

NESTLÉ S.A.

**2022 NESTLÉ INVESTORS SEMINAR BARCELONA, SPAIN
LEADING THE WORLD OF COFFEE**

29th November 2022

Speakers:

David Rennie, Head of Nestlé Coffee Brands, Nestlé S.A.

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David Rennie, Head of Nestlé Coffee Brands, Nestlé S.A.:

Slide: Title Slide

Good morning and welcome back, everyone. I hope you have all had your coffee, because we are going to enter the world of coffee now.

Slide: At a glance: our Nestlé Coffee Brands business

Let me start by giving you a snapshot of our Coffee business. We are a business of over CHF 22 billion, highly accretive from a margin point of view to the Group. Our role within the business is very clear: our role is to drive accretive growth over the medium and long term. To do that, as you see, we have a very broad geographic scope; we are present and leading in every one of our Zones. We also have a very well-balanced product portfolio with particular strengths in the high growth and high margin categories within Coffee, Portion Coffee and Soluble Coffee.

Slide: Coffee: a dynamic and growing category

Let us have a look at the coffee market in total. The total coffee market is worth roughly CHF400 billion and, of that, one quarter splits in-home; about CHF100 billion, and three-quarters of the value sits out-of-home in cafes, workplaces and bakeries.

When you look at the cup consumption, though, the picture is exactly reversed. Seventy-five percent of all of the cups that are consumed are consumed in-home, with roughly 25% of the cups consumed out-of-home. That gives you a good sense of the very different value that a cup of Coffee in a Starbucks has versus a cup of Nescafé in the home.

Now, pre-pandemic, the category was growing at a reliable 5% compound annual growth rate every year. During the pandemic, we saw some shifts in consumption, which are obvious, and you know well. In-home consumption saw a massive increase, strong double-digit growth in in-home consumption as out-of-home coffee consumption, particularly in offices and cafes, took a major hit. However, already in 2022, as we see the categories begin to rebalance, we are very confident that the outlook for this category is going to be at and around that 5% compound annual growth rate going forward.

Slide: Coffee growth is fueled by three key drivers

What is driving that growth going forward? Bernard gave us the macro trends within the industry, and you will have heard those often, around how consumers are adapting and changing their habits, particularly post-COVID. For us, in Coffee, though, there are three very clear drivers of growth for us going forward.

The first is the coffee shop at home experience that consumers are increasingly looking for. So many consumers are coming into Coffee and being educated in coffee through their experiences in coffee shops, and that has really risen the bar in expectations of what consumers are looking to experience:

Where the coffee comes from, the terroir, the area of the world that the coffee is developed in, is becoming increasingly important.

Connoisseurship - what sort of coffee is it, how is it brewed, how is it roasted – is very important.

And then, different types of coffee consumption – many people drinking not just a cup of black coffee in the morning but some cold coffee or flavored coffees at different types during the day.

All of that increased expertise and expectation from consumers raises the premium offerings and the consumption occasions available for coffee.

The second one is out-of-home. The out-of-home business took a big hit during COVID, but in-home, obviously, we saw some very big consumption occasions. Coming back out of the pandemic, we see two particular things happening. One is, as out-of-home recovers, particularly in developed markets and let us take offices as an example, to get people back into offices many employers are offering an upgraded coffee experience and want to bring big brands with coffee corners into their office to encourage their employees back in. That is giving us huge opportunities in brands like Nespresso and Starbucks to capture that occasion.

Also in developed markets, the notion of hybrid working, so while people are returning to work, even if you are spending one or two days extra at home, those are extra in-home occasions for consumption that did not exist pre-pandemic. As this settles down premiumization in out-of-home and also increased consumption, albeit maybe one or two days extra a week, all add up to a very buoyant volume proposition.

The last one, and this is the big driver for me, as I think about the business over the next five to ten years, is roughly half of the world today still drinks no coffee or very little coffee. Roughly three billion consumers for whom coffee is not a natural part of their daily beverage drinking. China, India, large parts of Africa, all of these markets have huge potential, as we introduce Coffee as a category into those markets, to have increased consumption.

Slide: Coffee: a resilient category even in turbulent times

It is also a very, very resilient category. This chart is from 2000 to today and then projecting forward. This is a category that can weather turbulent times. Frankly, people love coffee. They need coffee, it is a ritual, and it is an affordable pleasure in most consumers' days, and it is not something that they are going to give up, even in tough times.

Slide: Nestlé leading the global coffee category

Let us have a look at our business in a little bit more detail. We are clear market leader in coffee globally, with a global share of 22% of CPG. That is almost three times bigger than our next biggest competitor, JDE.

We have leading positions in every Zone within which we play, so in all five Zones we have a leading position. May be calling out the US in particular. In 2018 we were a distant number four in the US. We now, with our Starbucks partnership and license, are a clear number one. So we have really completed, in the last four years, a geographical footprint to have a strong presence in every one of our markets.

We have also been growing share consistently over the last 3.5 years with strong share performance across all of our different brands and across all of our different regions. Put simply, one in every five cups of coffee that are drunk globally today are going to be a Nestlé coffee, which is an impressive but also daunting statistic because it gives you a sense of the responsibility we take for continuing to delight consumers and build out this category.

Slide: Three iconic brands to delight consumers around the world

To do that, we have these three iconic brands, the world's three biggest and best-loved coffee brands.

Nescafé, the world's favorite Coffee. One in seven cups of Coffee drunk globally is going to be a Nescafé. It is approachable, it is versatile, it is universal, and it spans all sorts of price points and all sorts of consumer experiences, from a two to three cents single stick pack all the way up to our Nescafé Dolce Gusto machine that you have seen already highlighted.

Nespresso, the leading premium Coffee brand in the world, delivering superior taste in a highly sustainable way with sophistication and precision. That brand continues to grow and rollout across the world.

The last member of the family is Starbucks. We have only had Starbucks for four years. Four years' worth of our Starbucks relationship has really rounded out our portfolio. Starbucks is the definitive coffee shop experience brand, and it has defined coffee for a whole generation of the world's global consumers.

Slide: Leveraging a unique complementary portfolio to capture value

With these brands, we have a unique ability to play and capture value at every single price point. As I said, you can buy a single stick of Nescafé between two and four cents a cup in Lagos, in Nigeria, and all the way at the top of profile we have a Blue Bottle cup of cappuccino, which is going to set you back \$5.00. At every price point in the Coffee chain, we have a brand and an offering that can delight consumers and customers.

We also have a very unique ability with our different distribution models to capture value and segment the market in different ways. Nespresso is direct to consumer, a large business that does not play in retail. Nescafé is almost exclusively retail. As we split our different brands up across geographies, categories, and distribution channels, we have a unique ability to compete and win.

Slide: Nestlé coffee strategic growth drivers

When we last met, which was 2019, I outlined our global business strategy. That is the strategy that really guides everything that we do in Coffee, and it has served us very well over the last four years; four very simple pillars of growth and then two key enablers that we take across all of our businesses.

The first is we continue, and Stefan showed you great examples of this, to work to innovate and renovate our core brands on our core product formats. That is 80% of our business and it is where 80% of our growth is going to continue to come from, from continuing to reinvent and innovate on the core.

We are also though going to continue to drive innovation within this category. It was Nestlé that invented soluble Coffee, in 1938, with the creation of the Nescafé brand. We created the Portion Coffee segment with Nespresso in the 1970s into the early 1980s and, as you have seen and as you will see, we are committed to continuing to bring breakthrough category-defining innovation into Coffee to build out the value proposition.

The third area is accelerating our cold coffee offering. Most of the coffee that is consumed in a Starbucks today, over 50%, is a cold beverage. When you go to China, one of the biggest emerging markets for Starbucks, you find it is up to 70 or 80%. Simply, there is a whole generation of young people entering this category through cold, and many of them will consume cold all of their coffee drinking days, so capturing that cold opportunity and being relevant there is a big growth driver for us going forward.

The last area of growth is driving our out-of-home business. I will explain later how we do that, but it is a massive area of existing business, as you know; 75% of the value of the category is there. We only have a 15% share of that business today. Fifteen percent of our business is in out-of-home, so we have huge potential to drive that and add value in that area as we go forward.

Underpinning those four growth strategies are two enablers: leading in sustainability, and I will take you through that, and then unleashing the power of digital across our entire portfolio.

Slide: Nescafé: the world's favorite Coffee brand

Let me spend a minute on Nescafé. As I said, the world's favourite brand. It is in 170 countries. We serve over 6,000 cups every second of Nescafé and one in every seven cups of Coffee drunk is a Nescafé. It is truly the world's favourite brand.

You see also in this chart the stat I gave you about how little coffee is consumed in the markets of China, India and Africa. Roughly, 32 cups drunk per annum of coffee against a global average of over 200 cups per annum, so huge growth potential in all of these markets.

To unleash that, our Nescafé strategy is very clear. We are going to premiumise this brand and continue to delight consumers and customers on Nescafé, where it is already strong and developed. I have a couple of examples and you may have had a chance to taste them at the break. If not, please do. We have our Nescafé Roastery, which is the premium expression of Soluble Coffee Nescafé, rolled out first in the UK and now all over Europe over the last 18 months and doing extremely well. Premium offering on Nescafé with a great taste based on roastery connoisseurship.

Black Roast is a coffee that you may need tomorrow morning. It is a coffee with a very strong kick and ideal for getting you started in the morning, against a big consumer insight of people, for their morning cup, really wanting that uncompromising strong, bold taste.

The last one I have in this chart is one that Stefan also mentioned, which is a great example of how we are introducing the world to coffee through locally relevant tastes, locally produced – these products are manufactured with coffee and milk from the region – and allowing consumers in those markets to get a taste they love at a price they can afford and introducing the Nescafé brand to them.

Slide: Nespresso: 100% D2C, digitally-enabled from bean to cup

Let me move now on to Nespresso. Now, Nespresso is a brand that was born direct to consumer. From its very earliest days, this was a brand that had a direct relationship with the consumer, and it is now fully digitally enabled from bean to cup. We have three big drivers on the Nespresso business.

The first is the rollout and the fast expansion of our Vertuo system. I hope, again, you had a chance to see it in the break. This is a part of the business that is growing incredibly quickly as we put real focus on building out the in-home penetration of the Vertuo system. Almost half of all of our new consumers to Nespresso are entering the brand through Vertuo and you probably saw on the stand that we now have Vertuo Pop, which is our most affordable, most accessible Vertuo machine. It retails at or less than CHF100 or USD and that is really opening up whole new avenues of in-home penetration to consumers. It is a very special coffee, because it is not a different size of capsule, it is an entirely new way of enjoying Nespresso coffee because of that centrifugal design. The coffee that comes out is smoother, richer and creamier with that unique crema. Since the capsule is recognised by the machine, you get a real customized

coffee from that machine. It reads the capsule and knows exactly how long to brew for, how hot the water should be and also how long it is going to take to extract. It is a very versatile system, and it is a big area of growth for us. We are now in well over 50 markets and expanding fast.

The next area for Nespresso is driving in-cup preference through really sourcing and giving consumers the rarest coffees imaginable. You will have seen our Reviving Origins work over the last five or six years. We go to places that used to produce coffee and for drought or famine or war have been unable to produce coffee. We go into those areas, work with farmers and basically resurrect coffee-growing areas. That makes the coffee very rare, it makes the coffee expensive, and because of our value chain and knowing exactly who those farmers are, there is a benefit for those farming communities and families because they get a market for their coffee and delights our Nespresso consumers by giving them the rarest, least accessible coffee in one go. It is a real value creation, in every sense of the word, story for Nespresso.

The last thing you will see and you will have examples of this tomorrow, when we are together in our digital hub, is how we are really expanding our ecosystem in Nespresso to get the most value out of all of this data that we have, constantly innovating with AI to know our consumers better, anticipate our consumers better and offer them what they need and what they want even before they have told us.

Slide: Starbucks: delivering on our expansion plan

A few minutes on Starbucks. Starbucks when we last talked was very new to us and, I can hardly believe it myself, it is only four years since we signed the deal with Starbucks, and this is much more than a deal. What we have done is forged a very deep and vibrant partnership with Starbucks as we have rolled out all of our in-home propositions for them. We govern this relationship against the Global Coffee Alliance. That is what Starbucks and ourselves have forged, and that is a relationship from the very top of our house all the way down to our salespeople that values the brand and values the relationship immensely. We have done some very good business on the back of forging that relationship.

We have almost doubled the size of the business that we bought in 2018. We have added CHF1.5 billion worth of incremental business. We have gone from launching 24 SKUs, in March 2019, to having 190 SKUs available in over 80 countries around the world.

In terms of consumers that we have touched with our in-home offering, we have connected, created 14 billion individual purchase occasions for our products over the last four years. Fourteen billion individual purchases of our Starbucks products at home. We continue to co-create and drive this relationship strongly for the future.

Slide: Starbucks: set for the next wave of growth

What is the next wave of growth? We are going to continue to fuel innovation on this brand and attract new consumers at different times. I think you have seen on the stand; you certainly get to take home with you some of our seasonal offerings on Starbucks. The idea of doing these seasonally-appropriate ranges, in-and-outs that create huge buzz and excitement and tie very much into the Starbucks culture are a great way to introduce consumers to the brand, get them in and then hook them to the experience. We also have lots of strong innovation across different formats and maybe the one that I would call out is what we are doing on our Soluble Coffee business and our mixes business, where we are introducing real, super premium experiences in those areas.

The next is expanding out-of-home, I mentioned this. As the out-of-home business transforms itself as people are looking for more and more added-value coffee experiences in work and on the go, the ability of our Starbucks business to really compete there is strong, and you will see strong plans on that going forward.

The last area we are working with Starbucks on is building out our ecosystem, making sure that where we have data, and we know where our Starbucks consumers are, we work together to enhance the consumer experience and drive the value of the brand through those links.

Slide: Leveraging unique innovation capabilities

Unique innovation, Stefan talked quite a lot about this, so I will not spend too much time on it. We are very proud of the work of our R&D and Commercial teams as we have pulled together some real breakthrough innovation on our core businesses.

On Nespresso, the launch of paper capsules to sit alongside our aluminum capsules is super important. It is something that consumers have been asking for, and we are delighted we were able to start rolling that out in France and Switzerland as of quarter one.

We are also delighted to be rolling out our Nescafé Dolce Gusto brand new system, NEO, which is premiering, as we speak, in Brazil; it is on sale now. That is the next generation of Nescafé Dolce Gusto machines. It is a connected, sustainable coffee machine where the capsule and the machine talk to each other to get great cups of coffee, and it is a highly sustainable offering because of its paper-based packaging.

The last one on this slide, and we will see this tomorrow, those who are with us, is Roastelier, which is a brand-new coffee system that is at the very top end of our out-of-home offering. It offers cafes and small bakeries independence, the ability to get their own bespoke roasted coffee available for their consumers, so it makes available that roastery experience for even the smallest of retailers. It is rolling out fast. It is a super connected machine, so it allows us to track that machine's performance, which allows the cafe to get the very best service from us. You will see that in operation tomorrow.

Slide: Cold Coffee is a major growth platform

The next strategy is ready-to-drink. Ready-to-drink, or cold coffee, is a huge growth platform. You may not know we are number one in ready-to-drink coffee in China with the Smoovelatté brand. We have over 50% of the market in China, so a big emerging market, growing fast and we are number one. We are also number one in a number of ASEAN markets.

Building out where we are strong is an important part of the strategy, but last year, we also forged an additional relationship with Starbucks, as part of the Global Coffee Alliance, on taking their ready-to-drink coffee to market in ASEAN markets, Oceania and in Latin America. We are rolling out again over the last quarter of this year, so it is live in market, in Australia and in many ASEAN markets, the first of our ready-to-drink offers on that platform. It is a big growth engine for us going forward.

And then the last one on this slide is not just ready-to-drink, cold coffee is not just ready-to-drink, it is the ability to get a great cup of cold coffee prepared in-home. Again, I hope you had the chance to see we have, across all of our brands and all of our formats, products that are specifically designed to be consumed cold in-home and prepared cold in-home, which will give that out-of-home coffee experience that people love in their own homes.

Slide: Capturing growth in out-of-home with brands and solutions

Let me move to the last growth driver, which is our out-of-home portfolio. This chart really just shows the journey we have been on over the last five years. If I had shown you this chart five years ago, on the left, you would have seen we had lots of fairly basic coffee offers, basic coffee machines selling mainly soluble or instant coffee, and then large tins of Nescafé and small sticks of Nescafé.

Slide: Capturing growth in out-of-home with brands and solutions

Over the last five years, we have transformed our ability to play with the brands across all price points and all service solutions. That has been largely enabled by the machines that we have available, brand-new machines that sit in all locations offering great coffee, great value and great service for our out-of-home operators.

Slide: Securing the future of Coffee while improving the lives and livelihood of Coffee farmers

Finally, let me just switch gears and talk about sustainability. On sustainability, one of our core drivers, you heard from Stefan a lot of the agriscience that is going in to developing this category for us. To put it in perspective for you, there are about 125 million people around the world who rely on coffee for their income. In the coffee belt, the Equatorial coffee belt, we have millions of farmers who rely exclusively on coffee for their income and with climate change and rising temperatures, 50% of those farmers' incomes are in real peril if we do not tackle climate change, because in 30 years coffee will not be produced in those areas. So for us, sustainability is not a nice to have, it is an absolute imperative, and as leaders in the industry, we take that responsibility seriously and we are driving real change with real commitments to make a difference to coffee over the medium and long term. That is why you see we have impactful commitments that we are going to deliver around regenerative agriculture and CO₂ reduction on green coffee. In addition to the plant science and all of the work that we do to develop the future, we have feet on the ground; over 700 agronomists working with farmers every single day to make a difference in their skills and their life chances.

Slide: Unleashing digitalization to fuel consumer engagement and value

Let me finish by giving you an insight into what we are going to see tomorrow when we are together.

The first is you are going to see a whole range of connected machines that we have, from our Memento machine, which is the out-of-home Nespresso machine, Nescafé Dolce Gusto and Roastelier. You are going to get a chance to see those in action and see how they work and the difference that they make.

You are going to have a deep dive into some of the ground-breaking work that we do on Nespresso and meet our CEO, Guillaume Le Cunff, who is going to take you through a really inspiring case study of how we add value from bean all the way through to cup for every single person in the supply chain, and that could only be possible because of our digital activation.

The last section you will see tomorrow is a deep dive into each of our brands and how they are using AI and predictive analytics to get innovation faster and more cost-effectively to consumers.

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| Slide: Key takeaways |
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With that, let me just give you some key takeaways from the presentation that you have seen.

First of all, we are leading and proud to lead in the world of coffee with our three iconic global coffee brands. Our objective is to outperform a category and a category we see growing at about 5% over the medium to long term. We are going to build that growth against our three key brands with each brand playing its own and unique part in the value chain. Rest assured, we will continue to move at speed to capture all of the growth that we see available, and we will be using our digital capabilities to really underpin that growth.

With that, thank you very much. I am now going to hand over to Laurent Freixe, who is going to take us through our efficiency and effectiveness programs that we are driving to fuel the growth. Thank you.

END OF TRANSCRIPT