth was also supported by sustained e-commerce momentum, innovation and further market share gains.

Nutrition and Health Science posted 7.8% growth. Infant nutrition saw 8.6% organic growth, with a strong recovery across all geographies, a return to positive growth in China, and improving market share trends. Growth was supported by continued robust demand for HMO products in Infant formula, with sales reaching CHF 670 million, as well as by healthy snacking products in baby food. We have already discussed Nestlé Health Science.

Prepared dishes and cooking aids saw 2.9% growth, based on strong sales development for ambient Culinary in Zone AOA and robust demand for *DiGiorno* and *Hot Pockets* in North America. Vegetarian and plant-based food products delivered double-digit growth, with particular strength for *Garden Gourmet*.

Milk products and Ice cream recorded 3.5% growth, building on a high base of comparison in 2021. The key growth drivers were Coffee creamers and affordable nutrition offerings, particularly *Bear Brand*.

Growth in Confectionery reached 10.8%, reflecting strong growth for *KitKat* and seasonal products.

Sales in Water grew by 17.2%, supported by double-digit growth for international premium brands and a strong recovery in out-of-home channels.

Slide: Underlying trading operating profit margin by category

Moving now to profit margin by product category.

Powdered and liquid beverages saw a margin decrease, reflecting significant cost inflation and growth investments for Nespresso, partially offset by increased pricing and growth leverage.

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

Nutrition and Health science saw a margin increase in both Infant nutrition and Nestlé Health Science. We have already discussed Nestlé Health Science. In Infant nutrition, the margin increased by 380 basis points to 23.5% as a result of pricing, growth leverage, favorable product mix and improved performance in China.

Prepared dishes and Culinary products saw a slight margin decrease, as pricing did not fully cover significant cost inflation.

Margins in Milk products and Ice cream decreased, impacted by higher cost inflation for Ambient dairy.

Confectionery and Waters saw margin improvements as pricing and growth leverage more than offset cost inflation.

Slide: Pricing, growth leverage and efficiencies mostly offset inflation

Next is underlying trading operating profit margin.

Overall, our underlying trading operating profit margin for the first half decreased by 50 basis points to 16.9%.

Gross margin decreased by 280 basis points to 46.0%, reflecting time delays between cost inflation and pricing actions similar to what we saw in the second half of 2021. Inflation continued to be significant and broad-based across commodity, packaging, freight and energy costs. Overall, the impact of cost inflation was around 14% of cost of goods sold in the first half of 2022.

Going forward, we will continue to offset increased inflation through pricing, strategic revenue management, efficiencies and portfolio management.

Distribution costs as a percentage of sales decreased by 10 basis points mainly as a result of the disposal of the Nestlé Waters brands in North America.

Marketing, administration and R&D expenses decreased as a percentage of sales by 220 basis points. We saw a significant benefit from sales growth leverage and disciplined cost control, with sales growing by 9.2% and structural costs slightly increasing. Marketing spend decreased temporarily as we limited promotion and marketing activities in the context of supply chain constraints, particularly in Europe and North America. We expect to increase our investment in consumer-facing marketing spend in H2-22 vs. H1-22. At the same, we continued to optimize our marketing spend by increasing the share of digital media investment, which now accounts for 54% of total media spend.

Slide: Net profit

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

Restructuring expenses and net other trading items increased by 150 basis points, mainly due to impairments.

Trading operating profit margin was 14.7%, a decrease of 200 basis points on a reported basis.

We recorded lower gains on disposals and higher taxes, due to one-off items in the first half of 2021.

As a result of these movements, the net profit margin decreased by 270 basis points to 11.5%.

Slide: Underlying earnings per share

Moving to underlying earnings per share, which increased by 8.1% in constant currency and by 7.3% on a reported basis to CHF 2.33.

The largest contributor to the improvement was strong organic growth. Nestlé's share buyback program also contributed 1.7%, net of finance costs. The line Others, mainly related to income from joint ventures and associates contributed 2.1%, driven by increased contributions from L'Oréal and Froneri. The negative impact from foreign exchange reflects the currency depreciation of the Euro-denominated L'Oréal income.

Slide: Free cash flow

Free cash flow decreased from CHF 2.8 billion to CHF 1.5 billion.

Adjusted EBITDA increased by CHF 0.5 billion, or 5.8%, reflecting higher sales growth.

The Group increased its inventory levels temporarily due to significant supply chain constraints. In order to meet strong volume demand, particularly for *Purina PetCare* and Coffee, the Group increased capital expenditure. The level of CAPEX should start to normalize from 2023 onwards.

Excluding the increase in working capital, cash generated from operations increased from CHF 7.9 billion to CHF 8.8 billion, driven by strong organic growth.

Let me now hand over to Luca, who will monitor the Q&A.

Q & A Session

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

Thank you, François. With that, we move to the Q&A session. We open the lines for questions from financial analysts. (Operator Instructions)

The first question comes from Céline Pannuti, JP Morgan.

Questions on:	Change in Margin guidance Further pricing

Céline Pannuti, JPMorgan:

So, my first question is on the margin guidance, you decided to change the guide to around 17%. Just want to understand what has changed. You seemed to say that nothing has changed but you've changed the guidance. If you could explain the rationale behind this change. Like are you seeing more COGS inflation for the second half?

And you are as well signaling that margin will recover. So my question there is, if effectively we are now past the peak and if there is a weaker COGS inflation going forward, whether we should expect to see the margin rising?

And my second question, which is probably quite related, you mentioned that pricing has not been as fast in your categories as other categories. How much more pricing, do you think you need to pass on? And are we going to see a further pricing even into 2023. Thank you.

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

Let me try and take a stab at both of these first, and then also hand it to Francois, for any additional comments. Let me start on the pricing side because I feel that in the first half of last year, the second half of last year and in the first half of this year, you see the movie playing out pretty clearly.

So we had almost no COGS inflation in the first half of last year. We're talking about CHF 250 million, then it really hit us like a freight train in the second half, where all of a sudden that number ballooned to CHF 1.9 billion[1] for the full-year 2021. And then of course, we've also seen additional COGS inflation in the first half of this year. But that's also when significant pricing then, which accumulated in the second half of last year and continued in the first half of this year, started to kick in and give us some gross margin relief. Hence, the majority of the gross margin compression really happened in the second half of last year. There's a bit more gross margin compression, so essentially going down from 46.9% second half of last year to 46.0%, now in the first half of this year, so not very much anymore going on, because the continued inflation got balanced by the increasing pricing that was kicking in across the categories and geographies.

So from that situation, and assuming that no other shoe will drop going forward, I think we're seeing a momentary stabilization. There's still pricing going on. You see our gross margin is still impacted. It's not in your best interest to pinpoint now exactly which category and which

[1] Correction

geography is going to see price increases, but clearly some repairing needs to be done. Because as you see, the gross margin is still quite a bit down from what it was at the half year point last year.

So that'll continue to happen in the second half. Obviously, we need to stay flexible because this is a highly volatile situation. Just think back to the February point in time when we had our full year conference call. And we weren't aware yet of the war and all its consequences on energy costs and inflation. And hence this is why in an environment like this, it's important to really stay agile and flexible when it comes to our expectations.

But overall, I believe that we've handled this well. We've taken the pricing we had to. We kept volume growth positive. And now we'll basically start to repair the gross margin and bring things into more normalized state.

When it comes to the margin guidance. I think all we're doing here is being more precise on something that we had indicated already around the Q1 call. As you remember, in the full year call in February, when we described this range 17 to 17.5%, we even described it as rather conservative. But then of course that whole new situation with the Ukraine War started to unfold, the significant energy cost inflation and also additional commodity and labor inflation kicking in. And so that's why, as part of the Q1 conference call, I had described that margin guidance already as more challenging. And I think now we're being more precise around the lower end of that range at around 17%.

Luca Borlini, Nestlé S.A, Head of Investor Relations:
Next question is from Bruno Monteyne at Bernstein.

Questions on:	**Consumer down trading** **Aimmune**

Bruno Monteyne, Bernstein:

Now in terms of down trading, on the one hand you say you don't see much in your own mix yet but looking at a few categories like U.S. Culinary, Milk products and Ice cream, we do see private label increasing and impacting your market share. So some consumer shift seems to be happening already. My question to you is really, do you think there is a normal level of down trading we're seeing? Or are you surprised by how little we've seen yet so far? Given the levels of inflation for consumers, wouldn't you expect that to be a lot more down trading by now, based on previous experience?

My other question is about *Aimmune*. I know you talked about signing up more patient adoption. But going back a little while ago, I think you had the ambition of that being a $1 billion brand at some point. Are you still fully on track for making *Aimmune* or *Palforzia* as big a brand as you thought one or two years ago? Or are things going slower? Or will there be less upside?

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

Thanks Bruno. Let me talk about the down trading first. It's a good thing that you're pointing out U.S. and Frozen in particular, because I do think that this is an area where it's really hard to separate now any negative volume development, whether it's due to supply chain constraints, or down trading.

U.S. Frozen was one of those areas where we had some constraints on supply. You may have seen in media, we had a very unfortunate factory fire in a place that makes some of our products and so that's why it's hard to read the data at this point exactly as to how much of that is down trading, how much of that is, is due to the supply chain constraints.

Do bear in mind that Frozen tends to be a fairly good alternative from an economic point of view, so there's not much down trading going on there and that's why I think we need to see the situation unfold a little further to be able to understand it better.

So far, again, it's quite limited. Good example is Dairy in Zone AOA. You mentioned Food, and Frozen in particular, as one other area. We've also seen a bit of that in Europe. But here again, reading exactly what the downgrading is and what is the exit from the COVID situation, where people have spent more time at home and cooking more, is pretty hard to read.

When it comes to *Aimmune*, I think the pandemic has taken a lot longer than anyone expected. Also, when we made that move in the September of 2020, we did not expect that a year and a half later, we would still see significant restrictions here when it comes to doctor's office visits and so forth.

Clearly the situation has improved now in the spring. It's much easier now for patients to bring their kids to the allergologists for treatment. And so the real actual launch has only just begun. So most of all, what we've done here with our impairment is reflect that delay. And now what we need to see is basically what is the uptake from here and that'll give us then a better sense of the path over time. Of course, we'll keep you fully posted on the progress.

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

Next question is from Warren Ackerman at Barclays.

Questions on:	**Margin – Marketing, Admin and Supply chain issues** **China – Infant formula improvement**

Warren Ackerman, Barclays:

Warren here from Barclays. So two for me as well. First one is on the margin again. I think you had a 220 bps benefit from admin and marketing. I was wondering whether you could help us split that out a little bit, just how much was marketing down temporarily, due to the supply chain issues? How much do you expect to bounce back in the second half? And then how much is on the admin cost savings side? Just trying to understand that bucket of 220 bps a little bit more. And I guess the main reason for marketing down is on supply chain, you mentioned just then Mark. But any update on where we are overall on supply chain. I guess it's not just the Frozen issues also Pet food and it's a bit more wide, especially in the U.S., that would be super helpful.

And then second on China Infant formula. I think you were saying Mark you're expecting Infant formula to be positive in H2. So the fact we're already positive in Q2 is ahead of schedule, which is obviously good news. Can you explain a little bit what you've done in terms of distribution, SKU rationalization and how you've got *illuma*, *NAN* back into growth? And perhaps one of your local competitors have been talking about inventory problems and the birth rate in China, whether you can help reassure on that point as well.

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

Thanks, Warren. Let me start on the second one and also give one quick high-level comment on the first one and then hand it over to François.

So in China, very pleased, that you're right, we are about a quarter ahead of schedule. You mentioned one of the steps we've taken, and that is SKU rationalization. I think we had too many products out there where it was not quite clear how the pricing related to each other, and it caused a confusing situation for the consumer. And then a lot of the work happened over the winter and spring and that is working with the various channels. And, as you know, a fairly complex distribution system in China, to really be sure that at all levels in that distribution system, it is advantageous for our retail partners to work with us and to promote our products and so a lot was basic block and tackling in distribution.

I think it helps that our new Zone CEO for China has a strong background in sales. And so clearly, sales and understanding of the sales channel is something that is very near and dear to him. He worked for a long time at this business. As you know, his recent assignment before taking the overall Zone China job was with Totole. So he had been out of the Infant nutrition business for a number of years when it turned south. But I think he turned his skills to work really fast on this. We've made some pretty significant changes, and I think they're paying off. So I believe that the positive trends here, independent of what some other players were experiencing, would also continue in the second half of this year.

When it comes to your question on margin, and the market and admin spend, just one quick high-level comment on the marketing spend. So it is down, and I think François mentioned that in his presentation. And I wanted to assure everyone, this is not a new strategy. So this is not like years ago when people were almost competing with each other, who has the lower marketing spend. And clearly, we branded that at the time very much as misguided and we're not part of that game.

It is a highly tactical time-limited move at a time when we saw supply chain constraints, and it's built on the very simple notion that you should not promote what you can't sell because, in that case, all you do is aggravate consumers when in fact, you want to delight consumers. And so that's why François was mentioning that in the second half, we foresee that situation to change again. But for the first half, against the specifics of what we saw, the significant inflation, supply chain constraints, I think that tactical move has paid off and is absolutely worthwhile. François, over to you.

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

Yes. Thank you, Mark. Just a couple of words on supply chain constraints. I think there are three parts to it. The first one is capacity on our side, given that we have seen a significant increase in demand during the pandemic for some of our products. We have a little bit of capacity constraints, as you know, which is the reason why we are accelerating our CapEx program. This applies more specifically to PetCare as well as to a certain extent to Coffee. So we have a little bit of tension there. We have some tension as well for some food items in the U.S. The capacity constraints that we have are more specifically in the U.S., but to a lesser extent, in Europe as well.

The second issue that we have in terms of supply chain constraints is transportation, especially in terms of finding trucks, finding truck drivers as well. So this has been a real issue even for sea freight over the last couple of years. It is normalizing a little bit. We see some signs of improvement, more specifically in the U.S., but it has been extremely tense over the last couple of quarters.

And finally, we still have some difficulties here and there, and it changes over time, to get access to some raw material, packaging material, can be even a small ingredient. So we are really addressing it and tackling it through an increase, which is quite significant, in our inventory, which is something that we are driving. We believe that this is the right thing to do to protect our supply for the coming months. And then we will come back to a more reasonable level of inventory when everything normalizes.

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

Next question is from Patrik Schwendimann from Zürcher Kantonal Bank.

Questions on:	Net working capital Margin evolution for Dairy, Coffee and PetCare for FY

Patrik Schwendimann, ZKB:

There was an increase in net working capital of CHF 3 billion in H1. What is your best guess for the full year, a stable net working capital or still an increase? That's my first question.

And second question, Milk products, Coffee and PetCare all had a significant margin decline in H1. Do you expect the margin decline in these three divisions to be less severe in the full year, thanks to price increases?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

On net working capital, we have had a significant increase this first half, but it was the case already last year. This is very much related to what I just said in terms of voluntarily increasing our inventory to protect our supply in the coming months given the tension that we are seeing. We may see a little bit of a further increase, but the increase has already been quite material. So I don't necessarily expect a very significant increase going forward.

The good news, though, is that we are very careful with that. We have not seen any increase beyond the sales increase in receivables, which is really very good. So especially in the context of increasing interest rates, we are extremely careful not to see receivables increasing beyond the increase in sales.

You mentioned some categories like Dairy and PetCare having their margin declining. The main way to address it will be to continue pricing whenever we can as well as using some of the other levers that we have activated, such as savings, efficiencies and product mix as well or including portfolio management. So we will continue acting for it for these categories as we have done for the other ones. For example, if you look at PetCare and Dairy, these are, with Coffee, the categories where we have seen recently the largest increase in terms of input cost inflation. With PetCare mainly because of grains, the good sign is that we have seen grain pricing stabilizing or even moving down a little bit lately in terms of spot rate. And Milk products and Dairy has increased quite a lot. Coffee, as you know it's almost 50% increase over the last year which is not linked, by the way, to the war in Ukraine. It is essentially linked to climatic conditions in Brazil last year with frost and heavy rains.

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

Patrik let me build on one additional notion here. I mean, obviously you guys follow spot prices and then it's kind of tempting to assume the next day if the spot price goes down, there's immediate relief for us. But that's usually not the way it works. Just like on the way up we got some temporary protection through hedging, on the way down that also causes a temporary delay when it comes to relief because even at the time when the prices were quite high and reaching their peaks, since we didn't know whether they would go further or not, we always kept hedging to some extent, which I think is prudent. Hence when you think about these day to day or week after week changes, add a bit of time delay till they really provide relief to our margin.

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

Next question is from Jon Cox at Kepler.

Questions on:	**RIG expectations for H2** **Counteracting the pressure from Private label**

Jon Cox, Kepler Cheuvreux:

Jon with Kepler Cheuvreux. François just a point of clarification. Did you say that RIG would head negative, or you may see negative RIG on a group basis in the second half of the year?

And then just a couple of questions on that down trading issue because it does look difficult in some of the European markets specifically where you can see the price differential between some of the private label products in your categories is quite large between 50 and 100% in some cases. I'm just wondering what you guys are doing, you know, you're watching it, and I'm just wanting you to just give some examples of what you do when you see this sort of stuff. You know, do you act strategically, do you start building bigger packs, less expensive ingredients, start selling more to Aldi and Lidl and these sorts of guys? Just to get a feel for how much you guys are in control if there is a massive shelving in consumer spending in the autumn as some people think anyway, particularly in Europe.

The second thing is really just on the agri commodities and a bit what Patrik was saying, you can see some of these agri commodities rolling over, although on the other side, other costs are going up. I wonder if you guys just have a rough thought already for 2023 on the inflationary pressures, or do you think by that time, with all the moves you're making, everything will be more or less offset? Or do you still think there'll be price increases Going into 2023?

And Mark, my apologies, just the last one, you guys seem incredibly relaxed, and we all know you're a quality investment. And you know the results speak for themselves and the lack of margin pressure compared to some of your competitors. But what is worrying you at night at the moment, because you do seem relatively relaxed about the whole environment? Thank you.

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

Jon, let me take the question on RIG. First of all, the good news is that our RIG was positive in H1, both volume and mix and with levels that we were experiencing for both items at pre-pandemic time, so which is rather good news. And once again, on a very high base of comparison.

We are doing our best in order to preserve positive RIG in H2. And there is some good news there because the base of comparison will be a little bit easier in H2. Just in H1 2021, we had a RIG of 6.8%, which was incredibly high. And then, once again, we were positive on that very high base of comparison in H1 '22. The base of comparison last year was more favorable, although still high at 4.2%. So we have, to a certain extent, a 2.5 percentage points lower base of comparison in H2.

So it will depend as well on other factors. We face other supply chain constraints, for example, in H2, it's still difficult to say. So we are doing our best in order to preserve our RIG into positive territories, both volume and mix.

Just one word on agricultural commodities for 2023, that's too early at this point in time. I mean we are really working very actively to land properly H2 and the full year. We don't necessarily have views because it's highly volatile. So we can have some views through hedging and so forth, but still too early to assess what it will be in 2023.

There is one item, though, that we know beyond agricultural commodities, which is salary and wages. We know that there will be a stronger impact in 2023, over and above what we saw in '22, which was still relatively moderate.

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

And Jon, just building on François' comment, first, let me just reiterate the last point. So it's too early to speculate here on commodities or energy prices in '23. But the labor component, at least when it comes to key economies in Western Europe and North America, I think that's a pretty sure thing that we have to prepare for higher labor cost levels there. And you do that, obviously, also with automation wherever you can and squeezing efficiencies out of the system. But at the end of the day, it may also then result in some pricing at that time, but we'll revisit that as we look at '23.

You mentioned the consumer behavior. And yes, of course, we're watching it very diligently, how the consumer continues to make do of the situation. And then tactically, you listed some of the items, and those are the ones. I mean, larger pack sizes, special promotions and really trying to make the cost offering as competitive as possible.

Do keep in mind that private label supply chains are feeling the pinch too when it comes to their cost inflation and also some of them are still experiencing some bounce-back problems from the times of COVID. Remember, those private label supply chains tended to be more exposed than with large players. And so yes, we've seen some come back, but not quite as much as the price differential would suggest. So that's something we watch actively.

And then on your high-level question, let me give you a high-level answer, and that is starting with the onset of COVID. And that's why I'm making such a big deal of the third year under external crisis conditions. You had a situation that is so fast moving on a number of things; the consumer, pricing, purchasing preferences, category preferences and then switching to inflation and supply chain problems that usually a large company's systems are not really set up for. I mean we were geared up like everyone else in the business for smoother evolving situations.

Hence, basically, three years ago, two and half years ago, you had to switch off the auto pilot and go into what I call, hand steering. And that is tiring because you really have to scan all the major data points literally, manually outside of normal review systems and budget cycles and what have you and really try to stay as nimble as you can because you don't know which shoe might drop next.

And so it's these unknown unknowns that keep me most worried, and then how do we be ready to recognize them and react as quickly as possible when they do happen.

But you're also right when you detected a certain level of being relaxed because I do think, looking at this first half, we did achieve a very, very good balance and compromise here, at a time of significant volatility. And I think we are positioned quite well to bring home a successful 2022 and also positioned well as we look at '23 and beyond. And I hope that came through.

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

Next question is from John Ennis from Goldman Sachs.

Question on:	**Nespresso slowdown**

John Ennis, Goldman Sachs:

Hello, everyone. I know it's a very busy day. So I'll stick to stick to one please on Nespresso.

And again, I appreciate it's just one quarter of negative RIG, but do you think that this is driven by less consumption per customer or are you starting to see an unwind in Nespresso users or weaker retention rates?

And I guess if it's largely consumption per customer, did you think that that's just COVID normalization as people consume more coffee out of home again, or is there an element of partial down trading there as well? I'd be interested to hear your thoughts on Nespresso. Thank you.

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

Let me take first crack and then hand it to Francois. And let me just say that other than a particularly tough quarter last year, with amazing volume, I'm not aware of anything negative here. I think the company is doing very well. I think mix has stayed pretty much at levels that we've seen. So at least there we're not seeing elements of down trading. And clearly against one of these peak quarters, where people were still pretty much tied down at home, it's pretty hard to show growth over and above that but let me hand it to Francois for more details.

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

John, I can provide you with a bit more color. So last year, we had double-digit growth in H1 of 14.6%, which was extremely high. So if you look at a two-year stack, which probably provides a better idea, Nespresso saw strong growth of 8.6%. So which is good, and I think a good indicator is where are we against the pre pandemic level? If you look at Nespresso sales in 2022, in the first half, they are 21% higher on a constant exchange rate versus a pre pandemic level. So which is a 6.6% three-year CAGR. We don't see really any slowdown. It's just that we had an exceptionally high first semester and second quarter last year. So it's going to normalize by the way because the comps are much easier as far as H2 is concerned. So no specific worry and no negative mix for example, either.

Luca Borlini, Nestlé S.A, Head of Investor Relations:
Next question is from Pascal Boll from Stifel.

Questions on:	**Coffee – Price and volume mix** **Areas of interest for divestment**

Pascal Boll, Stifel :

Good afternoon regarding your high single-digit growth in Coffee, and it gives us some better sense of the price, volume mix for Nescafé and Starbucks, also in comparison to Nespresso where we have seen a negative RIG.

And then my second question, Chairman, Paul Bulcke mentioned in a recent interview that divestitures are not completed yet. What are areas that undergoing current evaluation?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

So we had attractive growth level in Coffee in H1, 6.9%, which there again came over an exceptionally high base of comparison in 2021 because it was 10.7%. If we look there again at the 2-year stack, we have a growth which is at 9% in H1. So very encouraging.

We had positive contribution from our three main brands, Nescafé, Starbucks, Nespresso. We gained market share across most segments, geographies and brands. And to be more specific in your question, the pricing stepped up, obviously, almost 6% in H1 but at the same time, RIG remained resilient and was positive around 1% over an exceptionally high base of comparison last year because the RIG last year in H1 was at 12%.

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

And Pascal, on your second question regarding divestitures. I think Paul's comment is spot on. I think over the years, you've always seen us do divestitures where we feel that certain parts of the portfolio are no longer a good fit or don't offer great prospects going forward. And I think we've been quite active for a number of years. As you know, for example, 2019 was one of these years where we've seen more divestitures and acquisitions.

Glad to see the picture swing back to a net positive situation now. But obviously, we will continue to evaluate the entire portfolio. And as I mentioned in my prepared remarks, there are some parts that we actively go and fix because they're incredibly core to us. And there are others over time where we may actually conclude that we're not the best owner going forward. And so that to me is part of the ongoing portfolio management, and we'll be very diligent in that regard.

Luca Borlini, Nestlé S.A, Head of Investor Relations:
Next question is from Jeremy Fialko at HSBC.

Questions on:	**Issues linked to Supply chain constraints** **Pricing**

Jeremy Fialko, HSBC:

Hi, there a couple of questions for me. First of all, is there any way you can estimate what you think the impact of the supply chain constraints was on your volumes during the period? And perhaps one other way of looking at it, can you tell us what your customer service levels are at the moment, relative to where they would be let’s say in ordinary circumstances?

Then the second question is on pricing. Have you generally been pricing up in line with your competitors? Are there any areas where you priced earlier than your competitors and they haven't followed or potentially the reverse of that? Thanks.

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

Jeremy, we'd love to be helpful. But unfortunately, both of these are quite sensitive when it comes to competitive signaling. So on supply chain, yes, of course, we do track by retail partner very closely, our on time in full and order fill rates and so forth. But this is not something that we would want to disclose here publicly. And suffice it to say that these levels are not at the pre-crisis levels. And I think that's a fact not just for us, but also for other key players. And it's simply the consequence of these supply chain issues that everyone feels the minute you visit a supermarket or try to buy something else. So we're working hard on repairing those.

As I mentioned, there were a few internal homemade issues as well. Like, for example, the fire at Hot Pockets facility in the US. That was of course, something that was totally unforeseen, act of God, but nonetheless it supply chain constrained us additionally in that Frozen food area this spring and we're working really fast to repair that of course and bring it back into operation.

And same for pricing, again, obviously pricing will need to continue to fully catch up. I think the consolidated numbers bear that out. But it would not be in your best interest now that we point out exactly where that happens by geography or category.

Jeremy Fialko, HSBC:

Any examples of where you think that you have priced that the competitors haven't followed so far or nothing that you can point to?

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

Yes. Unfortunately, that one is also a little bit sensitive competitively speaking. But do keep in mind, people don't always do this at the same time. And so that's why -- I mean, obviously, that will be not the right way to handle it. Everyone does their own decisions and some people do it sooner. Others, do it later. So again, can't be helpful on that, I'm sorry.

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

Next question is from David Hayes at Société Générale.

Questions on:	**H2 Costs** **Slower pricing in the food category**

David Hayes, Société Générale :

So two for me. One on the second half costs and one just to clarify something on the HPC comment you made earlier. So on the second half costs, I think you took 14% inflation in COGS, first half. Can you give us a number for the second half or certainly whether it's higher or lower given where you are with your lock-ins on input costs, et cetera, for the second half? And then similar on the marketing costs, I think you said in the presentation that sequentially will be higher. But it will also be higher year-on-year in the second half?

And then the second question, at the risk of being very ignorant here, but I'll ask anyway.

You mentioned that being slower to get pricing in food than HPC. I just wonder what the dynamics are on that. Or why is that occurring specifically?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

David, let me take the first part of the question. For H2, we expect to have a relatively similar increase in terms of input cost inflation as a percentage of our cost of goods may be marginally higher, but pretty similar especially so that we have seen things plateauing and normalizing. As I said earlier, we start seeing a few agricultural commodities pricings going south. But I mean, on the other hand, we have energy prices moving up. But it starts to plateau to a certain extent, barring any changes in the coming weeks and months.

On marketing costs, we confirm the fact that we expect to spend more in H2 than in H1. I don't want to comment necessarily over last year. It's too early at this stage, so clearly, we will raise our investments in marketing in H2 this year over H1.

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

And David, on the slower pricing, I think on food, it's pretty evident that we're talking about a necessity here and especially for the food players that do have an extensive presence in emerging markets, yes, sometimes pricing does make the difference between consumer going home hungry at night or being able to afford the product. And so affordability and access to food is a key theme.

Obviously, with the food players that are more focused on fully developed markets only, in particular in North America, you may not see that to the same extent. But even there, of course, at the lower strata of society now affordability and food insecurity are key issues. And that's something to watch.

So clearly, household care and personal care products are, for the largest part, a bit more dispensable if needed. And hence, the pricing there doesn't have the same social implications as for food.

Luca Borlini, Nestlé S.A, Head of Investor Relations:
Next question is from Tom Sykes at Deutsche Bank.

Questions on:	**VMS – organic growth**

Tom Sykes, Deutsche Bank:

Firstly, just on the topic of VMS and Consumer in Health Sciences. Could you maybe allude to what the organic growth level is in The Bountiful Company brands that you acquired, please and particularly in some of the more generic sort of multivitamin areas and whether I think you alluded to some supply chain constraints there, but do you expect that to be in positive growth organically in the second half of the year?

And then just on PetCare, you're obviously increasing some of the capacity there. Are you allowed to say how much the capacity is going to increase by and what the sort of demand dynamics versus the capacity constraints are there, please?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

Tom, on VMS. So we are very excited by the category, which offers good opportunity and opportunities in terms of growth. If we look at our growth in the first half, it was in the low single-digit level, but it follows a very strong growth last year. Actually, it was more than 20%, restated on a comparable basis for The Bountiful Company acquisition. So the fact of growing low single-digit, over more than 20% last year. So there, again, on a 2-year stack, that means that we are on a strong double-digit growth. So very happy with that.

We had some supply chain constraints, but it was manageable, but it would have helped us probably to go a little bit further. I think that most of them will probably disappear in the second half of '22.

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

And let me just add to that, Tom. I mean, clearly, when we think about the exit here from the COVID pandemic, our initial views last year when we were thinking about the deal in the spring of 2021 were worse, okay? So we were pretty much convinced that at some point, there was going to be a negative number as we exit the worst part of the COVID pandemic. So coming out with positive growth, I think, is quite an achievement.

And our consumer research indicates that people do continue to have a high interest in personal health and boosting the immune system. I think those items continue to be very much high on the agenda of everyone. And so that bodes well for the category.

Luca Borlini, Nestlé S.A, Head of Investor Relations:
Next question is from Jeff Stent at Exane.

Question on:	**Consumer Health interest**

Jeff Stent, Exane:

I don't expect you to comment specifically on the sort of Haleon rumors in the press. But I think it would be helpful if you could maybe just remind us or put some sort of parameters around where your Consumer health interest starts and where it ends?

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

Jeff, could you clarify the question a little bit? I'm not sure exactly where you're headed.

Jeff Stent, Exane:

Okay. Sorry. I mean Consumer health, what does that mean for you? What is in your definition of Consumer health? And what would you see as being outside your definition of Consumer health, if you could just sort of remind us how you see that playing field, which is obviously an area you've said that you do have interest in?

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

Happy to do that. And sorry, I didn't get it the first time. So look, very clearly, when we say Consumer health, we're not talking everything from toothbrushes to sunscreen. We're talking about nutrition-based solutions. And so this is about adding essentially the micronutrients and macronutrients that people may lack due to illness, or age or special conditions and also trying to find nutrition-based solutions to specific health problems.

So this is something that gets processed by the digestive system and it's related to metabolism. We're not interested in broad-based soup to nuts portfolios. I think those are the thing of the past.

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

Next question is from James Targett at Berenberg.

Questions on:	**Out-of-home vs Retail consumption** **Pricing elasticity in Premium and affordability** **RIG outlook clarification**

James Targett, Berenberg:

You mentioned the price elasticity levels are still relatively moderate. But I just wondered if you could comment on any difference you're seeing or expect to see between your retail channel business and out-of-home and also between your premium and mainstream portfolio as pricing goes up further?

And then my second question, just, I guess, sort of clarification on the RIG outlook for second half of the year. Do you expect to see any material benefit from retailer inventory rebuild as your supply chain pressures moderate?

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

So James, on out-of-home versus retail, I think one interesting development, in particular in North America, but also in Western Europe is that, of course, out-of-home gets hit not only by all of these commodity increases, but also suffers a lot from labor shortages and labor cost increases. And so if eating-in has always been the cheaper option compared to eating-out, clearly, that gap continues to widen now. And so clearly, the best way to tighten your belt financially speaking, is to eat-in more. And I think that plays into our retail strength.

Our out-of-home business, we're seeing, of course, a significant bounce back after the COVID restrictions. But nonetheless, I think eating-in and building on that home-based revolution that we talked about in our full year conference call, that has some runway as people pursue more flexible work styles when it comes to location, remote working continues to be a key theme for, at least part of the work week. And so all of that plays into our hands when it comes to both the Food and the Coffee offering. François?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

Yes, maybe James, let me complement the price elasticity. So once again, we have not seen clear evidence of it today. But it's less a function of channel. It's probably more a function of our position in the market, maybe more a function of the categories where we play as well.

So whenever we are clear leaders like in PetCare, in Coffee and so forth, we don't really see elasticity. Whenever we have less leading position, or whenever we are in categories, because it is more a function of categories, categories where price sensitiveness is stronger like Dairy, we may see in the future, a little bit more elasticity. But once again, less a function of channel more a function of categories and a leadership position.

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

Thanks, James. There was also a question on affordability and premium and maybe François?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

On more premium, it's traditionally a category where you have limited elasticity, so which should be the case. And even if we look historically in previous crisis, there is little elasticity. The same applies to a certain extent to affordability because these are essential products. So probably where we may see a little bit more elasticity is more in the mainstream segment.

You had a question as well on should we benefit from retailers building inventory. Actually, I wonder whether it's not a little bit the opposite that we have seen for example, in North America recently. But there is no evidence, in my opinion, that retailers are building inventory, but if they were doing so, we would certainly benefit from it.

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

The last question is from Pinar Ergun at Morgan Stanley.

Questions on:	Durability of pricing Global food price inflation and impact on Consumer spending

Pinar Ergun, Morgan Stanley:

Would you expect pricing taken so far to stick, even as input cost prices ease off? And could you please explain what drove the strong 11% pricing in North America?

My second question is, can you please share with us your expectations for global food price inflation faced by consumers for the next 6 to 12 months and whether that might impact consumers disposable incomes at some point, considering the resilience of demand so far?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

Pinar, we have no evidence that the pricing that we have put through for the time being will not stick. And as Mark said earlier, we have the intention anyway to go even a little bit further because we have not fully reflected whatever we have received so far.

I would say, so far anyway, without being specific by category or geography, most of our competitors did follow our pricing, given that we have leading positions. So as a category captain, as a category leader, usually, we have taken the initiative and in the vast majority of cases, competitors have followed. Mark said it. I mean it may take a little bit of time.

So I don't think that there is any risk of our pricing put through so far, not staying and not sticking. The matter is more can we do more? We believe that there is probably still space to do a little bit more.

On global food inflation, could it hit disposable income? It could, potentially. But I think that if we enter into a recession with further economic and financial constraints for consumer, we are probably in an industry, food, which will be hit last.

And even if we look at the last example, which is the 2008 crisis, I mean we continued to grow. We continued to have a positive RIG. Where we suffered a little bit more is in mix because there is always a risk of down trading, which is something that we are monitoring very closely. And so far, we have not seen clear evidence of it, but once again, something we are monitoring very closely.

End of Q&A session.

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

We come to an end of our session today. So thank you very much for your interest in Nestlé. As usual, if you have further questions, don't hesitate to contact the Investor Relations team.

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

Thank you, and we look forward to talking to you in Q3.

End of transcript.