

NESTLÉ S.A.

**2023 CAGNY PRESENTATION TRANSCRIPT
GENERATING STRONG GROWTH AND RETURNS IN PETCARE**

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UNITED STATES: PET CARE CATEGORY OVERVIEW & PURINA PETCARE STRATEGY

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Speakers:

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François-Xavier Roger, Chief Financial Officer, Nestlé S.A.**Title Slide: Generating strong growth and returns in PetCare**

Good morning to you all, very happy to be with you this morning. I am François Roger, the Chief Financial Officer of Nestlé, and today with me, I have Nina Leigh Kruger the CEO of Nestlé Purina Petcare North America, given that the topic that we are going to cover today is exclusively Purina PetCare.

Slide: Disclaimer

I will take the disclaimer as read.

Slide: Our business is global, balanced and diversified

I will start with just one summary slide of our global business, as Tim just said we are a very global company. We had sales of CHF 94.4 billion last year, we added 7.1 billion of additional sales last year on a reported basis and we had an operating margin of 17.1%. Last year we added actually more than a billion of underlying trading operating profit last year.

We are very global. We operate in 188 countries. Our largest country is actually the U.S. which accounts for almost 1/3 of our total sales worldwide. We are very diversified as well in terms of category, we play in many categories; Coffee, PetCare, Vitamins, mineral, supplements, Dairy, Culinary, Ice cream, Water, Confectionery. So, we are really operating in many different categories.

We employ 275 000 associates around the globe, and we operate with a little bit less than 350 plants, which mean that we have a very strong industrial base all over the place. We are the largest spender, in terms of R&D, in our industry, CHF 1.7 billion last year. This is really a good illustration of the fact that we really want to make a difference through technology and science.

Slide: At a glance: our Purina PetCare business

Looking at the same profile for PetCare. So PetCare is our second largest category, after Coffee. With sales last year of more than CHF 18 billion and the profitability north of 20% which means that this is a business which is margin accretive to Nestlé overall.

There again, we have very strong geographic footprint all over the world. With certainly a stronger presence in the U.S., where our business originates from, and with a very strong presence as well in Europe and in Latin America, given that we have really invested over the last 20 years very heavily. Our position today is really a result almost exclusively of organic

sales growth. We still have a lot of opportunities in Asia, and more specifically in China and I'll talk about that later on.

In terms of segments within PetCare, so we are present in all segments, but there are three of them that account for more than 80% of our PetCare sales, namely dry dog, dry cat and wet cat as well, so these three categories account for 80% of our sales.

We employ more than 25 000 associates for PetCare. We have a little bit less than 50 industrial units worldwide, and we keep on investing, I'll show you a little bit more color later on. We do invest a lot in R&D for PetCare.

Slide: 6 billionaire brands

So strong industrial footprint, strong R&D investments. But Purina PetCare is really a marketing house as well as illustrated by the fact that we have very strong brands, all of them have, or most of them are under the Purina umbrella brand.

You can see that we have six billionaire brands, they have their own personalities, they have their own identity. They have their very strong brand equity as well. They stand for different consumer proposals. If you take for example, on the top left hand side corner *Purina Pro Plan* is really science based premium products. Or if you take the bottom right hand side *Dog Chow* is for everyday premium for dogs. You have some other brands like *Friskies*, *Fancy Feast*, *Felix*, which are essentially only for cats as well.

Be aware as well, that's important, that the PetCare category is very sticky. There is a lot of loyalty in a brand, and brand switching is actually very rare during the lifetime of a pet which is a superb opportunity for us as a significant player in that segment.

Slide: Successful track record in Purina PetCare

We really became a significant player in the in the category 20 years ago, a little bit more than 20 years ago, back in 2001. When we bought Ralston Purina, and since then, over the last 20 years, we have doubled the size of the business to reach more than CHF 18 billion of sales last year.

So PetCare today contributes to around 19% of our total sales. Given that this is a business which is accretive it's today almost one fourth of our total profitability, so extremely happy with that business, obviously.

The beauty of it is what you see on the right-hand side there. The fact that we have seen our growth accelerating over the last couple of years. If we look at the from 2002 to 2016, we were having mid-single digit organic sales growth. And if we look at it since 2017, we have really

accelerated that growth to a high single digit level. And if I look even more specifically, at the last three years, actually we had three consecutive years of double-digit growth, so extremely happy with what we have seen there.

Slide: Large global player, with further share opportunities

The category itself Pet care worldwide is a big one, CHF 100 billion in sales. So, it's big. It is relatively fragmented with quite a lot of small players. Obviously, you have two big players there; you have Mars and Nestlé Purina. The other interesting feature of the category is the fact that there is a limited penetration of private labels. You can see that it's less than 10%, which is really great for us as a business. Obviously in that category we have a very attractive position with a strong number two position globally.

By geography, we are much stronger in North America. This is where our business was born and originates from. We have a very strong position in Latin America, a very strong position in Europe where we have invested and grown there, essentially through organic sales growth. Large opportunities clearly for us in Asia and in China. We are investing, we already have an industrial base there, but these are really territories where we invest with significant ambitions going forward.

Slide: Strong market positions in fast-growing segments

When we look at the segments within the category, all of the segments Dry dog, Dry cat, Wet cat, Wet dog and so forth, they are all big, these segments, so they are all attractive as well in terms of growth profile, they do grow by about the same level. Our position, we are present in all of them, but we have a very strong position in Cat, and especially on Wet cat. It happens that the Cat segment is the most attractive one. This is more sophisticated. This is where you can really make a difference through technology and science, which is really the reason why we are investing heavily there. You can see that in Wet cat for example, we have a very attractive position there.

We are a little bit under indexed on snacks. That's voluntary decision of ours not to participate in all sub segments of snacks given that some of them are not really attractive. So we prefer to walk away from some of these sub segments.

Slide: Future pet care category growth

Looking at the future, are we done in terms of growth in PetCare? Certainly not. If you look at Euromonitor the outlook for the next couple of years is organic growth worldwide, between 6 and 8%. So we still see a lot of growth going forward and probably beyond that.

I just want to cover with you four main factors explaining the reason why we are still extremely positive in terms of organic growth outlook for the near future. The first one is the fact that the pet population continues to increase by 2 to 3% a year. By the way within these categories, what grows faster is cats and small dogs, which is precisely where we are strong, so even better for us.

Second, we are talking of calorific coverage. Calorific coverage means the number of dogs and cats which are taking processed food rather than food leftover from the family table. You can see from that chart that the outlook or the potential in developed market is not that great because the calorific coverage is already very strong, but in emerging markets it's basically mostly more or less half of what it is in the developed world. And it is growing fast. So if you look at the last 10 years. The calorie coverage rate increased by 7%. For your information, 1% for emerging markets means \$1 billion of additional market value. And we obviously expect to get a significant portion of that, so very attractive.

We are especially interested for example in China, where we see a large opportunity with more and more younger people having small dogs or cats in their apartment and they're very digital savvy as well, which can help us a lot.

Third growth driver is e-commerce. E-commerce has been really booming over the last couple of years. If we look at the compounded annual growth rates over the last five years - 31% and we really invested. We were clearly under indexed and under-represented in that category, e-commerce, a few years back. We did invest a lot with a lot of success. Today we are at par with the market, probably even better than the market, and it accounts for 20% of our total sales worldwide and we expect to continue investing and increasing our participation to that growth driver.

Finally, probably the most interesting one and the one that we have been really leveraging upon which is premiumization. Premium products grow on average to 2.3x faster than the rest of the categories. There we are extremely well positioned; we have invested there a lot as well. Just to give you an illustration today, 60% of our portfolio value-wise is in the premium segment. It was 30% 10 years ago. So we have done superbly well in in that segment.

Slide: Balanced growth supported by premiumization

You can see it on the right-hand side there. We have a brand proposition, we have a brand architecture that can really allow us to meet consumer demand, to meet consumer expectations at different price points. Starting with the top where we have some really therapeutic offerings with our veterinary franchise for example. If you go down, we have brands

like Merrick which is more natural, organic. Or if you go at the bottom we are more in the everyday premium offering.

If we look at the profile of our growth over the last three years, because you can always talk growth, but what matters is the quality of the growth and I'm really impressed by what we have achieved, which is a perfect match between the three components of growth. It's almost a third coming from price, a third coming from volume and a third coming from mix. So really great achievement there, and this is really what we are aiming at continuing

Slide: Strong margin and returns while investing for growth

Just a couple of data on the financial KPIs. So as I said, this is a business which is margin accretive. You can see that our underlying trading operating profit margin, which is big, we are talking CHF 3.6 billion last year of underlying trading operating profit. The margin has not increased a lot lately, it has to be seen first in the context of a significant input cost inflation with very significant increases for meat, for grains, for packaging, for transportation, for example, that probably hit this category for us more than anyone else. That being said, our strategy and the role that we assigned to PetCare is not necessarily to increase our margin given that it is already accretive for us. Their role is really to grow fast, which is exactly what they do, and to continue gaining market share. And if I look at what happened last year, we're very happy with market share gains across geographies and basically across segments as well.

We are very satisfied as well with the return on invested capital, which has been increasing significantly by around 200 basis points over the last couple of years, in spite of the fact that we keep on investing given that there is pent up demand. The demand has accelerated significantly during the pandemic.

Slide: Investing to meet higher demand

We have difficulties to meet the demand today, which is a reason why we have really ramped up the amount of capex that we are putting through. Just have a look at that, between 2022 and 2025 we are investing CHF 3 billion all over the world. You have units there in Thailand, in China, in Brazil, and very large investments as well in the US.

We are not concerned at all of the fact that we would have overcapacity I can't comment for some of our competitors but as far as we are concerned, the demand is there. We could not even meet the demand to the point where we had to limit our marketing spend last year. So we are absolutely confident on the fact that we do need that capacity. That concludes my

presentation. I now hand over to Nina Leigh. Nina Leigh is going to deep dive our PetCare business for the US. Thank you.

Nina Leigh Krueger, CEO and President, Purina North America

Title Slide: United States: Pet care category overview & Purina PetCare strategy

Thank you, François and thanks all of you for being here today.

Slide: Caffrey and Guinness

I'd like to start in the pure Purina tradition by introducing my dogs, Guinness and Caffrey and yes, my husband and I like Irish beer.

Slide: Our Purpose and Our Belief

I started at Purina almost 30 years ago and then in 2021 I became CEO. During that time period, it was a very tumultuous time, as you can imagine. We had supply chain challenges, we had inflation, ingredients shortages. Those were not unique to Purina they were not unique to PetCare. But what is unique to Purina and what has kept me at Purina for all of these years is the steadfast commitment that we have to enriching the lives of pets and the people who love them. When we make decisions, it is boiled down to a set of core values, which really can be summed up in simple words, do the right thing, always.

Slide: Committed to leading the way in pet nutrition today and tomorrow

Those values are what Purina has committed to, leading the way in pet nutrition today and in the future. At Purina, we believe every ingredient has a purpose and we formulate our products with a smart blend of nutrients to optimize the pet's health.

We also believe that science is more powerful when it's shared. The Purina Institute, which is the voice of Purina R&D, works with vet communities and key opinion leaders globally to share expertise and research to make sure that we are continuing to advance the science for pet health.

Slide: U.S. pet care category overview

The pet category is fun and emotionally driven and I'd like to dig into it with a couple of fun facts here right now.

Slide: U.S is the largest pet care market globally

U.S. is the largest Pet care market globally. consumers spend \$46 billion annually on dog and cat food, treats, litter and supplements. You take a look at the entire category including vet

services, supplies, accessories, it's \$123 billion. Today when I'm talking, I'm going to be referencing the \$46 billion in the categories that we play in. Household penetration is 60% in the United States, and that's remained flat over the last few years. There are 185 million dogs and cats out there today. During COVID there were a lot of articles around pet population increasing. We did see that, 4.7 million new pets entered the category in the last two years, which is an increase of about 2.5%. The really interesting part of that fact is that, as penetration didn't change during that time period, current existing households just got an additional dog or cat into their family. The Pet care category grew at twice the rate as other grocery categories during this time period.

Slide: Three key drivers fueling pet care category growth

So where is the growth coming from? It's really coming from three places; premiumization, expandable consumption and emerging growth areas. Consumers are more cognizant of the nutrition and science that they're putting into their bodies and that's translating exactly into the pet foods that they're feeding. So we've seen a large increase in science-based nutrition brands.

When you think about expandable consumption, consumers home with COVID are sitting with their dogs and cats on a daily basis and then feed an extra treat or two on a day or an extra can of wet cat food during the week. And so we saw expandable consumption grow as well.

Other areas of growth were in the emerging growth areas of fresh and supplements. The other 22% really came from both ends of the market, our high-in-natural brands and we're growing, as well, our more mainstream brands like *Dog Chow*, *Pedigree*, private label, and our Litter businesses as well.

Slide: Category growth led by e-commerce, with dog the largest segment

The Pet care category is a little bit different than other grocery categories in that we have two pure play e-commerce retailers. We have Amazon like everyone else and we have Chewy. We also have 30% of our sales that go through pet specific retailers. E-commerce accounts for 20% of the business in the Pet care category and it's grown at twice the category rate in the last year.

From a composition, dog accounts for two thirds of the category with Dry dog leading the way at 37%. When you look at cat it's more evenly split between Wet and Dry.

Slide: Purina PetCare is market leader in U.S. pet care

Purina PetCare is the number one market leader in the United States with a 12-point share advantage to Mars the number two player. Our strong portfolio of brands allows us to be number one in four of the six key segments, Dry dog, Dry cat, Wet cat and Litter. We also grew the most market share last year at 3/10 of a share point.

Slide: Pet care category expected to continue delivering strong growth

As François mentioned we expect the Pet care category to continue to deliver strong growth. This year we expect it to be double digits again as we cycle over pricing, but then we expect it to go to more historical norms around that 6 to 8% CAGR. We also expect by the end of 2025 for it to be over \$57 billion here in the United States.

Slide: Purina PetCare U.S. key growth strategies & enablers

So now let's take a look at what some of the growth strategies enablers are in the category.

Slide: Purina PetCare brands well-positioned to win

A core philosophy for Purina is that excellent nutrition should be available to all dogs and cats. We have a wide portfolio that offers high quality nutrition across a broad spectrum of price points similar to what François shared in his pyramid just a few minutes ago.

Our broad portfolio also allows us to meet the needs and wants of consumers better than anyone else in the marketplace today. I mentioned that we were number one in market share. We also are number one in other key metrics in the category. We're number one in the number of households that buy Purina products at 56 million. We are the most trusted completely PetCare company in the category. We are number one in household loyalty or share of wallet, meaning that consumers spend more on Purina products than any other manufacturer in the category. And we're also number one in e commerce.

Slide: Growth acceleration driven by strong brand portfolio

While those are all great metrics to have, what's really exciting is that we have accelerated our growth, and this has been driven by our strong brands. As you can see, we reached 15% growth last year. Whilst some of this was pricing, we also grew tons of volume as well.

François talked about our billion-dollar brands. In the in North America, we had two in 2018; *Friskies* and *Fancy Feast* and by the end of last year, we have four brands *Pro Plan*, *Purina One*, *Friskies* and *Fancy Feast*. I'm excited to share here today that by the end of 2023, all four of those brands will be \$2 billion brands. And we will also have a new entrant into the billion-dollar brand category and that is *Tidy cats*, our litter brand.

Slide: Scaling and transforming supply to fuel growth

So all of that is dollar growth. We have also been growing tons as well during this period of time. And it's important that we focus on the three these three areas to fuel that growth. The first is our commitment to quality and safety. At Nestlé and Purina we take this very seriously. We take it with our associates, our pet parents and our pets. We conduct over 100 000 quality checks in our factories on a daily basis.

Digital transformation is also important as we look to improve our operations, whether it's automation through forecasting, procurement or warehousing systems, technology is critical for us to maximize our efficiencies throughout our supply chain. An example of this is we were looking to decrease system failure, so we did a trial with machine learning in our Clinton, Iowa factory. We achieved almost 90% system failure improvement. We've now started cascading that across our Dry factories. We are at almost 70% to date.

François talked about capacity and how much capex that Nestlé is investing in PetCare globally. That is also true here in the United States. We have 22 facilities across the United States now and in the next 18 months we'll be adding a factory in North Carolina and Ohio. We also have strong projects in many of our other facilities like the one we announced in Q4 in Clinton, Iowa.

All told by the end of 2025. Nestlé will have invested almost \$2 billion in Purina in North America, and we will have contributed 850 jobs. This is part of a long-term strategy that we had before COVID happened. COVID accelerated the need for this, we are capacity constrained in several of our key segments so we are looking forward to this unlock so we can continue to grow above category rates in all the key segments, remain the category leader and a growth driver for Nestlé.

Slide: Key consumer trends shaping the future of the pet care category

We take pride at Purina in understanding the pet parent and the pet better than anyone else in the marketplace. We believe that these four trends will shape the future of the Pet care category.

The first is evolving human food ideologies. We know that consumers are looking to mirror in their pet food, the nutrition and lifestyle that they have in their own lives. François mentioned R&D and how important it is at Nestlé and one of the true competitive advantages that Purina has is that we can share science across human and pet. It's a true competitive advantage for us. This was very important and a couple of years ago, Nestlé scientists were doing a lot of research around live probiotics. Our scientist could collaborate and work with them and it

accelerated the launch of *Fortiflora*, which is now the number one vet recommended supplement for gastrointestinal issues for dogs and cats.

Proactive health management. We know consumers are looking for that holistic, proactive way to manage their health really in a form of preventing, we want to prevent issues that can come up in the future. Now they're saying how can I make sure my pet who can't talk to me is also happy and healthy. So we're starting to see this translate over into the pet category.

Social Responsibility. We know that consumers are looking to buy brands that fit their values, that are close to their values and the company is the same way. So we need to be very attuned to social responsibility as we move forward.

Elevated and frictionless experience, those omni-channel shoppers want frictionless digital experiences. This trend started before COVID, it is exaggerated and accelerated because of COVID. And it's one that we need to make sure we stay on top of.

Slide: Purina PetCare key growth strategies

At Purina we believe we have the plans in place to continue the growth and be the Pet care leader, and they really formulate around these three strategies.

The first is we need to extend our category leadership through innovation and premiumization.

Second, we have the opportunities to strengthen consumer connection via the omni-channel and Purina ecosystem.

And third, we need to continue to create shared value via the societal contribution for pets, people and the planet. So now I'm just going to double click into each of these.

Slide: Extending leadership through innovation and premiumization

So we know that consumers are expecting us to extend our leadership through our innovation and premiumization and the products that they've grown to know and love that come from Purina. We're going to do that in multiple ways.

The first is we're going to continue to drive those science-based solutions. *Purina One* which is the largest nutrition brand in the category knows that gut health is extremely important to their pet parents. So they're introducing new microbiome balance across their portfolio. *Pro Plan* which is our flagship brand and is all about introducing life changing nutrition is going to continue doing that by introducing calm and balance, which can prompt a calm behavior in as little as 12 weeks.

Second, elevate the feeding experience. So consumers, and especially cat consumers, are always looking for ways to delight their cats through taste, variety, texture, how can I elevate that experience for the cat? *Fancy Feast* and *Friskies* are two brands that do that better than anyone else in the category. Two years ago, we introduced *Fancy Feast Petites Filets* and is already \$100 million business. We will continue to innovate and launch products such as *Fancy Feast Gems*, and *Lil 'shakes* from *Friskies* in the coming year.

We also know we need to increase our presence in emerging areas. Fresh is a topic, it's a trend that's out there. We have multiple irons in the fire and are looking at investigating the best way to enter that category. And supplements, supplements is one of the fastest growing segments we have at Purina and we're going to continue to innovate in that area with the launch of *Joint Care* this year.

Slide: Driving strong growth via digitally-enabled sales

So when you take a look at digitally-enabled sales I mentioned that e-commerce pure play represents 20%, when you add in store-based digitally-enabled sales hit 25%. We expect that to be 30% by 2025. Purina several years ago invested in this area with resources and people and capabilities. We also started partnering with retailers so that we could offer that omni-channel shopper their products whenever, wherever and however they wanted to shop. It's paid off for us, our sales have tripled in the last four years. We are number one market share in the digitally-enabled space and we are the fastest growing in the space as well.

Slide: Delivering value for consumers via new business models

So I've talked about how Purina is a pet food and litter company but we're also the category leader. So our vision is to create an integrated ecosystem that enriches the lives of pets and people who love them. And the way we're going to do that is by introducing value for consumers via new business models.

Petfinder which is the number one adoption tool in the market today. We will continue to evolve so those shelter pets can find their forever-friendly home. We will also continue to partner with shelters and rescue organizations. It will also become an important portal into the Purina ecosystem, as we have over 200 million unique visits per year. And last year, we adopted over 1.5 million pets.

We're going to drive loyalty via the myPurina app. I'm very excited about this because this is going to be the one stop shop for consumers. When they want that frictionless experience, where they need expertise, so they want to interact with the brands, the Purina brands that we

know and love, this is a place where they're going to be able to do it. We're going to add value to the consumer and we're going to increase loyalty to Purina.

And last, we're going start entering the connected device category with Petivity. So Petivity is a cat product that will help let owners know of cat behavior changes before significant issues could potentially happen. So if your cat goes is goes into the litter box, and it notices that your cat has lost weight, or it notices that your cat has gone more often or less often, we can either recommend a new diet, we can recommend a different way to feed or, in the case of going too often or too little, we could say 'Hey, you need to talk to your veterinarian just to be preventative about a special issue that might be coming up'.

Slide: Simplifying the pet parenting journey

So when we look at the pet parenting journey, it is really multi-dimensional. And when you look at it across the finding, feeding, caring landscape, there are many tensions and friction points that could be in there and currently consumers have to go to multiple spaces to get those answers. It's not easy for them.

Slide: Removing friction in pet parenting experience via Purina ecosystem

So our goal at Purina is really to simplify that journey. We need to remove that friction in the pet parenting experience, and we believe because we are the most trusted PetCare company in the category, that we can develop a Purina ecosystem that will add value to consumers and create loyalty to our brands. Whether they're searching for a pet, they're trying to decide what food to purchase or where to purchase it. Or how do they get in touch with a vet that can help them solve a potential issue. The Purina ecosystem will help do that.

Slide: Creating shared value by addressing key consumer needs

Creating shared value is extremely important to us at Purina and at Nestlé. Currently we donate \$30 million in products and money to the communities where we live and work. We also create shared value in multiple ways through individuals, families and communities, and sustainability.

An example in the individual area is the *Dog Chow Service* dog salute campaign. We know that many veterans have PTSD, research also shows that by having a service dog it can reduce symptoms of depression and suicidal tendencies. However, there are not enough of these life changing dogs out there. *Dog Chow* is on a mission to change that.

We also know that domestic abuse victims are 50% less likely to leave their current situation if they cannot take their pet with them because of what, potentially, could happen to their pet.

Currently there are only 15% of shelters that are pet friendly. So our goal by 2025 is to have 25% of shelters be pet friendly. So the Purple Leash project is really all about working together with those domestic abuse survivors and pets to save lives at both ends of the leash.

And last sustainability. We know from consumers that we've talked to that two thirds of pet consumers say that one of the important areas they look at when choosing a pet food is what do the brands and the parent company do about sustainability? What are their goals in sustainability and how are they going to work to save the planet in the future and make it a better place. We have many initiatives in this area. I'm just going to highlight two for you right now.

The first is around packaging. We currently have 90% of our packaging designed to recycle here in North America and we're working on innovative plans to get the rest of it there shortly. In our factories 80% of our electricity is renewable and by 2025 we will have 100% of our electricity renewable. This is a very important category and place for Purina as well as Nestlé.

Slide: Purina PetCare well-positioned to continue winning in pet care

So in closing, I hope what you took away today is that the Pet care category is thriving and dynamic and Purina will continue to lead. We talked about the portfolio of leading brands that we have. Our deep knowledge around pet nutrition and science and how important that is in the category. We are committed to long term profitable sustainable growth for Nestlé, and we are committed to creating shared value for all of our stakeholders, pets and their pet owners.

Q&A Session

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

Thank you Nina Leigh and we can move to the Q&A session and take our first question.

**Questions on: Capacity increases
Investment levels following constraints**

Jason English, Goldman Sachs:

Thank you so much for that deep dive. That was awesome, really good content, great information. And I feel like I have enough questions to keep this conversation going for another hour but I'm going to be respectful to everyone else who has questions.

Let's start maybe with the capacity. Can you give us a sense, in terms of order of magnitude of how much incremental capacity you're bringing on? We saw the dollar figures but it's hard

for us to contextualize that in terms of percentage of volume that you're going to be able to add. Can you give us anything in terms of both U.S. and global?

Also, you mentioned that you've had to pull back on investment in the last year or so because of some of those constraints. When would you expect those constraints to begin to be lifted so that you can start to lean back into that investment to accelerate growth?

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

Yes, I wish I could give you an answer in terms of volume, but we believe that it is commercially-sensitive information, which is a reason why we gave up the dollar value.

Now the other thing is that we have started already to commission some of these plants. For example, the one in Thailand has been commissioned relatively recently. So it's going to start really kicking in the course of '23 and be finalized more or less in '24. But maybe you want to give some further color on the timing of the commissioning of these new units in the US.

Nina Leigh Krueger, CEO and President, Purina North America:

So North Carolina will come on at the end of this year. I will tell you we had some capacity on Litter that came on last year. So that's now an unconstrained category. So we'll have some come on at the end of this year for Dry and some for Wet and the next year we'll have more. So we expect by the end of next year to be unconstrained on Dry and shortly thereafter to be unconstrained on Wet.

Question on: Human grade pet food development

Participant:

Can we get your perspective on the development of human grade pet food whether it's refrigerated, frozen, just the different product forms? How you see that category or that portion of pet food, it's mostly dog food I guess, developing? Is it taking share, where is it taking share from? And more broadly, how do you see Nestlé maybe playing in that category.

Nina Leigh Krueger, CEO and President, Purina North America:

So I'll start and then François, I'll pass it to you. So currently, that part of the category is about 2% today, and it's definitely an area that we're looking into. But when we look at food from a Purina perspective, we look at function and form and it's really important to remember that humans get their nutrition from thousands of products. And pet owners, like François mentioned, maybe feed one or two to get 100% of their nutrients. So we are definitely looking

into it. We definitely think it's a space where growth will be but we're taking our time and making sure that we enter it in the right way.

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

Can I just complement that as well. So, you know, being a leader in the category, we have a duty to look at anything that's happening and developing in the space. So then we keep on monitoring that. As of today, we are not totally convinced by the economics of some of these sub segments. So I think it's a little bit early. So we prefer to look, continue reviewing and let's wait and see if we believe that there is a case for profitable growth there as well. The market opportunity is there. Could we get a good return out of it? We are not totally sure at this stage, but something that we continue monitoring on a permanent basis.

Questions on: Risk of too much capacity
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Participant:

Just one other question related to Jason's question about capacity expansion. There's been quite a bit of capacity expansion in the U.S. or in North America. I don't think we really know how much volume is being added, but is there a risk that too much capacity gets built and we ended up with deterioration in economics because we've added so much capacity as an industry?

Nina Leigh Krueger, CEO and President, Purina North America:

So, what I would say is that I can't comment on what other manufacturers are doing because I don't know their numbers, but what I can say is that this has been a plan that's been materializing over the last three to five years, we've been working with the Group to do that. We are very confident that we have the plans in place to fill that capacity. And we're also building for the future. So hopefully we don't get ourselves in this in this situation again quite so quickly.

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

So, we see pent up demand, we cannot meet the demand. We had to stop a little bit our marketing activities as well, even last year, because we did not have enough capacity and we could not supply the market. So, we continue gaining market share as well. So we are extremely confident once again, as Nina Leigh is saying, we can't comment on the capacity contributed by others, but we know that we do need very significantly the capacity that we are putting through in the U.S. and elsewhere.

Questions on:	Changes in consumption Volume, mix and price
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Andrew Lazar, Barclays:

By all accounts and all metrics, it seems like there's a really long runway around premiumization in Pet care. But I'm curious you know, if closer in you've seen any shifting in consumption behavior around either trading down or more mainstream? You play in a number of different segments.

And then you showed a slide, I think it was 20 to 22, the mix between volume, mix and price. I was curious what that looked like for the category or for you, let's say several years before that, before we got into some of the more anomalous dynamics of the last couple of years.

Nina Leigh Krueger, CEO and President, Purina North America:

So we have found the Pet care category to be very resilient, and so we have not seen a lot of trading down in the category to-date. The beauty of having a broad portfolio is that we offer high quality nutrition across a broad spectrum of products. So we aren't seeing any impact from that, but the category is not either at this point.

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

On the mix, you know we had a little bit of a perfect match. What I presented, a third of price, a third of volume and a third of mix. This is ideally what we want to achieve. By the way this is what we have achieved over the last couple of years at Group level, not last year because of the post pandemic landing I would say and with a high base of comparison in 2021 as far as volume is concerned. But just to be clear on pricing, we don't create any value, this is a mere passing through of whatever we receive. That being said, we need to do it; we need to do it to protect our margin. So it's good to have some. Volume is really absolutely critical because this is, for human beings and this is for pets as well, share of stomach and this is where it helps us as well to gain market share. So this is something that we like, and we favor.

This is one of the reasons why by the way, we are investing in this capacity because we don't have room to grow further in volume. And mix is really where we create value alongside volume as well because this is about premiumization, this is about science-based and technology driven innovation where we can really make a difference. I explained for example in Cat, which is a more difficult market. Cats are more picky, they are more choosy. If you don't give them good food, they will not eat for a day. A dog will probably not do that. So this is a reason why we are we are really making a difference through science-based innovation and technology. And you can see it through what we have achieved in terms of mix.

So we don't see really a limit to that. We are moving clearly even further than the mere supply of pet food into providing solutions to pet parents. By solutions, what I mean is they are meeting regularly some issues like obesity for dogs and cats. Elderly dogs and cats losing motion for example, dogs barking too much or cat allergies. We can provide solutions to these challenges that pet parents are facing. And this is really what we find through the mix as well. We don't really see a limitation to that.

Questions on:	Personalization and Pet therapeutics in the U.S. Market share in China
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Warren Ackerman, Barclays:

Nina, can you talk about the two other growth trends in pet food which is personalization and pet therapeutics. In the UK, Nestlé bought Tails.com a few years ago, which was an algorithm that allowed different nutrition through the lifecycle of pets. Is that technology that you've leveraged in the U.S. and Purina U.S. And in Europe, Nestlé has also bought a minority stake in pet clinics IVC. Would you consider doing something similar in the U.S.?

Then for François, just on China, you referenced China pet food at the beginning. You're pretty small in China at the moment but the market is absolutely booming. Can you get your fair share that growth organically or do you need to look acquisitions?

Nina Leigh Krueger, CEO and President, Purina North America:

So personalization is definitely a trend here in the United States. There's Tails in the UK, as you mentioned, we have Just Right here in the United States. I would say that in the United States, it's not taken off quite as much as it has in other parts of the world. They're looking for more than brown kibble, when they want personalization, they want it to be in a much higher level, in different forms. And so we're looking into that right now as well.

From a vet perspective, we're the third player, we have strong we have very strong vet diets. That is where we're focusing right now. We do have partnerships that we have with vet clinics and those will continue in the future. But for right now, I think that's where we're going to stand from a vet perspective.

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

China is indeed an opportunity for us, and it goes beyond China, by the way, Asia in general. You could see on the chart that I presented that we still have a relatively low position there. By the way, the market is still at a relatively early stage of development as well. So no major concern about it. We do grow organically significantly today. We do gain market share, which is good news. Ideally, we would prefer to be where we are, for example, in Latin America and Europe in 20 years in Asia and in China through organic growth. By the way, this is what we

have done in Europe and in Latin America. It took us 20 years to get where we are through essentially organic growth, which is what I mentioned several times during my presentation. So we would prefer to do it the same way in China and in Asia. That being said, we always look at opportunities in terms of external growth opportunities. If we were finding the right opportunity, at the right price, with a good confidence that we can get a decent return out of it, we would look at it certainly. But we always favor and privilege, organic growth even if it takes longer.

Just one other thing as well in both China and Asia, we do already have a significant industrial base, which is good news. So we are really investing as well. We have a strong platform in order to be able to grow organically as we do today.

Question on: Inventory levels

Ann Gurkin, Davenport:

I have two questions. One can you comment about inventory levels at retailers, brick and mortar and e-commerce in the US as retailers have looked to free up working capital, where do you see those inventory levels moving?

And then second if you could comment on conversations with retailers. Do they look for adding leading brands and silos in the pet food segment or do they want companies to come in with a broad product assortment, in those conversations?

Nina Leigh Krueger, CEO and President, Purina North America:

So I will talk about inventories at retailers here in the United States. I can speak for Purina I cannot speak for any other manufacturer out there. Given that we are capacity constrained our number one goal is to make sure that we have share-of-shelf so that our products are at least available on shelf and inventories are not that large for us currently right now. Our goal is as we increase our capacity, we'll be able to supply retailers back into the inventory levels that they want. And then we'll have to start to see where that levels out. It's a great question. Currently for us, right now, it's not that big of an issue.

Question on: Trends; Natural and Science-based
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Participant:

Nina a question for you on big picture trends. Post the melamine crisis I think of around 2007 the industry was driven, premiumization was being driven by natural and grain-free varieties. Whether it be DCM or something else, something catalyzed a shift a number of years ago away from natural and grain-free and back into veterinary endorsed science diets. You see it

in *Royal Canin*, you see it in *Hill's Science Diet*, you see it in the *Purina Pro Plan* business. Do you think that trend has the same type of longevity that we saw with natural and grain-free? That's part one and part two is clearly that's benefited *Pro Plan* but at the same time it's weighed on Merrick, would you consider taking Merrick into mass retail to find another leg of growth for that branch?

Nina Leigh Krueger, CEO and President, Purina North America:

So that's a great question. I believe that nutrition and science-based foods will continue to grow. They were actually growing before some of those events, high double-digits. So I believe that that's going to continue. And it really is because the way humans are starting to look at how they feed themselves or how we eat. We're really looking at nutrition and science and how is that going to impact and make us live longer, healthier lives and that's what they want for pets as well. That does not mean that there's not room in the category for natural brands as well. So we do see Merrick playing a very important role in our portfolio. Natural brands will not go away, consumers are going to want them and it's going to be very important that we have them on shelf as well.

Questions on:	Gross margin Opportunities in Europe
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Céline Pannuti, JP Morgan:

Thank you. Two questions for me. Number one the margin has not been growing much in the past decade, I think. Can you comment about the gross margin, especially the fact that your premiumization you said has gone from 30% of the total to 60% of the total? I just wanted to understand why the margin has not been higher, not just because of cost inflation of the past couple of years.

And then my second question on Europe, can you comment on how different the market, or not, is for you? Your market share is slightly below what there is in the US. So what's the opportunity in the European market?

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

Céline, I don't want to comment specifically on the gross margin, but you saw in one of my slides that the underlying trading operating profit margin has been relatively stable, slightly up. As I mentioned, we assign a role to PetCare which is not necessarily to increase our margin because we are in an investment position. We want to continue gaining market share. We want to continue investing in marketing, in capex, in digitalization, in sustainability as well. So given that the margin by itself is accretive to the Group, we are quite happy to see a marginal increase for that category year after year. But we want to favor and privilege clearly top line growth and

market share gains which is a reason why you don't see a significant increase of the underlying trading operating profit margin. But once again, this is a deliberate choice that reflects our investment position.

In Europe. We have a lower market share, but let's not forget that Purina was born for us predominantly here in the US, so we started, to a certain extent, much later in Europe. But it's quite amazing because if you look at our position, we were a very distant number two, I think we had half of the market share of the number one 20 years ago in retail. And over the years we have gained I think to the point where two years ago I think we passed Mars as a number one player. It's a long journey. This is exactly what I said earlier. This is about really investing behind the brand. This is about organic sales growth and not external growth, step by step, year by year through investment and we have done a superb job. By the way we did exactly the same in that in Latin America. We did exactly the same in Eastern Europe with the same level of success, which gives me a lot of optimism for what we can do in Asia as well. Especially so that in Asia the market is still at an early stage of development

End of Q&A Session.

End of transcript.