

NESTLÉ S.A.

**2022 NESTLÉ INVESTORS SEMINAR BARCELONA, SPAIN
NESTLE HEALTH SCIENCE Q &A SESSION**

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Speakers:

Greg Behar, Chief Executive Officer, Nestlé Health Science
Don Kerrigan, Chief Executive Officer, Nestlé Health Science USA
Anna Mohl, Head of International Business, Nestlé Health Science

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Questions on;	VMS category in a recessionary environment Gaps in portfolio
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Guillaume Delmas, UBS:

Two questions for me please. The first one is on the VMS category. We have been hearing from many of your competitors that the category has slowed but they think it's not just down to a post-COVID-19 normalization, they also see some element of consumers just trading out of the category, because it is viewed as more discretionary. So, I would like to hear your view on how defensive and resilient the category is in a recessionary environment? And, related to that, a point of clarification, Greg, you were talking about a return to high-single digit growth from the second half of 2023 in your presentation?

And then the second question is about your portfolio today, where are the gaps from a regional or sub-category standpoint? where do you see the most obvious gaps? And, for the time being, are you going to be focusing on integrating the recently acquired businesses and extracting the synergies, or could you already add some more businesses?

Greg Behar, Chief Executive Officer, Nestlé Health Science:

Thank you very much. I'll let Don start in terms of the VMS category and recession.

Don Kerrigan, Chief Executive Officer, Nestlé Health Science, USA:

I think if you looked historically, the category has proven to be very insulated from a downturn as a result of recession. So look back at 2008, you actually saw a continued growth on the category in conjunction with the economic environment. I also think when we've seen that there continues to be passion and commitment towards wellness and health, and sometimes that's even more impassioned as a result of other issues going on around people. So, we're not seeing that.

Certainly, we're cycling COVID, and we have some significant, as I said earlier, bumps from a year ago in terms of volume created by Omicron and Delta variants, et cetera, and we are definitely seeing immunity taking a little bit of a year-on-year comp decline, but not tied directly to the recession.

Greg Behar, Chief Executive Officer, Nestlé Health Science:

And so, for your second question, in terms of opportunities, obviously, as you heard through the

presentation, it is still a very fragmented market, which offers an amount, a tremendous amount of opportunities for growth. We believe that we have a great portfolio that we have built now, establishing that great leadership position where we can build on. Frankly, there is nobody that has our scale in terms of brand, in terms of manufacturing, R&D and I think that's the starting point which allows us to expand distribution and geographically, I think. So, that's the starting point where we are coming from.

I think we continuously look at opportunities. We are diligent when we look at those opportunities. There are a few special technology-specific categories where we think we can build. As you will remember, the slide where I showed you some of the segments where we are not necessarily yet leaders in the market, and this would lead to potential additional opportunities to continue to build on those segments.

Geographically, you saw that we are very exposed or leading in the US market, and hence there are plenty of opportunities for us to grow and build further geographically. So, that's where our focus is, but, you know, there are many opportunities on the market. We are disciplined in how we look at them, and it has to make sense in terms of the trends, in terms of the strategic fit, but also in terms of the financial performance that we expect.

Questions on;	Growth equation Medical liability
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Bruno Monteyne, Bernstein:

Greg, if I understood correctly, you are aiming to grow high-single digit, so maybe 8-9%. On the market growth slide, most of the marks were between 4% and 6%, so I make that 5%, so, you are aiming to outgrow the markets by 300 to 400 basis points pretty consistently. If I also understood correctly, it is mainly about either white space filling in, geographic expansion, probably market share gains. Am I missing anything? because clearly M&A wasn't part of it? And would you be able to sort of size, so is it mainly geographic expansion, mainly market share expansion? Could you sort of weigh up those two things?

And my second question is in consumer health we have one of your competitors Haleon who had the Zantac problem with medical liability, do you feel you have any exposure to this kind of issue, and, if so, do you make enough excessive returns or excess returns to pay for that potential risk in your portfolio?

Greg Behar, Chief Executive Officer, Nestlé Health Science:

So, starting with your first question, thank you, Bruno, in terms of the growth equation, I think you've got it right. Meaning that we intend to grow above market 200 to 400 basis points. This is what we are shooting for. You saw that we've been doing even better than this during the COVID period. But in a steady state environment, I think we can out-perform the market. And it is driven through share gain absolutely and we think that we have the momentum, the capacity to deliver on the share gain as well as geographic expansion.

But also, I think penetration is also a great opportunity for growth in terms of when you see the VMS level penetration or Active Nutrition. We see that we can create more momentum in the market in general to increase the penetration of the segment outside the US.

And the same applies to Medical Nutrition. I think in Medical Nutrition, the category is still under-indexed versus its potential and can grow further. And being a leader in both areas, we think that we can create the momentum for additional growth.

On your second question, I am linking now.

Bruno Monteyne, Bernstein:

Whether you have any risk of –

Greg Behar, Chief Executive Officer, Nestlé Health Science:

Yes, so and please don't chime in as this is a more of a US case, but Zantac is an OTC product. So, I don't think the categories where we play in carry the same level of risk, and we take a lot of very serious deep reviews with our medical, regulatory, clinical and legal review on the claims and the product that we have and so, we have the proper level of reserve for any potential challenges. But we haven't seen in this category any significant legal challenges.

Don Kerrigan, Chief Executive Officer, Nestlé Health Science USA:

I would concur.

Bruno Monteyne, Bernstein:

And just to follow up on your first point, if you are going to boost penetration, does that mean you are planning to accelerate the market's growth? Because if penetration grows?

Greg Behar, Chief Executive Officer, Nestlé Health Science:

So, when we look at the US market, which is quite highly penetrated, the US is growing at a 2-3% growth rate. Geographically we are seeing more a 6%-7% growth rate, so obviously, that's part of the equation in the mid-single digit growth rate that we mentioned across the board.

Questions on;	Delivering margin Gross margin structure and sustainability of margin
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John Ennis, Goldman Sachs:

I've got a couple of questions on the margin guidance, so it looks like three-quarters of the margin expansion that you are forecasting over the next three years are coming from effectively cost savings and efficiencies. And then, at the same time, you want to accelerate the top line growth. So, I guess the question is, how confident are you that you can deliver on both? Because sometimes there is a trade-off between those two components.

And then the second part of the question links to some of the earlier points, but from the outside looking in, this is a category with relatively low concentration and also low margin. There appears to be again a correlation there. So, to what degree can you sustainably improve the margin without the need for further consolidation in that industry? And maybe to help answer that question, could you give us a bit of a steer on the gross margin structure of this business unit? Thank you.

Greg Behar, Chief Executive Officer, Nestlé Health Science:

I'll start with the second part because that's what I can remember now. Anyway, so in terms of the growth margin and bottom line, in general, it's a category where we play that enjoys more attractive margin than you would find in Food and Beverage, more specialized higher gross margin in general.

As I mentioned, we are in an investment mode, either for our growth and share gain in the US and internationally, but also through M&A that comes with one-offs when we make the acquisition and also investment to create the synergies.

So, as we cycle through this, we believe that we can continuously enjoy gross margin improvements through the synergies, through the efficiency that we're building, and also drive

further efficiency all the way to the bottom line, hence driving improvement in our underlying trading operating profit.

And someone needs to remind me the first question.

Sophie Pugh, Nestlé Investor Relations Officer, Nestlé S.A.:

The synergy component of the margin.

John Ennis, Goldman Sachs:

You've kind of touched on it. But it was effectively, you know, to what degree you can deliver both; such a high degree of margin expansion with an acceleration in growth, because I think one element of the efficiencies that you mentioned was a reduction or efficiency in marketing spend?

Greg Behar, Chief Executive Officer, Nestlé Health Science:

I think it comes to what I just said. We're driving size, it is also definitely helping on continuous improvement in our margin. You know, the geographic expansion, we are not starting from scratch in every market and every time we launch. We have now a more established footprint, we can drive this in-sourcing of manufacturing. All this, when you add together, drives just a nice, positive momentum on our ability to drive margins in the next three years.

Questions on;	Improving consumer perception of the value of VMS Expanding US brands to other markets
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Warren Ackerman, Barclays:

So, in the vitamin category, some consumers think there is a lot of dubious science around the category. They don't really believe that popping pills actually really aids their health. What can Nestlé do from an R&D point of view, with the money that you're spending on R&D, to actually make the category more science-driven so that, when consumers find it tough from a cost-of-living point of view, they don't see it as such a discretionary category? That's the first one, what can you actually add? what value can you add on R&D in the category?

And the second one is, can these brands really travel? You know, I get that when you bought Bountiful it was mainly a US business, and I get that Solgar is a brand that's in 50 countries, but other brands like Nature's Bounty, can that actually be a brand that is going to work in Europe,

China? And, if so, how do you go about doing that and how quickly can you roll these brands out, given some of the medical barriers around regulation as well? Thank you.

Greg Behar, Chief Executive Officer, Nestlé Health Science:

So, I'll let Anna take the internationalization of the brands to start with and I will cover the R&D part.

Anna Mohl, Head of International Business, Nestlé Health Science:

So, the short answer is yes, and it depends. So, overall, we're very excited and very bullish on the opportunity to roll out these brands geographically. And, to your point, we do need to understand there are a couple of components that we need to look at first. You know, as Don described, look at the different positioning of the brands and say, how does the portfolio fit based on the value proposition, the pricing, the channel, the consumer, the customer dynamics, competitor dynamics within the market and the regulatory framework? So, which are the products that we can actually roll out, and in what time?

And then, what is the right sequencing of these brands so that we make sure that we can have multiple brands to give us a stronger portfolio to compete? So, Solgar, as you mentioned, is a very strong brand internationally. It's actually larger internationally than in the US. We're also seeing some of our other brands travel very well. So, you saw a little bit about Vital Proteins. We are starting to see some success with Nature's Bounty in a couple of the markets where we've also rolled out. We have Nuun in a couple of markets and we're planning actually to roll out. %here is a lot of excitement around Nuun, a lot of excitement around Orgain. It's really kind of what we call internally, an embarrassment of riches. We have so many great brands, we need to figure out the right sequencing and approach to go into the market and make sure that the multitude of brands allows us to be more competitive, and that's why we really need to look at the target consumer, the customer, the channel and the claims that we can make.

To your point, market-by-market, we do need to assess what can we say and what can the right formulation be? Because you can't necessarily lift and shift an entire portfolio.

Greg Behar, Chief Executive Officer, Nestlé Health Science:

Just to add on this; each market is very specific, so we don't necessarily plan to roll out every brand in every market. We will look at the opportunities in each market. So, for example, where you have a market that is more pharmacy driven versus mass retail, a brand like Solgar or Pure

Encapsulation is more adequate. And we have rolled out very successfully Pure Encapsulation in Austria, in Germany, in Spain, in the UK and we plan to further expand this. So, it takes time to build this portfolio across the world.

And then, on the R&D question, the hypothesis that we made back when we started the whole strategy on the vitamin, minerals and supplements back in 2014, is that we could leverage the great know-how and capability of Nestlé in R&D. There are many discoveries and technologies that we can leverage from Nestlé R&D that are not necessarily directly scalable into Food and Beverage but that we can leverage into our portfolio like vitamins, minerals and supplements. So, that was the hypothesis, and it turns out to be absolutely true and positive.

So, for example, probiotics, we have been able to expand the probiotic portfolio in a big way, leveraging, for example, the manufacturing capability in probiotics that we are using from our Infant Nutrition business. The science, again, the same example. But we see still many additional opportunities. So, we invest significantly with the R&D, for example, into science in mitochondria, understanding further how you can impact people's ageing process, what we call the cellular nutrition, and impacting, boosting the mitochondria in your body, which are responsible for 80% of your immune system.

So, this is part of the plan to continue to invest, bringing more science and educating both physicians, healthcare providers as well as consumers about the benefit of what we have in the portfolio and some of the future innovations.

But let's be clear, what we have in our portfolio are not pharmaceutical products and we will never do clinical trials that are like a pharmaceutical product clinical trial. This is not the design of this category. On the other hand, we can leverage and create technology advancement and develop available data on specific ingredients. Or, if we feel the need to develop further evidence, then create that evidence.

Question on;	Margin target level
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Patrick Schwendimann, Zürcher Kantonalbank:

If I remember well, a long time ago, probably over ten years ago, it was mentioned that Nestlé Health Science could even have 20% margin. Now you are aiming for 18%. Do you think that it is still possible in the very long term to reach 20%, or has something changed?

Greg Behar, Chief Executive Officer, Nestlé Health Science:

Nothing has changed. We continue believing that we can drive further the margins above 20% level. Remember, this is underlying trading operating profit. This is not EBITDA, so some of you might be comparing with people reporting EBITDA in some similar categories. So, I just want to make sure this is clear. But in general, we see further potential for improvement, yes.

Questions on;	Pricing in Medical Nutrition Manufacturing base for Consumer Care
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Tom Sykes, Deutsche Bank:

Just on Medical Nutrition, is pricing inflationary in Medical Nutrition, given that you said there were budgetary headwinds? And could you allude to what sort of level of pricing benefit that you see at the growth level within Medical Nutrition, please?

And could you just clarify please, on the Consumer side, what manufacturing base you are going to be using to internationalise the business? Because I am still slightly confused by the different comments on synergies in sourcing, using your own manufacturing capability internationally. Are you going to be using third-party manufacturers? That would be helpful, please.

Anna Mohl, Head of International Business, Nestlé Health Science:

So, we mentioned during the presentation you have different ranges and different payment models from fully reimbursed, partially, to not reimbursed at all. In markets where it's reimbursed, then the reimbursement levels are relatively fixed by the government. And then, there is typically, I'll call it a negotiation or a discussion each year with the health authorities to discuss whether there's going to be any adjustment in the reimbursement levels.

We also have tenders, which are contracts at the health system, it could be with the government or a state or a province or a region or it could be with a specific hospital system. And those tenders can be anywhere from one to three to five years. And typically, those are then fixed prices for those years. And, as you know, there is a lot of pressure on healthcare spending.

What we actually found during these last two years, because of the extraordinary inflation, in some cases, we were able to go back in and to negotiate the pricing, even within the tender, by demonstrating the higher cost inputs that we had. So, I would say that the Medical Nutrition business, the pricing isn't as impacted, or you are not able to adjust for inflation in the same way

that you are in consumer pricing. But in some of the markets where it is controlled by the health authorities, they will adjust. If I use Turkey as an example, they look at the inflation rate in the country, which, as you know, in Turkey is quite high, and then they will adjust the reimbursement rate. But it will differ market-by-market and tender-by-tender. But those are discussions that we need to have with the health authorities.

Greg Behar, Chief Executive Officer, Nestlé Health Science:

Regarding the manufacturing question you asked, I think, to summarise, we basically have the capacity to in-source. Typically, what you will find is that in the Consumer Care segment, there is a lot of players that are basically a using co-manufacturing footprint. When we make the acquisitions, often the companies that we acquire come with a fairly large part of their portfolio that is coming from co-manufacture. With the acquisition of the Bountiful Company, we added a top-notch manufacturing capacity at Nestlé Health Science, and we now have the ability to bring and in-source some of these co-manufacturing, get the savings, but also get top quality capability as we have in our manufacturing footprint.

This applies, you know, obviously, shipping products from the US when it is a lightweight product like pills, it is fairly simple and we do that. But we also, in cases, in some countries where import taxes are very high and then we look also for local production, and that was part of my comment on some local regional M&A that we have done to add this capability in some certain regions of the world.

END OF TRANSCRIPT