2023 HALF-YEAR RESULTS INVESTOR CALL TRANSCRIPT

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Speakers:

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

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

Slide: Title slide

Good afternoon, and good morning to everyone. A warm welcome to the Nestlé First Half 2023 Results Webcast and thanks for joining.

I am Luca Borlini, Head of Nestlé Investor Relations. Today, I'm joined by our CEO, Mark Schneider, and our CFO, François Roger.

Mark will begin with key messages and discuss the full year 2023 guidance. François will follow with a review of the first half 2023 sales and profit figures. We will then open the lines for your questions.

Slide: Disclaimer

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

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

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 believe that we have a strong and convincing set of results for the first half, delivering on key metrics where we had indicated improvement earlier this year. Based on that, we look towards the second half and the year 2024 with confidence.

Very importantly, after several years of day-to-day crisis management, we have seen signs of further normalization in our operating environment in the first half. This allows us to be more strategic and more forward-looking in the way we manage our business. We're getting back to our proven virtuous circle of managing for steady and profitable growth.

Slide: Key Messages

We are pleased to report strong and broad-based organic growth of 8.7% for the first half of 2023.

Pricing was 9.5%, reflecting significant input cost inflation over the last two years.

As you know, we had cautioned you about expectations for the development of volume and mix in the second quarter.

Against that backdrop we were quite pleased with the resilient Real Internal Growth, the sum of volume and mix, which came in at -0.8%. Given that our own voluntary portfolio optimization
efforts reduced this number by 60 basis points, we managed to keep the underlying Real Internal Growth almost flat.

Not a small feat in a period with extraordinary, inflation-induced pricing and economic uncertainty. And a period that still saw some post-Covid normalization in a few of our categories, which was a slight drag on volume growth.

In case you are concerned about a sliding global consumer sentiment, I would like to assure you that we did not see a downward trend inside the second quarter. April was rather weak in line with what some of our peers reported. Sales in May and June were quite firm.

I would like to confirm our expectation that Real Internal Growth will swing into positive territory in the second half of the year. Several businesses that showed signs of temporary post Covid sales growth compression are beginning to turn around, for example Nespresso and the Vitamins, minerals and supplements segment of Nestlé Health Science.

We are also increasing our marketing investments and will increasingly see the benefits of our portfolio optimization program kick in. As our pricing activities moderate we should also see less of a drag on volumes.

Among the other achievements for the first half I would like to point out the sequential development of our gross margin compared to the second half of last year and our free cash flow development. The gross margin improvement is expected to continue over future quarters.

The free cash flow improvement is in line with our expectations and should accelerate in the second half of the year. More of that from François later.

So, all in all, a solid financial picture with a strong development in constant currency underlying earnings per share growth of 11.1%. This is above the top end of the mid-term 6-10% corridor we had laid out to you in Barcelona last year.

Our marketing spend as a percentage of sales increased compared to the second half of last year and is roughly unchanged from the first half in 2022. As you know, for most of 2022, our marketing spend levels were quite muted in the face of supply chain and capacity constraints. With a large degree of uncertainty over consumer behavior during the winter, we had started the year on very low spending levels. As from March, the spending levels increased month after month with Q2 spending levels now significantly above last year’s level. We will continue to invest in a very robust manner in the second half of 2023.
Moving on to slide 5 and our business as a force for good section I would like to highlight our work on sourcing deforestation-free palm oil.

Palm oil is a very versatile vegetable oil used in a number of our categories. It is quite efficient with regards to land use per ton produced but, of course, it needs to be responsibly farmed. Nestlé is committed to that. We pursue high-tech solutions, like the satellite tracking system, which we adopted as the first large-scale user to monitor our palm oil supply chain. At the other end of the spectrum, we are closely involved in on-the-ground measures, working with small-holder farmers to find sustainable and equitable solutions. We leave no stone unturned. We are now nearing 96% deforestation-free sourcing for palm oil and will continue to disclose this number annually.

Getting to deforestation-free and staying there will be a constant effort and we are committed to it in the name of avoiding deforestation around the world and protecting our climate.

**Slide: 2023 guidance updated**

This takes us to slide 6 and our updated outlook for the year. Based on the stronger-than-expected Organic Growth and Real Internal Growth development in the first half, we now increase our Organic Growth guidance for the full year to a range of 7-8%. While it is prudent in volatile times to leave some downside protection, I would like to share my personal expectation that we intend to hit the upper half, if not the upper end of this range. We fully confirm all other items of our 2023 guidance and believe that our strong first half financials put us in a very good position to meet or exceed those.

With this I would like to hand over to François.

I look forward to answering your questions later.

**François-Xavier Roger, Nestlé SA, Chief Financial Officer:**

**Slide: Title Slide**

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

**Slide: Half-year sales growth**

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

Organic growth reached 8.7% with pricing of 9.5%, reflecting the impact of cost inflation received over the last two years.
RIG was -0.8%, impacted by capacity constraints and the effect of portfolio optimization initiatives. Overall, demand elasticity and consumer downtrading remained limited in the context of pricing actions.

Net divestitures decreased sales by 0.4%, largely related to the divestiture of Freshly as well as the disposal of the Gerber Good Start infant formula brand in the United States.

Foreign exchange had a negative impact of 6.7% on sales growth, following the broad-based depreciation of currencies versus the Swiss franc. Total reported sales for the first six months were CHF 46.3 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 was 8.0%, driven by pricing with negative RIG. Growth in emerging markets was 9.6%, based on pricing with flat RIG.

Slide: RIG expected to turn positive in second half of 2023

RIG for the first half of 2023 was slightly negative at -0.8%, in line with what we previously communicated. RIG was at a similar level in the first and second quarters when adjusted for the number of trading days.

RIG continued to be impacted by remaining capacity constraints, particularly for PetCare and Water.

RIG was also impacted by portfolio optimization actions which had a negative effect of around 60 basis points in the first half. This included the impact of the fast winding down of the Frozen meals and Pizza business in Canada in the second quarter. At the same time, we are starting to see the benefits of our portfolio optimization actions, with a material and progressive improvement in service levels for high rotation products in the first half. This improvement will support RIG development in the second half.

We are confident that Group RIG should turn positive in the second half. Beyond the lower base of comparison, the RIG improvement should be driven by the step-up in marketing investments, the net effect of portfolio optimization and the moderation of new pricing.

Just as a reminder, the third quarter will have one less trading day.

Slide: Zone North America
Let's now shift focus to the results of our seven operating segments, beginning with Zone North America, where we saw 10.0% organic growth, with inflation-related pricing of 11.0%. RIG at -1.0% was resilient in the context of portfolio optimization actions and capacity constraints, particularly for Purina PetCare, Perrier water and Coffee creamers. Excluding these impacts, RIG was slightly positive in North America in the first half.

The Zone delivered broad-based growth across brands and categories, driven by favorable mix and continued momentum in e-commerce. The Zone saw market share gains in Pet food, Frozen meals as well as Soluble and portioned coffee.

By product category, the largest growth contributor was Purina PetCare, which reported growth in the mid-teens, with positive RIG. The Beverages category, including Starbucks products, Coffee mate and Nescafé, posted high single-digit growth. Sales of Nestlé Professional and Starbucks out-of-home products grew at a strong double-digit rate. Frozen food reported flat growth, partly impacted by portfolio optimization actions in Canada. We are seeing positive market share trends across brands, including gains for Stouffers, Jack's and California Pizza Kitchen.

The Zone’s underlying trading operating profit margin increased by 280 basis points, mainly as a result of the divestment of a majority stake in Freshly and portfolio optimization initiatives. Pricing and cost efficiencies also helped to offset significant cost inflation received over the last two years.

**Slide: Zone Europe**

Next is Zone Europe. Organic growth was 8.9%, driven by pricing linked to significant input cost inflation received over the last two years. RIG was -2.4%, following a high base of comparison and portfolio optimization actions. It is worth remembering that over the last two years RIG increased by more than 6% for the first half.

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

By geography, the U.K., Türkiye and Central & Eastern Europe were the lead contributors to growth.

By product category, the key growth driver was Purina PetCare, fueled by premium brands Felix, Gourmet and One. Growth for PetCare was strong across all channels, particularly in e-commerce. Confectionery reported high single-digit growth with strong demand for KitKat.
Nestlé Professional recorded double-digit growth. Coffee saw mid single-digit growth, with particular strength for Nescafé soluble coffee and Starbucks products.

The Zone’s underlying trading operating profit margin decreased by 70 basis points, as significant cost inflation outweighed pricing and cost efficiencies.

**Slide: Zone Asia, Oceania and Africa**

Moving to Zone AOA. The Zone reported high single-digit organic growth. Pricing was 9.2%, reflecting the impact of input cost inflation and currency depreciation. RIG was slightly positive.

Growth was driven by pricing, continued momentum of out-of-home channels and innovation. The Zone saw market share gains in Coffee, Culinary and Confectionery.

By geography, all regions posted positive growth. South Asia was the key growth contributor, supported by distribution expansion and e-commerce momentum. The Middle East and Africa also saw strong growth based on robust demand for affordable offerings. Growth in South-East Asia was driven by the Philippines and Malaysia-Singapore.

By product category, Infant Nutrition was the largest growth contributor, led by Lactogen, NAN and Cerelac. Sales in Culinary grew at a double-digit rate, led by Maggi and fueled by new product launches. Coffee posted high single-digit growth, with continued robust demand for Nescafé and Starbucks products. Sales for Nestlé Professional grew at a strong double-digit rate across most geographies and categories, supported by channel penetration and customer acquisition.

The Zone’s underlying trading operating profit margin decreased by 70 basis points. The impact of input cost inflation and currency depreciation more than offset pricing and disciplined cost control.

**Slide: Zone Latin America**

Next is Zone Latin America, which reported double-digit growth for the third consecutive year, led by pricing of 12.5%. RIG was -0.9%.

The Zone saw sustained broad-based growth across all geographies and product categories, supported by strong operational execution and continued momentum of out-of-home channels. The Zone saw market share gains in Pet food, Infant Nutrition and Culinary.

By geography, growth was led by Brazil, Mexico and the Plata region, which all reported double-digit growth. By product category, Confectionery was the largest growth contributor based on strong demand for KitKat and key local brands. Dairy posted double-digit growth,
supported by Fortified milks and Dairy culinary solutions. Infant Nutrition saw double-digit growth, based on solid momentum for NAN and Nido growing-up milks. Coffee reported broad-based double-digit growth, supported by Nescafé soluble coffee.

The Zone’s underlying trading operating profit margin decreased by 130 basis points as one-off items in the prior year and cost inflation more than offset pricing and cost efficiencies.

**Slide: Zone Greater China**

Turning to Zone Greater China. Organic growth was 4.7%, with pricing of 3.4% and RIG of 1.3%.

Growth was supported by e-commerce momentum and a recovery of out-of-home channels. The Zone saw market share gains in Pet food and Confectionery.

By product category, Nestlé Professional was the largest growth contributor, supported by innovation and distribution expansion. Infant Nutrition saw mid single-digit growth, led by NAN specialty offerings and illumina. Confectionery reported high single-digit growth, led by Hsu Fu Chi and Shark wafer.

The Zone’s underlying trading operating profit margin increased by 160 basis points as favorable mix and disciplined cost control more than offset cost inflation.

**Slide: Nestlé Health Science**

Turning next to Nestlé Health Science. The business posted mid-single-digit growth with pricing of 5.3% and RIG of -1.9%, following extraordinary growth over the last three years during the pandemic. Our three-year RIG average for the first half was 5.3%.

E-commerce momentum, continued geographic expansion and market share gains supported growth.

Consumer care reported a sales decrease, with a return to positive growth in the second quarter. Active nutrition saw low single-digit growth, driven by healthy aging products, Vital Proteins and Orgain. Vitamins, minerals and supplements saw a sales decrease in the first half, turning positive in the second quarter based on robust growth for Garden of Life and Pure Encapsulations. The VMS category is showing signs of returning to growth, and we expect it to increase further in the second half.

Medical Nutrition recorded double-digit growth, with strong sales developments for acute medical care, pediatric and allergy products.
The underlying trading operating profit margin of Nestlé Health Science decreased by 70 basis points as cost inflation more than offset pricing and acquisition synergies.

**Slide: Nespresso**

Finally, Nespresso, which reported mid single-digit organic growth driven by pricing. RIG was 0.8%, with a return to positive growth across most segments and geographies in the second quarter.

Growth was led by broad-based momentum for the *Vertuo* system. Growth in out-of-home channels was also strong, supported by the continued expansion of the *Momento* system, particularly in the office segment. Innovation continued to resonate with consumers, including the launch of *Vertuo* milk machines, new barista iced coffee creations such as juicy watermelon over ice, as well as the launch of home compostable coffee capsules in France in June.

By geography, North America posted double-digit growth with continued market share gains. Europe reported slightly positive growth. Other regions combined recorded low single-digit growth.

The underlying trading operating profit margin of Nespresso decreased by 260 basis points. Significant coffee cost inflation and the appreciation of the Swiss Franc more than offset pricing actions. The business continued to invest in the rollout of the *Vertuo* system as well as in media advertising, including the new campaign featuring George Clooney, Simone Ashley and Julia Garner.

**Slide: Broad-based growth across categories**

Let's now look at product categories. Organic growth was broad-based, supported by pricing across all categories. At-home consumption post-COVID has now normalized, while out-of-home channels continue to see strong growth momentum, with an organic growth rate twice as fast as the Group average at 17.1%.

Within Powdered and liquid beverages, Coffee saw high single-digit growth. Growth was broad-based across segments, brands and geographies and led by continued momentum for out-of-home channels, which grew at a strong double-digit rate. *Starbucks* products grew by 9.4%, supported by a strong recovery of out-of-home channels in the United States. Cocoa and malt beverages reported mid single-digit growth, with strong contributions from *Nescau* and *Milo*.

PetCare posted continued strong double-digit growth for the third year in a row, 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 7.4% growth. Infant Nutrition reported 10.4% organic growth, with broad-based contributions across geographies, segments and key brands. Sales of human milk oligosaccharide products grew at a mid-teens rate, reaching around CHF 700 million in the first half. We have already discussed Nestlé Health Science.

Prepared dishes and cooking aids saw 5.8% growth, driven by Maggi which reported close to double-digit growth. Plant-based food posted low single-digit growth, following the impact of portfolio optimization. While there has been some growth moderation for plant-based products recently, we see that as temporary. We remain positive on long-term category trends and expect the plant-based market to evolve and rebound.

Milk products and Ice cream recorded 7.5% growth. The key contributors to growth were Coffee creamers, affordable fortified milks and Dairy culinary solutions. Ice cream grew at a mid single-digit rate, led by Häagen-Dazs in Canada and KitKat ice cream sticks in South-East Asia.

Growth in Confectionery was 10.8%, reflecting strong broad-based demand for KitKat and positive sales developments for key local brands, including Garoto in Brazil, Munch in South Asia and Shark Wafer in China.

Sales in Water grew by 4.2%, 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. We continue our modernization efforts at our Perrier site and expect a normalization of supply by the end of the year.

**Slide: Underlying trading operating profit margin by category**

Moving now to profit margin by product category. Most categories saw a margin improvement as pricing, cost efficiencies and portfolio optimization helped to offset input cost inflation received over the last two years.

Margins within the Powdered and liquid beverages category decreased by 250 basis points mainly due to significant cost inflation in Coffee.

PetCare margins increased by 190 basis points, driven by growth leverage, lower distribution costs and improved mix, which more than offset increased advertising and marketing expenses.
Margin increases in Milk products and Ice cream as well as Food were supported by pricing, portfolio optimization and structural cost reduction.

Confectionery saw a margin increase of 70 basis points based on growth leverage, pricing and structural cost reduction.

Within Nutrition and Health science, Infant Nutrition saw a margin increase of 70 basis points as a result of growth leverage, structural cost reduction and lower distribution costs.

**Slide: Pricing, growth leverage and efficiencies mostly offset inflation**

Next is underlying trading operating profit, which increased by 2.9% to CHF 7.9 billion. The underlying trading operating profit margin reached 17.1%, an increase of 20 basis points on a reported basis and 30 basis points in constant currency.

Gross margin decreased by 40 basis points to 45.6% as a result of continued input cost inflation that I will detail on my next slide.

Distribution costs as a percentage of sales decreased by 50 basis points to 8.6% of sales, mainly as a result of lower freight and energy costs.

Marketing and administration expenses as a percentage of sales were unchanged versus the prior year.

**Slide: Starting to restore gross margin**

Going into more details on gross margin.

Our gross margin decreased by 40 basis points year-on-year to 45.6%. When including distribution costs as some other companies do, our gross margin increased by 10 basis points. Pricing, cost efficiencies and portfolio optimization only partly offset the impact of cost inflation, which is still significant, despite being lower than in the prior year. While costs have decreased versus the peak for some items, many price levels for commodities and labor are still trending materially above their 2022 average, and some items have seen increases.

For example, Robusta coffee spot prices are nearly 30% above their 2022 average and almost 50% above their last 10-year average. Similarly, sugar and cocoa are 25% above their 2022 peak and more than 35% higher than their 2022 average. We are starting to restore gross margin and when compared to the second half of 2022, we can see a material improvement of 110 basis points. We expect our gross margin to be up materially in the second half versus the corresponding period in 2022.

**Slide: Stepping up investments in advertising and marketing**

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Turning to advertising and marketing expenses.

We value consumer-facing marketing investment as a key growth driver supporting our brands and innovation. In the spirit of greater transparency, we are now disclosing the Group advertising and marketing expenses.

In 2022, we temporarily reduced our investment levels as we limited advertising and marketing activities in the context of supply chain constraints. We look at marketing and trade spend jointly because we often arbitrate between these two lines of the P&L. In the second half of 2022, we increased our trade spend in Swiss francs versus the first half, as we focused on increasing accessibility and affordability of our products in the context of unprecedented pricing to compensate for significant inflation. In the first half of 2023, our advertising and marketing spend increased by 7.5% in constant currency versus the same period of the prior year. As a percentage of sales, it was 7.1%, representing a 50-basis point increase over the second half of 2022. In the second half of 2023, we expect to further increase our marketing investments.

Slide: Net profit

Moving on to the P&L items from underlying trading operating profit down to net profit. Restructuring expenses increased to CHF 262 million in the first half of 2023 from CHF 87 million in the prior year. Impairment of assets decreased by 130 basis points, year-on-year. Trading operating profit margin was 15.9%, an increase of 120 basis points on a reported basis. Net financial expenses increased to CHF 697 million. The average cost of net debt was 2.6% compared to 1.9% in the first half of 2022. As a result of these movements, the net profit margin increased by 70 basis points to 12.2%.

Slide: Increasing free cash flow generation

In Swiss franc terms, free cash flow increased from 1.5 billion to 3.4 billion, and as a percentage of sales from 3.2% to 7.4%. The increase was due to working capital movements and the sale of our stake in Prometheus Biosciences. These two elements more than offset temporarily higher capital expenditure for the period. Even after stripping out the positive inflow of CHF 643 million linked to the Prometheus disposal, the free cash flow increase of CHF 1.3 billion was significant.

Slide: Inventory levels starting to normalize

A key driver of our working capital improvement was the lower level of inventories. At a time of significant inflation, it is relevant to look at the evolution of inventories as a percentage of sales rather than in absolute value terms. Inventory levels are starting to normalize following a
temporary increase in the prior year linked to supply chain constraints. We expect this level to decrease at a faster pace in the second half of the year.

**Slide: Underlying earnings per share**

Moving to underlying earnings per share, which increased by 11.1% in constant currency and by 4.1% on a reported basis to CHF 2.43. The improvement was driven by strong organic growth and an increase in the underlying trading profit margin. Nestlé’s share buyback program also contributed 1.4%, net of finance costs. These increases were partly offset by the negative effect of exchange rates and higher financing costs.

**Slide: Q&A**

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

**Q & A Session**

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

Thank you, François. With that, we move to the Q&A session. We open the lines for questions from financial analysts. (Operator Instructions)

The first question comes from Warren Ackerman at Barclays.

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**Warren Ackerman, Barclays:**

The first one is just around margins. I think François you said gross margin will be materially up in H2. Can you define materially, maybe the moving parts? And within that, what was the COGS inflation in H1 and your expectations for H2? And maybe any comments around wage inflation as well, just for us to understand the scope of the gross margin, which you need to be able to fund the reinvestment. That's the first one.

Then the second one is just a bit more on Coffee because Coffee was one of the only categories where margins were down. So I'm just interested to know what your expectations are in the back half, around margin. Then in terms of the operating dynamics, are you able to help us on a few of the elements in Coffee? What was the Starbucks growth? And maybe a little bit on what's happening to the Nespresso compatible capsule market in terms of competition and your market share?

**François-Xavier Roger, Nestlé SA, Chief Financial Officer:**
A lot of questions there. Let me start with the margin one. So indeed, we are very positive about the fact that our gross margin will continue to grow in the second half of the year. I can't give you a specific number for the second half, but you saw already that we improved our gross margin by 110 basis points from Q2 last year to Q1 this year. It will continue, especially as we continue benefiting, to a certain extent, from the pricing that we have done, including we have done some pricing at the end of Q1, while we see a moderation in input cost inflation.

Input cost inflation remains high. If we look at the first half of 2023, it is almost 10% increase. So it's not 0. And we continue seeing some items increasing. I mentioned earlier, the Robusta price increases, or sugar, or cocoa, for example, but we see obviously some more softness in some other items like energy or transportation. So the fact of having still the benefit of pricing that we have implemented at the end of last year and at the beginning of this year to catch up with inflation of the past 2 years, combined with a moderation of input cost inflation will help us to grow the gross margin.

I'm confirming, by the way, the fact that we expect to recover our gross margin to the level where it was before, around 50%. I can't give you an exact timing for that. It will take some time, but the timing will depend on some external factors as well, but we are fully committed to that.

Wage inflation was high this year because it comes usually with a 1-year delay, so we had to reflect that and pass it on to our employees, largely at the beginning of the year, but it is a local decision, it has to be seen in a local context.

On your second question on Coffee, Coffee is actually, as you could see, the only category where we have seen a margin decline in the first half of the year. This is largely linked to the fact that this is one of the areas where we have seen the highest level of increase in terms of input cost inflation with, as I mentioned earlier, Robusta increasing still since the beginning of the year by another 30% against the ’22 average and it is 50% higher than the last 10-year average. So it continues to be high.

This inflation is not only for us. So I think that it's a relatively playing field competitive environment. And most of our competitors have passed on pricing. We do expect our margin, in Coffee to increase over time especially when we expect to see, there is still a lot of volatility, but we expect to see the price of Coffee bean prices stabilizing and then this will be certainly an opportunity to see our margin increasing again in Coffee. We are very much committed to that, not necessarily in H2, but in the medium term.
Warren Ackerman, Barclays:

And on Starbucks and Nespresso?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

So we continue to see strong growth on Starbucks. So the growth was almost double-digit with a strong momentum in out-of-home channels. And positive growth as well in retail channels, both North America and International, so high single-digit growth, and within retail for Starbucks, we have seen a strong development and strong momentum for coffee creamers and ready-to-drink formats as well.

And Nespresso, we are very pleased to see what we knew would happen eventually to see the RIG back into positive territories that happened in Q2, and it will continue for the remaining part of the year. We knew that the pressure that we had over the last couple of quarters was largely linked to the post pandemic landing. And so what we saw happening in Q2 is exactly in line with what we expected.

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

Let me just chime in on that. When you and I had the fireside chat in early May, that was exactly what we talked about. We expressed confidence that at some point, this spring or early summer, Nespresso would turn the corner after this post-covid normalization. And that's exactly what happened. And so very pleased that it came in exactly in line with our expectations.

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

Next question is from Jon Cox at Kepler.

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Jon Cox, Kepler Cheuvreux:

A couple of questions from my side. Mark, in your sort of preamble, you appear to say that you expected organic sales growth to be in the top half, if not at the top of the new 7 to 8 range. You also seemed to say that you're in a position to meet, if not beat, your margin and EPS growth goals. Just a point of clarification there, if you could clarify that.

And then the second question, just on the fact that there are quite a few commodities, cocoa, sugar, coffee, still quite inflationary. Just wondering, should we still expect potentially mid-
single-digit price next year? We'll see a deceleration from the 10%, of course. Do you think it'd still be around 4% or 5% next year?

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

So clearly, I was expressing confidence on the organic growth, while at the same time, when it comes to official guidance, I hope everyone understands in a highly fluid global environment I think it’s good to leave some downside protection. But I hope the underlying confidence on our top line shows through. In other aspects of our guidance, fully confirmed what we said earlier in the year. So a very stable financial picture as we cruise through the year. And I hope everyone appreciates pretty much all the items that we talked about, that would start to turn middle of the year, have started to turn in our favor. And I think that underlying stability and also the control of the business is appreciated.

Now when it comes to pricing, I think it’s too early here to speculate on ‘24. Of course, everything is now all eyes on second half of ‘23, making good on our plans with a high degree of precision. ‘24 obviously it’s safe to say that pricing will not reach the same levels as we’ve seen in the first half of ‘23 so far. But it’s also clear that when it comes to the overall macro environment, that pricing on a selective basis where appropriate, will still apply and will still be needed. You saw some of the commodities that François highlighted where inflation still persists. And then obviously, in categories that relate to these commodities, we still need to take the liberty to price where needed.

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

Next question is from Céline Pannuti at JPMorgan.

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Céline Pannuti, JPMorgan:

My first question is on the RIG. So you said that the RIG will bounce back some time in the second half, I think 0.6% hit from your SKU reduction should be more than offset in the second half. So I just want to try to gauge whether effectively RIG for the year will be positive, given we already have some tailwind from the SKU reduction as well as the benefit of the comparative. And just on that, I'm surprised you don't put capacity constraints easing as one of the reasons for RIG to improve as well in the second half.
And my second question. I'm trying to understand what you're saying on the margin for H2. So gross margin up materially. I would think that distribution cost still is a positive. Against that, you are going to invest behind the business. So I would still think that you could see quite a nice step-up in margin. So I'm not sure why margin should not be at the top end of your range for the year.

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

I'll try to cover your first question and then hand it to François for the second question. So your first one is a really important one, and I think gives us a chance to clarify a few points. As you know, earlier this year, while we had always said that RIG would turn positive in the second half. We had stayed away from speculating whether it was going to be strong enough to make up for the negative RIG in the first half or not. We're working on that and so clearly we ambition, and the goal is here to make it strong enough so that we will have a positive RIG on the full year. However, it's too early to confirm that, and this is obviously something that we will work very hard on.

There is a swing factor here, and that relates to our SKU rationalization program and portfolio optimization. You may recall one of the major items in this portfolio optimization program was the retreat from the Canadian market for Frozen pizza and Frozen meals. That's a massive business. That's the single largest item in this program. And that retreat has started in Q2, it is going extremely well. In fact, our retail partners were very receptive to this. And so it's going faster than anticipated. As you know, we had planned to layer that in over several quarters stretching into '24, at the moment is going faster than anticipated, which I think is a good thing. But that, of course, then has some impact on what the growth rate is for RIG in the second half of the year hence also for the full year '23. So that's where I suggest 'stay tuned', we'll try to give you a good update here as part of our Q3 reporting. But clearly, I want everyone to understand, we're working very hard to potentially come out with a positive RIG for the full year '23.

And on the Canadian program itself, I hope also everyone understands the logic of what we're doing there and that positions us in a much better way than going faster here for continued growth in '24. And the SKU program overall is certainly delivering very well. It's also helping us to focus then to a much larger degree on high rotation items. We've seen service levels for those come up. So everything about that program still holds true. The one thing that has changed is that the Pizza and Frozen meals retreat in Canada is going faster than we originally anticipated.
François-Xavier Roger, Nestlé SA, Chief Financial Officer:

Céline, you’re absolutely right that, as I said earlier, so gross margin will increase materially in the second half again. That being said, don’t forget as well that we put ourselves in an investment position to support growth and not everything that we will generate in terms of additional gross margin will flow to the bottom line, mainly because we invest to start with in marketing. So marketing as a percentage of sales was flat in H1, although it increased in local currency by more than 7%. But it was flat year-on-year. In the second half of the year, we plan that it will increase by probably 100 basis points, or more, versus the same period of last year in H2. So in addition to that, we still continue to invest in sustainability, in digitalization, in CapEx and so forth. And in addition to that there is still a little bit of uncertainty as well on the input cost evolution as we mentioned earlier, so we want to make sure that we keep some downward protection and as a consequence, we maintain our guidance for 17% to 17.5% UTOP for the full year.

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

Next question is from Patrik Schwendimann of Zurich Kantonal Bank.

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Patrik Schwendimann, ZKB:

I have a question regarding the cash flow. There was a substantial negative impact from payables in H1, does this revert in the full year? Or what is your best guess assumption for the net working capital movement the full year, can you expect here already a lower net working capital year on year at the full year.

And the second question again on the gross margin. You’ve seen very nice improvements since the second half of last year, but you’re still far away from the level you have seen back in ’21 and 2020. Do you see a chance to get already quite close next year to the ’21 level?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

On the payables, it is really over the short term, the impact that we saw given that, as you know, we decided to bring our inventory back to the level where we were before because last year, we increased our inventory in the context of supply can disruption, which was a voluntary decision. I think it was a good decision, but we knew that we would have to address it and it has started already in H1, and we are very positive about it.
Obviously, to do that, we need to buy less raw material, less packaging material. And in the very short term, it has a negative impact on payables. So we are absolutely comfortable with that. And it should start to disappear anyway in H2 as we resume a normal level of buying.

On the gross margin, as I said earlier, we are fully committed to be back to where we were around 50% over time. But the timing of it, I mean, I don't want to commit on anything at this stage, I think that if you start thinking of '24 it might be a little bit early in my opinion, but much depends on external factors as well. What will happen as far as inflation is concerned, input cost inflation. So it's very difficult for me to give you a timing for the time being. But directionally, we are moving in the right direction.

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

Next question is from Guillaume Delmas at UBS.

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Guillaume Delmas, UBS:

Two questions for me, please. The first one on Europe, on Zone Europe, because your RIG was a bit soft in the second quarter, I think around - 4%, which would probably mean a volume decline of mid- to high single digit. So I appreciate this includes some portfolio optimization actions, Perrier constraints, but this was already the case in previous quarters and RIG proved more resilient. So maybe could you shed some light on what you saw in Zone Europe? And if this weakness is evidence of growing price elasticity, maybe some share losses, maybe in Coffee or overall a deteriorating consumer environment?

And then my second question is on Nestlé Health science, operating margin contracted by 70 basis points to 13% in the first half. But back in November in Barcelona, you were guiding for an operating margin in excess of 18% by 2025. So even assuming a marked improvement in the second half of this year that leaves quite a lot for 2024 and 2025. So my question here would be do you still feel confident about this 18% plus by 2025 target? And is it predicated on the cost synergies, the gross margin recovery? Or do you also require a nice pickup in category growth.

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

Let me take the first question. I think Mark will take the second one. On Europe, you're right that we have seen negative RIG development in the second quarter. which we expected because as you know, we have a relatively limited window in terms of pricing in Europe. And
so we have to do it at the end of Q1. And we mentioned that by the way in the call in Q1 that we expected a little bit of pressure as a consequence of that in the second quarter because it has been relatively significant. We were catching up to a large extent with inflation that we received over the last 2 years.

So elasticity was limited at group level. It was probably a bit higher in European context. We have always a little bit more cautious about the consumer sentiment in Europe. At the beginning of the year, it was more about energy crisis, which did not really crystallize, but we see that anyway, this is certainly Europe, the area where we are a little bit more cautious in terms of consumer sentiment with a little bit of elasticity, which is more a Q2 event. I think that this largely explained it. Don’t forget either that there was one less trading day in Q2 versus Q1 was as well, which did put a little bit of pressure on Q2 RIG as well.

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

Let me comment on your second question regarding Nestlé Health Science. And look, the short answer is, yes, we’re confirming everything that we said in Barcelona with regards to the target levels for 2025 on margin. But then also what was said about the recovery in organic growth in the second half of this year. So this is important to me.

When you look at the first half, this is clearly the worst moment in time for a number of reasons. It’s one of the businesses that I mentioned earlier, that still gets impacted, in the VMS area, by this post-covid compression. I mentioned that it just started to turn the corner now in May and June. And so I think that drag on growth will fall away. Clearly, then we’re poised for much better growth in the second half as was outlined by Greg Behar even way back then because we saw it coming. We always had it in our models.

Second thing is that we had planned for a long time to reap the full synergies from our various North American acquisitions by putting it all together on one operational backbone in the first half of this year. This has happened according to schedule. And so now the synergy delivery when it comes to the cost side, that really starts now to kick in, in the second half. And that will be one key driver, not the only one, but one key driver when it comes to the operating margin.

The other one to keep in mind, if you’re wondering about the building blocks and how to get to the 2025 margin level is clearly that, over time, the cost of maintaining PALFORZIA in the market will fall away. So clearly, there’s a number of infrastructure costs related to maintaining that. Think about pharmacovigilance and such and the specialized sales force that will be
adjusted. And so clearly, the decision and the consequence of getting out of this, if we do this over time, then will lead to reduced cost burden. And then obviously, as you mentioned in your question, organic growth does help a lot.

Luca Borlini, Nestlé S.A, Head of Investor Relations:
Next question is from Bruno Monteyne at Bernstein.

| Question on: | EU legislation for sustainability and cost of Net Zero Free cash flow and level of Buybacks |

Bruno Monteyne, Bernstein:

Thanks for your extra attention to palm oil in the results today. And obviously it highlights the focus of all the additional European Union legislation, whether it's a corporate sustainability, due diligence directive, and they're busily legislating for more. Now I acknowledge that you tend to lead in many areas of sustainability, but all the actual legislation tends to raise the bar even for good companies like yourselves. So given the latest EU legislations, what are the areas where you expect you'll have to make further improvement to be in line with this latest EU legislation? Are you still able to stay within the cost that you identified, I think 1 or 2 years ago, when you talked about the cost of Net Zero, is that cost going up because of the legislation?

The second one is around free cash flow. I mean even despite the improvement free cash flow to a sort of back at the old levels, but when I'm trying to be optimistic, I get to about CHF 9 billion to CHF 10 billion free cash flow for Nestle, but you're paying out nearly CHF 8 billion of dividends, which only leaves by CHF 1 to 2 billion for buybacks. You're buying back a lot more than that and your leverage is already a bit high. The cost of debt is getting ever higher. So my question is really is the level of buybacks that you're currently doing given the level of free cash flow, isn't it too high? And shouldn't you start to signal to moderate that level of buybacks going forward given the higher cost of financing?

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

Let me cover the first question and then hand it to François for the free cash flow question. So clearly, on palm oil, I see ourselves very well equipped for the oncoming EU legislation. Remember, the numbers we were quoting you here, the 96%, is a global number. And so within that envelope of 96%, we can easily then direct deforestation-free palm oil to anything that gets sold in the EU perimeter.
On palm oil overall, let me also comment on your research note from today. Obviously, the question wouldn't avoidance be better, shows you that there is no silver bullet in sustainability. We believe just walking away from it would not be the solution. I think some other outside organizations such as WWF also recognize that simply walking away from it is not the best solution. So we believe engaging with the industry and then getting to practices that are deforestation-free is the harder but probably the better way to go.

And we outlined some of the ways in which we're doing this in our press release. And obviously, it's a very detailed work on the ground. When it comes to the palm oil side itself, I think the cost of that is pretty much in line with our original estimates. As you know, we've been at this for over a decade. Otherwise, we wouldn't be that close to 100%. So not a major amount of surprises there.

When it comes to the Net Zero side of things, there obviously getting to the 2025 target levels and then also making it to the next segment in 2030 that is a major effort. That's where, over time, obviously, the easy pickings will be had and then each additional level of progress will come at a larger cost. But this is also one where, as you look at the climate situation around the world, I think the companies that are making a good contribution to it and that are improving their greenhouse gas footprint will, I think, increasingly find consumer acceptance.

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

On the free cash flow, so as indicated in Barcelona, we expect this year to be around CHF 10 billion of free cash flow. Last year was a little bit unusual because of the high level of CapEx and because of our decision to increase temporarily our inventories. So this year, certainly around CHF 10 billion. And I think that very quickly by 2025 at the latest, we should be around CHF 12 billion, which means that we are well positioned in order to self-finance, without any impact on our debt level, both our dividend even going forward, as well as share buyback.

The current share buyback program, we have already completed 2/3rds of it, and it's much more moderate at the level that is left for this year and next year. It will be probably less than CHF 2 billion for this year left and less than CHF 5 billion next year as well.

In terms of leverage, we were at 2.5x net debt-to-EBITDA last year. which is in the middle of the range that we set for ourselves between 2 and 3, which is reasonable, especially taking into consideration some potential assets that we have in our balance sheet as well.
Luca Borlini, Nestlé S.A, Head of Investor Relations:

Next question is from Thomas Sykes at Deutsche Bank

| Questions on: | RIG – Volume and mix | Infant nutrition – Drivers of growth |

Thomas Sykes, Deutsche Bank:

Firstly, just going back to RIG. Are you able to give a view on how wide the gap is between volume and mix in RIG at the moment and maybe in Q2 versus where you were in Q1, and you flagged the lower working days in Canada. But is it definitely too early to see a positive RIG in Q3? Or is that a possibility?.

And you picked out also Infant Nutrition in LatAm, Africa and China. Maybe you could talk about the drivers of growth for you overall in Infant Nutrition, I appreciate the different geographies. But to what extent is there an improvement in birth rates at all post pandemic, and are there any transactional effect impacts for you on that business that maybe get a bit better or not in the second half. So should we see more margin improvement out of the Infant Nutrition, please?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

On the RIG, so we don't provide the breakdown between volume and mix for each and every single quarter. We usually do that once a year. But let me help you there. Volume is still negative as we speak, and it was negative in H1. No surprise, once again impacted as well by our portfolio actions as well there. No real difference when adjusted for the number of days of trading days between Q1 and Q2, so no major issues there. Mix remains positive and has even a tendency to improve, we always, as you know, value mix as well because it's a good reflection of our capacity to innovate and to premiumize. So the fact of having seen our mix progressing, I would say, almost quarter-after-quarter over the last couple of years, is something really positive. I don't want to provide the guidance by quarter as far as RIG is concerned. For Q3 don't forget what I mentioned earlier as well that Q3 has one less trading day. So I would be a little bit more cautious for Q3.

On the drivers of Infant Nutrition, first of all, very pleased to see that we have grown double digit again, in the first half of 2023 in Infant Nutrition. The clear main driver is HMOs, human milk oligosaccharide. We did CHF 700 million, more than CHF 700 million, of sales in the first semester. And this growth that we have seen in Infant Nutrition in the first half was led both by pricing and resilient RIG. So RIG was positive, 0.6%, which was very good.
We saw market share gains across most markets. And by geography, growth was actually broad-based. In China, it was mid-single digit, the growth, particularly for **NAN** specialty offering on *illuma*. And by segment, we had three growth drivers, as I mentioned, premium, value-added infant formula like HMO and Infant cereals is also a good growth driver for us with robust sales development, mainly in North America as well as in other geographies.

The birth rate is not really improving dramatically. We don't have any signs of it, so which is the reason why our strategy to premiumize and to make a difference in our offering is really paying off.

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

And Tom if I could just build on that. I think the last point that Francois made is a very important point. So we're still seeing fairly low birth rates pretty much around the world. And so there's a very clear consensus inside of the business that this will be not so much a birth rate driven growth going forward, but growth that is driven by market shares, and market shares boils down to meaningful innovation and then also a superb on-the-ground execution. I think you've seen a good example of that in the China turnaround. And then obviously, as François said, the HMOs are a good example of meaningful innovation that is now showing good growth around the world in markets where we're present with that.

**François-Xavier Roger, Nestlé SA, Chief Financial Officer:**

And Tom on the margin side for Infant Nutrition, so it was north of 24% with an increase of 60 basis points in H1, so which is obviously very positive.

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

Next question is from Jeremy Fialko at HSBC

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**Jeremy Fialko, HSBC:**

First one is on your A&P. So you've indicated for H2 that it's going to be up by at least 100 basis points. So I guess it will be the high 7s approaching 8%, would that be what you'd regard as a kind of a normalized level of marketing spend for the business given this is the first time that you disclosed this numbers? Or would you actually see it higher more in like the 8.5%, 9% range is where you would ideally be getting back to?
And then secondly, just on the margins and currencies, that was a 10 basis point negative for you in H1. Is that likely to be a bit greater in the second half given how strong the Swiss franc has been recently?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:

So you said it, it will bring us probably to around 8% in terms of level in the second half. Is it going to continue increasing, that’s the intention, indeed. We value the fact of investing behind our brands. I can’t give you a normalized level because it’s difficult to define especially so that I mean we get quite a lot of efficiencies through these programs as well. But clearly, the idea is to increase the level of spend by 100 basis points or more in H2, and then to continue increasing, certainly in the coming years as we see that as a good driver of growth and especially so after we expect to get less supply chain constraints, which was a limitation in our marketing spend last year.

The currency development is always difficult to forecast. We had quite a lot of negative developments in H1. We are entering into a period later in the year 2023, where if I can say so, the comps are a little bit more favorable. So if foreign exchange rates on average were staying where they are today, we would not see a further deterioration of the negative contribution from Forex for the latter part of the year. But once again, I don’t want to speculate because it’s very difficult to forecast, and this is something that we do not control.

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

Next question is from Jeff Stent at Exane.

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Just one question, and perhaps this has been disclosed somewhere but I missed it. But when will the new CFO will be joining

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

So when we made the announcement in late May, early June, we said that there was going to be a customary 12-month notice period for the new CFO. So that would make June 1, the latest potential join date. Obviously, we’re very, very interested in having her join much sooner than that. And while I understand that, of course, we have to respect notice periods we have some hope that the London Stock Exchange would follow standard industry practice and potentially release her earlier.
I think we have the good fortune of having François fully committed and engaged. I also wanted to take this opportunity to thank François for his significant contributions that are still ongoing, as you see from how engaged is in this call today.

François has been not only making wonderful contributions to the F&C function, but also he was and is a very strong thought partner to me and worked side by side with me now for more than 6 years as we improve growth and profitability of the company and go through significant portfolio transformation. And so I am very grateful for that, very grateful for his flexibility, but also would like to underscore that I'm very much looking forward to working with Anna Manz our new CFO. This has been a very thorough search process and had many in-depth conversations with her and came away thinking that here is someone that has superb financial credentials, very deep consumer goods knowledge, and also a very strong operational and strategic focus.

Luca Borlini, Nestlé S.A, Head of Investor Relations:
The last question is from Pascal Boll at Stifel.

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Pascal Boll, Stifel:

Two questions for me. First one would be on Coffee and potential aluminum ban for Nespresso capsules? Is there any update on what kind of or how intense do you see the risk for that your business?

And then my second question on Confectionery when I was looking at the numbers, I was a little bit astonished by the slowdown in RIG in Q2 against a similar base as Q1 last year. However, RIG was or seems to be down in Q2. What are the reasons for that?

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

Let me address the EU first. I think it's too early to speculate here on the final outcome of the proposed legislation, and we fully support the objectives of the European Commission’s Packaging Waste Regulation proposal, and now of course we need to see that all of this gets done in a productive way that allows good choices and, for whatever the choices are, sufficient adjustment times. As you know, we also made sufficient investments here in technologies that will allow us to comply with the future rules going forward.
François-Xavier Roger, Nestlé SA, Chief Financial Officer:

And Pascal, on the Confectionery, the slowdown in Q2 was related to a more challenging base of comparison. And there was some calendar impact as well in Q1 2023 linked to an earlier Easter, particularly in Brazil. But if we look at it, the business is very healthy. We had 10.8% organic growth, 2.6% RIG, 8.2% pricing, we gained market share. Growth was driven by Kitkat, key local brands, including Garoto in Brazil, Munch in South Asia, Shark Wafer in China. And by geography, it was really led by Latin America and South Asia, but no concern whatsoever. Don't read Q2 for what it doesn't mean and the trend continues to be very positive.

End of Q&A session.

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

Okay. Thank you. We have no further questions, so we come to an end of our session today.

So we thank you very much for your interest in Nestlé. As usual, if you have further questions, do not hesitate to reach out to our IR team.

Thank you, and we wish you a very pleasant day. Stay safe and healthy.

End of transcript.