

NESTLÉ S.A.

**2023 BARCLAYS GLOBAL CONSUMER STAPLES CONFERENCE
FIRESIDE CHAT TRANSCRIPT**

6th September, 2023, 08.00 EDT

Speakers:

François Xavier Roger, CFO, Nestlé S.A.

Steven Presley, Chief Executive Officer, Zone North America

Warren Ackerman, Barclays

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Warren Ackerman, Barclays;

Hello everybody. I am delighted to welcome Nestlé to the Barclays Consumer Staples Conference. François Xavier Roger, Group CFO of Nestlé and Steve Presley heading up North America. It's going to be a fireside chat format.

Question on:	Real Internal Growth
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Warren Ackerman, Barclays;

Welcome gentlemen. I think we're going to start with you, François, on the topic of real internal growth. We've seen volume/mix, negative for the last few quarters. You sounded confident about it turning positive in the second half. Will that be more Q3 or Q4 weighted? And can you maybe explain the building blocks behind your confidence about the back half? And then, looking forward, can we get back to the 3%, 4% real internal growth into next year, what needs to happen to get back into that kind of zone?

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

A good point to start, Warren. Clearly, in H2 2023, we are at an inflection point after two semesters of negative RIG developments. Part of it, last year, was the high comp in the previous year, and part of it is linked to this portfolio optimization program that we have embarked upon about a year ago. And we expect to be back to positive territories as far as RIG is concerned for H2. I'm not saying for Q3 because Q3 has one less trading day. So, it could have, obviously, some minimal impact on the downside.

So positive RIG development expected in H2 this year, driven by four main reasons. One of the reasons, obviously, is the fact that we have easier comps last year. Then, we have not done a lot of pricing since April, actually, and we don't expect to do much pricing going forward. Maybe on a selective basis for some categories where we still see some input cost inflation like for cocoa, for sugar, for robusta, for coffee, for example.

We are raising our investments for A&P in H2, about 100 basis points more than in the same period of last year. And we are starting to get the benefit of this portfolio optimization program. The idea is really to redirect the resources that we have spent on low-margin, low-rotation items and to refocus them on high-margin, high-rotation items, and we have seen really a very interesting increase of our service levels since the beginning of the year, which should translate in H2 into more positive RIG development as well. So we are confident in getting there in H2 this year.

And this is a transition period towards going back to our model -- the model that we had before with mid-single-digit growth, which we will get in the future, I can't tell you if it is '24, '25, we'll see, with a little bit of pricing and where we don't value pricing per se because pricing is a mere passing through of whatever we receive. But positive volume development that we need to get over time. We are not there yet. In order to get there, we need to get to where we were before COVID, which is around 1% to 1.5%. And then the largest component of our growth should come from mix. By the way, mix has been very positive lately and has even increased during COVID and during these inflationary times.

Question on:	SKU rationalization and growing the head
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Warren Ackerman, Barclays;

Back in your CMD in Barcelona last November, you said that on the SKUs, it will be 20 basis points accretive to group organic growth in 2023. Is that still the case? Or because you're exiting Canadian Frozen food quicker, that might not happen? And then the other element is then growing the head or the billionaire brands, which I guess is just as important. Where are we on that Project Tasty, I think, that is the code name you call it internally? But where are you on the whole picture compared to what you said in Barcelona?

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

So we are really executing and delivering as per the plan so there is no issue. So we are accelerating some of these programs, and Steve is accelerating the exit of Canada Frozen. So we do expect to deliver this 20 basis point. I don't know if it will be exactly 20 basis points. As part of this positive benefit that we get from this portfolio pruning exercise, as I said, we have seen a significant increase of our service level, which is very good news. But it's coming as a consequence of some other factors as well. So there is an improvement, for example, in transportation, shipping, availability of raw material, packaging material, which may help a little bit and contribute a bit as well in that.

As far as the saving program is concerned, this Tasty program where we have taken out of our P&L about CHF 1 billion of cost last year, it will be the same this year. So we are really progressing extremely well with this program. It will continue for a few more years, maybe not to the same extent, but we continue to be very active in that space.

I would not focus too much on this program Tasty on the SKU rationalization, the cutting the tail, as we say. We have done that anyway for years. I'm less interested in that. I'm much more interested in growing the head, where we redirect these resources, to improve our service

level, to really support high-volume, high-margin products. This is really where we will generate much more value than cutting the tail, which always happens anyway.

Question on:	Increased advertising spend and expected returns
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Warren Ackerman, Barclays;

Okay. Maybe moving to advertising spend because you now disclose it separately, obviously, it's a focus for us. You've said that you're going to increase spend by more than 100 basis points in the second half. That's a pretty big jump. Can you tell us a little bit about where that spend is going to go? What innovations you're looking at to really get behind? And what kind of returns do you expect on that uplift in terms of RIG?

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

So we value A&P anyway as a good growth factor for the future. We were at a very low level last year, 6.9%. By the way, we have started to disclose the amount of A&P since the beginning of this year. So 6.9% was clearly a low level, given that anyway we had some supply chain constraints last year. So there was no point in advertising for some categories like PetCare in the U.S. and Europe, like Coffee-mate, like Perrier. Since we have capacity constraint, there was no point in advertising for products we could not sell.

So clearly, 6.9% was too low a level. So we started to really ramp up our investment in Q2, and we expect to increase our investment by about 100 basis points. Certainly behind innovation but a lot has to do as well with brand building, really working on the brand personality, brand attributes. Some benefit that we will get in the short term, but since a lot of it has to do with brand building, we will see the benefit as well over the medium term. So we will continue to increase our marketing investment further than the second half of this year. We expect to go back to where we were a few years back, which means that we will need to ramp up even further the investments in 2024 as well.

Just one thing, as well is that we should not look only at A&P on its own. So we look at A&P and trade spend, and I'm talking of performance trade spend, which is everything that goes to the consumer, excluding rebates and discounts that go to retailers. So the total amount -- the total consideration for A&P and trade spend is close to CHF 30 billion. So it's a huge amount.

By the way, last year, we did increase that amount in absolute value. We decreased marketing, but we refocused a little bit more on trade spend at the time when we did an

exceptionally high level of pricing, 8%. After basically 15 to 20 years of no pricing or deflation, we thought it was very important to make our products more affordable and more accessible. And as a consequence, we focused more on trade spend than on the marketing. This year, in terms of trade spend, we have increased again, a little bit less, but a bit in absolute value still in H1. We will increase our trade spend for the full year 2023.

Question on:	Expected gross margin increase
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Warren Ackerman, Barclays;

I just want to move on to gross margins because you're out there saying the gross margin at some point will return to 50%. In the second half of last year, it was 44.5%. That's 550 bps, which is a massive increase in gross margin. I think there's a bit of confusion out there about your cost base, although it's coming down a bit, it's still quite elevated. But you're still saying there's a big jump in gross margins. Some people are having some issues triangulating that. Are there other items outside of COGS, which are helping? I'm just trying to get a sense of your big cost buckets on dairy, coffee, cocoa, wage inflation. How do we actually get back to that 50% and how quickly? I know you don't have to give a year, but some sort of sense would be helpful.

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

Let me try to help you. Let me give you a little bit of picture of the situation last year, actually. Last year, we did receive about CHF 8 billion of additional cost in terms of raw material, packaging material, transportation, energy, salaries and wages. It's big even for a company the size of Nestlé, CHF 8 billion is a lot. By the way, we passed on to consumers CHF 8 billion of pricing. But that led to 160 basis points of gross margin decline last year and 400 basis points over the last 2 years.

This year, in '23, we are still receiving a few billions of input cost inflation. This is less than what we had last year, but still a few billion, largely front loaded in H1, which means we will have less in H2. But already in H1 you could see that because we had still a reasonable amount of pricing, partly that we see from last year as well. But we will have more pricing than input cost inflation this year, which means that our gross margin will start to increase, which has already been a reality in the first half of the year, where we have increased in H1 2023 our gross margin by about 120 basis points over of the second half of last year, and it will continue increasing in the latter part of the year.

So if we look at it, it's far too early to talk about deflation. Once again, this year, a few billion Swiss francs additional cost. And if we look at our agricultural commodities, the baskets for Nestlé, it went down by about 25%. Today, it's about 25% lower than the peak of last year, and I insist on the peak of last year. But it is still 30% higher than the average last five years, and it's still 40% higher than where we were back in 2019. So it's certainly not the time to talk about deflation, price decreases because of the significant decrease that we have seen in gross margin, that we start recovering. And the fact that we still see the high level of input cost inflation. By the way, we still have some items increasing like sugar, like cocoa, like robusta for coffee. So obviously some other items have declined like energy, like transportation. But net-net, still a few billions up in terms of input cost inflation in '23.

Question on: U.S. consumer trends
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Warren Ackerman, Barclays;

Steve, maybe turning to you. Can you discuss a little bit in general terms where the U.S. consumer is, especially in light of housing costs, changes in student loan repayment schedules. We're hearing a lot about that in the U.S. We've heard some other U.S. food companies talking about the consumers hunkering down and being careful on food waste. Where are we seeing pressure points in your portfolio? What trends are we seeing kind of by channel, private label. Can you just maybe set the scene of what you're seeing on the ground with regard to the U.S. consumer?

Steven Presley, Chief Executive Officer, Zone North America;

Right. The U.S. consumer has actually have been far more resilient than I think anybody thought they were going to be. And so as they come through this incredible wave of pricing and inflation across every single part of their spend, whether it's housing or fuel or whatever it is. And the spending levels remain good, employment stays good, wage growth is okay. But overall, they've actually been pretty stable and very resilient.

When we look at it, though, you're starting to finally see where all of the final COVID subsidies, the SNAP reductions, the student loan repayment programs are coming off to where the market will actually have to rebalance in terms of real income in the wallet versus consumption. So I think there'll be a little bit of adjustment. You see that the big population states came off April, May in terms of the final kind of COVID extension of subsidies. And you see it takes the consumer a little bit of time to adjust for that.

But overall, I would say that consumers been incredibly resilient in the last couple of years and has managed through this inflation wave very well. And when we look across volumes in

North America, they have held pretty stable. Some of our big categories like Pet, Coffee, Creamer, actually have grown volume through this entire period. And so as you move down, that kind of socioeconomic chain, you see more impact. Obviously, the inflation is a bigger part of the overall wallet. So you see higher elasticities in categories like frozen or frozen pizza where it's more of a middle-class consumer that really is more impacted by that. But I think across the basket, the consumer continues to actually surprise to the upside.

When you think about private label, clearly there has been regain of private label share over the last 12 months or so. But it's really been just recovering what they lost through COVID. I think there was a move to brands, whether for trust or for safety or quality, whatever drove the consumer sentiment to push towards big brands through COVID. And you see that come back. But it is stabilizing actually. You're starting to see that actually flatten out.

And so I think we'll move into '24 with a consumer that's worried. The one that worries me the most is the sheer cost of housing and the impact of that to the broader consumers. The cost of ownership has actually doubled, the cost of rent is up roughly, depending on the part of the country you're in, 15% to 20%. And so that challenge, I think, is still to be absorbed and understood as we work across the consumer.

Question on:	U.S. Categories and market shares
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Warren Ackerman, Barclays;

Maybe can we dig into some of the U.S. categories? I do want to touch on U.S. Frozen. We heard some more positive comments about market shares in the last quarter. Could you elaborate how some of the big brands like Stouffer's and Lean Cuisine and Hot Pockets, DiGiorno are doing? Can you get U.S. frozen volume/mix consistently back into positive territory? And this whole shift out of Canada into U.S. on service levels, is that already starting to make a meaningful difference in terms of the U.S. frozen economics?

Steven Presley, Chief Executive Officer, Zone North America;

Yes. So I'll go to the Canadian decision that we made to exit. It was really around where is an ability to win and then where is the part of the category that creates value for us and a focus on the big businesses. We were sub 90% service on our frozen food business in the U.S. for most of the last three years. And so, the ability to exit that business and then put those manufactured cases into the U.S. business has actually been great. So now if you look across our Frozen platform, we're actually at 98% to 99%, which is where we want to be from a service standpoint.

And it's just from a cost standpoint, to manufacture in the U.S. and distribute in Canada is a tough economic model with the currency. And so that decision actually has enabled us to focus. But when you look at frozen in general from a share standpoint, Stouffer's actually positive year-to-date. Lean Cuisine is positive. The category is coming down. But when you look at the category, you had a massive ramp up in kind of what we call at-home revolution as you move through COVID. And you actually shifted -- if you take total food and beverage occasion and you say, look, 80% of those -- or historically, 78% of those were in-home. That went to 83% in the peak of the pandemic. We've actually still held half of that. So that 5-point growth, you still have 3% of those occasions still sit in out-of-home.

So as you come down, the volumes are higher than they were four years ago. That could get a little bit of rebound as out-of-home recovers and you come back. But the ability to drive these businesses there, it goes back to the same thing. You got to drive relevance in the brands, deliver great quality for money. And for a lot of those portions of the segment, they tend to be more mainstream. So value becomes a much bigger part of the equation to drive growth.

And they play a different role for us in the sense of the portfolio. They're never our high-growth, high single-digits other than in the pricing period, part of the portfolio, but they're very high ROIC businesses that we actually really focus on to help fuel the big growth drivers like pet, coffee, creamer.

Question on:	US PetCare
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Warren Ackerman, Barclays;

Can I talk about U.S. Pet food? There's obviously have been some competitor comments about more cautious tones around either trading down or pet adoption rates changing. Can you maybe address that? Are you seeing at Nestlé any of the same challenges? Or is your issue still one of capacity issues? And where are we on U.S. pet food share? We can see the scanner data, but it doesn't obviously cover e-com, which is a key channel. And what's your outlook for U.S. pet food volume/mix as pricing begins to roll over?

Steven Presley, Chief Executive Officer, Zone North America;

Yes. For us in pet it was by far the most resilient category as we move through all the pricing and all the supply. We've been incredibly supply-constrained in that business for the last three years. We're building capacity. Some of it's online now. The new factory comes online at end of this year. Another one will come online in '24. And so, we still have supply runway to actually catch up on. But when you look at the category, we're a bit unique, and it's actually true across

most of our categories in North America, is we actually try to play across all of the stratas in the category.

And so take coffee, even if we move away from pet for a second. We go from Nespresso to Starbucks to Nescafé, and the range per cup goes from \$1 to \$0.05. Even at the bottom end on Nescafé, Nescafé grew 13% last year and actually grew positive RIG. And so the same thing in pet, we can move through the entire tier. So if there's trade down, they actually trade down within our family of brands. We see some of that, but we still see premium actually growing. Our Pro Plan, Purina ONE and Fancy Feast are actually doing very well and growing in the premium end of that segment.

And so for us, we're a little more bullish. If you look at pet population, it's basically averaged 1% growth for the last three years. Ok it might go down slightly. The good news is it's a little more dog-weighted right now, but it's not so much that it's dog weighted, it's that it's big dog weighted. So we've all decided that we don't want little dogs anymore, we're going to go big Labs or Swiss Mountain dogs which is good, they eat more food. And so we like that. We like the big dog approach. So you see some of that actually coming into the marketplace that will actually help drive that as well.

But we're a little more bullish overall on the ability to grow that category. It will obviously come down. Like all categories, it has to come down off of the spikes that it's been through the last 24 months. But I think it will still be a very high single-digit category that will continue to drive growth through premiumization across the category. The fundamental consumer trend of humanization and bringing that pet member into the family gets stronger and stronger over time.

Question on:	Capex for PetCare and ROIC
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Warren Ackerman, Barclays;

And François, on the same topic, on Pet CapEx, you're increasing Pet CapEx by CHF 3 billion between 2022 and 2025. I think CHF 2 billion is going into the U.S. CHF 3 billion is a massive number on Pet. What is the payback on that spend? You spend the money, when do you expect to get that money back, how quickly?

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

So as a general rule internally, we are targeting to get a payback period of about 3 years to 3.5 years, which is where we were back into 2019 and '20. It has deteriorated a bit lately because we saw an inflation for construction material that was significantly higher than general inflation. If you look at most of these plants that we are building now in the U.S., the inflation

for construction material was 2.2 times higher than general inflation. So it led to a slight deterioration of the payback period, which we see as temporary and anyway our intention is to come back to these 3 to 3.5 years, which is, I would say, a decent target in our industry.

Steven Presley, Chief Executive Officer, Zone North America;

And I think if you go back historically, it was actually one of the lower spend rates across our businesses was pet. We actually were pretty down in capital for several years. And so there's a bit of catch-up capital on that, too. So it's a bit of a bubble in the cycle.

Question on:	U.S. Coffee market
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Warren Ackerman, Barclays;

I mean I'm sure there'll be plenty of questions on pet in the breakout. So we'll move on to coffee and U.S. coffee. Can you talk about how Nestlé is doing in the U.S. coffee market, particularly how Vertuo is doing? You've obviously acquired Seattle's Best as well. Your Starbucks -- where is the growth going to come from in U.S. coffee for you guys over the next 12 months?

Steven Presley, Chief Executive Officer, Zone North America;

Yes. Coffee is an interesting category. Vertuo continues to do very well. And our Nespresso business in the U.S. actually continues to perform at a very high level and continues to gain household penetration across the market. And so we're very pleased with Nespresso in terms of serving the super-premium segment of the category. But again, we have the move down into Starbucks. And what you see is consumers continue to adopt single pod versions of coffee, whether it's Nespresso or Keurig or -- they trade down onto the Keurig system. We're the largest pod on the Keurig system with our Starbucks brand, and that business continues to grow well. We're growing share in that.

Actually, the one piece that kind of suffered a little bit through the pricing curve was in Roast & Ground where consumers kind of retrenched a little bit on the Roast & Ground side, but you're starting to see now that actually turn back in terms of positive share territory.

Seattle's Best was as part of the original license deal that we had with Starbucks, but -- it's a great brand with great coffee credentials that needs a bit of reimagination and had been deprioritized by Starbucks as a parent company. For us, we think there's a big opportunity in both out-of-home and in-home to reimagine that brand and push those credentials across the portfolio.

And then Nescafé continues to be a growth driver. It's been an incredibly strong business for

years in the U.S. And it's a very attractive part of the category. We have tremendous network of ensuring supply around the world, and we continue to grow, not just Hispanic households, but also value-seeking consumer households at a very reasonable cup of coffee.

Question on:	VMS
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Warren Ackerman, Barclays;

And the other category that I want to touch on is Vitamins, Minerals and Supplements. You have got the Atrium business in the U.S., you bought Bountiful with those brands. How is that going because there was a little bit of a perception that you bought it slightly at the top of the cycle and the household penetration of VMS has come down? And Nestlé has got some quite big targets for an improvement in the second half of the year at a global level, but clearly U.S. is a big part of that. Are you confident about returning to strong growth in VMS in the back half? And how are Bountiful and Atrium doing more generally?

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

Let me take that one. If you look at the U.S., which is where we have about 80% of our VMS, vitamin, minerals and supplement market, the market increased by volume by about 30% in the course of 2020 and 2021. We were not really sure that we would be able to retain most of it. But if you look at it post-COVID, the market has not really deflated that much, by maybe 5% max. So frankly speaking, we are very happy to see what has happened in that category. And during COVID, we even gained market share. So we have outperformed the market as well. So a little bit of softness, but frankly speaking, we are well above the level where we were back into 2019.

As far as Bountiful is concerned, we are in line with our acquisition plan, even slightly better. We had factored in the fact that the market would probably go down post-COVID, which is exactly what happened. And I think we have a super brand architecture now. Steve was talking about what we have in coffee with Nespresso as a super-premium brand, Starbucks as a premium brand and Nescafé as a mainstream brand. We have exactly the same within Nestlé Health Science, and VMS more specifically with Solgar and the Garden of Life, for example, as super-premium brands, and then we have the Bountiful company in the mainstream segment, and then we have Puritan's Pride in the affordability segment. These brand complements each other pricing wise, exactly as Steve was saying for coffee, but they complement each other, same as in coffee because they don't compete on the same shelves. We have different distribution networks as well. So I think that we have, in my opinion, a very nice positioning and a very nice business.

Question on: VMS Expansion in other markets

Warren Ackerman, Barclays;

How do you build out the non-U.S. business for VMS? Are you going to roll brands into other areas? Or do you see inorganic opportunity through M&A to try and globalize the VMS platform?

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

We did a little bit of M&A. We made an acquisition in Brazil lately, we made a small acquisition in New Zealand as well. That being said, we don't mind making some of these brands that we bought in the U.S. to travel. Some of them are already well-established abroad, outside of the U.S., if you look at Solgar and Garden of Life they are already present our brands, like Pure. Yes. So the idea is exactly the same as what we have done with Starbucks as well where we bought that business -- it was predominantly a U.S. business with 2 billion of sales originally, now we have doubled the business and most of the growth came from the globalization of the business, given that we can really leverage our outstanding geographic footprint. So the idea is the same. Let's be careful though because I'm not saying that any of these brands would travel as easily as Starbucks because, because obviously, we leverage on the equity of the Starbucks brand. But take another example, which is Vital Proteins where we have done extremely well outside of the U.S. already, given that we have doubled the size of the business almost in 18 months after the acquisition.

Question on: Impact of Palforzia divestment on NHS margin target

Warren Ackerman, Barclays;

You've recently sold Palforzia this week, the peanut allergy business. You've written it down already. How much does that divestment help you achieve your 18% margin target for Nestlé Health Sciences by 2025? I think the margin is 13% today. And then can you maybe explain a bit more detail how you're going to use the Bountiful backbone to extract the synergies? Just trying to understand how do we go from 13% to 18%? And how much does Palforzia help you? I assume it was loss-making.

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

So last year for Nestlé Health Science, we had an operating margin that was around 13%. If we had not had at that time Palforzia, it would have been more in the 14%. And then I'm super confident on the fact that we would get above the 18% of margin by 2025 because a lot of it is coming from cost synergies. So let's make a pause with Nestlé Health Science probably for a few years in terms of acquisition and let's really extract the synergies because we bought 6 or

7 different businesses, predominantly in the U.S. with 6 or 7 different organizations, head offices, IT system, manufacturing footprint and so forth. And really by combining all of these organizations, we can get probably very close to \$400 million of savings within the U.S. It's within a single country, within the U.S., which is relatively easy to execute. So, I'm not really worried about that, and that will naturally bring us to 18%, which by the way, should be for a business like Nestlé Health Science the first step because they have to go up after that to about 20%.

Question on:	Confectionery shift to premium and gifting
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Warren Ackerman, Barclays;

Okay. I want to just ask you about confectionery also. There does seem to be a desire to shift the confectionery portfolio away from mass-market sugary products. Maybe a bit more towards gifting, a bit more towards premium. You have got KitKat, which is a great brand, right, we all know that. But outside of KitKat, how do you actually address those growing segments? Can you do that organically? Or would you consider inorganic moves to try and position yourselves more premium in confectionery long term?

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

For confectionery, like for other categories, we always prefer to do it organically. And I think we have a good platform with KitKat. If you look at it, when we bought that asset from Rowntree's, what 30 years ago, it was present only in eight countries. Today, it's present in eighty countries and the second largest confectionery brand in the world, with our partner in the U.S., which is quite impressive what we have done. And I think that the brand has been really stretched, has been really well premiumized. So we always favor organic growth. That being said, we don't discount, and we don't eliminate, even for a category like confectionery which is a smaller one for us. We do look permanently at opportunities; I think we have a duty to look at external opportunities when they present themselves.

Question on:	RIG in Europe
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Warren Ackerman, Barclays;

Okay. We are a little bit short on time, but I have two or three other questions. One is on Europe, the real internal growth most recently was, I think, minus 4% in the second quarter. You had a lot of pricing coming through at the end of the first quarter so I can imagine there was some elasticity. But can you just address the question around which categories are under most pressure in Europe? Where are you seeing down-trading and private label pressure?

And its there any reason to be a bit more optimistic about the outlook for Europe on RIG and pricing in the second half and really into next year as well.

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

We were actually quite worried about Europe at the beginning of the year because we were having some concern about a possible energy crisis and energy shortage. It did not crystallize, at least to the extent that we were fearing. So indeed, our performance in Q2 in terms of RIG and volume was certainly fairly negative, but it comes -- as you know in Europe, we can do price increases basically once a year. So we did that at the end of Q1. So as a consequence, we do more and for a few weeks, it has a little bit of impact on sales and volume.

In addition to that, there were some technical issues with one less trading day, there was the timing of Easter as well, because of our exposure to confectionery in Europe. So if you exclude all of that, we remain relatively confident about Europe and the second part of the year, which should be certainly better than what we have seen in Q2.

The categories where we have been suffering a little bit more is the categories where we are less premiumized, more commoditized. I would mention two, dairy to a certain extent as well as food. So obviously whenever, we are well premiumized we are suffering less in those times with significant price increases because, obviously, high-end customers can afford to take more pricing than the mainstream offerings.

Question on:	Plant based in US – ‘meat’ and ‘dairy’
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Warren Ackerman, Barclays;

A question for you, Steve, on plant-based, it's been, again, a bit of a topic in for the Food companies that are at the conference. Can you just maybe update us on your views around plant-based meats and also plant-based dairy and what you're doing in both spheres and how you see the landscape evolving? It obviously had a big step down. Does it continue going down? Does it stabilize? What's your view?

Steven Presley, Chief Executive Officer, Zone North America;

Yes. I mean, clearly, the plant-based meat analogues, if you just focus on that part, had the skyrocket and then a pretty hard fall. And so for us, I think there'll always be some market in it, it's more about how attractive is that portion of the market in terms of the meat analogues. And so for us, that wasn't really over indexed actually in our portfolio. Where we've seen really strong growth in plant-based is actually in our plant-based beverage side -- especially, our plant-based creamers. Our creamer business actually is in more cups of coffee than we're in

coffee actually and so the plant-based growth in that has actually developed in to a multi-hundred million dollar business in a pretty short period of time.

So we've seen really strong growth in plant-based beverages. But on the kind of meat analogue side, I do think it will settle at some point, it will be some portion of the market, but I think still to be determined how attractive that portion will be from an overall margin standpoint.

Question on:	Implications of Anti-obesity medications on consumer behavior
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Warren Ackerman, Barclays;

I'm going to try to squeeze two more in. The other topic that's been quite big in the conference has been the anti-obesity medicines, the GLP-1 drugs. And obviously, different companies have been asked about it. It's very nascent, but I was wondering whether you guys have an initial view or have some perspective that you can share with us in terms of how it may play out in terms of some of your categories and behaviors, particularly in -- because it's mainly U.S. I think it's 75% of consumers are female on these drugs. So how would that potentially -- is that a positive? Is that a negative? Is it neutral? Are you tracking it?

Steven Presley, Chief Executive Officer, Zone North America;

Yes, clearly watching. We try to put our consumer, we'd say, true north in terms of really just staying focused on how they evolve. And look, I think ultimately, it could be a real breakthrough for what is an incredibly costly disease across the population. And so from just a sheer positive result, I think we're very positive on it.

I think we look at it actually from the other side in terms of creating opportunities. These drugs, in terms of lower consumption needs, there's a real opportunity to actually fill those needs and not partner necessarily directly with pharma companies on it, but to actually meet the needs of the lower consumption businesses. Like if you look at Lean Cuisine, we're actually growing share today on Lean Cuisine. That kind of meal is exactly what you'd end up eating on these kind of drugs. So that's, I think, an opportunity that we see in this business.

The second piece is just in sheer health care costs. I mean when you look at your health care cost today across North America, it's driven by obesity-related disease: hypertension, diabetes, cardiac care. And the ability to significantly reduce those through the application of these treatments, will have a pretty material effect on the ability to deliver the same benefits for actually a lower cost. It probably will take time because we need time to see the health benefit of those. So there will be a little bit of a spike, I think, in the beginning, but ultimately should be a couple of different opportunities for us across the business.

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

I think these weight loss drugs are good news for society and for people affected by these diseases. The impact on the industry might be a little bit less than maybe some believe given that the compliance rates is actually relatively low, for what we can see already from the usage of these drugs like we have a dropout rate which is close to 60 - 70%. Unfortunately, I would say, because these drugs are efficient and relatively affordable.

The other thing is that if it were going to impact the industry, Nestlé would probably be less impacted than others. It's not that we will be immune to it, but we are not that present in what is called the center of the plate because this is about reducing calorie intake, and we are not really very present in the business of calories. If you look at our business, our main business is Coffee, not really involved. PetCare, not. Infant Nutrition, not concerned. Water, not either. Culinary, what we do is not really about calories. So where we are a little bit more exposed is certainly with Confectionery, which is a smaller category for us. And obviously, a bit in the U.S., with Frozen and Prepared meals. So we are probably less exposed than most of the industry, I would say.

Question on:	Observations for new CFO
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Warren Ackerman, Barclays;

It's interesting color. And just a final question, one for you, François. Obviously, you have been at Nestlé, what, 8 years? And you are stepping down. You're not going to tell us where you going, understandable. But what advice would you give your successor, Anna Manz, who's coming in as CFO? When you look back at Nestlé in a few years' time, when she's obviously taken on the mantle that you've had for 8 years, what does success look like? Are there any particular observations from your seat that could be like a real unlock advice that you'd give her?

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

I think we have done a lot as a team over the last 8 years, accelerating our growth, improving our margin, really reshaping our portfolio with a massive change in the organization. And the company has changed a lot. We are far less capital intensive, far less labor intensive than we were. We have done a lot of work as well in capital efficiency. We have reduced our underlying tax rate. A lot of these things is what I call hard stuff, which we can easily measure. And reduced our cost base, for example, as well.

Some of it we need to pursue and we need to do more. We will do more in portfolio management. We will do more in terms of cost efficiency, margin lifting, accelerating our growth

and so forth. But some of these issues will be more difficult to deliver in the same way. So, I believe that where the value creation drivers will be more in the future is more about soft stuff, which is around digitalization, data analytics. And since we were talking, as part of your first question about A&P, A&P and trade spend, we spend about CHF 30 billion a year. So, if you think about it, if we can improve, which we can easily do in my opinion, we are very big data analytics and digitalization. If we can improve the return that we get by 10%, it's CHF 3 billion additional, not necessarily margin or profit, but that we can really reinvest behind growth.

So, I think that this is really one of the key growth driver that we will have in the future. And I think Anna, coming from a company where data management is extremely important, I think that she is very well equipped to handle that for us, certainly.

Warren Ackerman, Barclays;

Okay. Thank you, gentlemen. I think we're going to cut it there, and we're going to move into the breakout. So do please join us. Thank you.

End of Transcript