2022 NESTLÉ INVESTORS SEMINAR BARCELONA, SPAIN
FINAL Q&A SESSION

29th November 2022, 16:30 CET

Speakers:

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

Question on; CAPEX expenditure on production capabilities

Pinar Ergun, Morgan Stanley:

You are spending quite a lot of extra CAPEX on categories that have seen very strong growth over the last two years; Coffee, Petfood. What gives you comfort that the demand will be there in say two or three years or longer from now?

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

Actually I am very confident about it. If you look at the situation as of today. Take PetCare as an example, we invest because we can't meet even the demand and we are seeing our volume, since the beginning of the year, still growing by almost 5% and we can't meet the demand. So we still have ample needs that we cannot cover.

And if we look at it after that with more granularity, by geography, by sub segments, we clearly see that we really need to invest significantly in order to meet the demand. We are aware of the fact that some of our competitors are investing as well, but the demand is a very strong in these markets.

And for Coffee, we continue seeing exactly the same, where we see very strong demand, with very tight capacity on our side to be able to meet the demands. No real concern on the fact that we will have over capacity in the next coming years.

Questions on; Key factors for margin expansion
Changes to top line guidance for 2022

Guillaume Delmas, UBS:

Two questions, both on your targets that issued this morning. So, the first one on margin the 17.5% to 18.5% by 2025. I mean, this implicitly could mean either moderate margin expansion for the next three years or significant margin expansion every year. So, what do you think are the key factors which will determine where ultimately you land, whether it's moderate or significant? And related to that, do you think it's going to be a linear development, or could it be quite front end loaded? And Mark often you look at your targets and you say they are conservative, will the 17.5% be a conservative guidance for 2025?

And then my second question is for 2022, you tweaked a little bit, the top line guidance to 8%- 8.5%, a month ago you were saying around 8%. So just curious to hear what has changed in the last in the last month. Whether you've seen a better price elasticity than you anticipated, or any countries or categories you would highlight.

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

Let me try and address both questions and maybe start with the easiest one, that's the second one. So obviously the difference is a strong October rolling in. Remember when we reported it was mid October, we didn't yet know how October was unfolding, and also very good vibes when it comes to November. What we wanted to do here, given that it's late November, just a few more weeks left in the year, we wanted to give you our latest and best thinking where that year is going to come in. To show you that it's going to be above what we shared with you last, but also on the upside to be sure that your expectations don't run away. So that's our latest thinking just a few weeks before the year is out.

When it comes to the first question, in the spirit of trying to be as helpful as possible, I think we're already, in this very turbulent time, quite daring giving you the return to that range as a target for the year 2025. At this point, it would be too early to handicap exactly where in that range we're going to fall down. So the easiest time to tell you whether it's going to be a conservative or daring scenario is in the year 2025. I think in this turbulent time, you'll be hard pressed to find companies that stick their necks out like this and hope you appreciate that. It comes from a large degree of certainty and how some of the underpinnings in our categories are doing. Just think back to what you heard a few minutes ago with Nestle Health Science where clearly, ahead of this integration step, everything is spring loaded now for a margin expansion. That comes from the various building blocks in our VMS business in North America being put together and then one consistent supply chain manufacturing setup and coming on stream. So these are some elements that give us confidence. But at this turbulent time now, three years ahead of time, to handicap it with where the range is going to fall, I think will be a little bit too much. So I hope that's understandable.

Questions on;	**Plans for Infant Nutrition and Water** **Pricing strategy**

Warren Ackerman, Barclays:
Mark, at the beginning of the day, you talked about Infant Nutrition and Water were still work in progress. They were two categories you called out. Can you elaborate what your plans are? And what would success look like for those two divisions? Say by 2025?

And then secondly, a question on your pricing strategy. You've been very thoughtful on pricing. You've done it gradually. But the consequence of that strategy is that it will take longer to fully cover your inflation. It’s good because you haven't been delisted very much but also could it be a risk because you still need to take pricing in the teeth of a recession? I'm just trying to understand, how much more pricing do you need to take in 2023? Which categories, which geographies do you need to catch up on pricing? Is there a risk that as you keep taking pricing, where maybe others are rolling back pricing or doing more promos, that the RIG, which was negative slightly in Q3, we'll see a couple more quarters of negative RIG into 2023?

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
Let me also try and address both and starting with a second one. I think in Food and Beverage, and especially given our geographic profile and given some of the categories we're in, the path we've chosen, in my opinion, is the only socially responsible one. Now of course you're right. If there is a strong recession in some parts of the world, it won't be easy to do that pricing. But remember, for some of our peers, it's the same situation. At the end of the day, everyone is hit hard by inflation. Everyone is trying to restore their bottom line and restore financial order. And so I feel over time, there's a good chance to restore, as François pointed out, the gross margin and with that of course comes also support for our underlying trading operating profit margin. Our situation in Food and Beverage is different from personal care or household care where some of these purchases are more dispensable. And I think this just comes with the territory of being in Food and Beverage.

Now on Nutrition and Waters. You saw some of the steps outlined this morning. Financially what's the challenge? I think in Infant Nutrition we haven't had much of a margin problem it is about restoring growth and by addressing the core and then also by expanding at the fringes of where we are, you know this whole notion of preconception to preschool. We believe that over this planning horizon to '25 we can restore mid-single digit growth, which for a core and highly profitable category for us, I think will be success.

Then for the Waters business at a very high level and barring any details, it's more or less the inverse. So growth is not the problem there. The problem is that this category was hit hard by the rising energy cost and so what we need to work on there is efficiency to really be sure that we restore the margin. And then also functional water offerings, I think are so much more resilient, because typically they get produced closer to the point of consumption, and there's more value added and so I think pushing functional water offerings will be a good way to boost the profitability of this category for us.

Questions on;	**Margin performance in 2023** **RIG**

Céline Pannuti, JP Morgan:
I would like to come back on the margin guidance. I think you know, for two years in a row your margins have been impacted by higher cost inflation. Are we at a point, because you still say that there is cost inflation in '23 and that you will need to take pricing, are we at a point where you can deliver margin or is there still going to be a constraint? And therefore,

the question earlier about when are you going to do the margin, my question is even whether 2023 will be making a shallow performance. So that's the first question.

And then the second question. Is more a bit on the macro side maybe, but RIG was close to 0, 0.6 I think at the nine months? You will have benefit normally next year, you should benefit from some capacity investment. But if I look at the macro side, what is your best guess? Are we going back to a RIG of 2 to 3 or is a bit too premature to discuss?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:
For RIG, it's important to understand that the fact that our RIG is slowing down is predominantly the consequence of a high base of comparison last year in the context of the pandemic. If you look at volume last year, we grew by 5.5% while historically we were around 1%, volume wise. You saw it very clearly, for example, in the presentation from Nestlé Health Science earlier. So next year on terms of RIG, and more specifically on volume, we will lap much easier base of comparison.

The other thing is that in terms of inflation, we not done in terms of inflation. It is true that you start seeing some cost items that are going down and we've mentioned oil, palm oil, wheat, grains and some other ones but on the other hand, you have significant increases still for energy, gas, electricity, in Europe more specifically, but it happens elsewhere as well. And there is one cost item that on which we have we have not seen much yet, which is salaries and wages. We have done a bit, especially for blue collar workers in some geographies, but the bulk of it will come next year. Which is a reason why we need to continue in terms of pricing. And we believe that competition will have to do the same because what happens to us happens to competition. It happens even if we talk for example of private labels. The level of price increases that they have taken is actually two times higher than ours. So, what happens to us happens to all our competition, all our competitors as well.

Céline Pannuti, JP Morgan:
So my question was at a time of inflation, can you raise margin? You were saying that you were behind the curve and that so are you still behind the curve or are we getting to the point where you're not behind the curve anymore.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:
We think that things are stabilizing anyway which is what we had said as well, that in H2 our objective was to try to stabilize our gross margin. When I'm saying that we are not done with inflation we continue in increasing pricing as well. So our pricing is increasing month after month. Which means that we have probably reached, I would say we are not to the point where it's going to decline, but we have reached kind of a plateau. That being said things are

extremely volatile today. So, you know, we have to navigate a little bit by sight to a certain extent because we don't know what trading terms will be tomorrow.

Questions on;	**Strongest markets for 2023 and beyond** **Expectations for Emerging markets**

Pascal Boll, Stifel:
Can you talk a little about geographies, which markets are you more convinced for maybe next year but also the years following?

Also when we look at emerging markets, in the past this was clearly the growth spot. Do you believe also now with economic slowdown that these markets will hold up well?

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
Excellent question and let me start from the bottom up. Clearly, for the next year, the one region I watch with a lot of concern is Western Europe. Maybe the one exception of Switzerland, but consumer behavior in Western Europe is going to be key and as you know, size wise Switzerland is not going to bail it out. So there clearly, whether it's energy insecurity, cost of energy, cost of floating rate mortgages, the recession, unemployment, the effect of inflation on consumer behavior. It's a pretty difficult environment and one that you know in this combination has not been seen for a long time. I feel from any data points that I can gather when it comes to the sell-in for this holiday season it's still holding up very nicely. To me the $64,000 question is starting from January what is consumer behavior going to do? Because this is where some of the nasties are going to kick in and actually hit consumers and that's one that we watch with a lot of interest.

Just to build on some of the earlier questions about inflation and what it means to the margin restoration potential. This whole question about how quickly that process can progress has a lot to do with these assumptions and if they turn out to be quite negative, that makes it harder and that means progress is going to be somewhat more backloaded. If it turns out I'm a little bit overly pessimistic now and that 2023 is stronger than expected, then it can be more of a straight line, even kind of process. For North America expect some moderation but still a lot more optimistic than for Western Europe.

Then you have an excellent point. There are vast parts of the emerging markets that are holding up in a fairly resilient fashion. And then one other wildcard to look at is exactly what the economic situation in China is going to be like, which of course has a lot to do with COVID pandemic and also some of the policies regarding lockdown.

Questions on;	**M&A rate**

Investment for future growth

Jeremy Fialko, HSBC:
A couple of questions for me first one on M & A. You did around 20% of the portfolio that you churned over the last few years. Now clearly when you came into the CEO job, there were certain businesses that you probably thought were ripe for disposal. So do you think that that's a kind of a good ongoing pace? Or would you expect a slower churn of the portfolio over the coming years?

And the second question, which is in terms investing for future growth, roughly what percentage of your business or what quantum of sales are coming from businesses that you would classify as being kind of immature and still in investment mode, where you're making a substandard return because of your investment in the future?

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
I will ask François to handle the second one but on the first one, let me tell you that, clearly, in 2017, we were facing kind of a bolus situation. And that's why looking back, we kind of overshot the initial estimate of 10% by a factor of two. I would also want to assure you that the process of buying and selling will continue and will have to continue. Obviously, it's not the only way to create value, and I hope we're not leaving you with that impression.

There's a lot of portfolio management that we talked about that is internally driven, by developing and bringing to market winning products and building brands and creating value that way. But sometimes when you have fast-changing changes with consumer tastes and preferences. And when you have categories falling out of favor, or ones that are gaining favor pretty rapidly I think M&A is a good way to get into that with the initial scale right from the beginning, whereas sometimes if a category falls out of favor, it's a good way to disengage and not be burdened by it.

One of the items this morning that you may have seen is recognize these situations quickly and move on. Don't spend too much time getting distracted from the proven winners in a portfolio, rather say goodbye when the moment comes, when the insight comes, and don't delay. I think that's important.

So what it translates to is yes, there will be continued buying and selling maybe not at that same pace. But portfolio transformation through M&A will continue. I hope you also appreciated that a lot of the portfolio transformation on the selling side, some of the heavy lifting, happened in those years ’17, ’18, ‘19 which in hindsight, from a valuation point of view, were really good years and I think that really helped to improve the overall picture and the value we'll receive for that.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:
On the businesses in which we invest, I will not be able to give you a precise figure. This is a reason why I gave you some examples like plant-based, like healthy aging, allergies. I could add to that, what we saw with Nestle Health Science, collagen, you saw that we doubled the business in the first year after acquisition. So I will not be able to give you a number but it's a relatively small portion. It's probably I don't know maybe around 10% of what we do in terms of net sales.

What is important as well to understand is that to get there, we don't milk the other businesses. You saw for example what David presented in Coffee, what we do in PetCare we continue investing big time in these businesses as well because they don't run out of growth as you saw from David's presentation. As you know for PetCare or many other categories.

Questions on;	Risk from ESG initiatives not getting broader support Net debt to EBITDA

Bruno Monteyne, Bernstein:
The first one Mark is on is ESG. There seems to be some ESG fatigue out there. COP 27 hasn't done too much. Companies are being criticized for having big plans and not delivering, the EU may sort of slow down regulation as consumers are hurting. I know none of that is the case for you, there's no ESG fatigue here. But your plan probably can't succeed if the rest of the world doesn't do its bit on ESG. So given your ambitious ESG targets, where do you think you potentially could be at risk simply because the wider system around you isn't doing what they should be doing to help you get there?

My second question is for you François. I sort of raised my eyebrows when I saw the three times net debt EBITDA kind of range, the magical three. That sort of suggests that buybacks aren't just from free cash flow. Maybe there's also some increased leverage in there. Is that really wise? Does it change the profile and you know, once you hit three, you probably can't go much higher and then that will lead to reduction. So just want a bit more comment why you feel comfortable with that number three, thank you.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
Let me start on ESG and yes, watching some of the debates, frankly, it's hard not to develop ESG fatigue and you kind of feel that there is a political passing of the buck that sometimes

quite disappointing given that on this underlying subject matter, in particular greenhouse gas emissions, the clock doesn't stop ticking. And so more discussion doesn't gain you more time. It doesn't mean that these issues slow down. And what's more convincing than just watching this last summer where for the first time you were having heat waves in the northern hemisphere, not just in one part of the world but North America, Europe, Asia, all across. In Europe, I heard lots of people say, well, you know, we've had hot summers before, think about 2003, think about 1976, 1947. But in all three essential northern hemisphere regions to have it pretty much concurrently, that's new.

Then the rise of average temperatures, that is an almost eerie correlation to the CO_2 parts per million in the atmosphere. So the underlying evidence, the scientific mechanism of action and why that is, you know, that one, frankly, is pretty daunting. In any other management decision you'd say no more time for discussion, time for action. So not surprising to me that when you talk to corporate leaders, the conviction is stronger than ever that something needs to be done. There's less of this in and out but rather, let's just see it through. It's going to be humongous, it's going to be expensive. It's going to be a very fundamental reengineering of how we do business and how we create value. But at the end of the day, it is necessary.

And I think at the level of the policymakers you see more of this in and out. But let me remind you, for North America, for example, during the times of the Trump administration, we were part of an organization called 'We Are Still In` and I think that says it all about the Paris Agreement and its objectives. And that says it all also about the way we approach that subject because if you now on a 20- or 30-Year issue, basically, in a four-year cycle, go in and out, I can tell you, you'll never get there. And that's why I think consistent effort is what's called for.

Now from a consumer point of view, what we need to do, and you know, this is a challenge that as a branded company we're facing and that we have to live up to, we need to make our case with the discerning public. That's our job. And, you know, just like we tout certain product attributes, I think the environmental footprint, in particular greenhouse gases, I think is one other product feature and product element that we need to get across. And that is a challenge that we have to pick up. That's a challenge that our marketing folks are very much committed to. On the consumer base, I think the openness and readiness is there. The younger, the more affluent, the better educated consumers are, the more they care about this subject. And yes, there's lots of data out there that suggests that for certain categories, while consumers say this is important for them, they may not be willing to pay more for the product. That's true. But honestly, if all else being equal, I get the sale for one of our brands and competition doesn't, that results in an increase in market share. And that's another way of basically making pay for the efforts you are doing there. So whether it's R&D and the product features that R&D are driving, or whether it's, sustainability efforts and then making that case to the consumer successfully. I think both of these are, depending on the categories, either ways to try drive share or to drive premiumization or both, and that's the job we have to do.

It's a long-term undertaking, no question about it, but it's important for me given the price tag, particularly involved with greenhouse gas reduction, this is not an annual sustainability report exercise only, for that is too expensive. It's something that we believe is an essential contribution to society. It's one that increasingly then, as this problem gets more acute, will be valued by consumers around the world. And it's our job to make it something that consumers find easy to understand. And through that there needs to be a business case. By the way, the other level for the business case is for those countries that are still committed to climate protection, the increasing cost of doing nothing due to regulation, because that's the other positive thing. In spite of the north/south discussion, the very intense discussion that we've seen as part of COP 27, looking again at some of the leading countries around the world, for the very first time you have something that I would call roughly described as a regulatory convergence between North America, Europe, and some key economies in Asia. That didn't used to be the case. Europe had been interested for a long time. US as I mentioned during the Trump administration was not part of these efforts. In Asia it also took quite a long time to come on board. But I think now, there's a strong amount of conviction that something needs to be done, which is great.

So, I think, again, this may not be the best moment in time to put major ESG cost high on the agenda, but I hope you also understand it does take this consistent effort, it’s not something that can switch on and off basically by the quarter or by the year.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:
On the net debt to EBITDA and our leverage. If we look at it six to seven years ago, we were with a net debt to EBITDA of 0.7 - 0.8. We saw that it was suboptimal especially at a time when money was very cheap at that time. So this is a reason why we decided to embark into share buyback programs in order to have an appropriate level of leverage. Okay, how do we define an appropriate level of leverage we have been around 2 in terms of net debt to EBITDA over the last couple of years. We need a little bit of flexibility which is a reason why we are saying 2 to 3. That being said we expect to be at 2.4 at the end of the year. And I mentioned in the context of an exceptionally high inventory level and higher CAPEX as well because it does have an implication in terms of level of debt. I mentioned as well that we are currently double A minus we are quite comfortable to be in that space. We could

accommodate probably to be in the single space temporarily as well, which is something as long as we maintain our access to the CP program, we are quite happy with it. So it's a fine balance. But once again, I mean the 2 to 3 aims really to giving us some flexibility. It can be impacted as well temporarily, this has been the case last year on the end of last year, we bought the Bountiful company just before the end of the year. So this kind of thing may have an implication for this ratio at a given point in time so it's more of a matter of flexibility. than anything else.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
I fully agree with François explanations. Let me just build on that on one particular point and that is don't see but 3.0 as something that we would just target through another buyback program, and lo and behold, there we are, and have no more flexibility. See it more as a true upper threshold where we may get because from the starting point where we are right now, we may use that because the transaction opportunity or something else comes up that is unexpected. So don't see it as something that we consciously target but rather look at the full spectrum. And as you know, and as François explained at 2.4 we're pretty close smack to the middle of the spectrum.

Questions on;	**Category growth** **Competition from small brands**

James Targett, Berenberg:
Two questions. Firstly, could you say what also category growth you're baking into your mid-single digit guidance through 2025 and, and how that has changed since the previous five years, whether it's down to portfolio or fundamentally change, growth within your categories.

And then secondly, the sort of proliferation of small brands and new brand entrants was also a headache for a lot of CPG companies for since the last five years or so. Had a bit of a respite during the pandemic. Are small brands back, the competition from small brands? Is that something which you're worried about particularly despite faster levels of innovation, etc. Any parts of the portfolio you think particularly vulnerable?

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
Let me start with the second one and then I’ll hand it to François for the first one. I think the pandemic helped some when it comes to larger brands reasserting their market share and their shelf presence. I think the other aspect that's often overlooked is, as you saw this morning from our innovation presentation, I think the shaping up among the larger FMCG companies when it comes to fast paced innovation also took away some of the cases that smaller companies had, with the consumer. And that used to be different about 10 years ago

where, driven by digital with an amazing rate of innovation, I think some of the small to midsize companies were making a stronger case with consumers for why those brands should be picked. I think there's been a lot of catching up. And I think Stefan's statement here from this morning that with the timelines we have now, concept to shelf, we're pretty much at par if not sometimes with a leg up, compared to some of these smaller competitors. I think that should be something that's tremendously reassuring to you.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:
John, regarding the category growth assumption with that suggested that you refer to the one of the slides that Bernard presented at the beginning of his presentation that showed the growth profile of the categories we are in. But by design, by construction, by choice, we didn't get there by chance, but by choice, we are in high growth categories anyway. So some of them are growing a little bit faster than others and I would mentioned obviously you know, the usual suspects like Coffee, PetCare, Nestlé Health Science as well. So, they will grow probably a little bit faster, but all of our categories are anyway growing more or less in the mid-single digit space, and we aim to gain market share, basically in all categories as well. So there is no clear differentiation apart maybe from a slightly higher level for these three categories that I mentioned.

Questions on;	**Importance of Infant Nutrition in the future** **Biggest risk to reach 2025 target**

Patrik Schwendimann, Zürich Kantonalbank:
On your transformation slide you mentioned that Coffee, PetCare and Nestlé Health Science but Infant Nutrition was not mentioned there. How important is Infant Nutrition for you for the future? That's my first question.

And secondly, what are the biggest risks for you, internally and externally, to not reach the '25 targets?

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
So, Patrick, I think devoting that extra slide to Infant Nutrition shows and underlines, and at least it was designed to show and underline how important that category is for us. And that's why when we saw that over the last few years, we're not meeting our objectives there. We took this very closely to heart and as I indicated this morning, we really studied this one intensely, not just internally but using outside consultants as well and we did one deep dive into the specific Chinese situation. And then with the help of Laurent Freixe we also did a global study to try and help identify some of the growth opportunities that we could see on the fringes of what we're doing today.

So clearly, given that this is a category the company was founded on and a category where we believe we can live our purpose in better ways than in many other categories because early life is so important and nutritional choices that happen there are so important for what happens later. This is not something we want to let go of easily. Having said that, when it comes to the expected growth rate, the mid-single digit while you know that is nice it is not something that compares favorably to what we believe we can do in Coffee and PetCare and Nestlé Health Science going forward. And that was something we need to recognize. But nonetheless, it's a core part of what we're doing. And one of the things that François explained earlier. Even if something is not at the very top of the pyramid when it comes to high growth, you need to be prepared at all times when it comes to the necessary R&D, the CAPEX to have top notch facilities and the-go-to-market strategies. You need to be prepared at all times to give it what it needs to succeed in the marketplace because at the end of the day, each and every one of our categories is not competing with another one in our stable. It's competing against other competing companies for whom this may be core. And, you know, one of the most humiliating positions in a large company is to be the CEO of a business unit that's deemed to be maintenance. What does maintenance mean? No, you go for attack, you go for win, that's managerial instinct and you need to support that with some necessary growth spending. And so Infant Nutrition will get all the support, it needs, lots of labor put into it already and we will make this a very key part of our portfolio going forward again,

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

Patrik, on the risk to fail to deliver 2025 objective. First of all there are several. If we provided these targets, it is because we are confident we will reach them, obviously in turbulent times, so there is a level of uncertainty there. But I think that we have a reasonable chance to get it because first of all, we are actively working on it. And we are extremely diversified by geography, by category, by channel. And you can see the way we went through COVID for example, or the way we go through inflationary times as well. So, I think that we have the capacity to manage the business in turbulent time. So I'm very confident of the fact that we should be able to deliver our 2025 targets and especially so that some of them are ranges precisely to accommodate the fact that there is a certain level of uncertainty. I would say that the risk is probably more on the innovation renovation side, because we need to make sure that we remain relevant to consumers, which is a reason why it was very interesting to see the presentation from Stefan this morning. Because we are extremely active in order to make sure that we can stay relevant to consumers in terms of innovation and innovation.

Questions on;	**Infant Nutrition M&A opportunities** **Role of Nestlé Health Science to achieve 2025 margin goal**

Jon Cox, Kepler Cheuvreux:

Just a follow up question actually with Patrick on Infant Nutrition. Are you looking at it as in fixing sort of the base? Or are you thinking there could be opportunities in M&A and looking particularly at the situation in North America with what's happening there? You're obviously experiencing a lot of growth because of what's happened there generally and any thoughts on what may happen to that WIC program?

Second question, just you spend a lot of time talking about Nestlé Health Science, and it looks like that could contribute 40 to 50 basis points for that margin goal, given the fact they're going to do over 400 basis points to get to 18%. Is that the best way to look at it, that really Nestlé Health Science is going to do all the heavy lifting to get that margin goal by 2025?

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
Let me start on Infant Nutrition and let me confirm that what I was mostly focusing about is fixing the base and that means opening the hood and doing what's necessary to make it succeed. And the part that really gives me a lot of pride is what the team in China has done because they've done exactly that. They looked exactly at the route to market, especially when it comes to tier three and tier four cities in China that we had talked a lot about reaching them, but somehow we hadn't cracked the code on how to make that happen with all these different distribution layers. And I think now I'm seeing a lot more high-quality work on actually making that happen and getting traction in that field. There was also a lot of confusion when it comes to the various price points and the brands we're offering. And so now what we're having is a reduced number of SKUs, but a much more cleaned up price architecture between them. Here again, it results in greater clarity for consumers. So, it's that sort of bottom-up work that we believe can make us stronger.

So, it wasn't thinking so much of M&A. As you know from the market share slide this morning, we do have a very large global market share already. So options are limited. And then yes, for North America, that is one place where, as you know, we just sold a plant and with our marketing policies, and also the fact that you have these WIC programs in the US we find it very hard to compete except for specialties. Like for example some of the allergy products. As you know, we were deeply honored as part of Operation fly formula to be able to help, we will always be there to help if need arises again. But for the moment short term, I don't see the regulatory framework changing in North America in such a way that all of a sudden it becomes attractive for us to compete there, that's simply a fact of life.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:
The way you look at it is interesting but indeed that we would have a large dependency on Nestlé Health Science in order to drive our margin up but doesn't work that way because this

is a reason why I presented that slide on the investment for growth. First of all, you're comparing against 2022 expected profit but in the meantime, we need to invest more in marketing that's what we said. We had a depressed base to a certain extent because we did not have enough products to sell for some of our categories in ‘22. But we need to invest more than what we have invested in ‘22. Going forward, we need to invest big time in sustainability, we need to invest in digitalization, we are investing in CAPEX, which has an impact as well on the on the P&L of a couple of 10s of basis points as well. So we don't look at it necessarily by category but more by needs of investments and in terms of resource generation as I presented it gross margin level for example.

Question on;	**Emerging markets priority**

Nicholas Hartley, GIC:
You put up a quite an interesting slide about a transformation since 2012. And the one thing that hasn't really changed that much is your exposure to other regions, using your definition of other regions, which is not North America and not Europe. Should we read into that and also the fact you've done a whole capital market day where you haven't really talked about emerging markets, you haven't focused on China, you haven't focused on India, as a sort of subtle inference as to the priority of those markets for your growth going forward.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
I would love to do more in those markets. I think what you're seeing here over the past decade is a confluence of a number of factors. One is as you've seen from our M&A activity. We've also done a lot of buying, not just selling and when it comes to assets, suitable assets that came to market, a lot more of them were based in either North America or Europe. And so, for all the organic efforts that we've been taking in China, India and other emerging markets, I think when you then have step ups happening in Europe and North America due to M&A that seemingly then, over a 10-year time horizon sort of puts them like treading water, even though there's been a lot of good organic progress. That’s one.

Then the other one is, as you know, the past 10 years have not been kind to some emerging markets from a macro point of view and so that also precluded some of the progress. We're deeply committed to these markets. We've been there for many decades. We intend to be key players in these markets for decades going forward. And as they continue to do better, I think we will also then see increasing shares there. For the right opportunity, we'd love to open our purse strings and also do M&A there, but again, there's a lesser number of assets coming to market, but do not question our dedication to emerging markets and all the good things that they can offer to Nestlé and the good things we can offer to those markets.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:
I can maybe complement what Mark is saying: The reason why emerging market share has not increased is also largely impacted by foreign exchange, because we usually, in emerging markets, have a much better profile in terms of growth. By the way, we have a higher margin as well, which confirms our interests, as Mark said, for emerging markets. But the fact that the share of sales for emerging market doesn't increase it's largely linked to foreign exchange over that period. If we were taking maybe a different period, it will be different.

Question on;	Marketing Nestlé's sustainability leadership

Thomas Russo, Gardner Russo & Gardner:
You gave a really elaborate answer to the question about the kind of reception you get for the work that you do by public interest groups and whether and when you might start to realize premium pricing for your product because of the public's respect for your hard work. It's really sustainable, you've been leaders in all of those areas.

Does there come a time when you direct some of your marketing tools towards marketing your own reputation for being an early leader and get some credit for it through in some ways highlighting it and finding groups of people who might want to come along and praise you in some ways for your leadership on these important causes?

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
It's an area where we're all still learning. I think public awareness is rising. And depending on what geography, what market and also what category you're looking at. I'm quite grateful for some of the support we're getting already. And I think what we have to realize maybe one aspect that didn't come across so well, when I answered the question earlier. This is not a one speed approach across all geographies and all categories, that would be wrong. It's very clear that some categories are more exposed than others. It's also clear that the public awareness and consumer awareness in some geographies is more advanced than others. And as always in life, being too late is just as bad as being too early. And so picking the right moment in time when it's on the up and then going in lockstep with that, or leading it slightly, but not too far, I think is the art of reading what that marketplace is like. And so that's how we determine things. That's no contradiction to where we want to go, as a group average globally but clearly that group average then needs to be broken down into different speeds inside the company, by geography and by category.

And I meant that very humbly, I think this whole job of communicating our ESG aspirations and achievements in an easy to understand, quick and intuitive way on pack or in some of our media communication, that's not an easy job. And, you know on complicated subject matters, the natural tendency is to give the long list and consumers don't have time for the long list. The next one is to try and offer a QR code and have a long list on your cell phone. Well, consumers don't use that QR code unless you really get them curious. And so something needs to trigger that initial interest. And then here's another one that I think Stefan Palzer, our Chief Technology Officer has always been stressing and that is ESG alone, without some attribute that appeals to the consumer is sometimes not enough. So ESG alone is good, but you know, ESG alone, if it creates the perception that for the sake of environment I don't get something that otherwise I would get, is a hard sell. Whereas ESG if it comes across as cool or linked to some other product attribute, I think is doing the sell. So think about Tesla cars that were not just environmentally friendly cars, but also incredibly cool cars, well designed and giving people lots of other benefits over and above the fact that we're electric. And so what we have to do is to do that translation work. What does the Tesla approach mean for some of our Food and Beverage offerings, so that consumers feel good about making that choice and happy about it and something that becomes a talking item, as opposed to just a hygiene factor.

Questions on;	**Medium-term growth for PetCare** **PetCare capacity**

John Ennis, Goldman Sachs:
I feel a little bad now bringing it back to a more mundane question, but on PetCare, we haven't really spoken that much today about arguably one of your best categories. So can you just spend a bit of time talking to us about what you think the medium-term growth rate is for that segment? I appreciate you said it's greater than Nutrition but maybe a bit more specific would be brilliant.

And then I wanted to come back to the Pet capacity question. We can obviously track the dollar spend, but it's really hard to get a picture of volumetrically what that means how much you're increasing capacity in volume terms for Pet.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
Thank you and I suggest I'll share that answer a bit with François. But let me start with a high-level observation and then hand it over to François and that is, Pet continues to be very, very strong. And the only reason that we didn't focus on it today is that we wanted to highlight some of the categories where we know that there was a lot of investor interest and Nestlé Health Science was top of the list. Then also with Coffee now at the end of the pandemic cycle, there were also questions about 'What is the next growth wave looking like?' and

'Where's it coming from? And we felt with Pet a lot of the growth fundamentals are still in place. We feel very confident about it. And so it was not in the spirit of just moving it to the side. I think the huge benefit here, compared to for example Coffee, is that you don't have any end of pandemic slowdown related to the fact that all of a sudden consumption patterns are changing. Those pets that were adopted during the pandemic, for the most part, they're still with their happy owners and so all you're seeing then is a bit of a year over year lapping effect, but you're not seeing a consumption shift. Whereas with Nestlé Health Science you heard, for example, that people are now focusing a little less on immunity, post pandemic. And with Coffee, with the return to the office at least for a few days a week that means less cups of coffee consumed at home. And so in addition to the lapping, you have some consumption shift that's creating a bit of a year over year compression. Pet doesn't have that so that means you've seen a wonderful step up during the COVID period and you see then some of the same growth drivers that were supporting the growth of this business, that is caloric conversion in emerging markets and continued premiumization in developed markets. You see, both of these continue unabated. And that is what makes this category so successful going forward. Going forward on the growth rates, clearly, it's important to stay realistic. While we see continued strong growth, it won't be the explosive growth that we have seen in 2021. One of the quips I've used frequently, if that growth rate from 20 and 21 would continue we would run into a massive pet obesity issue a very short time from now. So that's not what's intended. But you will see continued above par growth and certainly at the high end of the various categories we're in.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:
I was going to complement very quickly what Mark said. Super growth again this year, we go in PetCare for third consecutive year of double-digit growth. And in addition to that, this is quality growth, what I mentioned earlier, it is made of 5% of RIG since the beginning of the year for PetCare, which is quite amazing, especially so as once again we can't supply the market. So really amazing growth.

I wish I could have given you the volume, but we consider that this is commercially sensitive information. So unfortunately, I can't share that with you.

Question on;	**R&D failures**

Eleanor Taylor Jolidon, Union Bancaire Privée:
I'm just coming back to your divestments, and I appreciate your honesty in showing Freshly and the Peanut allergy. But what is interesting is we don't get much color about failures of your own R&D. And does that mean that you are more patient with what you develop in

house in the hope to discover another Nespresso or is it simply that we haven't gone over it today?

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
Very important question and the honest answer is they happen all the time. And honestly, they should because whether it's M&A, or whether it's R&D or whether it's marketing spent, not every dollar or Swiss franc we spend on some of these forward-looking investments, is going to pay off and the sad thing is, ahead of time, you don't know.

One of the things looking at the Palforzia therapy, for example, take Greg and me, between the two of us we have 40 years of combined senior healthcare executive experience. We were drop dead certain on this therapy once it received the FDA approval. Unmet medical need, lots of patient interest and it was just it was as close to a sure thing as it could get. And the result honestly to this day is very vexing to me because I see that continued unmet medical need. And clearly we tried very hard, we looked at reorganizing our Salesforce last winter and spring to give it another attempt and really worked hard at making it happen. But we had to accept reality about the fact as Greg explained that is more of a niche product, probably still one that does meet a true medical need and one that is very important, but as a result of that, not the right fit for us.

Now internally, just like I am completely transparent and straightforward with you about that situation, it's also important that all of us, as we run this company, we treat our forward-looking investments in the same manner when we have our executive meetings and when we talk about our successes and failures, and the one thing I want to avoid at all cost is what I call success theater. It is all about being totally honest and straightforward with what works and what doesn't. And one of the things that I know Stefan has been preaching to his R&D groups, and I've been preaching it to the senior executive group. At the end of the day, it's one thing to talk about risk taking and then if you really mean it, you show your colors in those moments when something doesn't go quite right. Are you then treating it as if someone had done a favor to the company and there are learnings and then you incorporate these learnings and you move on or you're treating it as something that is a major disaster. And so, I think what you appreciate here, especially around Palforzia, but also to a lesser extent around Freshly is that we gave you the stone-cold sober analysis. There's also a strategic consequence and I hope you appreciated that. And then there's some lessons learned here going forward. And so I think in that combination, this is fine.

And so when it comes to the 1.7 billion that we're spending on R&D, not every one of these Swiss Francs is paying off great, but you know, in order to get those great results, it takes that budget, it takes that effort.

Question on; India

Jeff Stent, Exane BNP Paribas:
You talk about focusing on the long term, yet we've held scant mention of India, which you know is more than 20% of the world's population and some believe is the growth opportunity of the next 20 years. So, if you could just maybe me say a few words on that and what your plans are for that market.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
You're taking the words out of my mouth. I'm huge fan of India and what it has to offer, tremendous growth at the present time but also from you know, all we can see looking ahead, significant growth in this economy going forward.

We just actually had a field visit from our board of directors, India in September was the first field visit of that type after the pandemic. I think the entire board and leadership team came away being very impressed with how the country has transformed. If I personally compare it to my trips to India from before the pandemic, the one word that I would put on it is Digital. It's amazing how, all of a sudden, digital has got traction at all levels of Indian society. So not just in the metropolitan areas, but really all across and how the entire economy is benefiting from that.

And so I'm very bullish on it going forward. Very glad to say that couldn't be happier with the operating performance of Nestlé India and how it's doing. Very consistent growth, ever since the Maggi noodle crisis in 2015, and also steering in fine fashion through all the COVID issues that India has in the spring of 21 and well positioned for the future.

Yes, I'd love to do more there but India just like anywhere else, it comes down to investment opportunities, do they come at the right price, do they present themselves, are they a good fit and we should be selective there just like we have to be selective anywhere else. But yes, for the right opportunity I'd love to do twice as much in India as we're doing.

Question on; Gross margin

Pierre Tegner, Oddo:
I have a question on the 2025 target for margin. Because you said François that gross margin will be 3 points lower than two years or three years ago. You want to restore gross margin. So, are we to see the next three years in terms of P&L plus three points in terms of gross margin and the guidance will depend on your opportunity to invest behind marketing or operational expenses I will say with the digital or is it is it more a question of visibility on the

gross margin. So, what is the difference between the bottom and the top of the of the margin, is it dependent from gross margin or is it depending on ability to invest more in operational expenses below that.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:
We give a guidance in terms of margin only at underlying trading operating profit margin. We don't give a guidance at the gross margin level but I wanted to cover that topic during my presentation because obviously you can see it. As I said in 2022, we expect about 300 basis points of decline, versus where we were two years ago because of this timing difference between goods cost inflation and pricing. So it is absolutely critical that we restore that gross margin. I don't want to give you an exact timeframe because the speed of recovery is partly dependent on external factors like commodity cycle, which has which is part of what we have been suffering from this last two years. It may be linked as well with what will be the impact of recession and so forth. So I can't give you an exact timing about it. But I wanted to insist on that, this was my first slide, because I want to insist on the fact that this is absolutely critical. This is a message that we pass on internally as well. We need to recover in terms of gross margin to be able to invest for future growth be it in marketing, in CAPEX in sustainability in digitalization and so forth.

Luca Borlini, Head of Nestlé Investor Relations, Nestlé S.A:
So, no other questions left so I'll leave it to Mark for some concluding remarks regarding the webcast.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
Yes, I wanted to thank you all for spending this day with us. Those who traveled to Barcelona but also everyone who spent time with us out on the web today. We appreciate your interest in the company. We hope that this was a good collection of topics and deep dives to address some of the most prevalent questions that we heard from you from the investor community so far this year. I also wanted to say for completeness, if a category did not get the detailed presentation or a geography didn't get a detailed presentation today, that's no lack of interest, that's no lack of exciting fundamentals. It's simply Luca and François and I, we huddled during the late summer, early fall, we tried to collect the most prevalent investor questions and we wanted to be sure that those we could address with the right amount of detail. What we wanted to avoid doing was a day where we covered the topics a mile wide and only an inch deep and only get to a level that you could easily get to with desk research and that was the spirit of which we approached today. And then also some of the workshops that you will be seeing tomorrow for those who traveled to Barcelona.

So hope you appreciated that. And one of the messages here during the breaks I was getting a few times and I was quite grateful for it was that people said to me ‘Look, what you share today was quite reassuring.’ That is, on the one hand a positive thing but let me also, very modestly and humbly, suggest that hopefully you saw some nuggets in what we presented to you that go over and above being reassuring and that they actually express some fascination about opportunities that this company has, as we face now this 2020s decade.

You've seen, just picking this example of Nestlé Health Science, the tremendous strength here that comes from these two areas that we're focusing on with Medical nutrition and Consumer care. I hope you see how we're approaching both of these from a position of strength and how they offer very significant fundamentals and those two will get all of our energy, all of our focus going forward.

You see or even around something that hasn't delivered in the past few years like Infant Nutrition, you see that tremendous effort now and the tremendous work that has gone into fixing and turning this around and also some of the beginnings of that happening in China already.

So I think there are some very strong, very good upside cases and it's not only related to the business and geographies we presented. It also relates to some of these transversal functions that we talked about today. I hope you shared some of the fascination from the digital opportunities where clearly, in Food and Beverage as Bernard and Aude pointed out, we are seeing ourselves as among the leaders, and where we can easily borrow from some of the categories that are ahead of us and then apply that to build our leadership position and build a more connected Food and Beverage business and exploit all of these digital opportunities around the world.

So, in all modesty as I look at where the company stands, we’re in the lucky position and the fortunate position, that we're no longer having to do homework that we should have done in the last decade. We've done that. Okay, so now the energy is look at that new decade, look at the higher highs, lower lows and make the most of that opportunity ahead of us. That is what this leadership team is focused on. It can do that because it has done the homework, can look forward doesn't have to look back and that is what we're committed to making happen over the next few years. And that I think is adding up to a very reassuring but hopefully also very exciting business case and I hope some of that, in this very turbulent and sometimes frightening time, did come across.

There's a very good base case, there are also some very nice upsides and hopefully, that message resonates with you. Appreciate the day. Again, looking forward to any other questions on other categories, geographies also, as always, Luca is there to channel questions here to François and me. Always happy to schedule calls and sessions to explore some businesses in deeper detail. And with that we call the meeting for today closed and for those who traveled to Barcelona, we look forward to seeing you for dinner. Thank you

END OF TRANSCRIPT