



Nestlé

Good food, Good life

Alternative Performance Measures July 2024 Edition



Nestlé



Definitions of Alternative Performance Measures

The *Annual Report*, the *Half-Year Report* and other communication to investors contain certain financial performance measures, which are not defined by IFRS Accounting Standards (hereafter “IFRS”), that are used by management to assess the financial and operational performance of the Group. Management believes that these non-IFRS financial performance measures provide useful information regarding the Group’s financial and operating performance. Such measures may not be comparable to similar measures presented by other companies. The main alternative performance measures used by the Group are explained and/or reconciled with our IFRS measures (Consolidated Financial Statements and/or Condensed Interim Financial Statements) in this document.

Foreword

Evolution of the Net financial debt and Return on Invested Capital are presented only on a yearly basis as these are not relevant at the end of an Interim period.

Organic Growth (OG)

OG combines Real internal growth and Pricing and represents the growth of the business after removing the impact of acquisitions and divestitures and other changes in Group scope of activity, and exchange rate movements. This provides a “like-for-like” comparison with the previous year in constant scope and constant currency, enabling deeper understanding of the business dynamics which contributed to the Evolution of sales from one year to another.

In order to limit the distorting effect of hyperinflation, pricing in excess of around 2% per month (the level at which hyperinflation generally occurs) are excluded from OG calculations in high inflation economies, with a corresponding adjustment in changes in exchange rates.

In addition, Venezuela and, since January 1, 2022, Nestlé Russia Region businesses¹ are excluded from OG to remove the distorting effect on the like-for-like comparison due to limited freedom to operate in these extreme business environments. Corresponding impacts are recorded in the “effect of exchange rates” and “effect of acquisitions, divestitures and other changes in Group scope activity”.

The increases or decreases in sales of an acquired business compared to its historical baseline are included in OG immediately following the business combination, unless a reliable baseline for the 12 months prior to acquisition cannot be established, in which case all sales during the first 12 months of the acquisition are excluded from OG.

Sales of a divested business are removed from comparatives for the 12 months prior to the divestiture. Sales made under supply agreements related to the divested business are included in acquisitions and divestitures during a transitory period.

¹ Nestlé Russia Region businesses: Russian Federation, Belarus, and countries managed by and highly dependent on Nestlé Russia (Kazakhstan, Uzbekistan, Georgia, Armenia, Azerbaijan, Turkmenistan, Tajikistan, Kyrgyzstan and Mongolia).

The pricing impact of changes in the way that a business is transacted in an entire country (e.g. establishing a local operating company instead of exporting to a distributor, or vice versa) are included in acquisitions and divestitures, respectively.

The effects of changes in foreign exchange rates are calculated as the current year sales' values converted at the current year's exchange rates, less the current year's sales converted at the prior year's rates.

Real Internal Growth (RIG)

RIG represents the impact on sales of volume increases or decreases, weighted by the relative value per unit sold. It is calculated at the level of the individual product reference (stock keeping unit) per distribution channel, by comparing the weighted sales (this year's volumes valued at the prior year's prices in local currency) to the prior year's sales. At the product level, it is therefore primarily driven by changes in volume, while when aggregated at operating segments or Group level, it embeds the impact of the evolution of the product mix.

Sales of newly launched products are included from the moment of launch which tends to increase RIG, while products which are discontinued have a negative impact on RIG since the historical sales continue to be included in the prior year comparatives. This reflects in a balanced way the impacts of renovation and innovation and the impact on sales coming from ongoing product rationalization efforts. In hyperinflationary economies, the sales of newly launched products are deflated to the price level of the prior year.

As RIG is a component of OG, it excludes the impact of changes in exchange rates and of acquisitions and divestitures (as described in the previous section).

Pricing

Pricing is part of OG and represents the portion of sales growth caused by changes in prices over the period. It excludes the impact of RIG, as well as the impact of acquisitions and divestitures, and exchange rates.

Analyzing pricing allows management to assess the degree to which inflationary (but not hyperinflation, see Organic Growth above) or deflationary factors have contributed to sales evolution, and the degree to which cost changes have been passed to customers.

Evolution of Sales

The Group uses OG (including RIG and Pricing), exchange rate impacts, and the effects of acquisitions and divestitures in order to understand the Evolution of sales from one year to the prior year (either the increase or the decrease in the current year's sales compared with the prior year's sales, expressed as a percentage).

Total Group		
	January–June 2024	January–June 2023
Sales (in millions of CHF)	45 045	46 293
Evolution vs prior year (in %)	–2.7%	+1.6%

The reconciliation of OG to the total Evolution of sales is as follows:

Total Group		
In %		
	January–June 2024 vs January–June 2023	January–June 2023 vs January–June 2022
Real Internal Growth	+0.1%	–0.8%
Pricing	+2.0%	+9.5%
Organic Growth	+2.1%	+8.7%
Effect of exchange rates	–4.4%	–6.7%
Effect of acquisitions, divestitures and other changes in Group scope activity	–0.4%	–0.4%
Evolution of sales	–2.7%	+1.6%

Advertising and Marketing Expenses

Advertising and marketing expenses are recorded in Marketing and administration expenses, on the face of the Consolidated income statement. They represent the Nestlé Group Advertising and marketing investments behind its products and brands portfolio.

The main components of Advertising and marketing expenses are investments in media (digital and traditional), consumer activation expenses, advertising production costs and owned and earned channels expenses (e.g. Nestlé branded websites, consumer loyalty programs). It excludes rebates, discounts and payments to customers recorded as a reduction of sales (see Note 3, page 90 of the Nestlé Group Consolidated Financial Statements 2023 (www.nestle.com/sites/default/files/2024-02/2023-financial-statements-en.pdf) for a description of the Revenue recognition and measurement accounting policy).

Total Group

In millions of CHF

	January–June 2024	January–June 2023
Sales (in millions of CHF)	45 045	46 293
Marketing and administration expenses (in millions of CHF)	(8 981)	(8 624)
Marketing and administration expenses as a % of sales	–19.9%	–18.6%
of which:		
Advertising and marketing activities (in millions of CHF)	(3 627)	(3 280)
Advertising and marketing activities as a % of sales	–8.1%	–7.1%

Underlying Trading Operating Profit Margin

Underlying trading operating profit margin is when Underlying trading operating profit is calculated as a percentage of sales. Underlying trading operating profit is Trading operating profit before the impact of Other trading expenses and Other trading income (mainly restructuring costs, impairment of property, plant and equipment, and litigations and onerous contracts). See note 4 of the Consolidated Financial Statements of the Nestlé Group 2023 (www.nestle.com/sites/default/files/2024-02/2023-financial-statements-en.pdf) for more details of Other trading expenses and Other trading income.

The exclusion of these items allows tracking and better understanding and prediction of the results due to the day-to-day trading activities under the control of the operational management in the business units. It excludes the impacts of decisions (such as factory closures, disposal of a piece of real estate, or restructuring plans) made in conjunction with Zone or Globally Managed Business management, or litigations and disputes or events which distort the underlying performance due to their frequency or the unpredictability of the outcome.

The reconciliation of Underlying trading operating profit to Trading operating profit is as follows:

Total Group

In millions of CHF except for Underlying trading operating profit margin

	January–June 2024	January–June 2023
Trading operating profit	7 398	7 351
Add:		
Other trading income	(57)	(55)
Other trading expenses	500	608
Underlying trading operating profit	7 841	7 904
Sales	45 045	46 293
Underlying trading operating profit margin	17.4%	17.1%

Trading Operating Profit Margin

Trading operating profit margin is when Trading operating profit is calculated as a percentage of sales. Trading operating profit is a subtotal in the Consolidated Income statement, appearing above Operating profit. It excludes Other operating income and Other operating expenses. The items excluded from Trading operating profit represent the results of transactions and decisions taken at Group level that are largely out of control of management of the operating segments (such as acquisitions, disposals or strategic alliances), or the impacts of events which are irregular in nature and difficult to predict (such as wars or natural disasters).

Underlying Trading Operating and Trading Operating Profit Margins in Constant Currency

Profit margins in constant currency are calculated as the ratio between profits (see above) and Sales, adjusted to eliminate the impact of changes in exchange rates.

When comparing the year-on-year change in profit margins, it is useful to eliminate the impact of changes in exchange rates in order to isolate the results generated by business operations from the effect of translation of these results into Swiss Francs. This is done by converting both Sales and profits of the current year at the exchange rate of the prior year. The resulting profit margins can therefore be compared with the reported profit margins of the prior year to understand fundamental business trends.

The reconciliation of profit margins in constant currency is as follows:

Total Group

In millions of CHF except for Underlying trading operating profit margin
and Trading operating profit margin

	January–June 2024	January–June 2023
Sales	45 045	46 293
Retranslation at prior year rates	1 565	2 647
Sales in constant currency	46 610	48 940
Underlying trading operating profit	7 841	7 904
Retranslation at prior year rates	305	530
Underlying trading operating profit in constant currency	8 146	8 434
Underlying trading operating profit margin (as reported)	17.4%	17.1%
Reported evolution (in basis points)	+30 bps	+20 bps
Underlying trading operating profit margin in constant currency	17.5%	17.2%
Evolution in basis points compared to prior year as reported Underlying trading operating profit margin	+40 bps	+30 bps
Trading operating profit	7 398	7 351
Retranslation at prior year rates	291	502
Trading operating profit in constant currency	7 689	7 853
Trading operating profit margin (as reported)	16.4%	15.9%
Reported evolution (in basis points)	+50 bps	+120 bps
Trading operating profit margin in constant currency	16.5%	16.0%
Evolution in basis points compared to prior year as reported Trading operating profit margin	+60 bps	+130 bps

Underlying Earnings Per Share (EPS)

Underlying EPS is calculated by adjusting Net profit attributable to shareholders of the parent to remove the effects of Other trading income and Other trading expenses, Other operating income and Other operating expenses, and related tax effects. An adjustment is also made to eliminate Other trading income and other trading expenses and Other operating income and Other operating expenses included in the Income from associates and joint ventures.

Underlying EPS reflects the underlying earnings from trading operations for each share of Nestlé S.A.

Underlying Earnings Per Share (EPS) in Constant Currency

Underlying EPS in constant currency is used when comparing the year-on-year change in Underlying earnings per share to eliminate the impact of changes in exchange rates in order to isolate the results generated by business operations from the effect of translation of these results into Swiss Francs. This is done by converting the Underlying EPS of the current year at the exchange rate of the prior year. The resulting figure can therefore be compared with the Underlying EPS of the prior year to understand fundamental business trends.

The reconciliation of Net profit to Underlying EPS in constant currency is as follows:

Total Group

In millions of CHF except for data per share or number of shares

	January–June 2024	January–June 2023
Net profit attributable to shareholders of the parent	5 644	5 649
Add:		
Restructuring costs	158	262
Impairment of property, plant and equipment, goodwill and intangible assets	189	181
Net result of disposal of businesses	43	8
Other adjustments in net other income/(expenses)	—	191
Adjustment for income from associates and joint ventures	145	127
Tax effect on above items and adjustment of one-off tax items	111	43
Adjustment in non-controlling interests	(19)	(12)
Underlying net profit	6 271	6 449
Retranslation at prior year rates	270	439
Underlying net profit in constant currency	6 541	6 888
Weighted average number of shares outstanding (in millions of shares)	2 609	2 657
Underlying EPS (as reported)	2.40	2.43
Underlying EPS in constant currency	2.51	2.59
Evolution in % compared to prior year as reported Underlying EPS (unrounded)	+3.3%	+11.1%

Net Financial Debt

Net financial debt represents the net level of financial debt contracted by the Group with external parties (e.g. bonds, commercial papers) after considering cash and investments readily convertible into cash. As per the table below, it is composed of the current and non-current financial debt, derivatives hedging financial debt and liquid assets less cash and cash equivalent and short-term investments.

Total Group		
In millions of CHF		
	June 30, 2024	June 30, 2023
Current financial debt	(11 223)	(13 791)
Non-current financial debt	(54 644)	(45 814)
Derivatives ^(a)	(53)	(361)
Cash and cash equivalents	4 865	3 667
Short-term investments	1 529	694
Net financial debt	(59 526)	(55 605)

(a) Related to Net debt and included in Derivative assets and Derivative liabilities balances of the Consolidated balance sheet.

The reconciliation of the year-on-year Net financial debt evolution as published (see comment in Foreword on page 1) is disclosed in Note 16.5 of the Consolidated Financial Statements of the Nestlé Group 2023 (www.nestle.com/sites/default/files/2024-02/2023-financial-statements-en.pdf).

See Note 12.2e of the Consolidated Financial Statements of the Nestlé Group 2023 (www.nestle.com/sites/default/files/2024-02/2023-financial-statements-en.pdf) for more details on the monitoring of the Net financial debt.

Adjusted Earnings Before Interest, Tax, Depreciation and Amortization (Adjusted EBITDA)

Adjusted EBITDA is used as a measure of the ability of the Group to generate enough cash from earnings to repay its net financial debt. It is computed as follows:

Total Group		
In millions of CHF		
	January–June 2024	January–June 2023
Trading operating profit	7 398	7 351
Add:		
Net other trading income/(expenses)	443	553
Depreciation and amortization	1 765	1 722
Adjusted EBITDA	9 606	9 626

When Net financial debt is divided by Adjusted EBITDA, this yields a ratio which is used to monitor the Group's financing capacity.

Free Cash Flow

Free cash flow represents the cash generating capability of the Group to pay dividends, repay providers of capital, or carry out acquisitions, if any. As per the table below, it equals Operating cash flow less capital expenditure, expenditure on intangible assets and other investing activities.

Reconciliation of Operating cash flow to Free cash flow is as follows:

Total Group		
In millions of CHF		
	January–June 2024	January–June 2023
Operating cash flow	6 970	5 741
Capital expenditure	(2 844)	(2 661)
Expenditure on intangible assets	(120)	(305)
Other investing activities	(28)	647
Free cash flow	3 978	3 422

Working Capital

The Group monitors average Working capital to evaluate how efficient it is at managing its operating cash conversion cycle.

Working capital is the sum of Trade Net Working capital, composed of Inventories, Trade receivables and Trade payables, and other components such as some Other receivables and Other payables, some Prepayments and some Accruals.

The average of Working capital for the last five quarters is divided by sales for the 12 months immediately preceding the reporting date to determine the average Working capital as a % of sales.

The average Working capital as a percentage of sales is determined as follows:

Total Group

In millions of CHF

	June 30, 2024: 5–quarters average 2024	June 30, 2023: 5–quarters average 2023
Trade receivables	9 234	8 981
Inventories	13 381	15 220
Trade payables	(14 612)	(15 416)
Average Trade Working capital	8 003	8 785
Other receivables	2 180	2 436
Other payables	(3 598)	(3 780)
Other elements of Working capital ^(a)	(4 021)	(3 940)
Average of other elements of Working capital	(5 439)	(5 284)
Average of Working capital	2 564	3 501
Sales on a 12 months rolling basis ^(b)	91 750	95 136
Average Working capital as a % of Sales	2.8%	3.7%

(a) Mainly composed of prepayments (assets) and accruals (liabilities).

(b) June 30, 2024: from July 1, 2023 to June 30, 2024.

June 30, 2023: from July 1, 2022 to June 30, 2023.

Return on Invested Capital (ROIC)

Return on invested capital is a measure of performance which integrates both measures of profitability and measures of capital efficiency.

The numerator is Trading operating profit before Litigations and miscellaneous trading income/(expenses), net of tax. This figure is divided by average Invested capital during the year. Invested capital is a measure of the operational assets used to generate the results of the business, excluding financing, tax and cash-management activities. Further details of the definition of Invested capital can be found on Note 3 of the Consolidated Financial Statements of the Nestlé Group 2023 (www.nestle.com/sites/default/files/2024-02/2023-financial-statements-en.pdf).

Return on invested capital is calculated before and after Goodwill (GW) and Intangible assets (IA). Return on invested capital before Goodwill (GW) and Intangible assets (IA) is used to eliminate the distortions caused by the different treatments of goodwill in the past and internally and externally generated intangible assets. This removes from the analysis the impact of varying acquisition activities over time. This measure is calculated by removing the average goodwill and intangible assets value from the average invested capital (see above).

The calculation of Return on invested capital before and after Goodwill (GW) and Intangible assets (IA) is shown below:

Total Group

In millions of CHF

	January–December 31, 2023		January–December 31, 2022	
	Before GW & IA	After GW & IA	Before GW & IA	After GW & IA
Trading operating profit	14 520	14 520	13 195	13 195
Add:				
Net other trading income/(expenses)	1 533	1 533	2 908	2 908
Underlying trading operating profit	16 053	16 053	16 103	16 103
Less:				
Impairment of property, plant and equipment	(490)	(490)	(403)	(403)
Restructuring costs	(723)	(723)	(273)	(273)
Impairment of intangible assets (excluding goodwill and non-commercialized intangible assets)		(112)		(1 687)
Impairment of goodwill and non-commercialized intangible assets		(45)		(636)
Trading operating profit before litigations and miscellaneous trading income/(expenses)	14 840	14 683	15 427	13 104
Tax rate ^(a)	(3 146)	(3 113)	(3 224)	(2 739)
Trading operating profit before litigations and miscellaneous trading income/(expenses), net of tax	11 694	11 570	12 203	10 365
Average Invested capital (Note 3.2)	33 213	33 213	31 000	31 000
Average goodwill and intangible assets (Note 3.2)		50 027		53 844
Average Invested capital, goodwill and intangible assets		83 240		84 844
ROIC	35.2%	13.9%	39.4%	12.2%

(a) Based on the Group Underlying Tax Rate (UTR) of 21.2% (2022: 20.9%).

Underlying Tax Rate (UTR)

The Group monitors its UTR and its reconciliation to the effective tax rate (ETR) in order to remove the effect of items which are highly variable. The UTR is computed by removing one-off and particularly volatile items of income and expense, the related tax effects (if any), and one-off tax items from the effective tax rate calculation. Withholding taxes on intra-group dividends are also excluded since these can also be impacted by major one-off transactions.

The UTR is determined as follows:

Total Group

In millions of CHF except for data in %

	January–June 2024	January–June 2023
Profit before taxes, associates and joint ventures	6 707	6 565
Taxes	1 677	1 529
Effective tax rate (ETR)	25.0%	23.3%
Add:		
One-off tax items	–2.4%	–1.3%
Withholding taxes on intra-group dividends	–1.8%	–2.2%
Other trading income and expenses	0.1%	0.1%
Other operating income and expenses	1.0%	0.2%
Profit mix effects	0.2%	0.5%
Underlying Tax rate (UTR)	22.1%	20.6%