NESTLÉ S.A.

2024 THREE MONTH SALES Q&A TRANSCRIPT

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Speakers:

Mark Schneider, Chief Executive Officer, Nestlé S.A.
Anna Manz, Chief Financial Officer, Nestlé S.A.
Luca Borlini, Head of Investor Relations, Nestlé S.A.

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Good afternoon, and good morning to everyone. This is Luca Borlini, Head of Nestlé Investor Relations. Thank you for joining the Q&A session for Nestlé's Q1 2024 sales. With me today are Nestlé's CEO, Mark Schneider; and the CFO, Anne Manz.

Starting this quarter, we are following a new format to serve you better. We have made available our prepared remarks at 7:00 a.m., together with our first quarter press release and presentation on the Nestlé Investor Relations website.

I trust you have had the time to review these materials and listen to the recording. Therefore, we can go straight to the question-and-answer session.

Disclaimer

Before we begin, please take careful note of our usual disclaimer. With that reminder, given, let's begin the session.

Question and Answer session

The line for questions from financial analysts is now open.

Questions on;	North America Frozen and Packaged food rebound Marketing and advertising spend

Jon Cox, Kepler Cheuvreux

A couple of questions on my side. I wonder if you can just talk a little bit about North America and particularly the problems in the Frozen and Packaged food component. And you're talking about, this is temporary, strong rebound you can already see. I wonder if you can just talk about that, what gives you confidence on that?

And then the second question, you talk a lot about advertising and marketing this year to sort of reboot the RIG, should we expect actually more of a minimalist improvement in the margin this year because you will be spending a lot more on marketing and advertising to reboot the top line?

Anna Manz, Nestlé S.A., Chief Financial Officer:

Perfect. Well, lovely to meet you, and I'll take the North American question. So maybe just to step back a bit first. We've had a couple of years of consumer price increases and also, for the low-income consumer, we've had the reduction of the SNAP benefits. And so particularly for that low-income consumer in the U.S. The combination of those two things has meant that they've seen a decrease in purchasing power of about 50%.

Now those are the consumers that predominantly buy in the Frozen food category, which is why we see a continued, ongoing impact there, and then there's a couple of other things that have come together in the quarter, along with that. In that we've seen some specific competition, price competition, particularly in Pizza, and that has impacted us a little, in part because we've chosen not to consistently take our prices down and handle the category in maybe a more sustainable medium-term way. So that's had an impact in the quarter.

And then the final impact, which is relatively material, is we've also seen a retailer inventory reduction in the period. And of course, if you remember, we had the sale of Canadian Frozen food a year ago. So we're still lapping that in Q1. So, a number of things have come together, specifically in the Frozen category, in this quarter. And I'll talk about how I think we'll move through most of those actually very quickly in a minute.

I guess looking at the rest of the portfolio, just one comment there, in a number of categories, including Pet food, in 2023 there was a price increase on the first of April, and so in the comparative you see some pre-price increase buy-in the prior year, which just makes it a tough comp.

So if you wrap all that together, it's been a weaker Q1 in North America. Why do we feel good? Well, firstly, if you look at our sell-out data, this is Nielsen, IRI and some of the e-commerce channels that we track, and it's not directly comparable, but it gives you a sense. Our sell-out data in unit terms is down minus 2 so that talks to a healthier underlying consumer situation in North America.

Then a couple of other things as we look forward, obviously, we won't see a repeat of these inventory impacts, and we're largely through the Canadian Frozen food exit comparative effects. So those fall away. And I think the other issue from a consumer perspective is by the time we're in Q2, we'll have moved through lapping the loss of the SNAP benefits.

So the consumers are not richer in any way, but we no longer have the sort of comp effect of a more positive comp. So those are some of the one-off pieces. I think the things that make me feel good and why we're seeing improving performance through the quarter, is that we've got a very strong innovation pipeline looking forward. There's a lot to come, particularly on Frozen actually, which is a high-innovation category, consumers like to see new stuff coming through. They want new meals. So there's a lot coming there. But actually, there's a lot coming across the portfolio in North America. So that's going to really help as we move into Q2 and beyond.

And I'm sure Mark will come on to this in a minute. We have also been focusing our investment and stepping up our investment, particularly around the Billionaire brands. And so why do I feel good about the impacts of that? Well, we're seeing improving share gains in Purina and Coffee, which are the two biggest categories. So we go into Q2 with good momentum.

Mark Schneider, Nestlé S.A., Chief Executive Officer:
And Jon, building on that, what's important to us here, the building blocks that give us confidence for Q2 are not things that we're now thinking about putting in place in a reaction to a slow start to the year. These are things that we have been already putting into place and that are now in Q2, expected to come to full fruition. Other items are very clear, straightforward year-over-year lapping items, which are also just a matter of fact, items and not something where we hope that something will work out right. So that is giving us a very healthy degree of confidence here as we work through Q2.

Regarding the advertising and marketing, I'm glad you bring this up. So this is not about forward-looking marketing spend that we will initiate now, we've been essentially on the accelerator since Q2 last year. We were very open about a slow start to last year. This was in light of significant uncertainty as we entered 2023 and where the consumer was. But then, as from March last year into Q2 last year, we've been stepping on it significantly, accelerated all throughout the second half, and continued accelerating all throughout the first quarter now.

So you're building essentially on four quarters of increased momentum on the brand-building efforts, which are now bearing fruit. Anna mentioned that we're seeing improving market share trends, in particular around the Billionaire brands, and that is another initiative we have to focus more strongly on these proven winners. You saw some of the data in my prepared remarks, and here again, we believe that in addition to the increased spending, the increased effectiveness and efficiency through that will definitely pay off.

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

Questions on;	RIG performance in Q1 PetCare deceleration in Q1

Guillaume Delmas, UBS :

Two questions for me, please. The first one is on, again, your RIG performance in Q1. Mark, you said Q1 played out as expected. But I think at the time of the full year results in February, the soft guidance for Q1 RIG was that it could be below the plus 0.4% posted in Q4.

Retrospectively, it sounds a bit more optimistic than the -2% actually achieved in Q1, and also, even after excluding the Zone North America and Nestlé Health Science, RIG decelerated materially. I think I get to -0.2% ex North America and Nestlé Health Science from 1.8% in Q4. So it seems the slowdown was maybe more pronounced than anticipated in the U.S., but also maybe it was more broad-based than you initially anticipated. Any color on that would be helpful.

And then my second question on PetCare. That division's organic growth in Q1 was the weakest quarterly performance, I think, since 2018. You were flagging last year that double-digit OG was certainly not sustainable, it would have to come to an end at some point. But did the magnitude of this deceleration in Q1, was it a surprise, particularly at a time when you should have had less capacity constraints? Or is Q1 simply not representative of your ambition for this division in 2024?

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Guillaume, let me address the first one and then also start on the second one and hand it to Anna for some additional detail.

So look, we're always trying to be as helpful as we can with our statements and how the year is going. But the one line we don't want to cross, and that applies to the full-year call as well, is to get into quarterly guidance. And so, we were giving you a pretty clear indication about the direction, but we don't want to start a habit now of giving precise orders of magnitude by quarter.

I would think that would set an unhealthy precedent. And so that also applies to this call, by the way, where we do have strong confidence about where the Q2 is going and where the rest of the year is going, but we're not getting into precise numerical guidance, and that's just something I ask you to respect.

What's more important to me is the underlying situation where, starting from Q4-22 to the first quarter now, you had a period of six quarters with a very unsteady RIG performance. It was gyrating up and down, there was no clear, consistent picture, and a lot had to do with some trends here that were influencing the numbers pretty significantly, which were overlaying each other. A big one for some categories was post-Covid normalization impacting, for example, Nestlé Health Science and also Coffee at the time, very much. But then you also had the increasing impact from this inflation spike, the price increases at cost and some of the consumer reaction, volume reaction, that you saw with our company, but also across the industry with our peers.

So, there was an unsteady situation where some quarters came in a little better than expected, some worse. I think the important news is, that with this first quarter now, we're essentially out of and out of the lapping of some of these unsteady trends and what we're seeing now is starting from the second quarter, is not just a strong rebound in RIG for that individual quarter, but also then, steady positive RIG performance for the remainder of the year, and that is giving us the confidence to reiterate the organic growth guidance of around 4%. So, that one please take away as a clear signal.

On Q1 itself, for us, it was not a surprise. It was in line with expectations as a number of phasing, year-over-year issues and then the specific consumer weakness in the U.S. were coming together. Plus some of the self-made issues like, for example, the Nestlé Health Science situation and the supply chain constraints we saw there, starting from the third quarter last year.

A lot of these issues now are either addressed or lapped or out of the way. And then, as Anna mentioned, we do have the shelves stocked with new innovation, innovation that has been getting to the shelf or to the freezers already in March and April and that is starting to turn and to sell now. So that's giving us the underlying confidence here.

On Pet, it's important for me to point out after four years, four consecutive years of double-digit growth, we had clearly flagged that growth would moderate, and I think that's just a prudent normal assumption going forward, especially with inflation coming down a bit, and that is what happened. When you just look at the individual first quarter, I don't think it is doing the true underlying performance full justice because one thing that Anna flagged earlier applies here, and that is ahead of the price increases in North America last year, effective April 1, there was some pre-buying from retailers and that supported the first quarter and now, of course, is a negative for the year-over-year comparison.

But all in all, when I look there at the true positives, the continued positive performance, the increase in pet population, and the innovation we're rolling out this year, I think what's going to happen on a full-year basis is exactly what we talked about, and that is moderation of the growth and then, of course, also continued strong performance in emerging markets and elsewhere internationally.

Anna Manz, Nestlé S.A., Chief Financial Officer:
Just a couple of numeric builds. The driver of the Q1 performance on RIG in PetCare was North America. And just one extra data point that might be helpful. The sell-out, as we look across all of the different channels through which we sell, the sell-out data was positive. So that talks to a little bit the price increase timing issue we were just talking about. And other than that, I'd just note that we're gaining share consistently across the North America, Europe, AOA and LATAM. So good momentum in terms of our performance within the category.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:
Next question is from Céline Pannuti, JPMorgan.

Question on;	**Pricing for the remainder of the year**

Céline Pannuti, Morgan Stanley:
So my first question is on pricing. I'm trying to understand a bit the shape of pricing as we go through the remainder of the year. And am I correct in understanding that you may have to be more price competitive in the U.S. and that you are as well increasing the level of promotion across some of your categories or countries in order to get that volume bounce back you want?

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Céline, maybe I'll take a first crack and then see if Anna wants to add any data points. What's important for me is to underline that on a Group consolidated basis, we still expect moderate

positive pricing for the year 2024, and so here and there, when we get inbound questions, there's fear of negative pricing on a Group consolidated basis. And I just wanted to address that. Now, we're seeing positive moderate pricing for the year. Having said that, with different cycles here of different commodities and input costs, in different geographies, pricing going forward will have to be a lot more nuanced than what we had in the past. And so you will see some categories and geographies with continued pricing in a very targeted specific way and others where we may have to hold steady or even retreat slightly on pricing in order to stay in the game and competitive.

So the time for across-the-board increases driven by across-the-board input cost increases that we saw, for example, in 2022, that is clearly over, and so it's going to be a very specific, very nuanced picture. And that applies inside a category across different geographies or applies to one specific Zone like North America where the picture, category by category, could be quite different. What you saw from the prepared remarks, for example, this morning, in Frozen, in addition to innovation that we're rolling out, we also had to sharpen a few price points here and there. As you know, Frozen with us, we have three subsegments. We have the prepared meals, we have pizza, we have snacking, and so even there, it's not across the board, it's very specific by brand against targeted competition, and that's again, the very precise way we have to move forward on the pricing front.

Anna Manz, Nestlé S.A., Chief Financial Officer:
One small add, promotion is one part of the marketing mix, as Mark said, and we look at the whole, but actually, if you do look at promotion in sort of isolation, we're not seeing big increases there because, as I say, there's puts and takes across the portfolio. And so in aggregate, there isn't a big impact. Where we do see some extra costs is as we bring new innovations to market, we need to get them into market first. But aside from that, no, there isn't any distortion here.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:
Next question is from Warren Ackerman at Barclays.

Questions on;	**Innovation pipeline** **Nespresso and Coffee performance**

Warren Ackerman, Barclays :
So yes, a couple from me. The first one is, could you talk a little bit more about innovation? You've touched on it a few times, but I guess that's going to be a big swing factor for the real internal

growth. Is there anything you can share Mark or Anna, in terms of what innovation we're seeing coming out of Frozen, Pet, and Coffee looking into the balance of the year?

And then just a second one around Nespresso and Coffee generally? Are you able to kind of give a little bit more color as to what you're seeing? Nespresso was a bit weaker, is that just phasing or pricing comps and thinking about it for the balance of the year?

Mark Schneider, Nestlé S.A., Chief Executive Officer:
I suggest we'll share the innovation part of the question between myself and Anna because I noticed we have different favorite products here in the lineup. But what you'll see is it's a pretty significant roster of new products that are either already on shelf now or coming to shelf very soon. And then I'll also focus on your Nespresso question.

So look, in Frozen, there are two areas I would want to highlight. One is an expanded offering of the healthy choices, in particular, around our Lean Cuisine brand, and we discussed GLP-1 and the new interest in weight loss at the last two conference calls. And of course, that trend is developing momentum, and I think a portion-controlled meal with high protein content and then also a number of vegetables in there, that is an ideal companion product for someone who is interested in weight loss, whether you're on or not on the GLP-1 therapy. And so clearly, there is new interest in this area we're serving and catering to that interest with new offerings.

The other one that's big for me, keyword here is Air fryer. So clearly, the Frozen category depending on what product you look at had been very much built around either the oven or the microwave. Microwaves, of course, have a wonderful penetration in the U.S. market. And so for the prepared meals, that's the ideal way to prepare them. But for anything that's in a sandwich format, of course, the microwave was difficult. And so, this is where the rise in Air fryers now is making a big difference. These products are very affordable. They're gaining a lot in penetration. And so clearly, they're giving you a whole lot more latitude in terms of the dishes you can create. And so sandwich melts, for example, under the Stouffers brand, it's not only very close to the brand origin but it's also basically catering to America's most popular meal choice when it comes to lunch, which is a sandwich. And so this one, we have a lot of hope for.

Another one I would point to, that's not on shelf yet, something that is coming more like towards the second half of the year, is new products as GLP-1 companion products under Nestlé Health

Science, and then what is going up already sometime in May, is a specific website that will help GLP-1 patients navigate some of the Nestlé Health Science products that are suitable as companion products now.

You may recall from some of the news agencies over the winter, we talked about CHF1.5 billion in sales already of potential companion products for GLP-1 patients. And so helping patients to navigate that and find the right choices to address problems from loss in lean muscle mass to any gastric discomfort or potential vitamin deficiencies, I think that will also be a significant help when it comes to positioning Nestlé Health Science as a partner on your weight loss journey.

And then the other one that's on shelf now already and ramping up is the new line of flavored Maison Perrier products that I think is getting momentum and where we hope to see good momentum, especially in the United States. Maybe Anna, you have a few more.

Anna Manz, Nestlé S.A., Chief Financial Officer:
I'll be quick. But in the U.S. alone, there's 100 new products coming out in the Purina PetCare range, and we've got the capacity to deliver that now. And there, science-based solutions for specific pet needs, are exactly what the consumer wants. And I think the microbiome solutions that were in Mark's prepared remarks earlier, are a good example.

The other area that I think is really interesting, and I say it because I've got teenagers and while it’s a sample size of three, it's interesting, it's resonated with a good number of people's teenagers. Cold coffee solutions. Young people very much are looking for that cold coffee opportunity. And I think Nescafé Ice, which is one that was on Mark's slide earlier, which is Nescafé -- soluble coffee, but for the cold offering. I think, will really help meet that currently unmet need. And we have another liquid version, that’s also very good, that will be coming later in the year, but those are a little bit further out.

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Warren to your Nespresso question. The big picture is that we turned the corner of post-COVID normalization last summer, very much exactly in line with our forecast. And you've seen a very steady performance in the second half of the year. It's important now to not over-interpret this first quarter because what we see on a full year basis is more of a continuation of that steady performance with the key driver being the continued success in North America.

What somewhat muted this first quarter is the timing of a number of third-party e-commerce orders for Nespresso, and that's a part that probably you guys have not spent a lot of attention on in the past, but especially with increased penetration in the U.S. and more presence of Nespresso products on third-party e-commerce platforms, what happens is a larger part of the business gets conducted this way and their orders are very much algorithm-driven. And so where that does come in towards the end of one quarter or beginning of the next quarter, is something that's outside of our control. And so we saw a larger share of those orders in the first quarter last year. And hence, this quarter compares a little unfavorably when it comes to that.

There's a second related question on Nespresso, which refers to the coffee prices. And there also the good news is, of course, being at the premium end of the coffee range, we're using a whole lot of Arabica in Nespresso. And so we're a little bit less exposed compared to mainstream coffee brands when it comes to the recent Robusta price increases.

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

Questions on;	**Full year target** **Cocoa price effect**

Jeremy Fialko, HSBC:
A couple of things for me. So the first one is thinking about your full year outcome of around 4% organic sales growth. So just to kind of hit the four on the nose, to get into the middle of the range, obviously means you've got to get pretty much 5% organic sales growth over the remainder of the year. Now I know you're not going to get into a debate about exactly where you're going to end up, whether you hit the four precisely. But do you still feel that is a realistic outcome that you can deliver something around five without being super explicit about it, but that is to say, it is well within the range of possibilities for Q2 to Q4?

And then the second question is on cocoa. Perhaps you can talk about your kind of exposure to cocoa, how you get it, phase some of the price rises given the hedging that you have? And what do you think that demand in Confectionery might do in response to some of the price rises that inevitably will have to be put through given how much the cocoa price has gone up.

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

Thanks, Jeremy. I'll let Anna comment first on the growth expectations and then focus on cocoa.

Anna Manz, Nestlé S.A., Chief Financial Officer:
Yes. I mean, as you've heard, we're reiterating guidance today, and that is because we are confident in the delivery of the full year, understanding the degree of step-up that's required. But just to kind of remind you the issues that we've seen in the first quarter are quite specific, I mean, particularly in the U.S., those Frozen specific issues are behind us. The underlying U.S. sellout is much stronger.

We've got a strong innovation pipeline and material investment. And we've been seeing consistent improvement through the first quarter in RIG and in our underlying share position. And it's all of that together that leaves us confident in our forecast.

Mark Schneider, Nestlé S.A., Chief Executive Officer:
And Jeremy, on the cocoa price development, obviously, everyone watched with a certain degree of amazement, the trading patterns in cocoa recently. I won't speculate here on where it's going. Everyone, of course, has their own views on that. But I think the key news here for the remainder of the year is that we are largely covered as part of our forward contracting for the remainder of the year. And so that gives us a stable base to plan on. And so there aren't any near-term impacts on that. We'll now need to see where the prices go so that we can articulate and work out our strategies for the year '25.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:
So we will give an opportunity to Céline to ask a second question, as she only asked one question at the start. Please go ahead, Céline.

Questions on;	**RIG acceleration outside of US – AOA and LATAM**

Céline Pannuti, JP Morgan:
Yes, my second question may be building up on the previous just now. Trying to understand that bounce back in RIG throughout the year, which if you were to do -- at the low end of your 2 to 3 on RIG, it will imply around 3%, 3.5%. So away from the U.S., if I look at emerging markets, AOA and Latin America, we've seen RIG being slightly negative despite weakening pricing, so if we think about those two regions that are, as well, important big drivers, can you talk about what you see in the coming three quarters that will lead to an accelerated RIG in those two regions?

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

I suggest that Anna and I kind of share the answer to that question. And look, on a high level, and bear in mind what I said earlier that we don't want to get into quarterly guidance and certainly not quarterly guidance here by Zone. What I would like to point out again is the key feature for me is, for the remainder of the year, that you have every reason to expect positive, consistent RIG delivery. And that is, from my perspective, the key differentiator to the picture we saw last year, where things were bouncing around, and there was no clear pattern when it comes to the direction where RIG is going.

I think we focused a lot in this call now on North America because I think that was the one where, from your perspective, there was the single biggest negative surprise. But to a lesser extent, you find in other Zones as well that issue, related to either phasing or year-over-year effects, and that, of course, we also have benefited there from what we described for North America. That is a consistent increase in our brand support spend from the second quarter onwards last year, and then also innovation lined up in these other Zones that is going to go out or has gone out and is on-shelf. Maybe, Anna, you want to add to that?

Anna Manz, Nestlé S.A., Chief Financial Officer:

Yes, just a little bit of color. So I mean, start with AOA. It's growing at 3.6% in the quarter. Now you're right, RIG is a little bit negative. But the overall OG is good at 3.6%. Why is the RIG a little bit weaker? We've seen some really material currency devaluations in this first quarter in that part of the world, and that requires us to take quite considerable price when that occurs. And of course, it has a bit of a volume impact when it happens. So that is one of the drivers. And of course, we see some ongoing hesitancy around global brands. So those are a couple of the factors at play, that said, again, we've seen underlying good momentum and improvement through the quarter and strengthening share positions.

And in terms of LATAM, just again, that's a business that's growing at a little over 3% OG, but again, slightly negative RIG in Q1. Why is that RIG a little bit weaker in Q1? Back to lapping effect, in Confectionery, we're lapping a huge RIG in the prior Q1. So that's a bit of a lapping effect. And we've also made some portfolio actions in the Dairy business to focus where we're playing, and that's had a bit of an impact on RIG. But again, underlying consumer performance is good.

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

Questions on;	Innovation rate vs previous years Coffee pricing

Pascal Boll, Stifel:
Yes, first of all, thanks for the prepared remarks this morning. I think it's very helpful. Then turning on my question. First one to follow up on innovation. Thanks for giving us a sense of your upcoming innovations. I think that's helpful. Now against the backdrop of this and the stalling growth we have seen over the last quarters, do you think it's fair to say that Nestlé was a bit hesitant or slow in innovation over the last two years? And maybe you could give us here a sense of what's the number of launches coming this year versus the last years, just to get a sense in how far this is a real ramp-up versus the past? So, this would be my first one.

And then secondly, on Coffee, against the backdrop of increased coffee and aluminum prices, how do you look at pricing from here and the RIG reaction to that given that Coffee growth was down to low single-digit growth in Q1.

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Thanks, Pascal. And on the innovation, it is worthwhile to look back over the last four years indeed. And I feel that initially when COVID hit in ’20 and ‘21, we had a few things lined up for launch from the prior years and still good momentum, and hence, there was no initial slowdown when it came to innovation and renovation. Then we witnessed something in '22 because at that time, it was no longer just COVID. It was also, as you know, significant impacts from supply chain constraints around the world. And that is it was taking energy away from innovation, renovation efforts.

And as we look around and since some of that can be also benchmarked against some of our peers, I don't think we were alone in that. So this is not, in my view, a Nestlé-specific decision. It was simply everyone was grappling with the same issues, and that is how to keep supply chains running, how to focus scarce resources on the core SKUs and keeping shelf stocked.

And in that moment, less energy was devoted to innovation and renovation. We have already started to step on to it again in '23. And I think here also that is consistent with some of the data that we track outside of our company, and then I think compared to '23 levels, we are particularly strongly spring-loaded, I used that term this morning in my prepared remarks, for the year '24 and certainly also have devoted a lot of spending behind these launches to make sure that they really resonate and reach consumers.

So that's essentially how I saw it unfold. I think during that period when there was less of that innovation, renovation activity that may have helped inadvertently somewhat the private label competition, especially in the face of affordability crisis out there. But I think now it's important, and will stay consistent, is to keep the innovation renovation engine running, and obviously, not just deal with regular innovation and renovation, but also very meaningful things that we would drive across the entire geography. On pricing, Anna do you want to chime in on that?

Anna Manz, Nestlé S.A., Chief Financial Officer:

Yes. And maybe just to correct, or to provide more context in that you started by mentioning that the RIG growth in Coffee in Q1, and just to join a couple of things together. Yes, it was a slightly weaker quarter Q1. But you heard Mark just describe the phasing impact that we've seen in Nespresso with respect to e-commerce, which is a phasing of sales rather than a consumer thing, and you've also heard me describe the timing of price increases in North America, again, giving you a phasing of sales impact.

So I would say coffee consumption Q1 the RIG performance understates, I think, the strength of the category. Demand for coffee remains strong, and we continue to gain share, and in terms of pricing going forward, we're very thoughtful about pricing market by market, as Mark described earlier, where we'll look at the individual competitive position of the brand and the offering and we will take pricing that is commensurate with what the consumer can take at the point of sale.
So in some places, we can take more pricing, and will do, and other places we will be very thoughtful in order to maintain our strong position.

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

Next question is from Bruno Monteyne at Bernstein.

Questions on;	**Cost cutting program** **Challenges to sustainability program**

Bruno Monteyne, Bernstein:

My first question is on, I think, an interview you did recently with Manager Magazine, and it talked about some pretty big cost cutting program, if I'm not mistaken in the order of 13%. I'm not sure if it was misquoted, if you can say anything about the size of this cost-cutting program or is it just steady state, as Nestlé always does, efficiency programs?

The second question is almost around the same time as the big cost-cutting news article. We also heard from one of your peers who are doing some massive cuts in the sustainability targets, delays, canceling stuff, and that sort of made me think that's probably related to the cost and the difficulty of achieving that. Do you see similar challenges in terms of timing and cost of achieving that, and is your expected cost of achieving all your sustainability objectives, is that going up and should we give a line for future EBIT margin expectations?

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Thanks, Bruno. And just to clarify because the line was a little bit hard and breaking up. So the second question refers to our various ESG efforts in the supply chain. Is that what you're talking about?

Bruno Monteyne, Bernstein:
Yes, because your peer Unilever has a massive change and reductions. Do you see similar pressures on the need to rethink? And are you worried about the cost of the commitments you've made in the past and how that will weigh on future profitability?

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Okay. Very helpful. And look, I'm glad you're bringing up both questions because they're very core to us. So on the first one, I had also seen your note on this. And I'm glad that I have an opportunity to put the record straight here. That German media source, this was not an interview of mine. And it was certainly not something that we had contributed to or were part of, and it is also factually not correct.

So there is no Group-wide restructuring program. And for those of you who know us well, you know that we don't operate this way. What we do operate on, is continuous efficiency, individual steps and you see that over the years, those do amount to good efficiency drives.

There were certainly -- for example, when you look at the period behind 2017-2019, behind that commensurate drive in both our margin and organic growth, and that is the business model we pursue. We call it the Virtuous Circle. Many of you that followed us over many years are quite familiar with this. We're not deviating from that. We're not into big style, slash-and-burn restructurings and have no intention of going there. We see them as disruptive, personally have never done one in my life. So this is not the way we operate, and we're not deviating from it.

What you do have in select locations in Europe, for example there was one particular announcement yesterday that referred to Germany, are individual steps where, either with the goal of clarifying individual processes or digitalization or efficiency improvements, you do have a number of very limited redundancies. So we're talking about 100 positions there in the German headquarters, where, of course, we are finding a very socially responsible ways to cushion the impact on our colleagues, but there are no big style restructuring programs. And what we try to get back to, after several years of navigating a very difficult environment is exactly that virtuous circle mindset that we employed so successfully during 2017 to 2019.

We already cranked up the number of initiatives in that regard in 2023, we have more of those coming in 2024 and 2025, and that should restart that virtuous circle effort.

On sustainability and ESG, let me also say very clearly that we are committed to those 2025 commitments we have given a number of years ago. And let me couple that with a very strong statement that should resonate with you, and that is when it comes to these massive company-wide global multi-year efforts, really significant undertakings like our sustainable packaging initiative or the reduction in greenhouse gas emissions, you can't day-trade in those okay? If you are in one day out the next day, accelerate one day, decelerate the next day, what you will do is confuse a large organization to no end.

So you have to be thoughtful when you articulate your goals but then you have to see it through. That's the way it works. This is how you get traction. And I do remember when we articulated those targets in 2018-'19 quite a few people, on both of these, pushed us. Why aren't you more ambitious? Why don't you aim higher? Why only 2050 on greenhouse gas? Why not 2040, and so we didn't stand out as the highest aiming one when there was almost like an arms race on who commits more, and the good thing now is we're also not dialing it back down. We're basically in a very steady way in which these large projects should be approached, putting it in place. When you look at the 2023 sustainability report, you see that on both fronts, we are making that steady progress that we're known for.

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

Questions on;	**RIG delivery** **SKU rationalization impact** **Private label in US**

Victoria Petrova, Bank of America:
My first question would be on RIG. I just wanted to clarify when you talked about consistently positive RIG delivery, do you mean every quarter, in every geography, just to make it clear through 2024? And do understand correctly that on the first quarter, the VMS U.S. RIG impact was probably close to 0.6%, 0.7%. Is that the right way to think about it?

And my additional question on the same topic, you mentioned some SKU rationalization in LATAM. Is it the only SKU rationalization impact in the first quarter? Or has there been any anything else in any other geographies or categories? And should we expect anything to be left in the remainder of the quarter. So that's a group of questions on RIG.

And my second question is on private label in the U.S., we're seeing private label market share increasing consequently in food, has it had an additional negative impact on your U.S. performance? Do you expect it have stabilized, or do you expect further disruption in the remaining quarters? And according to our U.S. analyst, the SNAP consumer traded down properly in summer '23, don't you think that your comps will still be challenging in the beginning of the second quarter.

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Let me try and take a stab at both of these. So on RIG, what I was referring to is every quarter, but obviously, my statements are at the Group level. And that is important, and we're not getting now into individual guidance or expectations here by individual Zones and ask for your understanding there.

Regarding VMS, I'm glad you are bringing this up, we are on track very much as we outlined in our full year conference call in February, continuing to improve our service levels. You see for two specific brands, Nature's Bounty and Garden of Life, the data there. We try to keep it directional Victoria. So this is not about precise percentages. And again, it's only referring to the two brands. But the important thing is that the direction is up, and we are exactly on track for what we shared with you at the full year call, and that calls for Q2 being an important cross-over quarter, and then in Q3 and Q4, we're expecting then that double-digit organic sales growth performance for the entirety of Nestlé Health Science.

So when I say a cross-over quarter in Q2, it's important for me, where exactly this will happen, where we'll break into positive territory, whether this is something that's close to April or something to June remains to be seen. You will see continued improvement from Q1. That's the important part, and then especially against these weaker comparables in the back half of the year, you will see then, with our supply chain restored, double-digit organic growth performance for Nestlé Health Science in its entirety.

And then on the SKU rationalization, remember what Anna referred to is the lapping of some of these events and only then are they completely out of the system. And we've also seen a few similar lappings of this type in Zone AOA. And there specifically because we had cleared a few lower margin, lower profitability, low growth Dairy products in Zone AOA, even last year, beginning of last year. And so now as we go through each quarter, you'll see less and less of that lapping going forward.

Regarding private label, I think what you're describing private label in the U.S., I think what you're describing is very consistent with what we are describing to you, and that is with that significant reduction in purchasing power that we have seen with lower-income consumers as a result of food price inflation and the SNAP reductions, obviously, people had to make difficult choices. And in some cases, it could be trading down to less pricey brand. It could be trading down to private label, or it could be, for example, switching from a prepared meal to scratch cooking. So there's all sorts of choices that people took, and what we expect is, starting from Q2 now, at the very least, you don't have this lapping issue anymore. So you're not comparing unfavorably to a quarter that was not impacted by the SNAP reduction. But of course, the issue that there is pressure, financial pressure with the lower income consumer, that by itself simply because you lap, then the reduction doesn't go away, there the good news is that, of course, you do have a very strong job market in the U.S., and so income levels are rising, real income levels are rising, and so over the next few quarters, I think that financial pressure is going to ease.

So you have first the lapping fall away from Q2, and then we do also believe that some of these financial pressures are going to lessen as the strong job market helps here when it comes to real income levels.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:
Thanks, Victoria. So maybe I'd just remind if you can limit yourselves to two questions that would be great because we are getting close to the end. So Sarah Simon from Morgan Stanley.

Questions on;	Water - Consumer reaction to French investigations Nespresso – What % is sold through third-party e-commerce

Sarah Simon, Morgan Stanley:
Yes, I had a couple of questions. The first one was on Water. I was just wondering if you would update us there in terms of whether you've seen any change in consumer spending or behavior as a result of the investigation in France?

And then on Nespresso, can you just remind us how much of the business goes through third-party e-commerce, please?

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Thanks, Sarah. On the second one, asking for your understanding that we have not disclosed that percentage. It is increasing with the rise of the North American business where this activity is more pronounced, but we have not disclosed that percentage. I'm asking for your understanding there.

On the first question, happy to expand. So you've seen, I think, a recovery in organic growth in the first quarter, which is good news, and we'll certainly see a continued recovery as some of the supply chain pressures are slowly easing, and we're also having innovation on shelf such as the Maison Perrier products and looking forward to the rollout in the U.S. So I think we are, when it comes to that, geared for a better 2024.

We have not seen an immediate consumer reaction to some of the headlines. And I just wanted to confirm that what we talked about in January and February, we had started, under the control of the French Government, to upgrade our operating practices already 2 - 2 ½ years ago. And clearly, Perrier was the flagship product where we started that, and the goal was to assure absolute food safety about what is inside the bottle and of course, complete conformity with local mineral water regulations. And the latest news now that you may have seen yesterday that on some of these products now, we have decided not to ship. That's basically not new news or a new problem, but it is the application of that new process that we had agreed with the French Government and the regulator. Where you had seen in the south of France, some exceptionally heavy rainfalls in late March, early April, that led to one of the wells, remember, there's a number of wells in the Perrier perimeter, on one of the wells, that led to some measurable contamination, which we promptly shared with the regulator. And jointly, we made the decision to temporarily suspend that well and also not to ship a number of products just in the spirit of absolute food safety.

But overall, what you're seeing is essentially the application of the procedure of that over 2½ years, we had worked out with them. So this is not a new crisis of any sorts.

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

Questions on;	**Turnaround of underperformers** **L'Oréal stake**

Jeff Stent, Exane:
Two questions, if I may. The first one is when you came in, Mark, 2017 or so, you flagged, you were going to turn around the number of the underperformers, you've obviously disposed of quite a lot of the underperformers. But I was wondering if you could just talk us through which underperforming businesses you believe you're sort of organically turned around, that would be the first question.

And the second question, perhaps for Anna, is in late '21, Nestlé sold around 4% of L'Oréal. Since then, L'Oréal shares are up 10% and Nestlé shares are down around 25%. So, why would it not make sense for you to sell some more L'Oréal at this stage?

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

Thanks, Jeff. So happy to talk about both of these. So, look, on the underperformers, what you've been able to track over the years is, of course, the large divestitures of businesses that we considered non-core or where we didn't see an area of strategic focus going forward. But beneath the surface, what we have established is a very thorough process where business cell by business cell we review with each of the businesses, underperforming items and then agree on a fixed plan or over time, trade out of these. And sometimes, they may not even make headlines because these are minor product divestitures or things that we simply discontinue.

And so that process is ongoing and is alive. And obviously, on the large businesses, while the portfolio transformation slowed down a little bit during the COVID years, what I think I was very explicit on, in some of the previous calls is that is, of course, ongoing portfolio rationalization and portfolio rotation, is not stopping. And hence, you saw that with the trajectory of North America in one of our slides today, and this process will go on and we're committed to it.

On L'Oréal, look, I have no announcements to make today, but obviously, I hope you appreciate that we've been very good stewards of the L'Oréal stake for you as Nestlé shareholders, and we'll continue to do that going forward.

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

Next question is from Tom Sykes at Deutsche Bank.

Questions on;	Slowdown in mix improvement VMS shelf space

Tom Sykes, Deutsche Bank:

Just quickly, you mentioned before a slowdown in the mix improvement and the pickup in volume. And I just wondered, what comments you might make on mix and whether you see that as a slowdown sort of within categories, or is that something that's affected by relative growth of categories, the Pet versus others at all?

And then just to sort of square off what's being said on VMS, it sounds like you kind of got almost 40%, 50% restocking or so in VMS. What's happened to shelf space? And would you say that is where it was pre-service levels? Or are you looking to drive more through e-commerce than you did before, please?

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Tom. Let me start with the VMS question, then maybe between Anna and I, we can see how to address the mix question. So, on VMS, that question came up a few times after our full year results, and we are obviously very cognizant that when you are absent from the shelf for a while, it's not like you snap your fingers and then everyone makes the shelf space available for you tomorrow. And so we have to be realistic in our plan on how to get back on shelf.

That said, I think there's a number of mitigating factors here. One is, remember, this is a category that is very prone to online. And online, you do have the proverbial infinite shelf. And so there, it's much easier for the online retail partners to put you back up and give you a chance because you're not talking about physically limited shelf space.

For the traditional retailers, I can tell you why we did have a number of difficult conversations last fall when we were unable to supply. The good news, given the strength of the brand names that we represent, was that at the end of each of these conversations, there was a very clear signal from these retail partners that they do want to stay in business with us because we have some of the strongest names in the industry, and they know that when it comes to category captaincy and continuous innovation going forward, these brand names do resonate. And so I think there's openness there to give us that shelf space.

We are realistic about the plan that it will take a while to get fully back on. We are underlying it with also some very nice innovation in the VMS space to make it interesting, not just be back with the same article, but also some exciting new things. And so, when you put all of that together and given that the data shows you that if the recovery is not like a 1-day thing, but something where you now, over two quarters, have essentially an improvement in the recovery process, I think it dovetails very nicely with increasing shelf space becoming available.

Anna Manz, Nestlé S.A., Chief Financial Officer:
Yes. And on mix versus volume, I think you've heard a nuance that was more nuanced than we're trying to intend here, we've seen an improvement through the quarter actually in both, and no further nuance than that.

Luca Borlini, Head of Investor Relations, Nestlé S.A.:
Thanks, Tom. And finally, the last question is from David Hayes, Jefferies.

Questions on;	Margin Nespresso third-party business

David Hayes, Jefferies:
So just one on margin. I know it's a sales call but a quick one on margin outlook and then one is to follow up on the Nespresso.

So on the margin outlook for next year, 17.5%, 18.5%, you seem to imply on the full year call that where you sit on that range was perhaps largely down to input costs. I guess, given what we've talked about on input costs, given to some extent indications of higher competition than perhaps you were thinking, and the U.S. slowdown, which is a higher margin market would seem to be maybe dilutive as well. I just wonder whether you would say that, yes, being at the bottom end of that range is sensible and/or whether there are other factors that you would point to that would maybe offset some of those, that hypothesis or those dynamics?

And then the second question on Nespresso follow-up, just is third-party online platform point. Are those sold with still the direct relationship with the consumer in some form? Are you still getting all the data and consumer intel, which I know was a big thing for Nespresso that stayed with that direct relationship? Or is that something you're easing away a little bit on moving forward?

Mark Schneider, Nestlé S.A., Chief Executive Officer:
Thanks, David. And let me try and take a crack at both. So look, we did confirm our margin guidance for this year today. So I think that should give you some confidence for this year. And then also, from what I've seen until now, I haven't seen any reason to draw into doubt the 2025 algorithm. So here again, and it's only the first quarter, and this is a sales update as you know, but I'm not seeing anything right now that would draw that significantly into question.

Regarding the third-party business at Nespresso, this was not new. So this is something that in the U.S. goes back to, I think, the year 2018 or so when we struck some arrangements that still allow us to get some of the essential data that is important for us to understand who our consumers are, but also made it more convenient for consumers to put basically Nespresso products into one basket and not migrate to a different website and then do the individual transaction there.

And I think just like the Vertuo system was a very nice growth driver for the U.S. because it was serving the need for a large cup system, that convenience also helped a lot with our North American expansion. It is largely a North American phenomenon. And I think with the growth of North America, which is by now the largest market for Nespresso, the importance of that has then also increased. And hence, again, it's not an item that I would lose a lot of sleep over from your perspective. And on a full year basis, it doesn't make a difference. But when you're asking specifically about the individual quarter, then the timing of some of these orders can make a difference.

Mark Schneider, Nestlé S.A., Chief Executive Officer:
So with that, thanks a lot for the questions. Thanks a lot for joining us today. And as mentioned, we're curious about your feedback when it comes to this new format, and we hope you liked it and it serves your needs in the best possible way. Hope that our confidence here about the strong RIG improvement in Q2 and the reliable delivery for the rest of the year did shine through, and we look forward to talking to you as part of H1.

Thank you.

End of Transcript.