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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:

Good afternoon, and good morning to everyone, welcome to the Nestlé nine-months 2023 sales webcast. I'm Luca Borlini head of Nestlé Investor Relations. Today I'm joined by our CEO, Mark Schneider and our CFO, François Roger. Mark will begin as usual with the key messages and discuss the full year 2023 guidance; François will follow with a review of the nine-month 2023 sales figures. We will then open up lines for your questions.

Slide: Title slide

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

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

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

Slide: Key messages

Let's turn straight to the key messages on Slide 4.

For the nine-month period, we are pleased to report strong and broad-based organic sales growth of 7.8%. Pricing was 8.4%, reflecting significant input cost inflation over the last two years, but also starting to moderate, which is in line with our expectations.

In the third quarter, we have started to see the expected recovery in our volume and mix development. Progress in this area was masked by the temporary supply chain constraints in our Nestlé Health Science business. But we have started to turn the corner and are on our way towards positive real internal growth in Q4 and for the second half of 2023.

Across the board, we continue to increase our marketing investments, and we see the benefits of our portfolio optimization program kick in. François will cover both items in more detail.

While the third quarter trading update does not include margin and earnings information, I would like to confirm that our gross margin continues to recover from the inflation induced reductions in 2022. We also continue to make good progress regarding free cash flow generation.
Next, I would like to talk about our measures to help people enjoy a balanced diet. In the third quarter, we issued new targets regarding the expected sales development of more nutritious foods and responsible consumption framework regarding our enjoyment related food categories. Both are part of our long-standing nutrition, health and awareness strategy and build on Nestlé’s foundational work in this area over the past 25 years.

The recent interest in a new class of drugs called GLP-1 agonists, has underlined the public’s desire to combat obesity rates around the world. I believe we have important contributions to make. Please note that while these drugs offer new therapy options for obese patients and for patients with Type 2 diabetes, they are not a permanent solution and are no replacement for an appropriate diet coupled with the right amount of exercise.

For the time that patients spend on these drugs and after, we are already developing a number of companion products. The goal will be to address the risk of malnutrition and the loss of lean muscle mass while on the GLP-1 therapy and to avoid or limit weight rebound after the therapy. These innovations are right in our wheelhouse, where we can bring our deep understanding of nutritional science and appropriate supplementation to the table. While I expect our food and nutrition categories to benefit from this as well, the main upside will be seen in our Nestlé Health Science business perimeter.

With only 15% of our global revenue and 20% of our North American revenue coming from either center-of-the-plate or snacking products, we consider any potential revenue exposure to be very limited. In my judgment, it gets fully compensated by the innovation opportunities I just outlined.

**Slide: Nestlé Health Science confirming mid-term objectives**

This brings me to Nestlé Health Science on slide 5. While we regret the short-term supply constraint in our North American Vitamins, Minerals and Supplements business, which surfaced in August, we don’t think that it takes away from the strength of the underlying business model. Following a 4-6 quarter period of post-covid compression, the Vitamins, Minerals and Supplements market shows solid growth, very much in line with our expectations.

The international expansion of our globally known and globally desired North American vitamin brands, such as Pure Encapsulations, Garden of Life and Solgar is making great progress.
And our Medical Nutrition and Active Nutrition businesses continue to grow very successfully. We expect the supply chain issues to be resolved by early 2024, and we confirm our 2025 financial objectives for Nestlé Health Science, albeit with a delay of about 6 months.

The strategy of Nestlé Health Science is a lot more straightforward following the divestment of our peanut allergy treatment Palforzia. It focuses on proven winners such as Medical Nutrition and new consumer-centric health solutions such as Vitamins, Minerals and Supplements as well as Active Nutrition. High-stakes prescription drug developments with a high degree of scientific and regulatory risk will not be our focus area going forward.

**Slide: Creating economic opportunities for the world’s youth**

This brings me to slide 6 and our Business as a Force for Good section. This summer, we celebrated the 10th anniversary of our Nestlé Needs Youth initiative. Founded and led by my Executive Board colleague Laurent Freixe, it helps to create economic opportunities around the world, whether it is in education, farming, or entrepreneurship. It has become a key part of our contribution to local communities where we are present and it makes a noticeable societal difference, in particular in regions with a high degree of youth unemployment. Clearly a hallmark of our social commitment and something to be proud of.

**Slide: 2023 guidance confirmed**

Before handing it over to François, I would like to cover our 2023 guidance on page 7. We fully confirm our expectations for organic sales growth, the underlying trading operating profit margin and underlying earnings per share in constant currency.

Regarding organic sales growth, I had shared with you in our half-year conference call my expectation that we would reach the upper half, if not the upper end of our guided range. Based on the new situation regarding Nestlé Health Science’s supply chain constraint, which I was not aware of at the time, I owe you an update and now expect our growth to be firmly in the guided range but with a more cautious view.

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

Let me start with the highlights for the nine months of 2023. Organic growth reached 7.8% with pricing of 8.4%, reflecting the impact of cost inflation received over the last two years. RIG was -0.6%, impacted by portfolio optimization and capacity constraints.

Net divestitures decreased sales by 0.8%, largely related to the divestiture of a majority stake in 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 7.4% on sales growth, following the appreciation of the Swiss franc versus our basket of currencies.

Total reported sales for the nine months were CHF 68.8 bn.

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

Organic growth in developed markets was 6.9%, driven by pricing with negative RIG.

Growth in emerging markets was 9.0%, based on pricing and slightly positive RIG.

RIG for the nine months was negative, impacted by portfolio optimization and capacity constraints. In the third quarter, RIG improved to -0.3%, despite the impact of temporary capacity constraints for Perrier and short-term supply constraints for Nestlé Health Science.

RIG is clearly trending toward positive territory. As you can see on the slide, when adjusted for the number of trading days, RIG was already positive in the third quarter.

This step-up in RIG is being driven by the moderation of new pricing, the benefits of portfolio optimization and increased marketing investments.
We expect RIG to be positive in the fourth quarter and in the second half of 2023. Going forward, we expect it to be again the main driver of growth.

**Slide:  Seeing benefits of portfolio optimization**

We are now seeing the benefits of portfolio optimization. As we have previously commented, this initiative includes two components. First, freeing up resources through the discontinuation of low growth and low-margin businesses. This part is nearing completion, having discontinued annualized sales of around CHF 700 million. The negative impact on RIG of this portfolio optimization actions was around 60 basis points for the first nine months. The largest example of this pruning exercise is Frozen food Canada, which we are winding down faster than originally planned.

The second component is the more interesting part, as we are redirecting resources toward high-growth and high-margin products. We are now seeing the positive benefits of this resource allocation. One example is the material and progressive step-up in customer service levels, with an almost 600 basis points improvement over the last nine months. There is further room for improvement, and we expect to return to above 99% where we were pre-COVID, which will support a recovery in RIG.

**Slide:  Pricing moderating**

Turning to pricing, which was 6.3% in the third quarter. We expect the sequential moderation to continue over the course of the year, as we are lapping a high base of comparison in 2022 and as we are implementing a lower level of new pricing since the second quarter.

We will continue to price where needed but not to the same extent as we have done lately. Pricing that happens now will be more targeted by category, brand and country, particularly for those commodities which have increased recently, such as Robusta, sugar and cocoa. Some pricing will also be triggered by currency depreciation, for example in Nigeria, Argentina and Pakistan.

Allow me to make a short comment on gross margin. Given the progress we have seen in the third quarter. I would like to confirm that we expect a material improvement in gross margin for the second half of 2023.
Let’s switch focus to the results of our seven operating segments, beginning with Zone North America, where we saw 8.0% organic growth, with pricing of 8.9%. RIG was -0.9% reflecting portfolio optimization actions and capacity constraints. The impact of portfolio optimization on RIG, particularly the rapid winding down of the Frozen food business in Canada, was around 70 basis points for the nine months.

The Zone saw sustained broad-based growth across most brands and categories, driven by mix and out-of-home channels. E-commerce continued to be a key growth driver with double-digit growth for most categories. The Zone saw market share gains in Pet food, Soluble and portioned coffee as well as Frozen meals.

By product category, the largest growth contributors were Purina PetCare, Nestlé Professional and Starbucks out-of-home products, which all grew at a double-digit rate. Within PetCare, growth was broad-based across brands, led by Purina One, ProPlan and Veterinary Diets. Frozen food reported negative growth, impacted by portfolio optimization in Canada. In the U.S., growth in Frozen food was positive, supported by Stouffers as well as Jack’s and Tombstone pizzas.

Next, we have Zone Europe. Organic growth was 8.8%, driven by pricing. RIG was -2.3%, following capacity constraints, portfolio optimization and some limited elasticity.

Growth 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 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, fuelled by premium brands Felix, Gourmet and One. Coffee saw mid single-digit growth, with particular strength for Nescafé. Confectionery reported high single-digit growth with strong demand for KitKat. Growth in Water was flat, impacted by temporary capacity constraints for Perrier.
Moving to Zone AOA. The Zone reported high single-digit organic growth. Pricing was 8.6%, reflecting the impact of input cost inflation and currency depreciation. RIG was flat.

Growth was driven by continued momentum for e-commerce and out-of-home channels. The Zone saw market share gains in Coffee, Cocoa and malt beverages as well as Chocolate.

By geography, all regions posted positive sales developments. Growth in South-East Asia was driven by Coffee, Culinary and Infant nutrition. South Asia recorded double-digit growth across all categories, led by Maggi and Nescafé. The Middle East and Africa also saw double digit growth, with particular strength for affordable offerings.

By product category, Infant nutrition was the largest growth contributor. Sales in Culinary grew at a double-digit rate, led by Maggi. Coffee posted high single-digit growth, with continued robust demand for Nescafé and Starbucks products.

Next is Zone Latin America, which reported double-digit organic growth, with pricing of 10.5%. RIG was -0.6%, turning slightly positive in the third quarter.

The Zone recorded strong growth across all geographies and product categories, supported by 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 and Mexico.

By product category, Confectionery was the largest growth contributor, fueled by strong demand for KitKat, key local brands and new product launches, including Choco Trio in Brazil. Infant Nutrition posted double-digit growth, based on solid momentum for Nan and Mucilon infant cereals. Coffee reported broad-based double-digit growth, supported by Nescafé soluble coffee.

Turning to Zone Greater China. Organic growth was 4.9%, with pricing of 2.6% and RIG of 2.3%.
Growth was supported by strong sales developments for out-of-home businesses and e-commerce momentum. The Zone saw market share gains in Pet food and Confectionery.

By product category, Nestlé Professional was the largest growth contributor. Confectionery reported high single-digit growth, led by Hsu Fu Chi and Shark wafer. Culinary posted high single-digit growth, with increased demand for Totole in out-of-home channels and innovations. Infant Nutrition saw low single-digit growth, led by NAN specialty offerings.

**Slide: Nestlé Health Science**

Turning next to Nestlé Health Science. The business posted low-single-digit growth with pricing of 4.4% and RIG of -1.9%.

Vitamins, minerals and supplements saw negative growth. Sales in the third quarter decreased following an IT integration issue when implementing highly automated systems during the consolidation of U.S. packaging sites.

The resulting short-term supply constraints reduced organic growth in the third quarter by around 700 basis points for Nestlé Health Science, which translated to around 50 basis points for the Group. We expect the impact on Q4 growth to be slightly lower. These short-term supply constraints are expected to be resolved by early 2024.

Pure Encapsulations, which was not impacted, saw strong double-digit growth in the U.S. More generally, market growth in the Vitamins, Minerals and Supplements category has returned to positive territory, reaching a mid single-digit level in the third quarter.

Our Active and Medical Nutrition brands have been unaffected by the supply constraints. Active nutrition saw mid single-digit growth, with market share gains and robust sales development for Orgain and Vital Proteins.

Medical Nutrition recorded strong double-digit growth, with market share gains across all segments.

The 2025 objectives for Nestlé Health Science are confirmed with a 6-month delay.

**Slide: Nespresso**
Finally, Nespresso, which reported mid single-digit organic growth with pricing of 3.5%. RIG was 1.6%, with a continued sequential improvement in 2023 to reach 3.5% in the third quarter.

The key growth contributor was the Vertuo system. Growth for out-of-home channels was also strong, supported by the Momento system.

Innovation continued to resonate with consumers. The launch of home compostable paper capsules in France in May, and in Switzerland in September has been well received.

By geography, North America continued to post double-digit growth, with market share gains. Europe saw positive growth. Other regions combined recorded 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 sales grew at a high single-digit rate. Growth was broad-based across segments, brands and geographies and led by continued momentum for the out-of-home business, which grew at a strong double-digit rate. Cocoa and malt beverages reported low single-digit growth, based on a strong contribution from Milo.

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 continued e-commerce momentum and innovation.

Nutrition and Health Science posted 6.3% growth. Infant nutrition reported 9.2% 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 almost CHF 1 bn for the nine months. We have already discussed Nestlé Health Science.

Prepared dishes and cooking aids saw 5.3% growth, driven by Maggi which reported double-digit growth. Plant-based food posted flat growth, following the impact of portfolio optimization.

Milk products and Ice cream recorded 6.6% growth. The key contributors to growth were coffee creamers, affordable fortified milks and dairy culinary solutions. Sales in Ice cream grew at a
mid single-digit rate, led by KitKat ice cream sticks in South-East Asia, Häagen-Dazs in Canada and Drumstick in Canada and Malaysia.

Growth in Confectionery was 10.1%, reflecting continued strong broad-based demand for KitKat, which is gaining share across all geographies. Confectionery also saw 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 3.5% despite temporary capacity constraints for Perrier and a high base of comparison in 2022. S. Pellegrino and Acqua Panna saw double-digit growth. The modernization of our Perrier site will be completed during the fourth quarter, with supply expected to start to normalize from the end of 2023.

Let me now hand over to Luca for 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. (Operator Instructions) The first question is from Guillaume Delmas at UBS.

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**Guillaume Delmas, UBS:**

Two questions for me, please. Firstly, on North America. François, you mentioned a challenging consumer environment. Nothing new. I mean, we've heard from some of your peers recently that the current economic pressures are changing a little bit consumer behavior, less discretionary purchases, more use of left over, less waste. So, my question here is, do you see these changes as temporary? Or could things get worse before they improve? And is it just specific to North America? Or could we see some of these changes happening as well in Europe in a few months from now?

And then my second question is on your underlying trading operating profit margin guidance for the year. Only 2.5 months left to get to year-end, and you still have a relatively broad guidance range, plus François, you also mentioned a material improvement in gross margin in the second half. So, how should we interpret this? Are there still many moving parts on which you do not have profit visibility? Or is it more down to having the maximum P&L flexibility, i.e.,
Françoi-xavier Roger, Nestlé SA, Chief Financial Officer:

On the North American economic momentum, I mentioned in a couple of forums where I spoke earlier, and I was in some of them with Steve Presley, the CEO of Nestlé North America. The fact that we have seen a lot of subsidies disappearing from the market and basically what is left, I think, is a few student loans, but we saw a massive reduction in subsidies, which probably had an impact somewhat on consumption, not so much for most of our categories. We saw a little bit of evidence maybe of it in pizza, but not really further than that. So, no major concern.

The other thing is that over the last couple of quarters, we believe that consumers were still using a large part of the savings that they have generated during COVID, which is probably coming to an end as well. So we don't see a structural issue. It’s probably, I would say, a soft landing after the post-COVID period to a large extent, but no specific and major worry in North America on the economic front.

In the UTOP margins, that's the second option that you were mentioning, this is more about keeping flexibility. Anyway, we don't differ this year from what we have done in the previous year. We always keep a little bit of margin for investments, but we don't have any concern on our UTOP landing for this year. As you know, we indicated our confidence even after another quarter since we last talked to you about our gross margin, and gross margin is a key driver, obviously, of UTOP developments. And at the same time, it gives us sufficient flexibility to invest in marketing. And as you know, we plan to invest about 100 basis points more in marketing in the second half of the year versus last year.

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

Guillaume, this is Mark. Let me build on François' comments, which I fully agree with. I think when it comes to the consumer behavior there are a number of specific U.S. circumstances that François described. So this is why we don't necessarily see that this is now the role model for other markets around the world. It's also that we do have a large frozen business in the U.S., and we don't have that elsewhere. So this exposure may be specific to the U.S. market.

When it comes to the more challenging consumer environment in general, I think this has more to do with larger ticket items and durable consumer goods. I think here on everyday consumables, the pressures are less prevalent than in those larger ticket and durable items.
Luca Borlini, Nestlé S.A, Head of Investor Relations:
Next question is from Warren Ackerman at Barclays.

| Questions on: | NHSc Supply chain issues in US and also in PetCare and Perrier | PetCare performance in US and the rest of the world |

Warren Ackerman, Barclays:
First question from me. Can we dig a bit into the supply chain issues within Health Science? What happened? What went wrong? And how can we be sure it will be done by early 2024? And was that the reason behind the management change? I'm just trying to understand the drag on organic sales growth in Q3 and then Q4 and Q1. And why does it get delayed by six months of 2025? I would have thought that you would be able to catch up over the next two years. So can you maybe update us on what the extra costs there will be and whether there's going to be any penalties from customers because of what's happened? And whilst on the topic of supply chain, any issues on Perrier and Pet food in terms of RIG benefit on that side. So really, one on the supply chains, focused on Health Sciences and a bit on Perrier and Pet food.

And then, secondly, could we just maybe dig a bit more into Pet food. There's obviously been a lot of debate around the topic given some of the competitor comments about down trading. I think you've been relatively vocal about your position. But I think RIG did slow slightly in the third quarter compared to the first half. Can you maybe just update us what you're seeing in North America and Rest of World in Pet food and what your competitiveness looks like in terms of market share?

Mark Schneider, Nestlé S.A. Chief Executive Officer:
I'll try to answer both of your questions. So on the Nestlé Health Science supply chain issue, as you saw from our explanation, this truly surfaced as a surprise. And yes, of course, we're not happy about it, but I also want to address any potential concerns that people may have that this is something that's not fully in our capability range.

So we've done lots of IT integrations, and we've done that as part of our past acquisition activities. And so this should have been done right. And so clearly, we are fully on top of it. The reason this now has a certain shadow that goes to the beginning of '24. It's not so much that we're scrambling to find the solution. I think we're close to the required output already. But when you are missing production from several weeks, then clearly, your supply chain from that time, given that demand has come on quite strong again, is empty. And so you need to refill.
And that's why you're basically trying to back up what has been run dry. And that's why I think we will see some continued effect into early '24.

There was nothing technologically overly complex here. It was simply just that we were overwhelmed by a large number of different systems that had to be brought together and also a large number of SKUs that are basically the nature of the Vitamins, Minerals and Supplements business. But again, it's on the mend.

And one other item, since you did mention penalties, you may have seen that pricing -- the implied pricing for Nestlé Health Science in Q3 was on the low side. And this is due to the fact that, of course, if in a very surprising environment, you're not able to deliver, there are some penalties that we had to pay to retailers and those penalties get booked against pricing. So, this is how it manifested itself.

But again, disappointing as it is. I think we've given it full attention from all the resources that our North American market and the group, in operations and IT can bring to bear. And so we are focusing on it with a lot of intensity.

Regarding the two other areas you outlined. On Perrier, building on François' comments in his prepared remarks. As you know, beginning of the year, we prepared you for these supply chain limitations during the year. We told you that they were likely to last until the end of '23, and this is what we're confirming now that from what we know today, they should come to an end at the end of the fourth quarter.

And regarding Pet food, what we're seeing here with line after line now coming on stream that there's a gradual easing of the supply chain constraints that we used to have and so they are also starting from '24, we should be in a much better position to deliver.

That gets me to your second question on Pet food. And obviously, given that we are seeing these very strong growth rates and that many of you had asked about the strong growth rates in the past. No one should be surprised that this growth is moderating somewhat now. I mean we told you that this is not going to be a permanent double-digit grower. But that we would continue to see it as a high single-digit grower. And I think this is what it's moderating too. There are some other segments that were probably more exposed than the ones we are strong in. So we're seeing, for example, with post-COVID normalization, less of a demand for treats. But as you know, this was never one of our very strong subcategories. And then also, we're seeing a little bit of pressure on ultra-premium. But as you know, that's also not our focus area.
For what we are serving, and especially around the science-based formulas, we're seeing and also the premium and super premium, we're seeing continued good, strong demand and hence, no reason for concern.

**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, in fact, Mark, I did ask you that question already at H1, I asked whether a RIG would be positive for the full year, and you said that this was an ambition. Now we've seen that RIG has sequentially improved despite some of the issues that you have flagged. Do you think that RIG will be positive for the full year, as you see the momentum and with the caveat for Q4 on NHSc that you mentioned? And by the way, I think you also mentioned that RIG will be an integral part of the growth going forward. What kind of visibility or certainty can you give that we will get back to a 2% to 3% RIG as we look into 2024?

And then my second question is on the price. You made it clear that there has been some tough comparatives, and we've seen that price has decelerated. At the same time, I think François, you mentioned that pricing has been raised some places. So, I just want to understand a bit whether you've seen a bit more pricing pressure or competition or pressure to roll over your prices that has led to maybe sequential pricing that has been a bit weaker than what we anticipated?

**Mark Schneider, Nestlé S.A. Chief Executive Officer:**
Let me give you some quick impressions from my side on RIG, but then hand it to François so that he can add to the RIG question also to pricing. So we do believe that for Q4, we will swing back to positive RIG, and that based on the strength of that, we will also see then positive RIG for the second half. As you know, for the full year, we've always stayed away from exactly weighing the negative RIG for the first half against the size of the positive for the second half. And so that's why I'm a little bit cautious on that one. I would want to see how the fourth quarter specifically unfolds.

François, maybe you have something to add to this?
François-Xavier Roger, Nestlé SA, Chief Financial Officer:
Celine, in terms of OG growth components, we are clearly moving into a normalization phase where there is less pricing, and I'll come back to that, and there will be less pricing anyway going forward. And we see RIG increasing at the same time, and we are now entering into a positive phase. So we are aiming to go back to where we were somewhat pre-COVID, with RIG being the largest component of our growth, obviously, and so there will be a transition period to get there.

Pricing, yes, we have less, and we will have less. So, no big surprise there. You saw that there was a relatively sharp decrease in Q3, which is reflecting the fact that we did increase very materially our pricing in Q3 last year and more specifically in North America and in Latin America. So the decline that we see this year is predominantly the consequence of a high base of comparison last year and, to a lesser extent, the fact that we do less pricing today. It's not that we are totally stopping pricing because we will do some pricing, but on a selective basis in some categories where we still see some increase in input cost inflation. And I would mention there, for example, for cocoa, Robusta, for sugar, and it will have some consequences for categories. One obvious one is Confectionery for example. We will have selective price increases as well in some geographies and more specifically, where we are experiencing currency depreciation, and I named a few earlier.

Just in terms of pricing, it's not that we see a lot of pressure to go down either. So let's not go to the extreme, but it is clear that our market globally is moving from a phase of supply constraint over the last couple of years with less promotional intensity to a phase today where it's more about generating demand with an increase in promotional activities. We had maintained anyway ourselves; you know that last year, a relatively high level of promotional activities. We continue increasing it, but not to a very large extent. Our focus for 2023 is much more about reinvesting in marketing, which is exactly what we are doing as we speak.

Luca Borlini, Nestlé S.A, Head of Investor Relations:
Next question is from Patrick Schwendimann at Zürcher Kantonalbank.

Questions on: RIG next year
Main growth drivers of RIG

Patrik Schwendimann, Zürcher Kantonalbank:
Again on the RIG, Mark you have mentioned that will become the main driver of growth going forward based on your midterm guidance of organic growth of 4% to 6%. This means that
RIG should come back to 2% to 3% next year already. Is this best guess assumption correct?

And my second question is, what will be the main growth drivers in terms of RIG in terms of product categories and in terms of regions?

**Mark Schneider, Nestlé S.A. Chief Executive Officer:**
Thanks, Patrick. And yes, fully confirm this whole notion that RIG, as always, is the bedrock of our growth. So what we've seen over the last two years was an aberration from this due to this historic pricing spike and inflation spike. But clearly, we're fighting back to that. In a volatile world, as we're seeing right now. And with so many variables out there, it's very hard to predict exactly when and how it will come back to the percentage you indicated. But again, RIG is the one that we focus on, it is the one where we believe we have a lot more control over. And obviously, in the RIG, it is the mix part where we believe that we bring our innovation engine fully to bear and this is where, as you know, from so many investor calls that we had before COVID, we believe if we bring exciting products to market that really meet consumers' demand then this is where you have fate in your own hands, and you're not dependent on so many other macro and geopolitical events to either drive growth or drive demand and pricing. And so, this is what we're focusing on.

And going forward, as you know, the core categories, the growth engines of Coffee and PetCare remain very interesting. You've seen from Confectionery that here is a category that has really done its homework over the last few years and is now, especially around KitKat, but also some of the other brands, very much in demand. I think some of the developments that François pointed out earlier in Brazil, for example, the recent Chocotrio innovation, they are really, really doing strong in the market there. It's a good example of how we are providing meaningful innovation to the consumer and so I would expect to see more of that. And then obviously, we talked earlier about the GLP-1 drugs, which I think give another innovation plank and innovation platform for Nestlé Health Science, but also for the Food category overall.

**Luca Borlini, Nestlé S.A, Head of Investor Relations:**
Next question is from Jeremy Fialko at HSBC.

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**Jeremy Fialko, HSBC:**
A couple of questions. So the first one is just on the slight nuancing to the organic growth guidance that you have given. From what you're saying, it's around sort of 20, 25 basis point impact on the full year from this Health Science issue. And that is just the only reason why you have made this slight adjustment. There's nothing else that you've seen in the business in terms of maybe the pricing coming off a bit quicker than you had anticipated or something like that, that has caused you to make this small adjustment?

And then secondly, can you talk a bit about this decision to close the IMF plant in Ireland and what the kind of structural assumptions that you've got, underlying that in terms of the China IMF market, the growth and the share from the local competitors?

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

The comment on organic growth. You know me from past investor calls. I try to be as precise and up-to-date with you as I can. I had made that comment at the H1 conference call based on the facts I was aware of at the time. And with that one exception, the Nestlé Health Science one. Everything else is pointing exactly to what we were believing at the time. So, this is the only outlier. And in terms of the size, I think François has given you the impact, which was 50 bps so far this year. So clearly, this is the one that has changed from the summer. I'm not aware of other changes.

Looking at the Ireland situation, as you know, clearly, birth rates around the world are in decline. Birth rates in China are very low. Relatively speaking, when it comes to restoring our market shares, we're making good progress there in China. But there's no stepping away from the fact that compared to the manufacturing setup that we were building several years ago. Today's global demand is not what it used to be.

So, this is different from situations like Coffee and PetCare, where we see continued strong underlying demand increases going forward. And in fact, in some -- like in PetCare had to catch up to meet demand. And so, it was about rebalancing this, and it was about also specifically then meeting the demands of the Chinese consumer, where clearly interest in locally manufactured products is on the rise, and that is behind the plan that we outlined yesterday.

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

Next question is from Bruno Monteyne at Bernstein.

**Questions on:**  GLP-1 effect on coffee consumption
**Growth of out-of-home**

**Bruno Monteyne, Sanford C. Bernstein:**
My first question is back on GLP-1s. I think Mark, you sort of suggest that it's mainly center of plate that will suffer. But from my understanding of GLP-1, it really helps people that use the drug to control their urges or their compulsive behaviors, and it seems to have a broader impact than just the quantity of food. And clearly, Coffee is another product that consumers sometimes struggle to control their consumption. Do you not expect any reason to worry about the growth of Coffee if and when GLP-1s help the consumer control the consumption of food and drinks more generally?

The second question is about the growth of out-of-home. I mean it's nearly 16%, that's twice the level of the retail growth, very high growth for out-of-home food. Am I right to assume that most of that is still sort of post-COVID recovery? And therefore, when would you expect that driver of growth of out-of-home food to normalize back to more normal levels of growth?

**Mark Schneider, Nestlé S.A. Chief Executive Officer:**
Let me take the first one and then hand it to François for the second one. So clearly, as you can imagine, we've been looking at these drugs for quite a while and the impact that they have. And that was going back a lot longer than some of the recent headlines that we've all seen. And to our best knowledge, food and snacking-related categories are the most impacted. So in our case, that would be the Frozen food side of things, Confectionery, and to some extent, Ice cream.

On Coffee, yes, anecdotally here and there. We've heard that people may have less of a taste for coffee. But again, this is more in the anecdotal category. And of course, it's also important to remember that coffee, when it comes to calories, when it comes to obesity, certainly not to blame. It's the ultimate low-calorie drink. Typically, a cup of espresso is 3 calories, and a cup of coffee is very similar to that. So there -- I don't think the main exposure will occur. And as anyone who's trying to lose weight knows, I think lack of energy is one of the things that people complain quite often about during that period. And so, if you're used to a caffeine fix before your diet, I think that even during the diet you will want to have some access to a caffeine fix and coffee, of course, is the prime beverage for that. So I'm less worried about the Coffee, but obviously, we watch it closely. So far, the evidence we've seen is very anecdotal only but not backed up by hard data.

**François-Xavier Roger, Nestlé SA, Chief Financial Officer:**
On the impact of out-of-home, we don't see the strong momentum that we still have today in out-of-home as a consequence of the post-COVID landing. We saw that really being completed more or less at the end of Q1. And we can look at it with very strong evidence because, for example, if you take Coffee, we have a presence both at home and out-of-home. And we saw even negative volume developments for many businesses at home until the end of Q1 2023. And then it started to be, again, a little bit the normal life that we experienced pre-COVID.

So I would say, over the last 6 months, we have no real evidence anymore that our business is impacted by channel by the COVID implication. Even we see the same for, for example, if you take VMS, we were talking Vitamin, Minerals and Supplements. We were talking about it. VMS grew very strongly during COVID, did not really go down, but very marginally down and is back to growth now already with mid-single-digit growth in Q3. So, we don't have the reading that the strong momentum there is a consequence of post-COVID. It's more that probably out-of-home is a channel where we have been traditionally somewhat under-indexed, and we have invested a lot. And so, we are probably reaping the benefits of the investment that we have done over the last couple of quarters.

Luca Borlini, Nestlé S.A, Head of Investor Relations:
Next question is from James Edwardes Jones at RBC.

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James Edwardes Jones, RBC :
A couple of quick questions. Back to supply chain issues. You see if you're calling out supply chain constraints a lot. Obviously, in Perrier, Infant formula, Coffee, Water, Purina and now VMS. Are you going through a particularly difficult period? Or is there some reason why this is likely to be more of a feature in the future than it has been in the past?

And the second one, following on really from Patrik's question. What was the mix component in RIG in the first 9 months of the year?

Mark Schneider, Nestlé S.A. Chief Executive Officer:
So on the supply chain, let me assure you that these different category situations that we talked about are not at all connected. And I think you can also guess that from the way we have covered this over the quarters and years.
So PetCare is something where I think you see a very clear origin with the onset of COVID, the large increase in private pet ownership and the surge in demand for pet food. And yes, we were close to our capacity limits at the time already. And then when you have a very surprising event like this happen, it clearly put us beyond the limits at the time. We immediately then commissioned the additional capacity. It's very much coming on stream in line with our calendar expectations at the time. But as you can imagine, getting the permits, doing the plans and then building something like this takes a while, and this is why we've talked about pet food for a while.

Perrier also, we talked to you about this ahead of time at the beginning of the year. And so, it's a planned event and not something that was a surprise. So this one here truly on Nestlé Health Science was a one-off and something where I hope you sense a certain element of disappointment and also a good sense of urgency now as we're dealing with this, and we'll fix it. And obviously, we will also ensure with our internal processes that something like this is very unlikely to happen again.

François-Xavier Roger, Nestlé SA, Chief Financial Officer:
Within RIG, indeed, we have two components, volume and mix. As you know, as far as volume is concerned, we do operate anyway in markets which have negative volume development. So we are slightly negative as well although it's improving quarter after quarter, so it's very positive, very encouraging from that point of view. So the bulk of our RIG is made of mix. And mix has actually improved consistently over the last couple of years. And as Mark said before, we are extremely pleased by it because we are not dependent from economic cycle, but mix is really where we create value through premiumization, through innovation. So the fact that we have seen mix consistently increasing year after year over the last couple of years is extremely encouraging and positive for the future.

Mark Schneider, Nestlé S.A. Chief Executive Officer:
And James, let me just build on one other item you brought up, and that is Infant nutrition. There I am not aware of a significant supply chain issue. What we’re talking about is essentially adjusting our capacity to the demand situation that we’re seeing out there. And I think this is one where, over the years, clearly, birth rates have swung down more than anyone expected. I remember at the beginning of COVID, there was a big bet out there. Was this going to be leading to more births or less? And I think around the world, what we've seen is that birth rates have taken a turn south. And so, this is more about adjusting it and specifically with regards to China, but it's not pointing to any underlying supply chain issue.
Luca Borlini, Nestlé S.A, Head of Investor Relations:
Next question is from Tom Sykes at Deutsche Bank

| Questions on: | COGS gains and promotional activities | PetCare – North American and Emerging market RIG |

Thomas Sykes, Deutsche Bank:
Just a follow-up on the pricing commentary first, please. I'm just interested in your views on your competitiveness versus what's happening to COGS. I know you don't comment on hedging, but with commodities largely coming down, where pricing has been weakest, are you trying to hold that versus peers? Or are you perhaps in any way leading price down because of some of the COGS gains that you have made? And just to clarify your comments on promotion. Is the gap between list price and net price decreasing, sorry, but list pricing is not increasing as much as it was. Is that how to think of it?

And then just a follow-up on Pet, please. Could you say something about the difference between North American RIG and the EM RIG? And would you see Pet RIG improving from here given the lines expansion that you talk about, please?

François-Xavier Roger, Nestlé SA, Chief Financial Officer:
Tom, let me just maybe cover the first one on pricing. First of all, I want to correct one thing that you're saying. Not all commodities are down, actually, to start with, I mentioned three that continue to go up, Robusta, which is significant for us, sugar and cocoa. So, we need to address these ones as well, which is one of the reasons I mentioned why pricing is not going to be down necessarily.

As I mentioned earlier, we are not really thinking or working on material price decreases. There might be some. And let me give you one which is currently happening. For example, Dairy. The price of dairy components have gone down by 25% since the beginning of the year. So, we do have some adjustment there, which is the reason why you may have seen that pricing is actually softer than maybe some of you would have thought. In emerging markets, this is largely the consequence of this dairy prices going down. So, we do adjust by businesses. But let's not forget that our gross margin had fallen by 400 basis points till the end of last year, which means that this is not the time to talk of significant pricing decreases. The other thing is that you still have other items outside of commodities, which go up. Salary and wages went up significantly last year. General inflation is still there, which means that we will still have inflation as well in terms of salary and wages as well.
The difference between list price and effective price, which is largely the consequence of trade spend. As I mentioned, we have increased trade spend materially last year because we thought at a time when we raised our prices by 8% after 15 years of no pricing or limited pricing it was important to make our products more accessible and affordable, which is the reason why we did raise our performance trade spend, excluding rebates and discounts there. We continue increasing our promotion activities, but to a lesser extent. Once again, in 2023, our focus is essentially on increasing our marketing spend, which was at a relatively low-level last year.

On the PetCare momentum in terms of RIG, we do expect to have more RIG coming from PetCare in emerging markets. I did a presentation at the beginning of the year on that because of the opportunity that we have, which is much more about the calorific conversion in emerging markets, which is increasing. It has increased, the calorific conversion by 7 percentage points, over the last ten years worldwide. 1 percentage point, by the way, is worth CHF 1 billion for the category. And this is one of the main drivers that we have, which we will find essentially on RIG, while on in developed markets like North America and Europe, it's much more about premiumization, which has less impact on RIG.

Luca Borlini, Nestlé S.A, Head of Investor Relations:
Next question is from Jeff Stent at Exane.

Question on: GLP-1 research

Jeff Stent, Exane:
Just one question, and apologies it's back on the GLPs. But as far as I can see, it seems to be the case that this is incredibly embryonic. There is very little reliable research on how this does impact consumers purchasing habits, et cetera, and interferes with dopamine effects, et cetera.

So my question is, do you have research that is proprietary to Nestlé that's informing some of the statements that you have put forward? Because I'm just a little bit surprised how confident you are that this won't be an issue, particularly in areas like Coffee.

Mark Schneider, Nestlé S.A. Chief Executive Officer:
Thanks, Jeff. And let me turn it around. We were a little surprised about the strength of the reaction here on something that's very early days where clearly, the rollout of these drugs is
going to be taking a long time given the cost and capacity constraints. It's unknown at this time how many people were up for this. It's unknown at this time how long people will stay on this, given some of the very serious side effects. And it's unknown also what their specific needs are when these treatment regimens are over. So yes, from our perspective, if anything, the overreaction was more like the other side and that is the strong reaction we've seen over the last few weeks surfacing after some comments were made by a U.S. retailer.

So, from our perspective, as you know, these drugs have been now around for a number of years. Clinical trials have been conducted. I very carefully mentioned on Coffee we've seen this anecdotal evidence, but I didn't go beyond that. And so, the verdict there is out. I'm the first one to acknowledge that.

But then on the other side, on Nestlé Health Science and some of these companion products, yes, we've been researching, and we have products that are a good fit already now, for example, our OptiFast range of products, which I think is very good before, during and after, the treatment with these GLP-1 agonists. We have products in our Boost range that are very much targeted to that. And we have new innovation hitting the market as soon as next year that we believe will back up the statements I made.

Luca Borlini, Nestlé S.A, Head of Investor Relations:
Next question is from Victoria Petrova at Bank of America.

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Victoria Petrova, Bank of America:
I have two follow-ups. One is, if you could quantify next year capacity increase from new PetCare facilities. And if I understand correctly, you're still capacity-constrained there? That would be my first question.

And my second question is around the magnitude of one-offs in Water in Q3, which will not impact first quarter, and by that, I mean Perrier capacity constraints impact and abnormal weather conditions in Europe. Could you broadly quantify it similarly to the way you do it in Nestlé Nestle Health Science?

Mark Schneider, Nestlé S.A. Chief Executive Officer:
Victoria, thank you. And as always, we’re trying to be helpful. But I think on Pet, the best way we can word it is to say that we expect these remaining constraints to ease in ’24, and that, as mentioned before, in Perrier, they will come to an end at the end of Q4 this year. Since we haven’t given a precise numbers impact before on the size of the limitation, it's also now very difficult to provide the numbers impact on the remaining limitations that would fall away.

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. First question on Coffee. We have seen positive, the second quarter, with a positive RIG in Nespresso. Can you quantify the RIG for Nescafé and Starbucks in Q3 and year-to-date?

And then the second question. I have to come back on the RIG. I mean going forward, you expect this to be, again, the main driver of the organic growth. However, if we look at your competitors, especially in North America, I think we see that pricing is moderating, but volumes are not really bouncing back. So what gives you really the confidence that RIG will turn more positive in the next year? Is it just pricing -- less pricing? Is it a technical aspect of lower base? Is it more marketing spend?

Mark Schneider, Nestlé S.A. Chief Executive Officer:  
Pascal, let me start maybe with the second one and then François can also chime in and also help me out on the first one. So clearly, on real internal growth, I think one of the elements we always prided ourselves on is the mix part, which is a direct proxy for innovation and meaningful new things that we bring to the market. And as you know, we have an industry-leading budget on R&D. I think we have a very renowned innovation muscle there. And I mean that one has never really let us down, and we expect that one to also then carry some of the burden going forward. So how exactly this will play out, obviously, a lot will depend on the volume demand, the state of the economy in various countries and where the consumer is. But the fact that after 1.5, 2 years of pricing that growth, we're now engineering a transition to growth that is again led by real internal growth and within real internal growth, in particular mix, I think that should not come as a surprise. And I think people generally understand we're well equipped for it, comparatively speaking.
Regarding Coffee, clearly, I mean, you've seen the numbers for Nespresso. So very strong numbers there. But let me say that on Starbucks, overall, we are also seeing continued very nice growth in rollout and increasingly growth coming from new innovative products in the pipeline and Nescafé also stable development. So, no issues there.

End of Q&A session

Luca Borlini, Nestlé S.A, Head of Investor Relations:
Fantastic. I think we're getting to the end of the webcast. So, we thank you very much again for your interest in Nestlé. As usual, if there are further questions, don't hesitate. The IR team is available. Thank you. We wish you a very pleasant continuation of the day.

End of Transcript