2022 NESTLÉ INVESTORS SEMINAR BARCELONA, SPAIN
PERFORMING WHILE TRANSFORMING, HOW TO THRIVE IN THE 2020s

29th November 2022

Speakers:

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

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

Slide: Title Slide

Luca, thank you. Good morning and a warm welcome to our Investor Day participants, both here in the room and out on the web.

Slide: In my own words

As we prepared this day, it became clear to us that the last time we met in a setting like this was more than 3.5 years ago, and that was in Arlington in May 2019. And yes, what a different world it has been. Global pandemic and many, many crises later, here we are, glad to see you in person and we appreciate your interest in our company.

One of the messages that hopefully will come across from this day is, while we are living in a very volatile and turbulent environment, I think we have the strategies, we have the operational dedication, the execution to provide very consistent financial results for you, very much in line with a Nestlé model that was outlined to you many years ago, and that allows you to create value through compounding in investment.

Here is a brief summary of what we would like to try to get across today. Looking back first, I think in all modesty, we have delivered to you. We have delivered not only the pre-COVID years, 2017 through 2019, with a very balanced approach on growth and earnings. I think we also have delivered to you, in these very turbulent years, 2020, 2021 and 2022.

2020 was all about coping with COVID. 2021 was supply chain. 2022 is the year of inflation. And I think in all these very surprising, turbulent environments, we did what we had to do short-term to make sure that our financial model gets upheld, and that we live up to our purpose in every way.

Now, that is the past. And today's programme is about looking towards the future. And the message we are trying to get across is, as we look at this new decade we are in, this more turbulent, this very volatile decade. It is important that we believe, we get it, we are looking forward. We are trying to embrace the realities of this new decade.

It is going to be a decade of higher highs and lower lows. It is literally going to be a tale of two cities: best of times, worst of times. And in this new environment, we are trying to embrace that new reality, make the most of it. And at the bottom, as mentioned before, we believe that even in this environment, we can uphold the main key cornerstones of the Nestlé model and the value creation behind it.

Slide: Taking stock: what we have accomplished together

To set up the programme for today, let us take stock about what has worked for us in the last few years, and also what has not, because I think that is an important starting point to see where we are going.

And page one is the items that have worked for us; I will not go in detail through all of them. You know many of them from past investor calls, quarterly or annually, and some of the past investor days. What I do hope you appreciate is the balanced delivery across a number of dimensions here, whether it is strategy, organization, or the balanced pursuit of our financial goals. I think that was underlying that very consistent, sustainable success over the last few years.

Slide: Taking stock: lessons learned and work to do

Now, here is a look at some of the things where we believe we have work to do. And there are three categories. One is Nestlé Health Science, which is going to be a focus item for today. I will talk about it later in this presentation. But then, obviously, we spend a lot of time on this in the afternoon.

Infant Nutrition is another category where we have not fully lived up to our goals over the last few years. And I will spend a slide later detailing the new strategy in Infant Nutrition.

What I will not spend a lot of time on, let me just say that I think we did a very important step in 2019-2020 focusing on premium functional waters. I think now in the face of additional inflation, we have to try further measures on cost efficiency, valuated offerings, and also sustainability to balance all of these objectives.

Affordability and sustainability, I think that is an item that has come to the forefront in the face of very significant inflation. There is no point in making the perfect product if it cannot be supported and embraced by the consumers around the world. So making sustainability relevant to consumers, putting the consumer into the equation, in addition to regulation that happens around the world, I think is one key ongoing challenge that we will be working on.

And then also, I think when it comes to quality, let me assure you that we do have a very, very strong focus on this. This has always been a hallmark of the company, but we also cannot help but notice that we did see a pretty significant setback earlier this year with the Buitoni situation in France.

Let me assure you the quality focus has never slowed down. We are taking the situation very, very seriously. We do one post-mortem after another to be sure that across all levels in the organization, this quality item is properly addressed, and that there are proper learnings from it so that they do not happen again.

And last but not least: speed, speed, speed. I think execution is going to be a major item in the 2020s, especially against the face of the significant volatility and turbulence we are seeing. You can have the most wonderful strategy. If you do not execute on time, if you do not make it happen with a razor-sharp focus, it simply will not pay the results.

Slide: Our strategy

Lots of change, but also one constant, and that is our strategy. That slide has changed very little from our presentation in May 2019 in Arlington. There had been a development from the one we showed you in 2017 to 2019, because, as you know, we divested of Nestlé Skin Health and we put in this focus on Food and Beverage, which I think was accepted, and understood very well. Since then, the focus is the same. What you will see this afternoon, within Nestlé Health Science now, we will have even further focus on the two segments that were performing the best, and that is Consumer Care and Medical Nutrition. But when it comes to the scope of the entire company, no change of parameter from what you have seen, and what you heard before.

Slide: Key strategic directions in the 2020s

Within the Food and Beverage categories, here are two planks that we believe are going to be really, really important for the 2020s and beyond. We summarized them very simply with, Good for You, and Good for the Planet.

Good for You captions all the items that are related to the nutritional value of our products. And Good for the Planet, given that Food and Beverage does account for major part of the environmental footprint that humanity has on this planet, basically summarizes all of the ESG-related aspects related to our products.

Slide: Good for you: bringing tasty, balanced diets with reach for billions

Good for You. You know that we are stepping into a proud heritage over 20, 25 years under our Nutrition, Health and Wellness strategy, which we fully confirm. As part of the strategy, we have seen major successes in taking sodium, sugar and saturated fat out of our products. And we stay committed to this journey and using our R&D engine and innovation engine to making that happen.

But let us also be clear, with all the science in the world, what you will not be able to do is to turn a piece of chocolate into a tomato. So, we have to be realistic on this. And that is where some other dimensions of what we call responsible consumption kick in, and you see some of those itemized here.

One is around creating absolute transparency, which starts, for example, with food labelling, but also goes to annual reporting so that the public can track our progress. You will have seen two weeks ago we made an announcement. It is, to our knowledge, the first of its kind globally.

Starting from next March, we will provide, against the Health Star Rating, a complete global overview of how the portfolio is categorized. I think that will allow you to show you and to track very easily the progress that we are making across the entire portfolio.

In addition to that, later in 2023, in 14 major markets around the world, we will detail how the country portfolio stacks up against relevant nutritional systems that are used in those countries. Here again, at the local level and at the global level, this will allow people to track our progress and see how we are doing.

On the right-hand side, responsible marketing, I think, is another important piece of the equation, absolutely important in the field of Infant Formula, Infant Nutrition. And here I just wanted to remind everyone that starting 1st January, our new Infant Formula marketing policy comes into effect. This follows an earlier commitment. Based on the belief that breastfeeding is best, for zero to six months around the world, we will abstain from any promotions. And then for 163 countries around the world, where, according to objective FTSE4Good criteria, there is a higher rate of infant malnutrition and infant deaths, we will also have a zero to 12 absence of promotion. That puts us very squarely into the leadership pack when it comes to Infant Formula around the world.

And then just yesterday, we made the announcement when it comes to marketing to children. We had a previous policy of zero to 13 years. We now enlarge that to zero to 16, which also puts us in the leadership pack globally. That policy will go into effect July 1st next year.

Slide: Good for the planet: enhancing supply chain resilience & consumer relevance

Good for the Planet. I would not go through all of these metrics. But as you know, we have made some very significant commitments over the last five to six years. We are on track to either fulfil the gist of these commitments or to fulfil them actually to the letter. Very glad to report that we have left peak carbon behind us. It was some time 2018-2019. Also glad to report on packaging, that we have left peak virgin plastics behind us.

And then, of course, when it comes to another very important item, which is supply chain due diligence, also a very large number of initiatives underway and good progress when it comes to the execution.

Slide: Enhancing value through portfolio management

Let me shift gears and talk to you about portfolio management. And portfolio management here, for the purposes of this slide, is defined as the narrow angle portfolio management. So this is M&A. This is buying and selling. Obviously, there is a lot of day-to-day portfolio management going on when we develop new products, when we develop new categories internally, and that should not be underestimated.

But as you can imagine, what grabs the headlines and what you very often focus on is some of the portfolio management that happens through buying and selling. And taking stock here after a number of years, three key observations. One is, we have been quite active, certainly more active than we led you to believe at our investor seminar in September 2017 in London. So you see we rotated more than 20% of the portfolio, total devalue in excess of CHF50 billion over the years.

That leads me to the second conclusion, had we been less diligent, we could have easily doubled that on the buying side. And so, we have been very selective buyers, we have been very disciplined. Certainly, when we did not like things that we see in a due diligence process, or when we did not like the valuations anymore, we had the guts to say no. And François will outline this later in his presentation. These were not superficial glances we were taking those transactions. These were things that we looked at very seriously, in detail. We ended up not liking some aspects of it. It may have been tempting, it may have been tantalising, but we had the guts to say no, and I hope you appreciate that.

And then, coming to the third bullet point, what did it all add up to? Well, the first two sub-bullets are about the operating metrics and there, clearly, we believe it did contribute. So, it is about 50 basis points per annum when it comes to organic growth. When you look at the buying and the selling, it stands for around one-third of the improvement in underlying trading operating profit margin. I think when it comes to the operating metrics, these transactions have certainly helped.

When you look at the third sub-bullet, you also see that more than 80% of these transactions have either met or exceeded the acquisition business plan. And then looking at the fourth bullet point, what we are doing is we are netting out for you, the ones that have met or exceeded the targets, or the ones that have not. And we are using a valuation metric and system that is very much inspired by private equity, where what you typically do is you take the current performance in terms of sales and earnings, and you apply a current market multiple to these transactions to get a sense, even for unrealized transactions, where they stand.

And when you apply that here, about CHF 79 billion of value were created, which equates to an annual return of about 11% to 13%. I think whichever way you look at it, operating metrics, hit or miss, or whether it is the total value created, we did I think, overall have a pretty good acquisition track record.

Slide: Two acquisitions that did not meet our expectations

Now, that is the positive side. But, of course, when we are saying more than 80%, the more curious among you will probably ask the obvious question, what about the others? And here two transactions, in the spirit of full disclosure, that I would want to talk about, that did not meet our objectives fully.

The first one is Freshly. And that one I know, over the last year or so, we have received a number of questions. So, some of you were on this case already.

You may have seen a very recent announcement, just from a few days ago, that we merged this company now with a business called the Kettle Cuisine Company. We are doing this in partnership with a private equity firm called Catterton. And we are in a minority position. They are in the majority.

As you know, this business was acquired just about two years ago, in the fall of 2020. We had been a minority owner of this business for three years before, from 2017 through 2020. And basically, I think what happened here is the insight that a D2C channel for a business of this type, in the face of rising customer acquisition costs, because of a totally different data landscape; and also with lower customer retention in this COVID waning world, is simply too narrow.

And I think this is something that we had to recognize. This is probably where the environment in 2020 fooled us because we still had much, much lower customer acquisition costs in this cookie-dominated data acquisition world. You will hear more about that and the changes later on this morning. And then, of course, as the pandemic waned, clearly, customer retention did not maintain the levels we saw during the pandemic and hence, the narrowness of this business case became so much more apparent.

That is also the solution now I think. And by the way, this is also a general lesson that for many D2C business models will need to get applied. Unless you have something that is truly premium, truly high involvement, truly fully personalized, a pure D2C model at times can be too narrow.

I think with this merger now, with the business of Kettle Cuisine, we are bringing together two business models that have one thing in common, and that is the focus on freshness, because that is something that customers do appreciate, and consumers do appreciate. But then you also bring it together with a much more nuanced way of going to market, using B2B2C models, where you are working with foodservice operators – canteens, for example, restaurants, hotels, and environments like that – that would like to offer something that is fresh, but do not have the cost and the labour anymore locally to prepare these meals.

And that business model is very promising, especially in this oncoming age of labour scarcity. And I believe that this joint venture also, while the acquisition has not met fully its objectives, it gives us a chance to earn a substantial part back of what we did not realize in the first round. So that is one.

And the second one, building on this morning's press release, is Aimmune. This is Nestlé Health Science. And this may come as a surprise to some of you, given that we did have high hopes for this business, I am the first one to admit it, this is a business that we also acquired in the fall of 2020. We also had a minority stake in this business from 2017. We followed the development of this company as the product underwent the clinical trials and finally, in early 2020, got the full FDA approval.

That was important to us. We did not want to move on this business before we had a fully FDA-approved therapy because we did not want to take scientific risk here. And then, what we thought, in an area that sees significant unmet medical need, was that there was going to be a launch that we could support in many different ways through our Nestlé Health Science organization.

First, as you know from some of the quarterly updates we have given you, that was hampered by the pandemic, the fact that when risk of infection was so large, people simply did not want to go out and visit the allergologist office and basically try a new therapy like this. But when that started to wane, we saw that there were two more significant underlying problems that have nothing to do with the therapy.

Let me stress that the therapy is absolutely safe, and also effective, very much in line with the approval that it has received. It is still, to my knowledge, around the world, when it comes to peanut allergy, the only FDA-approved therapy. One problem was that allergologist adoption was not as strong as we anticipated. That has to do with the workload that this therapy puts on the allergologist office for which the allergologist does not get compensated. And under the rules and laws, we are not allowed to make up for this.

And then second, with the patients, clearly, while there was strong interest, especially from parents of concerned children that have peanut allergy, the discipline and the patient retention was not as good as we thought, given that this requires multiple visits to the allergologist's office. And then each and every time one of these escalating doses is applied, you also have to spend considerable time in the practice to be sure that there is no anaphylactic shock.

When you put all of this together, clearly, it was much, much harder to get the patient take-up that we anticipated, and that we felt was to be expected because of the strong underlying medical need. This is a reality we have to accept. Instead of the blockbuster, what this looks like more and more is a very potent and very successful niche therapy.

Now, some of you may ask, if that is the case, why don't you stick it out? Why don't you expand it patiently over time? And I think this is where our previous footprint comes in. When you are circulating, when you are selling an FDA-approved Rx drug, you need to have certain fixed costs in order to support that, by law. Think about pharma-covigilance, for example. And so clearly, when you are starting in this when you do not have other drugs that you can bundle in with that, then that fixed cost is really quite a burden, unless you are seeing the rapid success that we had forecast.

And hence, when we saw that the take-off is not what it is, and that it would take much, much longer to create the strong niche following for this drug, and that we have all the fixed cost against it, we felt the best way for this company, the best way for Nestlé Health Science going forward is to stay focused. I know some of you never liked this therapy to begin with. You felt that it was outside of the wheelhouse of our company.

Slide: Focus Nestlé Health Science

And so that also paves the way then to the new strategy, which we believe is going to be more proven, more successful for Nestlé Health Science. And that is resting on the two pillars where we have every right to play and every right to win.

One is Consumer Care, and the other one is Medical Nutrition. In both of these, we are among the leading providers in the world. Consumer care in the VMS sector, we are clearly number one by now. It is a still fragmented industry, but also one that allows significant consolidation opportunity going forward.

In Medical Nutrition, as you know, we have decades of experience. We are a strong number two globally. And when you look at the top four companies in this space globally, you essentially have two consumer goods players and two med tech players active in that. I believe it is long established and well accepted by everyone that as a consumer care company, you can play an important role in that space.

That whole strategy, the two segments, the promise they hold and the track record we have in them, will, of course, figure very large in this afternoon's programme. And I hope that you come away with the strong confidence that in these two, we have a bright future ahead of ourselves.

Slide: Revitalize Infant Nutrition

Infant Nutrition. This is another segment, as I mentioned earlier, where over the years, we have not quite delivered. Some of that has to do with the global situation, especially fall in birth rates, in particular at the times of COVID. However, some of it also, very frankly, had to do with our own internal execution problems, in particular, in China.

We took a good look at this, specifically at the situation in China, but also at the global landscape. And as you know, this is a category that is very, very much key to us, one that the company was founded on, and very, very much aligned with our purpose of using the power of nutrition. Especially at this early stage in life, I think this is where a lot of good can be done, a lot of bad can be avoided.

When you look at this CHF 8 billion category, dominated by about three-quarters Infant Formula share, it is clear to us that there is no successful strategy that does not build on revitalising the core. If you do not revitalize the core, whatever you do as new growth initiatives, will not be successful. And hence, you see here several initiatives that are built exactly on doing that.

The key part, of course, is the turnaround in China, where proud to say we have seen significant progress this year. This is also where the Chinese reorganization has kicked in and that helped a lot. And it is also a good coincidence that our new Executive Board member in head of Nestlé Greater China, David Zhang, has a strong history in this business. He served in it at the time when it still belonged to the previous owner, and has a lot of personal pride, took a lot of personal pride in turning around the situation. And I think we will stand to reap the benefits of that situation going forward.

I think that to me is key. You have seen from some other international players, there can be winning strategies in the Chinese market. I think we have recently turned around to be on the winning streak, and we will continue to do that.

In addition to that, of course, on a global scale, it is very much driven by science and innovation. And you will hear some of that later on in Stefan Palzer's presentation.

Over and above that, we believe there is a growth opportunity by widening the angle. And that is rather than focusing on just infancy and toddlerhood, I think if we now go from preconception to preschool, we have a wide array of offering nutritional solutions to help those pivotal early years in life. And this is where a few other segments come in. For example, the supplements segment when it comes to pregnancy and pre-pregnancy, and then also meals and drinks for the preschool age.

This is where a lot of specialties can be offered, a lot of brand names that we already have in place can be leveraged. And this is what we intend to do going forward. Again, it will help to offset some of the more muted growth aspects of this category, in the face of rising breastfeeding rates and also falling birth rates around the world. But, it alone will not be successful if we do not turn around the core, which we are very committed to doing.

Turning around the core, by the way, in the face of falling birth rates, there is more growth opportunity than you think because, at the end of the day, it is also about market share; not only against other Infant Formula makers, but also against clearly inappropriate ways of feeding children at that age. And that is still very prevalent around the world and by touting the virtues of proper infant formula feeding when breastfeeding is not possible, we believe that additional growth can be generated.

Slide: We have what it takes to deliver mid single-digit organic sales growth

Switching gears again, let us take a look at some of the financial metrics. We would like to have you come away from this Investor Day today, by having confidence that we have what it takes to deliver consistent mid single-digit organic growth going forward. This is something that we called out to you last year. Compared to the original plan from 2017, we were about a year behind. As you know, we were a year early in earnings. We were a year behind on organic growth.

I want to confirm again today that we believe we have what it takes to do that. It may look easy at a time like this when inflation, of course, inflates the numbers. But even aside from that, even in a more normalized going-forward scenario, we believe based on the categories we are in, the mixed development, the innovation we can bring to market, we have what it takes to deliver that consistently. And that is a key feature of value creation going forward.

The drivers on the right-hand side are the same that you have seen in previous updates we have given you.

Slide: Committed to return to an underlying TOP margin of 17.5% - 18.5%

Likewise, on margin, that is the other one that is important. We have what it takes, and we have the plans in place to go back to the margin band that we outlined to you in London in 2017, 17.5% to 18.5%. Again, some of the steps, some of the drivers on the right-hand side, very similar to what you heard before. And that is important to me because, as we all know, when inflation was gearing up last year and this year, everyone's operating margins in this industry were taking a hit. I am sure it would have tempting to re-set expectations, we're not in for that, we believe that this company can deliver this margin band in a very consistent manner in a more normalized situation, and we intend to get back there.

Slide: Our value creation model and 2025 targets

That leads to a key financial metrics slide, which François will present to you in greater detail this afternoon. As you look at some of these metrics, be careful, some of them relate specifically to the year 2025. Others relate to the entire period gearing up to the year 2025. For example, the annual underlying EPS growth, that is something that we expect very consistently between now and 2025.

By the way, that does not only apply to the underlying EPS growth. When you look at the math of what we intend to do on organic growth and the underlying trading operating profit margin, that also applies then to the annual underlying trading operating margin development. There also we expect clearly an above 6% development between now and 2025. That is simply by putting the two together.

Everything else I would call a positively trending, no surprises scenario. In a world that is full of turbulence and surprises, I think that is a positive surprise to begin with.

Slide: Consistent and dependable shareholder returns

All of that, as you know, adds up to a pretty consistent financial performance over the years. You see that itemized on the left-hand side of the slide. We are fully aware that this year does not stand out as much as in previous years. But as you look at it on a three, five or 10-

year time horizon, you see that very consistent performance and the power of compounding here when it comes to creating value.

And regarding the circle on the right-hand side of the slide, I would also like to confirm that we fully intend to continue our long-standing dividend practice of rising dividends. And that, of course, I would like to fully confirm that the current share buyback programme will be continued in full compliance with the outline we gave you last year.

Slide: Winning in the 2020's: organizational evolution

All of this does not happen on autopilot. And so that is why I also wanted to spend a second on some of the organizational changes that are needed to make this happen. This is the 2020s. This is an age of significant turbulence and volatility. I think it is also in the face of a changing consumer, and the prevalence of all things local, and the more troubled geopolitical environment, an age where local clearly comes first and global second.

I think we benefit from the fact that about 20 years ago, in the day and age when global was all the rage, we never went all the way down. I think we always kept a very strong local ruling in our organization, in our manufacturing setup, in our supply chains and we stand to benefit from it now. In fact, going forward, we will stress it even more.

Going to the center of the slide, one aspect of this was the breaking out of our two largest markets last year, and the creation of their own Zones for North America and for Greater China. I would like to confirm to you that that change has gone really, really well. I think it has already led to much, much shorter paths to create decisions. And it also has led to a much more nuanced debate around the Executive Board table when we have our senior leadership meetings.

And then the last one at the bottom, you will get a taste of some of the consumer-facing digital activities. But let me also say beyond the consumer-facing part, when you look at the inside of a company, to me COVID, if there was any one positive thing related to it, then it is the fact that it was the starting shot for so many companies around the world, us included, to start what I call the full digital build-out of what a company can be, if you are using it front to back and top to bottom.

And this is something where a lot of effort, a lot of investment over the years will be guided to be sure that we are ending up with a fully digitally enabled, fast and very skillset-related headquarters organization that can thrive in this new environment, against everyone speeding up.

Slide: A few personal comments

Some of you may remember that slide from September 2017. Same slide, totally unchanged. And let me give you the same three messages. Number one, on a personal note, I am fully committed to this job. Number two, I am here for the long term. And number three, when you go beyond me into the full team, I would want to assure you of our grit and determination, and the sheer will to succeed in this new environment of the 2020s. Past success is the past. It is all about the future. This team wants to win. We play to win, we will.

Slide: Today's deep dives

That ends my key presentation. Let me just set up a few of the deep dives for the rest of the day. Some of them, two, Coffee and Nestlé Health Science, refer to categories; three of them relate to something that is more transversal in nature. Right after me, Stefan Palzer, our Chief Technology Officer, will talk about meaningful innovation to boost growth. We will then have a presentation about data, and especially consumer-facing data activities, and the digital transformation, building on the seminar that we held online on this issue last November.

David Rennie will talk about the world of Coffee because, as you know, this is one of our signature categories. It is also one where a lot of you are curious about what the next growth wave has in store for us and for you. And then Laurent Freixe will talk about two very important center-based projects, one called AGILITY, the other one called TASTY, that positioned the company well for this new environment in the 2020s.

The afternoon, as Luca said, will be fully devoted to Nestlé Health Science. As you know, a lot of investment has gone into this category in recent years. We want to be sure that you follow some of the organizational learnings that we had in this period of time, and then also that you have a full understanding and share the same enthusiasm about the strategies that we are pursuing in this area.

With that, let me hand it over to Stefan. Let me say one thing on a personal note, as we are presenting to you here. As you know, we are not robots. We are people. Stefan did come down with a cold two or three days ago. He very diligently tested himself a few times. It is not COVID, I can assure you. But as a result of that, when he presents, he will not be as usual 130%. He will be performing at 80%. But I hope even at 80%, the one thing that should come across is the major, major job that Stefan and his team have done in positioning the company now for success through very strong, very active innovation muscle. And you heard me say this earlier, that to me is one of the single largest internal transformations we have done in recent years. And here is the man who pulled it off. Thank you.

END OF TRANSCRIPT