NESTLÉ S.A.

2023 THREE MONTH SALES INVESTOR CALL TRANSCRIPT

25th April 2023, 14:00 CEST

Speakers:

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François-Xavier Roger, Chief Financial Officer, Nestlé S.A.
Luca Borlini, Head of Investor Relations, Nestlé S.A.

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Slide: Title slide

Good afternoon, and good morning to everyone. Welcome to the Nestlé first quarter 2023 sales webcast. I am Luca Borlini, Head of Nestlé's Investor Relations. Today, I am joined by our CEO, Mark Schneider, and our CFO, François Roger. Mark will begin with our key messages and discuss the Full Year 2023 guidance. François will follow with a review of the first quarter 2023 sales figures. We will then open the lines for your questions.

Slide: Disclaimer

Before we begin, please take note of our disclaimer. Now I hand over to Mark.

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

Slide: Title slide

Thank you, Luca, and a warm welcome to our conference call participants today. As always, we appreciate your interest in our company.

We are pleased to report a quarter with strong organic sales growth, resilient development of volume and mix, as well as solid progress on our various strategic initiatives – in particular, portfolio optimization.

After three years of extraordinary challenges and market gyrations – from the pandemic to the war and the surge of inflation – we are seeing a gradual easing on a number of issues. This allows us to devote more time and energy to what counts in the mid- and long term, and that is continued strategic progress on our various key initiatives to propel, transform and future-proof our company.

Slide: Key messages

Slide 4 summarizes the key messages for this quarter. The performance for the quarter fully confirmed what I had mentioned in our February call – we had a strong start to the year. Our responsible approach to pricing has not changed and the significant amount of pricing in Q1 reflects the input cost inflation we all witnessed over the past two years.

Real Internal Growth, the sum of volume and mix, was still slightly negative, but came in stronger than expected. As a reminder, Real Internal Growth for Q4 2022 was – 2.6%. The Q1 sequential improvement in Real Internal Growth was particularly strong in Zone North America as well as in Zone Asia, Oceania and Africa. Out-of-home saw increased Real Internal Growth versus Q4 2022, in particular in Zones North America and Greater China. We are still having some capacity constraints that are impacting our Real Internal Growth, in particular for PetCare, Coffee Creamers as well as *Perrier*.

We continued to work on our portfolio optimization program and can confirm our earlier estimate that this program will have a net negative impact for the first half of this year and a slightly positive impact for the Full Year 2023. We are seeing the first expected benefits come in as planned, in particular higher service levels for the company overall and for our high-rotation items in particular.

In addition to such portfolio management at the SKU level, we are also looking for more strategic projects and refill our pipeline of M&A transactions, both on the buying and selling side.

Slide: Creation of joint venture with PAI Partners for frozen pizza in Europe

This gets me to slide 5 and our creation of a Frozen Pizza joint venture with private equity firm PAI Partners. The transaction builds on a super successful inhouse role model, the creation of our Froneri Ice cream Joint Venture with PAI Partners in 2016. This transaction, which created enormous value for Nestlé and our partner, could have been a business school case study for what a well-defined private equity partnership can do: Step 1 – target efficiencies, Step 2 – massive investments to increase competitiveness and growth, Step 3 – successful premiumization, Step 4 – market share gains leading to significant growth and value creation.

We will deploy a similar approach here for our Pizza business. The transaction will allow us to participate in the growth and value creation over time and gives us full optionality when it comes to the future of the European Frozen Pizza business.

I know some of you had asked about our U.S. Frozen Pizza business in the context of this European transaction and our recent exit from the Canadian market. Please note that our situation in the U.S. is very different and our prospects there are much brighter. There we are enjoying a significantly larger market share, have material synergies with our large Frozen Food business and benefit from successful premiumization over the past decade. While the U.S. business has had some temporary growth issues due to inflation and the lapping of strong pandemic quarters, we are convinced of the long-term prospects and intend to maintain full ownership.

While we are on portfolio management, let me confirm that our Palforzia review process is fully on track. We expect to complete this review over the summer.

I would also like to draw your attention to the recent announcement that the pharmaceutical company Merck would acquire Prometheus Biosciences for USD 10.8 billion. It is a little-known fact that we have a minority stake in this company which gets valued at close to USD 700 million under the terms of the transaction. We got that stake as part of divesting the Prometheus diagnostics business in 2019 to a firm called Precision IBD and electing to be paid largely in shares. Prometheus was an early Nestlé Health Science acquisition from 2011. As our Nestlé Health Science evolved over the years it was no longer supporting our strategic focus on Consumer Health and Medical Nutrition. But the right long-term vision as we divested the company, we have been able to make a gain of about CHF 300 million on our investment.

Slide: Material progress on packaging in 2022

On slide 6 you see a summary of our sustainable packaging efforts over the last year. We are making steady progress on this important issue, which will help to mitigate plastic pollution and Greenhouse Gas Emissions. I am particularly proud of the fact that over the past years we have eliminated all plastic straws from our beverages and moved to paper-based solutions. No small feat - we are talking about 4.5 billion straws per year!

Challenges remain in two areas. One is flexible multi-layer pieces, such as sachets. We made progress in this area, but the technology is not quite ready yet for giving us sufficient food safety and shelf life, in all geographies and for all types of food. Combining those requirements with affordability and full recyclability is a true technological challenge

The second one is re-use and refill systems, where we are seeing slow consumer acceptance to date. We are still searching for safe, convenient and cost-effective solutions and are currently running 20 pilots in 12 countries. Do not doubt our strong efforts and good intentions in this area. While in-store re-use and refill systems are slow to take off, we are expanding the use of consumer refill systems as an important stop gap solution. A good example is our Nescafé refill pouch. It is fully recyclable and was launched in Europe in Q4, 2022.

Slide: 2023 Guidance confirmed

This brings us to slide 7 and our guidance for the year, which we fully confirm. In volatile times like these I ask you to keep your expectations within our guided ranges. Our first quarter has come in stronger than expected but it will be prudent to review second quarter trading levels before making any adjustments to our outlook for the year.

While we cover the guidance, I would like to raise a housekeeping item, our Marketing Spend. During our investor meetings that followed the Full Year results, many of you requested more visibility in this important area. We listened and saw that you have a point. Starting with our First Half 2023 financial report we will break out our Marketing Spend for you in the spirit of greater transparency. We will lay out the scope of this line item and discuss in detail latest in our H1 conference call.

This concludes my part of the presentation. Let me hand it over to François now.

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

Slide: Title slide

Thank you, Mark, and good morning / afternoon to all.

Slide: Three-month sales growth

Let me start with the highlights for the first three months of 2023.

Organic growth reached 9.3% with pricing of 9.8%, reflecting ongoing actions to compensate the significant cost inflation received over the last two years. RIG was -0.5%, impacted by capacity constraints and the effect of portfolio optimization initiatives. Demand elasticity and consumer downtrading remained limited in the context of pricing actions.

Net acquisitions increased sales by 0.3%, largely related to the acquisition of Orgain.

Foreign exchange had a negative impact of 4.0% on sales growth.

Total reported sales for the first three months were CHF 23.5 billion.

Slide: Strong growth across developed and emerging markets

Turning to the distribution of growth between developed and emerging markets.

Organic growth in developed markets reached 8.6%, driven by pricing.

Growth in emerging markets was 10.3%, led by pricing with positive RIG.

Slide: Improved RIG in Q1-2023 versus Q4-2022

In the first quarter, RIG improved versus Q4-2022 to -0.5% despite the continued impact of capacity constraints and portfolio optimization actions. The key contributors to the improvement were Zone North America and AOA.

In Q1-2023, volume development was impacted by active and deliberate choices to reduce the number of low-growth and low-margin products. We are starting to see the first expected benefits of this program with higher service levels for the company overall and particularly for high-rotation products.

As guided in February, we expect the program to have a net negative impact overall for H1-2023 and a slightly positive impact for the Full Year 2023.

Demand elasticity remains relatively limited in the context of pricing taken.

In the first half, we expect our Group RIG to be slightly negative, with an improvement in the second half overall.

Slide: Zone North America

Let's now look at the results of our seven operating segments, beginning with Zone North America.

We saw 11.6% organic growth. RIG was -0.8%, recovering strongly from the fourth quarter of 2022, with broad-based improvement across key brands and channels. The negative RIG still reflects the impact of portfolio optimization as well as *Perrier* capacity constraints.

Growth was driven by pricing, strong operational execution and continued momentum in e-commerce. The Zone saw market share gains, particularly in e-commerce, led by Pet food, Frozen meals, Soluble coffee and *Gerber* baby food.

By product category, the key growth driver was Purina PetCare. Nestlé Professional and Starbucks out-of-home solutions reported double-digit growth. Beverages and Frozen also saw a robust sales development. Water recorded a sales decrease, following temporary capacity constraints for *Perrier*.

Slide: Zone Europe

Shifting to Zone Europe. Organic growth was 9.7%, with broad-based growth across most geographies and categories. RIG was -1.0%, with some signs of demand elasticity in the context of pricing taken to offset significant input cost inflation received over the last two years.

Growth was supported by ongoing pricing actions, sustained e-commerce momentum and a strong sales development for out-of-home channels. The Zone saw market share gains in Confectionery, Pet food and Infant Nutrition.

By product category, the key growth driver was Purina PetCare. Confectionery and Nestlé Professional reported double-digit growth. Coffee posted high single-digit growth. *Nescafé Farmers Origins*, a range of coffee capsules for Nespresso machines, more than doubled its sales.

Slide: Zone Asia, Oceania and Africa

Moving now to Zone AOA. The Zone reported double-digit organic growth, with positive contributions from all geographies and categories.

Growth was driven by pricing, improved mix and continued momentum of out-of-home channels. RIG remained resilient in the context of pricing taken. The Zone saw market share gains in Culinary, Coffee and Ice cream.

By geography, the largest growth contributors were South Asia, the Middle East and Africa, as well as Oceania.

By product category, Infant Nutrition was the largest growth contributor with double-digit growth. Sales in Culinary grew at a double-digit rate, based on distribution expansion and strong execution for *Maggi*. Coffee posted high single-digit growth reflecting continued robust demand for *Nescafé* and Starbucks products.

Slide: Zone Latin America

Next is Zone Latin America, which maintained double-digit organic growth for the third consecutive year, with broad-based contributions across categories and geographies. Growth was supported by pricing, strong operational execution and continued momentum of out-of-home channels. The Zone saw market share gains in Infant Nutrition, Pet Food and Portioned Coffee.

By geography, Brazil, Mexico and Columbia were the largest contributors to growth.

By product category, Confectionery was the key growth driver, reflecting continued momentum for *KitKat* and seasonal products. Dairy posted double-digit growth based on robust demand for fortified milks and home-baking products. Sales in Infant Nutrition also grew at a double-digit rate across most segments, with particular strength for *NAN* functional products and infant cereals.

Slide: Zone Greater China

Turning to Zone Greater China. Organic growth was positive, based on solid pricing. RIG was negative, partly impacted by the timing of Chinese New Year.

Growth in Zone Greater China was supported by strong operational execution, e-commerce momentum and continued innovation.

By product category, Infant Nutrition was the largest growth contributor, led by *NAN* specialty offerings and *illuma*. Nestlé Professional saw mid single-digit growth, supported by innovation and distribution expansion. Confectionery posted low single-digit growth, led by increased distribution for *Hsu Fu Chi*. Purina PetCare posted double-digit growth with market share gains, driven by *Purina Pro Plan* dry cat and veterinary products.

Slide: Nestlé Health Science

Next is Nestlé Health Science. The business posted organic growth of 2.8% with pricing of 5.0% and RIG of -2.2%, following extraordinary growth over the last three years during the pandemic.

Growth was driven by pricing, e-commerce momentum and geographic expansion. The business continued to gain market share.

Consumer care reported a sales decrease, as positive growth in active nutrition products was offset by negative growth in vitamins, minerals and supplements. This sales decrease should be seen in the context of recent category trends. As a reminder, the U.S. Consumer Care market grew by around 31% over the last three years during the pandemic, with our business consistently gaining market share over that period. A slowdown in market growth, following such a strong increase in the prior three years, was expected and is not a cause for concern. We are starting to see signs of market growth picking up again.

On a separate note, the integration of the Bountiful company continues to progress according to plan.

Medical Nutrition reported continued double-digit growth, with strong sales developments for pediatric and allergy products as well as acute and adult medical care products.

Overall, as indicated at the Investor Seminar Day in Barcelona, we expect our Nestlé Health Science business to return to a high single-digit growth rate in the second half of 2023 as the base of comparison eases.

As a reminder, the strategic review of Palforzia is expected to be concluded by mid-year.

Slide: Nespresso

Finally, let's turn to Nespresso, which reported low single-digit organic growth, with RIG of -1.1%. As a reminder, comparable sales for Nespresso are around 30% higher than in 2019. We believe that the post-pandemic normalization of consumer behavior and its impact on Nespresso's growth is largely behind us.

Growth was supported by continued broad-based momentum for the *Vertuo* system. Sales for out-of-home channels saw strong demand, driven by increased adoption of the *Momento* system, as well as innovation.

By geography, North America posted double-digit growth with continued market share gains. Europe reported a sales decrease. Other regions combined saw low single-digit growth.

Slide: Broad-based growth across categories

Let's now look at product categories. Organic growth was broad-based, supported by pricing across all categories.

Within Powdered and Liquid beverages, Coffee saw high single-digit growth. Growth was broad-based across brands, segments and geographies and led by continued momentum for out-of-home channels, which grew at a strong double-digit rate. When it comes to Nespresso, it is relevant to look at the total ecosystem, including brands such as *Starbucks by Nespresso* and *Nescafé Farmers Origins,* which we sell in retail channels. On this basis, organic growth for the Nespresso ecosystem was mid single-digit, with positive RIG. Cocoa and malt beverages reported continued high single-digit growth, driven by strong demand for *Milo* and *Nesquik* ready-to-drink formats.

PetCare posted continued strong double-digit growth, despite capacity constraints. Science-based, premium and veterinary products saw strong sales developments. Growth was also supported by pricing, continued e-commerce momentum and innovation.

Nutrition and Health Science posted 8.2% growth. Infant nutrition reported 12.4% organic growth, with broad-based contributions across geographies, segments and key brands. We have already covered Nestlé Health Science.

Prepared dishes and cooking aids saw 6.8% growth, driven by strong sales development for *Maggi* and *Stouffers*.

Milk products and Ice cream recorded 8.1% growth. The key contributors to growth were Coffee Creamers and affordable fortified milks.

Growth in Confectionery reached 13.5%, reflecting strong demand for *KitKat,* seasonal products and key local brands.

Sales in Water grew by 3.1%, despite temporary capacity constraints and a high base of comparison in 2022. *S. Pellegrino* and *Acqua Panna* saw strong demand, particularly for out-of-home channels.

To complete my presentation, just a few words on market share. Overall, we continue to see that more than half of our business cells are gaining or holding share. Our market share has been impacted by capacity constraints and deliberate decisions on portfolio optimization to reallocate resources toward high-growth, high-margin products. In this context, we think it relevant to look at the performance of our billionaire brands, which account for 70% of our sales. For Q1-2023, billionaire brands saw 12.0% organic growth, with positive RIG and close to 60% of business cells gaining or holding share.

Let me now hand over to Luca, who will manage the Q&A.

Q & A Session

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Thank you, François. With that, we move to the Q&A session. We move the lines for questions from financial analysts. Please limit yourself to no more than two questions. The first question is from Céline Pannuti at JP Morgan.

Questions on:	**Pricing** **Gross Margin**

Céline Pannuti, JP Morgan:
My first question is on pricing, I think you landed more pricing in Q1. Can you talk about, would that have an extra impact in Q2 and where was it done? And are you largely done in terms of pricing at this stage?

The second question is on gross margin. I think at the Full Year stage, you said that the outlook was for gross margin to be decreasing in H1 and I wanted to know if that is still the case, we see that there's been easing costs from a commodity standpoint. And are we expecting now to see gross margin up for the Full Year?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:
Let's start with pricing. So indeed, we had still a reasonable level of pricing in Q1. You could see that by the way; our pricing has been at the same level for about three quarters and plateauing around 9% now. We will probably see pricing moving down a bit as we progress further into the year given that we are lapping higher comparable base last year. So we did do pricing, I would say across geographies, with probably a little bit more in Europe, given that we had probably a bit more to catch up to compensate for the input cost inflation that we received over the last couple of years.

As far as gross margin is concerned, usually during the Q1 call, we don't comment on the P&L, but let me just give you a few words exceptionally on the gross margin. We have started to see our gross margin improving in Q1 over the second half of 2022, as we expected. We may still land H1 gross margin, possibly at a lower level than the same period of last year, but we do expect indeed to see an increase in H1 as well over H2 last year.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:
Next question is from Guillaume Delmas at UBS. Please go-ahead Guillaume.

Questions on:	**RIG** **Nespresso in Europe**

Guillaume Delmas, UBS:
So the two questions. The first one on RIG. In Q4, François, you talked about temporary factors of around 160 basis points weighing on your RIG performance. Wondering if you could quantify the impact for Q1? And then looking at the second quarter, are there any factors that would incrementally weigh on your RIG performance? Or would it be sensible to kind of extrapolate the trend in Q1?

And then my second question is on Nespresso and particularly Nespresso in Europe. Because the business declined in the first quarter. Is there an issue with Nespresso in Europe? Because in the last three years, the business has been down twice and only up mid-single-digit once, I think it was in 2021. So, anything to fix? Or should we think about Nespresso as part of a much broader ecosystem in Europe?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:
Let me take the first question on the RIG in Q4. Indeed, we had mentioned three items without quantifying each and every single of them as having some negative impact on RIG in Q4 last year. One of them was portfolio optimization, which was still relatively strong last year. It is still the case in Q1 this year, with about the same impact. Then we had the second one, which was the capacity constraint that we have on Water, that was the lower one in Q4 last year, which is still having an impact as well in Q1 2023. And the third one that we had, which was relatively significant as well, was the out-of-home normalization where we had seen a little bit of softness in Q4 last year for out-of-home, and that has significantly improved, given that it had basically no impact in Q1 '23.

As far as Q2 '23 is concerned and the RIG and the extrapolation, we don't want to guide on Q2 to start with, so I would be very careful there. We are also very cautious looking forward, given that we see some pressure on consumer -- on consumption levels and consumer reactions. We see in some markets, more specifically in Europe, for example, volume of consumption being in negative territories. So, we are on the very cautious side for Q2 more specifically.

Mark Schneider, Chief Executive Officer, Nestlé S.A.:
To get back to you on the Nespresso question. So, a few thoughts and comments there. One is to take a look at the wider system sales because, as you know, we also sell the *Starbucks*

by Nespresso and *Nescafé Farmers Origins*, and when you factor that in, we're at about mid-single-digit organic growth. So clearly, when you take that wider-angle view and given that *Nespresso Farmers Origins*, for example, very much started in Europe and is focused on Europe and Starbucks also has a strong presence here. I think the situation changes a lot. Nespresso on the inner perimeter, under the Nespresso brand, that pattern that we're seeing somewhat lower growth rates, in some cases even negative growth rates in some European markets and then strong growth overseas, in particular in North America, but also other overseas markets, that is nothing unusual. I think as COVID came and went, clearly, of course, there was a strong tailwind as there was more at-home consumption. And now we're essentially going through some quarters where we have a headwind and hence, that European situation becomes more visible.

Timing-wise, we believe that starting from this summer, you should see the situation turn again. And then I think we have some of the strong lapping quarters behind us and then the true underlying growth of Nespresso should be showing through more strongly.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Next question is from Warren Ackerman at Barclays. Please go ahead Warren.

Questions on:	**SKU optimization** **Nutrition improvements**

Warren Ackerman, Barclays:

So I've got two as well. The first one is on the SKU program. I was wondering if you can tell us how many SKUs have you actually reduced since the start of the program? And maybe could you elaborate on growing the head, please? You talked about higher service levels, higher rotating items, can you give some examples of what you're seeing, would be really helpful. And then, am I right in thinking that Canadian Frozen Food exit only starts in the second quarter. So would that mean the SKU impact would then be worse in Q2 before swinging positive in the second half? So the first one on SKUs.

And the second one, just on Nutrition. Just listening to your comments, François, you're sounding pretty bullish about Nutrition in most regions. Latin America, up double digit; Asia, ex China up double digit; China driven by *NAN*. So obviously, given where we were last year, what's driving that? Is that birth rates recovering post pandemic? Is it market share gains? And is it RIG? Are you driving RIG within Nutrition? Or is it all just pricing, a bit of mix? Just interested to know what the sort of split of that Nutrition number is between RIG and pricing. And what's behind the sudden renaissance of Nutrition this year relative to last year?

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

So this SKU optimization and portfolio optimization program that we have, we continue to be very active. It had a negative impact on RIG in Q4. Again in Q1, about to the same extent. Obviously, the most interesting part of that program is also what we do in order to redirect and reallocate resources to high-volume and high rotation SKUs. And we had said that, over time, we would expect to get some positive benefit that would, to a large extent, and even in the second part of the year, fully offset the negative impact of terminating some SKUs.

And we were very happy in Q1 to see already that this part of growing the head and reallocating resources had a positive impact as we gained a few percentage points of service level in these high-rotation SKUs across geographies. So it really started to deliver interesting results. I would not be able to give you an exact number at the end of Q1 on the SKUs that we have eliminated, but we will certainly come back to you later in the year, not necessarily on a quarterly basis.

The Canada Frozen business that we will discontinue, it will be spread over 18 months. Actually, this is what we had announced initially, and it has started to have a little bit of an impact, but it will certainly increase as we progress during the year.

Nutrition, you saw that for two quarters in a row, at least we had very strong momentum there. This is essentially driven by market share gains across geographies and premiumization as well. We had some interesting development as well in China. As you know, it's one of our largest markets. And it is not only driven by pricing, but it is also driven, to a lesser extent, by positive RIG.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Next question is from Jon Cox at Kepler. Please go ahead, Jon

Question on:	**SKU rationalization** **RIG in Europe** **PAI joint venture**

Jon Cox, Kepler Cheuvreux:

A couple of questions for you. Just back on this SKU rationalization and the potential constraints. I'm just wondering you can just give us a figure on that. Because I think in Q4, you said of that 2.6%, around half was Foodservice. Is it right in thinking then that with Foodservice swinging positive, over 1 point or so is still a drag on you? And if you excluded that, you would actually be up in RIG terms by 0.5 point or so? That's the first question.

As a bit of an add to that, in Europe, actually, the RIG decline looked far better than anticipated given some of the data points out there, and some of those markets where you're seeing up to mid-single-digit volume declines. I wonder if you could just talk a little bit more about Europe, particularly in the context of what you were saying that as you go into Q2, you're even braced for maybe a bit worse in Europe.

And then just a cheeky add, with regard to the joint venture with PAI on your Frozen business or Frozen Pizza in Europe. I'm just wondering -- you said all options are open. Could that include an IPO down the road potentially with the Frozen Pizza business being sort of rolled into the Ice cream business and some sort of like combo IPO package in the next few years?

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

On the SKU, indeed, SKU rationalization, optimization program, it has continued to be a drag in Q1. We don't quantify it. The number is a little bit lower than what you mentioned though, just to provide you some indication.

On Europe, you are right that, okay, we have been quite active in terms of pricing to compensate for the input cost inflation that we have received over the last two years, given that you saw that, for example, in 2022, we had a very material decrease of our gross margin given that we had not passed entirely everything that we had received and have a little bit of catch-up there to do. Indeed, our RIG was relatively resilient in Q1. Be aware of the fact that some of the pricing that we implemented in Q1 has been implemented not necessarily at the very beginning of the quarter, but during the quarter. So indeed, you may expect a little bit more pressure probably on RIG in Q2.

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

Regarding your question on Pizza. So full optionality really means the full range of choices. And as you know, choice means value. So this is good. This just gives us lots of opportunities down the road, and that includes potentially an IPO. I don't see too much as a combination play between Froneri and Pizza. Again, this one of the options, but it's not the overarching logic here. The reason we selected PAI again for this year is that we had fantastic experiences with them as part of Froneri. They do understand corporate partnering. There's a deep understanding in that firm when it comes to governing fast-moving consumer goods assets. And we saw that at work, and we saw it create value as part of the Froneri joint venture. And hence, they were a very good partner to go to when it comes to Pizza. So again, full optionality, but don't see it as an automatic combo here to the Ice cream business.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

So next question is from Bruno Monteyne at Bernstein. Please go ahead, Bruno.

Questions on:	Volumes Private equity input

Bruno Monteyne, Bernstein:

My first question is still coming back to RIG in quarter one versus quarter two. I noticed how the Confectionery sales is very high in quarter one. Now I was trying to understand whether, let's say, last year's Omicron could have weighed into your seasonal sales, particularly around Valentine's and Easter, Easter coming a week earlier here. Is there any kind of link to that seasonality that would mean quarter one was materially boosted, and we shouldn't expect that to come back in quarter two? And related to that also, clearly, the Nielsen data does look weaker. Do you feel that any amount of sell-in being higher than sell-out, so that there's more stock inventory in the channel than usual? So that's on volumes.

And the second one is on this private equity deal. Now clearly, Froneri was very successful, I'm not doubting that. But Mark, when you were talking about those four steps of the business model, what was it, the cost-cutting and reinvesting in growth, sort of a nice little force that processes value creation. But it sounded identical to what Nestlé does all the time about in its businesses. What I didn't understand from your 4-step process is, what does the private equity fund bring that you can't do on your own? What do they bring above and beyond those four steps that you already do as a normal course of business?

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

Very good questions. And let me start with the second one, which I think merits a bit of discussion. And then let's segue after that with the first one, and I'll share the answer to that with François.

So on private equity, you're absolutely right. Some of these elements I mentioned are part of what we call the virtuous circle, and this is also how we develop our business. The difference is about how much reinvention and reimagining does it take to reposition a business. And I think what a large company like us is best at is when it comes to the patient scaling up of businesses that grow in a stable fashion over long periods of time.

So think about PetCare, think about Instant Coffee, those are areas where I think in a very patient manner, a systematic manner, year after year, we're putting down the investment, increasing volume, increasing scale, increasing market share and then we built these fantastic global brands over time.

When a business requires, in a short period of time, a significant amount of reinvention and a stronger type of makeover, and I think this is our assessment of where the Frozen Pizza business in Europe is, then I think a more creative approach that is supported by private equity and strong incentives to reposition the business is better suited.

And we've seen that at work in the Ice cream business. And again, we are much better off with our lower ownership stake in the Ice cream business that we have now than we were with a full ownership prior to 2016. And we see a similar situation arising now with Frozen Pizza in Europe. And a lot just has to do with is it just a few tweaks on the marketing things -- on the marketing positioning, which we can do ourselves, or is it a more fundamental process that needs to be reviewed. And as I look at the industrial landscape and footprint, as I look at the failed attempts in the past in Frozen Pizza in Europe to premiumize, I see opportunities here with a more creative and more radical approach that usually is brought by private equity.

So you're right. In many cases, we intend to create this value ourselves. In these more extreme cases, I do believe that partnering with a private equity firm that understands corporate partnering does make a lot of sense for Nestlé shareholders as well.

When it comes to Q1, I'll share this answer with François, but clearly here on Confectionery, we see, especially on KitKat, I think, a solid job on market shares. This is not so much driven by seasonality. The sell-in for Easter is typically a Q1 matter. So whether Easter occurs two or three weeks before or after, in this case, doesn't change very much. So there, I think, don't be afraid here that seasonality has been providing a one-time push.

We have seen, as you know, and this is not just referring to Confectionery, one more trading day in Q1. But that applies to all of our peers as well. And other than that, I didn't see much seasonality impacting Confectionery. Let me hand it over to François also for the sell-in, sell-out question.

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

Bruno, I can only reinforce what Mark is saying. In our industry, there is not much difference between sell-in and sell-out, maybe with the exception of a few emerging markets and with the exception of China, for sure. But retailers don't really increase or decrease materially their inventories from one month to the other. It may apply for retailers probably for discretionary items, but not really for Food and Beverage. It may happen in a very limited way as well when we announced price increases. But we have seen that it is usually very limited. So we don't see any major differences between sell-in and sell-out.

One other way to look at it is to compare the pattern between our sales growth and our market share development. And there, again, we see exactly the same trend, with both of them evolving positively. I take the occasion, by the way, to say that because we seem to have, from time to time, a little bit of different views as far as market share is concerned, that when you take the traditional panels like Nielsen and Kantar, their coverage is actually relatively limited, I would say, maybe only half of our sales. We do, ourselves, we are in a position to be able to cover maybe around 70%, 7-0, of our sales. So the traditional panels cover reasonably well, I would say, the grocery channel and more specifically in North America, in Western Europe, maybe in some other markets, but their coverage is usually relatively limited in emerging markets, for direct-to-consumer by definition and for e-commerce.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Next question is from Pascal Boll at Stifel. Please go ahead, Pascal.

Question on:	**PetCare** **Plant-based strategy**

Pascal Boll, Stifel:

The first question is on PetCare. The RIG of 3.5%, what was the reason behind that? Is it strong demand and also that new capacities that have come online allowed you to grow further? So is there still a huge constraint and you could have even sold more? That would be my first question.

And the second question on plant-based food. I saw that in the U.K., you pulled out of the market with the Garden Gourmet brand as well as with Wunda. Now when I reflect back to the Capital Markets Day in Barcelona, you were very enthusiastic about the opportunities in plant-based. Over the last month, has anything changed here? And especially in strategy, how Nestlé wants to win that market?

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

Let me take the first question, and Mark will take the second one. On PetCare, indeed, very strong growth, again, I think, for the fourth year in a row. I think we are double-digit. This is clearly linked to a strong demand. And if we had not had capacity constraints, obviously, even the RIG would have certainly been higher. That strong demand is largely linked to two strong underlying trends. One of them is the calorific coverage in emerging markets, which is a number of dogs and cats that are taking processed food instead of food left over from the family table. That's one of the strong underlying trends. As well as the second one, more in the developed world, is about premiumization.

To that, you need to add the fact that we continue gaining market share as well. So very strong demand for PetCare, and we have no signs at all that this is going to slow down. And as you know, we are investing significantly as we speak, and we expect to get some additional capacity coming in, mostly in North America by the end of 2023 and more specifically in '24.

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

Pascal, let me comment on plant-based. So we continue to be very enthusiastic about the mid- to long-term growth prospects here. And I think the two examples that you cited; those were more tactical moves that don't take away from our long-term enthusiasm.

So specifically, when it comes to Garden Gourmet in the U.K., Garden Gourmet is super strong on the continent here in Europe, and I think the recipes and the product presentation is very much geared towards Continental European tastes. We were struggling with a below-scale presence and shelf presence in the U.K. as a late entrant to a highly competitive sector there. And also a sector where -- when you look at the product presentations and recipes, a lot of that is geared to Asian dishes and our products were not so much made for that. So clearly, we were struggling for a few quarters, and we felt that there is no immediate path to success here and, hence, we retreated.

Wunda, we still believe very much in the product. We still believe very much in plant-based dairy. But that straightforward, low shelf presence, 1 or 2 or 3 SKU path into the market, clearly is not working. And hence, we're looking at other ways to reach the consumers either through specialties or through our professional distribution channel. And again, this is not taking away from the long-term growth prospects of this, but the U.K. market definitely does have a very competitive environment for plant-based and it just turned out that our current go-to-market strategy was not best geared to that.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Next question is from Tom Sykes at Deutsche Bank. Please go ahead, Tom.

Questions on:	Geographical differences in PetCare growth Inflation and pricing

Tom Sykes, Deutsche Bank:

Yes. Firstly, just on Pet, are you able to split out the growth between North America and non-North America, at least allude to perhaps the gap in growth in the RIG or pricing?

And then I know that it's quite early given that you said, you reported your pricing remains high. Given that there obviously will be some countries where food inflation is beginning to come down more and pricing is coming down by less or is coming down. Are you beginning to see some sort of elasticity moves the other way at all? Or is it too early for that? Any implications of slowing inflation in those countries where it is occurring would be very interesting.

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

On PetCare, I mean, the growth was very consistent between the different Zones. And I mean we saw a strong momentum in North America as well as in Europe and in other emerging markets. I mean if I think of Western Europe, Eastern Europe or Latin America as well, so it was across the board, very consistent with what we can see at group level.

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

And Tom, commenting on inflation here. Obviously, we're talking about vastly different situations depending on what market and what category you look at. It's very hard for us now specifically to comment on a country, market or category without getting into competitive signaling. I think one of the strengths of the Nestlé system is that we do have a lot of decentralized decision-making to be sure that we take a good look at what the local competitive situation is like, what the local inflation situation is like and then to see how to decide in the best interest of the company.

So at this point, probably too early to describe any patterns yet. And as you know from the Full Year results, when it comes to our consolidated numbers and when it comes to our Zones on a consolidated basis, we're still in the process of catching up with some of the price inflation hits that we've taken over the two* years. And that is still one of the overarching situations.

So it's important not to confuse short-term spot market movements with year-over-year situations. In many situations, we're still, on a year-over-year basis, above last year's levels.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Next question is from Emma Letheren at RBC. Please go ahead, Emma.

Questions on:	**Private label trends** **Marketing spend**

Emma Letheren, RBC:

Could you please comment on private label trends? You indicated before that private label has been gaining a little bit of share in some markets and categories, but that's really at just returning to pre-COVID levels. So wondering if that's still the case?

And secondly, you aim to increase marketing as a proportion of sales going forward. Given the exceptional sales performance of this first quarter, are you still expecting that to be the case for 2023 as well?

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

Let me take the first question. On private label, so indeed they gained market share in 2022 in the Food and Beverage industry, for us and against us as well. However, so far, private label levels have essentially regained the market share that they lost during the pandemic. And more recently, we have seen the rate of private label share gains slowing down. Inflationary pressure, by the way, impact all players in the industry, including private label. The pressure is typically more pronounced for private label since input costs typically represent a higher proportion of their sales. And as a consequence, we have seen that private label had to implement significantly higher percentage increases than branded products like ours, while, obviously, their price points remain at a lower level than branded products.

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

And Emma commenting on the marketing spend, I wanted to confirm that there is no change in our intentions from what we told you as part of the Full Year. So first of all, starting with H1, we'll give you that increased transparency and visibility when it comes to marketing spend. But just because Q1 came in stronger than expected, there is no change in plans here when it comes to our marketing spend going forward.

I think we discussed in a lot of detail as part of the Full Year disclosure is that what we did last year was a highly tactical and pragmatic reaction to the prevailing situation that we saw. And there was, for example, many supply chain constraints. And hence, it was unusual. But from there, of course, as a marketing company, we intend to increase that spend going forward again. So no change of plans for '23.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

And now we have the last questions from David Hayes at Société Générale. Please go ahead, David.

Questions on:	Reasons behind better-than-expected Q1 Nespresso Europe

David Hayes, Société Générale:

The first one, can I just push you a bit more on this comment that you made throughout about the better quarter performance. Is that just on RIG or was pricing holding and achieved more than you're perhaps expecting? I guess just on the RIG, it feels like EU resilience was sort of maybe a key area for you. Any other areas that you talk about where you are known to be better than you were thinking? I think maybe perhaps the squeezing the head element, is that come through quicker than you expected? Is that part of the reference that you're making there?

And then the second question, just to follow up on the Nespresso EU performance. Has there been little to no pricing in Nespresso in Europe as of yet? And is that strategic? And/or will the pricing in Nespresso Europe contribute more through the next couple of quarters?

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

On the second question, as always, we'd love to be helpful, but I can't go into any price guidance here on a specific product and region. I hope you understand.

Regarding the first quarter, again, we're not pounding our chest, but it's also pretty clear and pretty evident that it came in more strongly than expected. I think when it comes to RIG, I pointed to two geographic Zones, in particular, and that is North America, and Asia, Oceania and Africa. But I think it's also fair to say that compared to some of the fears that everyone had going into the winter, the European consumer has held up better than expected. And I think now, as François pointed out, we're still seeing some uncertainty for Q2, but also no specific signs here that things are headed down. And so again, this is where we believe that having the second quarter come in and then seeing where we are and adjusting our outlook for the year is probably the best way going forward to judge the situation.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:

Okay. Thank you. We have no further questions. So we come to an end to our session today. We thank you very much for your interest in Nestlé. As usual, if you have further questions, don't hesitate to contact our Investor Relations team. We wish you well. Stay safe and healthy.

End of Q&A session

End of Transcript