

NESTLÉ S.A.

**2022 BARCLAYS GLOBAL CONSUMER CONFERENCE NESTLÉ FIRESIDE CHAT
TRANSCRIPT**

7th September, 2022, 13:30 CEST

Speakers:

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Warren Ackerman, Head EU Consumer Staples, Barclays

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Warren Ackerman, Barclays:

Welcome to day two of the Barclays Global Consumer Staples Conference. I'm Warren Ackerman, the Head of European Consumer Staples. I'm delighted to welcome François-Xavier Roger, Nestlé Chief Financial Officer, to the conference. Hope you all feeling rested, caffeinated. So, the format today will be a fireside chat with François and I, and then we're going to do a breakout next door afterwards for your questions. We'll have plenty of time for the breakout, so don't worry. So, we're going to kick off in earnest. Welcome, François.

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

Thank you, Warren.

Question on: The state of the consumer
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Warren Ackerman, Barclays:

So clearly, a lot going on. It's hard to know where to start sometimes. But maybe just a general question on the state of the consumer. What is Nestlé's general outlook for the consumer from here? And how resilient are Nestlé's categories, particularly to private label, which is a question that's coming up all the time at the moment. Maybe we can start there.

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

A good question, Warren. So, if we look at our performance in H1, actually, we have been positively surprised by consumer sentiment and reaction, you could see we had strong organic growth. But beyond pricing, we were very happy to see that our RIG has been very resilient. So positive RIG, positive for the two components as well, volume and mix. So very happy with that.

Why did we get there? Probably because, first of all, we have strong brand equity. We have strong market positions. I think we have more than 80% of our business, which are in the #1, #2 position. And we are more premiumized than we were, 35% of our sales today are in premium products. It was 11% 10 years ago. So, it does help, all of this. I think that we activated quite a lot of pricing activities as well. But I think we did that well in terms of execution. We paid very much attention to do it in a responsible way, which means that, for example, if we had to put through a 10% price increase, we didn't do it in one go. We spread it; three times of 3%, for example, over a reasonable period of time. So, it was relatively seamless to the consumer. That probably explains why we did not see too much of a negative reaction.

Going forward, we expect that we could have possibly some negative reaction in terms of negative elasticity. A bit on volume and probably more on mix, which will be a reflection of downtrading by consumers. I think that we are a little bit more worried about Europe today given the energy crisis and the price of electricity and gas, which is going to impact certainly the purchasing power of the population in Europe.

And if I look at categories, the categories where we have more less-strong positions, maybe we're not #1, #2 or a strong brand equity. Maybe this is where we are more likely to feel a little bit more pressure going forward. Private labels have gained market share since the beginning of the year. I saw your very interesting report on that matter. That being said, they have gained essentially market share that they had lost during the pandemic. So, there's no major concern at this stage, but this is something that we are monitoring very carefully.

We have a range of products which is deep enough and wide enough, we believe, to accommodate any downtrading by consumers, but that's something that we are monitoring very carefully.

Question on: Cost inflation

Warren Ackerman, Barclays:

Then maybe moving to the COGS inflation question. I remember in the first half last year, COGS inflation was 4%. But the first half of this year was 14%. That's a huge number. Could you maybe break down that 14% and what the swing factors in the second half could be because we're seeing some spot prices coming down. Any early thoughts on '23? I know it's difficult. Just given where current spot prices are, that would be really helpful.

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

So, we were indeed at 14% in the first half, which is big. We should be around 14%, 15% for the full year. We have a decent level of visibility today.

The main items there are certainly dairy, coffee, but transportation and logistics and energy as well. So big items on the list. So indeed, we start seeing some items which are moving down in terms of pricing. I would mention oil, oil prices are today at a lower level than they were at the beginning of the year. Palm oil is down as well. Grain prices are down as well. But that being said, some other items are moving up. And if we look at energy prices, electricity, gas, I mean, they're skyrocketing, particularly in Europe, but probably all over the place as well.

In 2023, difficult to say exactly what's going to happen. But what we know already is that there is one other cost item that will come on the agenda next year, which is salary and wages. We have done some salary increases already, especially for blue collar workers in the U.S. and some European countries, but much more to come next year also, which is a significant item.

The rest of it we lack visibility and we have a little bit of hedging and forward buying as well but very difficult to know. Now what I need to mention as well is that we know that in 2023, we will still have a significant input cost inflation coming from the carrying over of whatever we have received during the year 2022, that was the same applies to pricing as well. So, whatever we have implemented in pricing in '22, part of it will be carried over in '23. Even if the consumer is feeling it today, but it will be reported in our accounts for part of next year.

Question on: Gas prices in Europe

Warren Ackerman, Barclays:

Okay. And you touched on the energy prices there. Maybe you can shed some light on Nestlé's exposure to the rising gas prices in Europe and any potential shortages. Just how much of your cost base relates to gas, in which region, which factories. Germany. If you can give us some idea about how you're trying to de-risk the situation.

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

Okay. We are not a heavy user of gas to start with. But we have started to work on the case a few months ago, and we have identified about 5% of our global industrial footprint, which is potentially at risk. And this means around 15, 16 plants, predominantly in Europe and predominantly in Germany and Switzerland. So, we have set up a contingency plan and business continuity plans. There are two main things that we can do. The first one is to convert, whenever possible, the source of energy from gas to oil. And oil is widely available today, so not an issue.

Whenever it's not possible, we will pile up inventory ahead of the winter. So, we can start piling up inventory now to make sure that we can supply our customers. Be aware as well of the fact that we are producing essential goods. So, this is the same as what happened during the pandemic, which means that if there are cuts in terms of supply, we are unlikely to be the first one on the list. That being said, we are very careful because if there is no gas, there is no gas. So, we need to be prepared.

The other thing that we look at is our supply chain as well. Some of our suppliers may be affected as well. So, in that case, we are really working on piling up a little bit more inventory or looking at alternative suppliers, mainly outside of Europe, because outside of Europe, the situation should be okay.

Question on:	Margin expansion in 2023
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Warren Ackerman, Barclays:

I've got a few questions on margins. You're guiding to 17% to underlying trading operating profit margin this year. But that is the second consecutive year of no margin expansion, obviously inflation is there. Given the very high levels of reinvestment around ESG spend, in particular, and now wage inflation that you're calling out, should we expect 2023 to be another year of no or very modest margin expansion? How are you thinking about that?

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

It's still early to talk about '23. We are currently working on our budget '23. But let's start with 2021 and 2022. By the way, our margin started to decline in the second half of '21 and in the first half of '22 mainly because of this timing difference between the massive input cost inflation that we have received on the one hand and our pricing on the other hand. It has nothing to do with pricing power. It has more to do with the fact that we could not execute as quickly as we received our pricing. The other thing is that we decided to act in a responsible way, as I explained earlier, which is not to put significant price increases in one go. So that explains this timing difference.

Going forward, we stay with our ambition for a moderate margin improvement. This should apply logically to 2023 if things remain where they are today. We have the ambition even to catch up what we have lost because we were at 17.7% 2 years ago, 17.4% last year. So, the ambition is really to catch up over time. Depending on how the situation evolves, but clearly, we don't see a major issue there to go back there.

Question on:	Upside for margins and premium/affordable margins
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Warren Ackerman, Barclays:

Yes, the other question on margins is in which geographies or categories do you see the biggest upside in terms of margin? And then also related to that, what is the difference in margin

between your premium portfolio, which is 35% of the revenues and your PPPs or your value? Is there a big difference in the mix between the premium and the value?

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

So, in terms of geography, I don't see any major changes in terms of margin by geography. In terms of categories, I see one, which is Nestlé Health Science, clearly, because they are around 12%, 13% of operating margin today. So clearly there, we have significant ambition to reach a much better level and to reach a level where it will not be dilutive to our total business, for Health Science.

You are talking of affordability and premium. So premium, obviously, has a better margin, which is around 3 to 4 percentage points higher, which is linked to the fact that we sell at a higher price, even if the cost of doing business is higher as well, we need to spend more A&P, for example.

Affordability looks a little bit counterintuitive, but we have a higher margin than the average of Nestlé as well, which is for different reasons because we have scale. So, we have very high market shares as well in these businesses. We are extremely cost efficient, and we have very large volumes as well. So, these products in the affordability segment, we sell only in emerging markets. This is about scale, cost competitiveness, high market share. As a consequence of that, we have attractive margin levels there as well. So, what is in the middle, which is mainstream, has a margin which is slightly lower than the average of Nestlé, but we have a very positive view on that business as well.

Question on: Marketing spend
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Warren Ackerman, Barclays:

Okay. Maybe we can turn to the marketing spend. Marketing spend was down in the first half. I know there were some specific reasons. Maybe you can elaborate on that. What is your expectation for the second half around marketing? And how are you seeing promotional activity trending? I am just trying to get a sense of how much of the spend is now digital versus traditional. How quickly is it moving, the ROI?

I know there's lots of questions around marketing, but it was a topic for analysts and investors in the first half of the year.

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

So, a more general answer first. At Nestlé, we will never start cutting long-term investment for growth to reach our short-term objectives. We are talking of sustainability. For example, we are raising the bar investing much more significantly more today than we were in the past. We are investing big time in digitalization. We are investing significantly as well in CapEx, really investing for growth in the future. That applies to marketing, except that in H1, there was a special case because we had some capacity constraints for some of our products, more specifically, PetCare in the U.S. and Europe, Coffee to a certain extent, and Food as well. Since we didn't have the capacity to supply the market, there was no point to advertise or make promotional activities for products we could not sell. We expect to increase our level of marketing investments in H2 because some of these issues will go. We expect to increase as a percentage of sales and in absolute value in H2 over H1. And as I said, we are working on our 2023 budget as well with an expectation to significantly increase the level of marketing investments over 2022.

You are talking of the part of our marketing investment, which goes into digital. It's about 54% today, so which has increased regularly over the years. We do indeed have a better visibility on the return that we get on that. So that's something that we are really working very actively upon. By the way, we have a Capital Markets Day at the end of the year. This is one of the topics that we will cover during that Capital Markets Day because we can create quite a lot of value through that.

Question on: Supply chain challenges
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Warren Ackerman, Barclays:

You mentioned the supply chain challenges in the last quarter. Can you maybe update us on how those are trending? I think you've said that overall, they were easing. Can you maybe elaborate a bit more on what you're seeing on the ground, where specifically are the bottlenecks?

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

There are three main parts in terms of supply chain constraints. The first one is capacity constraints as I said for Coffee, PetCare. Which is the reason why we are raising our CapEx investment significantly. This is good news, to a certain extent, because there is increased demand for our products. And it came in the context of the pandemic, but we expect to retain most of it.

The second bottleneck has been over the last couple of years, access to raw materials, packaging materials, ingredients even. From time to time, it's a very simple ingredients that we have difficulties to get. And we can't necessarily reformulate our products immediately. So that has been an issue. It is still going on, although it is reducing a little bit as we progress over time.

And the third bottleneck that we have is on logistics, transportation issues. It has been very tight on truck driver availability in the U.S. last year. It's improving a bit in the U.S. And it was in the summer, exactly the same case in Europe, for example, we had, as you could imagine, because of the heat wave, a very significant demand for water, for example and we had extreme difficulties to find trucks and truck drivers.

So, this is complicated. The other one is labor tension as well, labor shortages. We don't suffer from a big resignation. It's okay, but we never had as many open positions as today. And that one may be structural, by the way. It's not necessarily something that is going to be sorted out in the short term. I think that the age pyramid is such that we could see this problem going on for some time still, especially in Western countries.

Question on:	PetCare
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Warren Ackerman, Barclays:

Okay. Very helpful. Maybe switching gear to talk about Pet food, one of your star categories The growth has been amazing. You're seeing growth, on growth, on growth. But the question I guess we're getting is how do you keep the bar high in Pet food? Where are you now focusing your attention either geography or subcategory? We're hearing some signs of issues, some slowdown a little bit in the U.S. from some competitors, a little bit private label moving in Europe. We're not seeing it in your numbers. But clearly, law of large numbers, you can't keep growing 14% every quarter. How do you see it in Pet food?

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

No, very happy with the development with Pet Food. We are going in 2022 for the third consecutive year of double-digit growth. Amazing. And beyond the number even for 2022, what I like is the quality of the growth. We saw it in H1. We had 5% RIG. It was largely made of volume and mix as well, which is extremely good. I agree with you that we may not be able to sustain necessarily double-digit growth again. But we clearly have the ambition to maintain a high single-digit growth level.

There are two main factors really driving the growth. One is the calorific conversion in emerging markets, which is the number of dogs and cats which are taking processed food instead of food left over from the family table. And this rate keeps on increasing year after year. And in the developed markets, this is very much about premiumization. There is not much to expect from calorific conversion, which is high, but premiumization works.

So there, we are working towards going one step further than the mere supply of Pet food. Moving into the business of providing solutions to pet parents. What do I mean by solutions? It is addressing some of the issues that they are facing like obesity for dogs and cats or cat allergies or dogs barking too much or ageing dogs and so forth. And we have products to address that, and pet parents are very happy to get them, and they are ready to pay a premium for it.

So, it does work very well. Look at one of the latest examples that we have, which is cat food that reduces or eliminates the production of allergen for cats. So, this is really addressing and providing solutions to pet parents. So very happy with what we have seen.

We see PetCare as well as an ecosystem. So, it's not just about the mere supply of food, but we are investing in websites for pet adoptions, we have made an investment as well in veterinary clinic chain, it's a minority investment, but that gives us access as well to veterinarians and so forth. So very happy with the development there.

Question on:	RIG outlook
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Warren Ackerman, Barclays:

And maybe just turning to the RIG outlook. I think you've said that the Real Internal Growth slowed in Q2. It was a tough comp. Are you confident that RIG, both mix and volume, can remain positive in H2 despite a likely weaker consumer? I remember a few years ago, you broke out the mix from RIG, which you don't normally do, but you did do that. How confident are you that you can still maintain strong mix gains against a much weaker consumer backdrop?

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

So, in H1, RIG was positive. And the two components were positive. Since you were talking of mix, mix is important because this is where we create value -- volume as well. We don't create value through pricing, by the way, because pricing is a mere passing through of whatever we receive, which is the reason why we always insist on RIG and it's two components. Mix was

positive as well as volume, and mix was positive at a level in H1 which was relatively similar to what we had experienced over the last couple of years. So frankly very happy with that, which means that, by the way, so far, we have not seen too much of a down trading by consumers.

Going forward, we said in our H1 call that we are trying to maintain RIG at a positive level in H2. There is no certainty we will get there, but we are really working in that direction. The comps are a little bit easier. At the end of the day, we were quite happy with the RIG performance in H1 because it came over a very strong base last year, 6.5% of RIG, which is almost three times more than what we had in the past. It's a little bit easier in H2, 4.2%, it remains high, though. So, we do expect probably a further slowdown of the RIG. Will it be positive? We are trying to maintain it in positive territories for H2.

Question on: Nestlé Health Science
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Warren Ackerman, Barclays:

Okay. The other category I want to talk about is Nestlé Health Science. You mentioned it at the beginning. Can Nestlé Health Science really be the third big growth pillar for Nestlé that sits alongside Pet food and Coffee? You've got a lot of deals in Nestlé Health Sciences. I know you're going to talk about it in Barcelona in November at your CMD. But those deals seem to be quite unique. Are you able to harvest synergies between the different elements that you have the businesses within the Health Science portfolio?

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

Very important. So, we have a sizable business today. It will be north of CHF 6 billion already this year. We've made quite a large number of acquisitions. So, we are present in 3 categories: Consumer Care is one, Medical Nutrition is another one, and Novel therapeutic nutrition, which is more at the periphery at the border of pharma, but always around nutrition and gastrointestinal maybe by default.

So very happy with what we have done so far. These are categories that are structurally growing mid-single digit as well. But I agree with you that now that we have done a lot of acquisitions, we need to bring consistency between these different businesses. We need to make sure that they complement each other, both in terms of brand architecture, in terms of price points, in terms of distribution channel as well. In the same way as we have it for Coffee. Coffee, we have Nespresso super premium, Starbucks premium, Nescafé mainstream -- these brands complement each other in terms of price point and in terms of distribution channel

because they are not necessarily sitting on the same shelves. So, we are building exactly the same for Nestlé Health Science. This is about positive synergies on the top line. In addition to that, there are significant cost synergies that we will extract on the back end of the business, especially in terms of aligning manufacturing because they come from different sources. We have a large number of co-packers as well or let me just give you a very concrete example as well. Atrium Innovation that we bought first. They are extremely cost competitive to produce gummies. And the other assets that we bought are less competitive. So, aligning, for example, the cost competitiveness of gummies for the other assets to what we have achieved with Atrium Innovation will deliver a lot of synergies, just as an example.

Question on: CapEx

Warren Ackerman, Barclays:

Yes. Okay. Maybe, I again shifting gear to CapEx. Obviously, you're signing off the CapEx cheque, so you're the right man to ask. So, CapEx is usually 4% to 5% of sales. I think you said this year, it could even reach 7%, again, a big number. Where is that spend going? And what hurdle rates do you target on CapEx? And when do you expect CapEx to normalize? I'm presuming it's not a new norm of 7%.

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

No, no absolutely not. So historically, we were between 4% and 5%. And we believe that given our growth profile, it was the appropriate level. That being said, we always said if there is a need to do more, that's good news, which is what's happening today because there is increased demand for some of our products in the context of the pandemic, for sure, which is the reason why we have decided to increase our CapEx spend this year and next year as well -- last year, this year and next year. Last year, we were around 6%. This year, we'll be around 7%. It will remain high again next year, and then it will start to decrease at the end of '23, beginning of '24, then it will normalize.

Once again, I see that as good news because that means that there is increased demand. It is putting in the short term, a little bit of pressure on cash flow generation. But this is a deliberate decision, and this is really what I was saying before, investment for future growth.

Warren Ackerman, Barclays:

Is it mainly going in Coffee and Pet food?

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

Yes, mainly for Coffee and Pet food, because this is where we have a little bit more of constraints from a capacity point of view. Pet food is the main one. We are starting to commission some of these plants. We just commissioned a new plant in Thailand a few weeks ago, and we have new industrial units being commissioned in Europe and in the U.S. at the beginning of next year.

Question on: Contamination issue in France**Warren Ackerman, Barclays:**

Maybe moving to Buitoni, the contamination issue in France, obviously a very sensitive issue. Maybe you can outline for everybody what measures you have in place now in France, also in your other factories to ensure there can be no repeats and that your food safety is best-in-class.

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

So first of all, I would like on behalf of the executive team to pass on my sympathy to the families affected. We take this matter very seriously. First of all, as soon as we heard about this case, we stopped production. We did the voluntary recall immediately. We are cooperating with the authorities for the investigation, which is in progress. I cannot tell too much about it because there is an investigation by the justice department in France in that case, and so we cannot really comment.

What I can tell you in terms of safety, this is something that we take extremely seriously. We have very few incidents. Just to give you an indication, we have less than 10 recalls a year globally for a company that is producing 1.1 billion servings a day. That being said, our philosophy is very clear on that. One incident is one too many. So, this is the way that we see it. So, we want to strive to get less than even this less than 10 recalls a year. We do invest a lot in quality as well. So just as an example, we have 9,000 people working on quality within the company, and we performed, for example, 4 million quality tests a year.

I can just tell you something more personal. For example, when I joined Nestlé seven years ago, I was extremely positively impressed by the fact that for each and every single Executive Board meeting that we have, the first thing we do is to look at quality incidents individually. What happened, what should we do differently, and we look in the same way at the safety of our employees as well. So, we take that very seriously right from the top of the organization.

Question on: Digital**Warren Ackerman, Barclays:**

Maybe we can talk a little bit about your digital because you have a target to get to 25% online sales by 2025. Seems to me quite ambitious, given where you are today, 12%, 13%. What needs to happen within the organization to make that kind of number happen? And does the consumer slowdown put that at risk as we are seeing kind of brick-and-mortar recovering and online sales normalizing from incredible heights. So that's a two-part question.

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

Yes. So today, e-commerce is accounting for about 15% of our sales. We like it. By the way, we did invest quite a lot. And we have been able really to meet pent-up demand during the pandemic. In 2020, it increased by 50% and we had everything that was necessary in order to meet the demand, be it higher IT facilities, specific SKUs because they need to be a little bit more resistant for shipping and handling.

I agree with you the objective of 20% in 2025 is relatively ambitious, but we like the ambition as well. We want to invest more because we gain market share in e-commerce as well. So, we have a market share which is better, higher online than offline. We are investing. And e-commerce is accretive margin-wise for us. So, which makes it attractive as well. This is the reason why we do invest a lot.

I agree with you, it's a little bit ambitious because we see the category slowing down, not only us, but slowing down. We still had 8% of growth in H1, which is good, but it's less than what we had in the past. That being said, we are very flexible. At the end of the day if consumers want more of it we'll go for it, if they happen to need a little bit less of it, we will adjust. I mean we are present in all channels anyway. So, what is important is to meet consumer demand, whatever it takes.

Question on: Nutritional standards**Warren Ackerman, Barclays:**

Okay. I want to move on to nutritional standards. In the past, Nestlé has been criticized in some quarters having part of this portfolio that are, let's call it, unhealthy. Could you please share some of the progress that has been made? We're seeing new regulations coming in like the U.K., high fat, sugar, salt coming in October and Nestlé's new nutritional standard policies.

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

So, nutrition is really at the very heart of what we want to do. The foundation of the company is about Nutrition, Health and Wellness. Let me just give you a couple of examples of what we have done lately. For example, we have reduced the sugar and salt content of our products by around 15% in the last seven years. So, it's something which is quite significant. Last year as well, we have sold 200 billion servings with fortified macro nutrients. And out of which 124 billion of these servings were for emerging markets where it is extremely relevant. So, I think that this is an illustration really that we are doing well.

I must say as well, we are well recognized for our nutritional benefit. If I look at the ATNI, Access to Nutrition Index, which is an independent assessment, we have been #1 in our industry since 2018, and we were in the top 3 since 2013, which means that we are internationally recognized. I am just quoting one, but there are other indices in which we are very well ranked as well.

That being said, we have -- it is true, we have about 1/3 of our portfolio which is made of products, which are not meeting the highest nutritional standard. There is no big surprise there. At the end of the day, everybody knows that we are selling pizza and confectionery. This is part of a balanced diet as well. And so, we are comfortable with it, especially so that we ambition to improve the nutritional and health profile of these products within their category. We want to make sure as well that there is a conscious decision by consumers, many adults. Most of the products are for adults, that they know exactly what they consume. So, it has to be totally transparent to the consumer as well. Be aware of the fact that we will communicate more on our portfolio as well. This is something that we believe is important. So, we do expect to do further communication on that topic before the end of the year.

Question on:	M&A
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Warren Ackerman, Barclays:

Okay. Maybe switching gears to M&A availability, our favorite topic. How many deals are Nestlé evaluating at any one time? I mean we're hearing that the multiples are starting to look a bit more realistic. Is there an opportunity for companies with strong balance sheets to be a bit bolder, look at bigger ticket deals, especially when private equity struggling with higher bond yields, higher interest rates? And in terms of category, geography or even capability, what would your priority areas be for M&A?

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

So, we look at many things. I think we have a duty to do it. Anything that appears within our categories, we look at it. I mentioned two years ago, I think that we had looked over three previous years at \$35 billion of potential deals that we walked away from, essentially by lack of financial return at that time because multiples were very high. So, we have been very active in portfolio management, rotating 20% of our portfolio. We did more disposals and acquisitions, which happens to be the right time to do it because it was a seller's market with high multiples. So very happy to see now with increasing interest rates that it will probably trigger more reason within the M&A market, with lower multiples. It's a reality already for public equities today. You know it probably more than I do. But it will probably go into the private sector as well, for sure.

It's going to take a little bit of time as well, probably 1 or 2 quarters because a lot of people are still thinking last 12 months in terms of pricing. So -- but we see that with a lot of interest. That being said, we will remain very disciplined. It's not because it is cheaper, that we have to go crazy for M&A and buy -- not in a considerate way. So, we will be extremely disciplined in what we do, always looking at the strategic intent and the strategic fit with our portfolio. The catch all fit as well because we are interested in that finding businesses that we feel like managing that share the same values as we do. And then financial returns, we are looking among other KPIs at return on invested capital with a view to exceed in terms of return/ROIC, the WACC of the acquisition within 5 to 7 years. So certainly, more opportunities coming in. And anyway, we said that since we have disposed more than we had bought, we are interested.

Where do we want to invest? Essentially strengthening our existing categories. We need to be careful because in some it's going to be a little bit complicated because of potential antitrust issues, which probably limits the ability that we have to do large deals. And anyway, we are not necessarily that interested in large deals. To be seen. I mean if a unique occasion presents itself, we will obviously look at it. So, strengthening our categories.

This is very much about growth assets as well, which is what we have acquired. If you look at what we have done over the last 4 years, it contributed last year, CHF 6.5 billion of sales so it's material, but growing 2.5 times faster than the average of Nestlé. This is not just about buying growth either because if you look at everything that we have done in M&A over the last 4 to 5 years, it did contribute 1/3 of the margin improvement at the same time. So that's pretty much what we want to do.

From a geographic point of view, no specific interest because we are well present in any markets of the world. There are no real weaknesses that we have, I would mention one, which is maybe India where we are a little bit under index versus our presence worldwide, but I say prices are extremely expensive there. At the end of the day, I think we are probably the most profitable MNC in India because we are very focused, not on high volume, low-value business, but more high value and low volume.

Question on: Starbucks

Warren Ackerman, Barclays:

I do want to touch on one deal that's been a success, which is Starbucks. You bought it, it was a 2 billion revenue business. I think you've added 50% to revenues now 3 billion. Can you just talk about how you see the outlook for that in terms of the rollout? Are we there? Or is there still more to be done?

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

Indeed, very excellent deal. So, we did the deal 4 years ago, 2 billion of sales at the time when we bought it. This year, we will be north of 3.5 billion, probably even maybe 3.7 billion. So, we have almost doubled the size of the business in 4 years, so superb achievement. A lot of it had to do with land grabbing because we expanded, that business was predominantly in the U.S. and now we are present in about 70 countries.

We did more than that because we expanded into new categories as well, for example, it gave us access to the Nespresso compatible business because we were not present in that business. We needed a brand to get there, and the Starbucks brand has been really instrumental. In the last 3 years, we have gained 20% of the Nespresso compatible market worldwide. So, without cannibalizing our business, which is really great.

We expanded as well. It gives us a better footprint in the U.S. because we were a little bit under-indexed in Coffee in the U.S., give us a better access to Foodservice and to Roast & Ground because it these were subcategories where we were not that great. I think in terms of geographic expansion, probably not much left. But in terms of expansion into new categories, we can do more. Let me just give you a recent example of what we did. We are selling now coffee creamers, branded Starbucks. As you know, we have our own brand, Coffee-mate, which is extremely successful, but we expanded with a new brand, Starbucks as well. So can we stretch the brand as a brand in new territories as well. So not new geography.

Question on: Sustainability focus**Warren Ackerman, Barclays:**

We're running a little bit short on time, so two more I want to try and squeeze in. One is on sustainability. Nestlé made some really big moves on sustainability, whether it's carbon or plastics or child labor in West Africa. What will be the next big focus on ESG for Nestlé in the next 12, 18 months?

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

So, we have a plan, which is really clear, which has been well received, I think, including by our investor community, we get a lot of support. This is very much about zero carbon by 2050, and with a very tough agenda because it starts already with a 20% carbon footprint reduction by 2025, which is basically tomorrow. We are on track to achieve it. Our peak carbon is behind us, but that requires a lot of commitment, efforts and financial commitment as well, which we are comfortable in doing.

The second part, which is even more urgent is sustainable packaging. We need to move away from nonrecyclable, nonreusable plastic. We need to move away as well, which is more complicated, from a multilayer packaging, you know this packaging which is made of a layer of plastic, a layer of aluminum, a layer of carton or paper that's very complicated to recycle. So, this is very urgent -- probably more urgent even if our objective is for 2025 because a lot of regulators are moving. So, this is about license to operate to a certain extent.

Then we have other agendas like, for example, child labor and our cocoa plan, we just announced a new plan. That's a very sensitive issue. We want to make things meaningful as well. This is not just about paying more for cocoa because then you help the larger farmer. We really directed our efforts to help the smaller farmers to be more productive, to send their kids to school and so forth, which is very different from what has been done in the industry so far.

Question on: Value Creation**Warren Ackerman, Barclays:**

Okay. And final question for you, François. I know it's a question you've been thinking a lot about, which is value creation. Nestlé unlocked significant value over the last year, last 5 years since Mark has been CEO. How are you thinking about value creation from here? Is it more of

the same? Or are there other levers that will become more important in the value equation? I'm just trying to get to the heart of how you -- the Nestlé finance team, think about it?

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

Some of it will be the same, but it's still about growth. It's still about cost discipline as well. That will need to continue but it's still about portfolio management as well. We just said it, but it will be different on portfolio management. It will be less about disposals probably more about acquisitions.

I think a lot of the stuff that we have done over the last couple of years, what I would call the hard stuff, which we can measure, a massive reduction of our working capital from 8% of sales to 0%, very significant reduction of our underlying tax rate, for example, very significant reduction of our cost base. We are far less capital-intensive and labor-intensive than we were. We have today almost 100,000 less employees than we had 5 years ago. We have 82 less plants, for example. But all of these things we can measure.

Going forward, a lot the value creation will come also from intangibles, for example, data analytics, for example, return on promotional investment, which is something that we will cover during our Capital Market Day at the end of the year. We spend a huge amount of money in marketing, trade spend. We do understand already well the return that we have. But if we improve that, and we aim at improving that through data analytics and digitalization. I think this is a lot of soft stuff where we can create a lot of value going forward.

Warren Ackerman, Barclays:

Okay. So, I think we're on the buzzer, François, so thank you very much for your time. But we are going to do a breakout next door to please do come and join us for your questions. Thank you.

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

Thank you. Warren.

End of Transcript