

NESTLÉ S.A.

**2022 NESTLÉ INVESTORS SEMINAR BARCELONA, SPAIN
UNLOCKING AGILITY AND PRODUCTIVITY**

29th November 2022

Speakers:

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Laurent Freixe, Chief Executive Officer Zone LATAM, Nestlé S.A.:

Slide: Title Slide

Good morning to all.

Slide: Creating value through TASTY and AGILITY

Let me bring you back 18 months in time when we saw this massive inflationary wave coming at us. At that time, early on, we recognized that we had to do something specific about it to be able to mitigate that cost pressure, and this is how and when project TASTY was born.

What do we aim at with TASTY and AGILITY? It is about value creation, of course, this is about mitigating that cost pressure, and I will come back to that. It is about agility, speed in decision making for Project AGILITY. Back to TASTY, it is focusing on SKUs, stock-keeping units, the individual product items. It is looking at recipes and packaging optimization opportunities, including the impact of technologies, as highlighted by Stefan earlier on.

We will achieve this year, we know it with just a few weeks to go, we'll achieve CHF1 billion in positive P&L impact and we aim at another CHF1 billion in 2023 with a high level of confidence, as we have got already a large part of that mapped for next year, and we already see some benefits for 2024.

There will be a net positive impact on the top-line for next year. There was a small negative in Q3 and there will be some more in Q4 as indicated in Zone AOA; that was related to the discontinuation of entire subsegments of dilutive businesses. Of course, that cannot be replaced quickly by other brands and products, so there is a net negative. But longer term we expect, and I will explain in detail, a net positive on the top-line.

Building upon TASTY, we decided and saw that speed and agility was of the essence. We are the largest. I guess we have shown also tremendous adaptability in the last years, but we recognize that raising our game in a context where technology is also changing everything in the ways of working and we are now in the world of real-time management, raising our game in terms of speed and effectiveness, efficiency, effectiveness was critical. That is why we kicked off Project AGILITY a few months ago.

Slide: Achieving efficiencies is core to our virtuous circle of value creation

Efficiencies is not new, of course, and that is why I was highlighting that this goes above and beyond recurring efforts. Achieving efficiency is the start of our strategic virtuous circle of value creation. To a large extent, this is the make or break. Unlocking efficiencies, productivity, unlocks resources that we can use to mitigate the inflationary pressure or invest behind brands, innovation, technology and then drive the virtuous circle of value creation.

Slide: Managing multiple tensions...

There is a lot we have to handle, like, I guess, everyone in the business these days. There are multiple tensions that we have to handle. The impact of COVID has broken the global supply chain, which is which is coming back, hopefully, and we have, on top, the geopolitical tensions. All these strengthen this inflationary pressure that we see and that translates now into labor costs, and that is what will likely extend the inflationary impact into 2023 and possibly beyond.

Decarbonization is critical, critical for us, critical for society at large, and of course the energy agenda is part of that.

Slide: ... while becoming more agile, adaptable and productive

We have shown again a lot of adaptability, agility in that context and productivity of the portfolio has been center stage. You know about the more than 20% portfolio rotation to divest dilutive businesses and invest into more promising areas like Health Science, for instance, or Pet or Coffee.

You have seen, as well, the reorganization of the center from three to five Zones to get even closer to the consumers and to the customers, and make sure that we take the decision as close as possible to market reality.

In addition, of course, the digital transformation has been embraced with an end-to-end perspective, from front to back, from farm to fork and beyond.

Slide: TASTY: driving productivity, efficiencies and value creations

TASTY is to drive productivity, efficiencies and ultimately value creation. We want to save costs with a view to protect margins and, at the same time, protect market shares and unlock growth. The scope is Group-wide. All BUs, all Zones, all markets, all functions, R&D included. Of course, we review all SKUs, recipes, packaging in that framework and include the impact of

technologies. This is data driven. This is where the SAP backbone with Globe is helpful, of course. This is cross-functional, everyone on board, and sustainability is embedded. We made it very, very clear at the start of the project that there is no way back in our decarbonization journey or in reducing virgin plastic, that's core, and we keep it as a must.

Of course, there are a few non-negotiables: quality, 60/40 consumer preference is of the essence. This is the backbone of our success and this is why, by the way, we call the project TASTY, because we do not want to do anything that would impair the consumer preference. Taste is absolutely critical and we want to win on taste at all times. Safety, of course, and regulatory and compliance, are absolutely non-negotiable.

The project is led and steered by the Nestlé Executive Board, but everyone in the business is involved, all markets, again, all strategic business units, all globally managed businesses, functions, everyone is contributing. As a matter of fact, we have more than 1,000 projects in the pipeline. A few of them, of course, with greater impact, and I will highlight some of them, but there is a lot that is contributed from the ground up to make the contribution it is bringing to the company.

Slide: TASTY focuses on SKUs, product recipe and packaging

This is the way it is structured. There are fundamentally two streams, one is the SKU stream, the stock-keeping units. The second one is the recipe and packaging stream. We look at the cost-saving opportunities, but we look also at the value up opportunities. It is not only about cost savings, but there are also value up opportunities that that we want to capture.

When it comes to the SKUs, as you can see, this is not just about cutting the tail, which has been the focus in the past. We believe that there is a lot we can achieve through cutting the tail, creating the space for innovation, creating the space for the more important SKUs. But equally important, if not more, is growing the head, pushing those core SKUs that are making a difference for Nestlé, and I will explain that in detail.

Slide: Achieving CHF 1 billion P&L benefits in 2022 and an additional 1 billion in 2023

What are the benefits that we see coming? We see 300 million coming from the SKU stream. We see 700 million coming from the recipe and packaging stream, including the impact of new

technologies. That makes the one billion; and this is more or less what we envision for 2023, as an incremental impact to 2022.

Slide: Expecting positive impact on RIG/OG of 20bps as from 2023

On the SKU front, I know that there are lots of questions, so I just would like to share a few datapoints and, as you will see, the Pareto principle absolutely applies.

That is what our portfolio looks like. We have more than 100,000 SKUs that we manage across the organization. And looking at it, we recognize that roughly one-third of the SKUs account for 1% of sales. But at the same time, and this is why I want to highlight this so strongly, 11% of the SKUs account for 80% of the sales. Not all SKUs are born equal. Not all the SKUs have the same relevance for the organization. It is one to 100 or one to 1,000 maybe, in some cases, or more. Of course, addressing the tail brings a lot of benefits, because those SKUs are mobilizing resources that are not justified. So, if we can cut those SKUs, we create space and energy to be focused on the core SKUs, what Pareto used to call 'the vital few.' This is really the concept. Those are the vital few, this 11% of the SKUs that account for 80% of the of the sales.

Slide: Growing the head drives organic growth and gross margin

Let me show what we can do in this respect. I highlight here a few of those jewel SKUs, those A SKUs, those vital few that account for 80% of the net-net sales. We can give them priority for resource allocation. That sounds obvious, but we want to do it systematically. We want to make sure that they get VIP treatment in the system. Those are the jewel SKUs. Those are the critical SKUs. They should get perfect supply. They should get perfect distribution. We should make sure that they are on-shelf, available at all times. The reality is that, on average, we would get probably 95% on-shelf availability. If we can move from 95-96%, make sure that those products are available at all times, it will make a significant difference on distribution, on supply, for instance. If we get 97-98% case feed rate, on average, I would like that we get on those SKUs close to 100%. That makes a big difference, of course, in supporting on-shelf availability. Those SKUs we want to see everywhere. Every time we enter a store, these 11% SKUs we want to see in the store. There should be no point of sale where they are not made available, and there as well there is some room for improvement. Of course, right pricing, right support in terms of marketing investment and commercial investments, and right tracking and monitoring.

Those are the core SKUs. To take a proxy, which would be the way airline companies handle their customers, if you do this for our customers, we want to give them platinum treatment. They have to be in priority at all times and we would even like to be able to produce them with more frequency. Ideally, if we could produce them every day, then we can keep the products the freshest as possible and we would see core benefits in terms of inventories and working capital. That is the spirit. Those are critical to us. We want to nurture them and give them the best possible support.

Slide: Complementing our strategic portfolio management process

This is complementing the strategic planning process. You know that we are prioritising business cells, sub-cells. Nescafé Mexico, for instance, would be one business cell and it happens to be a great one. We have sub-cells as part of Nescafé Mexico, like Nescafé Dolce Gusto is a sub-cell, the coffee mixes and so on and so forth. Then TASTY is addressing the lower level, which is the stock-keeping units and even in Nescafé Mexico, you will find jewel SKUs and maybe some of those that we call E SKUs, those that do not contribute any value to the business.

Slide: Optimizing cost, ensuring quality, safety and consumer preference

To show you a few examples and that they come from across the organization, we have five different business units featured here. Those five examples account for 150 million in cost savings. We have those five and we have a few big ones and then we have many smaller ones that make the bulk of the one billion. The beauty of the initiative is that we have seen lots of benefits, as well, on sustainability, not systematically, it depends of course, but in some cases, we see also some benefits.

Slide: Contributing to our sustainability agenda

We have the case of Dairy, replacing some Dairy ingredients with fibers or with plant-based ingredients, for instance. We can reduce costs, but we get also a benefit in terms of greenhouse gas emission. In that case, for those three examples there is a saving of 40 million compounded and we save also 300,000 greenhouse gas in the process. So, there is a value, from a sustainability standpoint.

For plastic reduction, as well, there are two examples. One is the Gerber container in the US. We saved six million in removing the cap, but we also saved 2.3 thousand tonnes. Another interesting example is Vittel in France; we reduced the size of the cap, we saved one million and we also saved 700 tonnes of virgin plastic.

These are some examples where we see co-benefits in terms of the sustainability impact and of course they are well-taken and they are important in the process.

Slide: TASTY generates additional benefits...

Talking about co-benefits, there are many of those on the SKU optimization. We believe that we can use a lot better our capital deployed, our manufacturing assets, dedicating them more towards the critical SKUs and eliminating the dilutive ones. We create space and that releases capacity and improves freshness.

The work on packaging optimization is good for us of course. It is good for the planet if we can reduce our footprint, improve our palletization and the container fields, for instance. There is also a co-benefit for our customers. What is good for us, in that case, is good for them as well and good for the planet.

Optimizing the recipes, we do in a way that intends to simplify specifications so we build up resilience. We try to build up and also strengthen the local supply chains. Of course, we have consumer preference embedded and we make procurement more efficient.

On enhanced technologies, there are many things coming from R&D or coming from the digital front, recognising that some are game-changers and doing it in that framework allows for alignment by design and speed in implementation. We have many good examples in this respect.

Slide: ...while enhancing ways of working

Of course, through that we enhance the ways of working. This is led and owned by the business, but everyone is on board. There is a sense of urgency. We declared that this was a priority, and we mobilized the organization to make it happen. There is internal inspiration, and I would like to share one of the examples, it is maybe not huge, but it is illustrative.

Our Water business unit came up with the idea that they could probably do a better job in filling up the containers. You can imagine that that is important. Transportation costs are a very critical component for them; and, at the time of the pandemic, we had a scarcity of containers and the price of the containers went up to the roof, so optimising the fill was a big opportunity for us going forward. They came up with that idea and when we saw that there was an upside possible, we decided to review all categories to make sure that the learnings of Water would be applied to the rest of the business. There is really this spirit of trying to find the pockets of excellence or the good ideas and seeing if they can be applied in other parts of the organization. This is technology powered, this is data powered, of course, and I talked about the data backbone that we have.

There is this agile mindset. Believe it or not, we will achieve that with very few FTEs full-time equivalent dedicated. The people doing it are the people running the business or running the operations and they dedicate part of their time to that. R&D, Stefan delegates 10% of his resources to support the projects, reprioritising some activities. Bernard is commenting often that 30% of the SBU time is dedicated to support the project, and you would see the same across the organization. So just a few people dedicated essentially for data crunching and preparing the decisions. The rest is run by the organization end-to-end, from Procurement down to Commercial.

One important point of being clear on the priority SKUs is that now we have one set of priorities that is valid across the organization. The Salesforce has a list of priorities, and it is the same for the Marketing people, the same for Manufacturing this is the same for Procurement. It is not that everyone has their own optimization list, they all work on the same and of course that is providing tremendous alignment, tremendous critical mass and makes an impact. This is building up and strengthening the resilience of the organization. All those elements are, of course, very important in terms of strengthening our impact as an organization.

Slide: Building on TASTY, now launching AGILTY

Building upon that and seeing a lot of the positives of the ways of working on TASTY, but also recognising that we are at a time when speed is of the essence and recognising also that we are a large and complex organization, we want to do these things well. Compliance is important, of course, but we need always to find the right balance and we believe, and Mark pushed that, that we could be and review the organization to make sure that we are agile, we

are efficient at all times, we are adaptable, that we eliminate duplications to make sure that we can make decisions in real time.

That is the spirit of launching Project AGILITY. This is the same, this is run by internal resources. We kicked off the project in August. We completed phase one and we should get conclusions by the end of the first quarter for implementation during 2023 and beyond. That is basically the second pillar of those productivity, efficiency, effectiveness efforts from across the organization.

Slide: Key takeaways

In conclusion, key takeaways. Of course, we need to adapt to a changing environment. I guess everyone realizes that the theory of evolution was right; and in times of tremendous changes it is not necessarily the strongest or the fastest that will survive, it is the most adaptable one. Therefore, we want to strengthen that as a feature of organization. We want to be adaptable at all times, we want to be agile, and TASTY is a testament of that. TASTY is helping us mitigate this inflationary pressure and free up resources. We are generating one billion in P&L benefits, above and beyond what we used to do, across the organization, and we plan another one billion in 2023. This has had positive impacts above and beyond and we will not stop in 2023. We are already mapping 2024 benefits, and we want to keep it up because this is the way we want to work going forward.

If we will have had a negative impact on the top-line in Q3 and Q4, you will see a positive impact materializing in 2023, in the second part of the year in particular. At that time, we can organize that we get rid of those dilutive SKUs, the E SKUs, and put instead in store and across the operations, those core SKUs, the A SKUs, the vital few, to make an impact. It is kind of obvious you replace a low rotating SKU, a dilutive SKU, by a high rotating SKU, and there are always opportunities because not all of those A SKUs are distributed 100% of the time and available 100% of time. If we manage that translation, then the top-line impact comes, not to mention, of course, the contribution to the P&L; this is already captured in the one billion I highlighted.

This is also enhancing the ways of working, makes the organization agile, on its toes and with this mindset to try to find opportunities and to learn from each other and build up from each other.

AGILITY will be working in that same spirit. We want to sharpen the focus, effectiveness and efficiency of the headquarters. In addition, the spirit that we see in TASTY we would like to see embraced across the organization in every decision-making process, making sure that we go to the essential, identify the opportunities, decide and move on.

That is the spirit of TASTY and AGILITY. Thank you very much. My colleagues will join me now for the morning Q&A session. Thank you.

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