2024 BARCLAYS GLOBAL CONSUMER STAPLES CONFERENCE
FIRESIDE CHAT TRANSCRIPT

4TH September 2024 14:15 CEST

Speakers:

Anna Manz, CFO, Nestlé S.A.
Steven Presley, CEO Zone North America, Nestlé S.A.
Warren Ackerman, Barclays

Warren Ackerman, Barclays:

This is the Nestlé session. I am delighted to welcome Anna Manz, group CFO, and Steve Presley, president of Nestlé North America. So, thank you for your time. Thank you for being in Boston and supporting our conference. A packed agenda.

Question on:	**Change of CEO**

Warren Ackerman, Barclays:

So, I want to kick off, Anna, I think it's the first time we've done one of these and it's been the elephant in the room, change of CEO. Can you maybe just help us and maybe explain the reasons and the timing a little bit behind the change of CEO to Mark? It did seem, from our perspective, to be quite sudden and why Laurent Freixe is the right choice? Maybe, Steve, if you want to jump in as well in terms of your perspective, that would be great to kick it off.

Thank you.

Anna Manz, CFO, Nestlé S.A.:

Super. So, I think you heard some context from Paul on the call, but maybe to give you my version.

Mark has done an excellent job over the last eight years, really reshaping our portfolio. And the portfolio that we have today is well positioned to deliver mid-single digit growth. So, I think what was in the Board's mind was more about the right leader for the right point in time for the company. And as we look forward, it's a slightly different phase of our development where, yes, we'll continue to tweak the portfolio, but we really need to deliver on the growth potential of the portfolio we have.

And in that context, therefore, they were looking for somebody who had deep consumer marketing experience. And that's what Laurent has. And he also has the ability to bring the organisation around that, quickly. So, I think that was the context.

In terms of abruptness. Laurent's been in Nestlé 38 years. So, he doesn't need a big induction period. He can hit the ground running. And so, I think both from Laurent and Mark, and the Board's perspective, a short handover is really helpful because it gives the organisation clarity. And certainly, from where I sit, that clarity is very important because when you have two leaders in an organisation, it creates a bit of a hiatus.

Did I answer all three?

Warren Ackerman, Barclays:

And obviously, Laurent is the right choice because he has been there 38 years? I guess the question then is, what will his initial priorities then be?

Anna Manz, CFO, Nestlé S.A.:

Steve, do you want to comment on Laurent, and I'll come back to his priorities.

Steven Presley, CEO Zone North America, Nestlé S.A.:

Yeah, I mean, for me, I think a little bit to Anna's earlier comment. When you look ahead in terms of how we're going to drive growth across the organisation and what the focus is, it really gets back to this consumer-centric generating demand where you have to win in the categories.

And as leaders in the majority of the categories, we're one or two in almost every place we play. And it's this idea of you own the delivery of the category. You've got to drive the category through innovation. You've got to drive it through strong consumer insight. And that's really the strength that Laurent brings. I think Mark had many other strengths, but consumer was not his background. And so, I think as we think about how we drive the Nestlé model going forward, this consumer centricity is key. And I think that's why Laurent actually fits really well at this moment in time for the organisation, to push it forward with that kind of consumer centricity.

Question on:	**Priorities**

Warren Ackerman, Barclays:

And in terms of the priorities for Laurent, he obviously is going to hit the ground running, but there's a couple of things that he's going to hit on immediately.

Anna Manz, CFO, Nestlé S.A.:

Yes, so he's really called out three areas and you would have heard this listening to the conference call. So just to reprise that and he'll build on it more in the coming weeks.

Organic growth is his big focus and delivering that through a focus on the consumer, which he articulates as driving categories and growing share.

The other thing he talked about was putting the investment in the brands to drive that growth and therefore creating a virtuous circle that delivers the margin to invest further.

And then the third thing he talked about was, bringing organisational focus, so bringing the organisation together around those three things.

Question on;	Forward to Basics

Warren Ackerman, Barclays:

The other term I've heard a lot is forward to basics. Can you maybe explain what that actually means for Nestlé?

Anna Manz, CFO, Nestlé S.A.:

Sure. And I think what he's describing here is how you bring the precision back to delivering that organic growth. So, the basics of delivering organic growth are fundamental consumer centricity and understanding the metrics that sit around that. So, be it taste preference, do we have a weighted average distribution? Have we got a share of shelf? Is our pricing appropriate? Do we have our share of voice? That's all quite traditional.

But in the new world, digitising the data, and we have the data, but digitising it such that we are using those metrics in a really agile way, real time, to drive consumer growth. That's what he has in mind when he uses that phrase.

Question on:	From here?

Warren Ackerman, Barclays:

And from here, is it possible that things could get worse before they get better? I mean, I'm trying to understand how bumpy the second half could be. Are you confident of the, say, 3% organic for '24? Does the plan require some sort of margin reset, or can you step up savings to fund higher investments?

Anna Manz, CFO, Nestlé S.A.:

So, there's lots of questions in there, and I may not hold on to all of them, so I'm going to have a go at the first couple, and then you might need to add a few more.

So, the first one, how do I feel about H2? So, we've given guidance for the full year, which is more than 3%, and I won't comment beyond that, but I can give you some context. We always said that this year was going to be a transition year. We've had a few years of enormous consumer change, a couple of years of huge price, category growth driven by value, price, and we're seeing some volume compression this year. So that's context.

What I said to you at H1 is the consumer environment is challenged, and it remains challenged. If anything, it's slightly tougher. So, sort of three big areas there. You know, you see the weakness here in the US with the consumer. We see that more broadly across Europe, and that also gives us a challenged retail environment as margins are challenged. Then across the emerging world, we've got the challenge of currency and the cost of capital, and that is showing up as a challenged consumer in some places. But also, you know, you've heard from others that, for example, in LATAM distributors and retailers are also struggling with the cost of money. So that continues.

And then, of course, there's a level of geopolitically driven consumer hesitancy in patches of Asia and the Middle East.

So that's what we talked about at H1. That is still the environment, if anything, slightly tougher. What we said at H1 around our guidance was, as we looked at the second half, we needed to execute on all the things we're executing. That's going well. And we need the consumer to be there. And that we continue to monitor.

Now, margin, that was your next question. So, guidance for 2024 is what it is. Margin more generally. So how do we think about this statement of Laurent about we need to invest more in our brands, which I'm aligned to, completely. He was really clear and I'm completely confident that we can fund that through productivity, through efficiency savings. And we have a good track record of doing that.

Now, the exact phasing of that. Don't know. Don't quite know whether we'll need to spend a little bit ahead of all of those savings coming through. So, we'll need to think about that as we look forward to 2025. But I think things to take away, confident in the underlying margin structure of the business and the strength of the competitive advantage that we have.

So, not flagging any structural change here, but a need in the shorter term to up investments that we can fund through productivity and savings, exact phasing unclear. And of course, over the medium term, the fastest way to drive margin is to drive growth.

Question on:	**Marketing spend**

Warren Ackerman, Barclays:

Well, obviously, it's not just about throwing more money at the issue. Your marketing spend has already gone up from 6.6 to 8.1. My question is about where's that money gone? And what is your return on investment on it? Because it's also about putting it in the right places and figuring out how to allocate. So, new to the business, when you think about ROI on investment, how do you want to measure it? How is Nestlé going to allocate in the right places at the right time going forward?

Anna Manz, CFO, Nestlé S.A.:

So, it's an area I'm very focused on. And maybe just as a bit of context, because what sits behind your question is why are we not seeing more growth come from that step up in investment? Two thoughts. Firstly, we started stepping up marketing investment about 12 months ago, but it takes time for that step up to turn into a change in consumer behaviour.
I think the other thing we've been stepping up is innovation, because again, it was slow during Covid. And also, I think we've been quite focused on recipe-led innovation through the supply chain crisis and inflation, you know, managing our input costs, and that's not consumer-led innovation. So, there is quite a lot of activity going back into the business and it takes a while.

I am absolutely passionate on returns, so anybody listening to this from inside Nestlé is now smiling, because they've heard the speech. It's really important that we are spending wisely and I really don't think the right focus is on a single line in the P&L. The way I talk about it internally and what I want us doing is looking at each of those metrics and diagnosing, which of those metrics is stopping the consumer buy. So is it that we've lost taste preference, in which case we need to innovate taste preference because no amount of marketing is going to fix that. If we don't have our share of shelf, you're doing media to drive consumers to a shelf where you're not adequately present.

So that metric-led diagnosis will much ensure that we're applying our investment more in a more surgical way to deliver the returns and the returns need to be visible. And we've got some really good digital tools actually present in the business that give us that return insight. I think there's the opportunity to move that across the Nestlé world faster.

You should ask Steve about some of those because he's been developing them.

Steven Presley, CEO Zone North America, Nestlé S.A.:

But I do think on the advertising spend in terms of where you see it, when you look short term, as you really start to reinvest, you have to step back a little bit. In our major categories we have been capacity constraint and still just coming out of that constraint, whether it's Pet, Creamers, even on Coffee, we've opened a new facility in the world that helps us supply Coffee as well.

And as you start to look across that and you return to this increased investment, you end up in this mixed basket a little bit. You've got brand driving activities that are long term brand health, spinning around PFME to drive marketing, to drive relevance. But at the same time, you have some lower funnel that re-stimulates the demand in the category and drives that trial on the new innovation. So, it's really separating a little bit and understanding the different return profiles across the different kind of spins that you're going to focus on.

And the idea of building these capabilities across total demand generating investment is what we focused on. We really think we've built some best-in-class tools to really understand return and be quickly agile to move our investments to where we think the best returns are. Because the marketplace has evolved incredibly fast as everyone's returned to promotion. Everyone's returned to spending, actually, coming back in terms of share of voice. And now how do we make sure we make the best decisions, the right decisions and a balance between short term and long term for brand health?

Anna Manz, CFO, Nestlé S.A.:

That's what gives us the competitive advantage.

Question on:	**Market share**

Warren Ackerman, Barclays:

Thank you. Maybe turning to market share, because I get the category piece, but there's also a market share piece. How do you, there's a question for you as well, Steve, about market share in the US. Can you maybe talk about where the pressure points are in terms of share, what you're doing to try and arrest the decline? It comes back to execution again, how quickly do you think it will start to be visible?

Anna Manz, CFO, Nestlé S.A.:

So, the global picture and then I'll pass it your way. So firstly, we are holding or gaining share in about half of our category/country combinations. So, we're in good shape, but it could be better. So that's the context. And the investments that we're making are already having an impact in that we've improved that four percentage points in the first half. So, we've got momentum here and there is more to do. So that's the broader context.

Sitting as CFO, there's four areas that are material where we're losing share that I am personally very focused on. And you know about all of them.

So, you know, in VMS, in Nestlé Health Science, we've had some supply issues that have impacted our ability to grow at the pace of what is a very fast-growing category. We're well on our way to fixing those and slightly ahead of track, but more to do.

Waters. We've talked about it. We've got some supply constraints there that we're working our way through, but it's getting in the way of our growing at the pace of the category.

And then the other two, which I will cheerfully hand to Steve, are Frozen food and specifically pizza. We've been in the period of share loss, which we're working to correct. And Creamers in the US. So those are the four biggies as I look at it at a global level.

Steven Presley, CEO Zone North America, Nestlé S.A.:

And I think if you look across the US and you look at our total basket and where we sit, PetCare, we're actually winning share across the number one leadership position. We have four of the top six PetCare brands in total across the portfolio, continue to win there. Coffee, actually, which is one of our largest pillars, continue to win share in Coffee overall.

And those challenge segments in Creamers and Frozen food. Creamers is a capacity constraint. We had to build a new facility, which just opened last week, actually. So congratulations to the Glendale Arizona team. Start up on time. And so we're excited about that. So that capacity is coming online, which will allow us to bring innovation back to Creamers and really get back to driving our really strong category leadership. We have a very strong leadership position in that Creamers business, which is an important business that we will continue to drive.

And then if you look at Frozen, there's two issues in Frozen. One, the category is depressed. I think that's a category that from an exposure standpoint to households in terms of where that category sits, it's more to middle class and lower-income consumers, that are most impacted by this inflationary curve. And so that's the category depression.

And then second, in terms of we came through all of the inflationary price increases, we priced to cover our costs and many of our competitors didn't. And so our price gaps got too large in a lot of these categories. We've corrected that. We've actually come down to get to our price gaps to the point where we need to be on both frozen pizza and frozen meals. And what it allows us to do now that you get the price gap back down, you can drive your marketing investment more effectively against the brand and you can bring innovation back to those categories. We haven't been innovating in frozen for three years, frankly, because it's been about supply. You've been basically just trying to make sure you can supply the business. And when you look at those, it's just like any restaurant menu or anything else, you need some new items to kind of drive trial in that category. If you look across our frozen portfolio, we have significant innovation that's launching right now that are focused on air fryers, focused on single serve meals, focused on consumer benefits around Vital Pursuit, which is a GLP-1 companion meal line that we're launching. And that innovation will start to bring back real health to the category and also help the share. And we'll continue to invest.

Question on:	**Pricing**

Warren Ackerman, Barclays:

Maybe moving to pricing, it was quite low, 0.6% in Q2. What are your expectations from here? Could it go negative? I mean, you know, how much pricing do you need to take in things like Chocolate and Coffee? And do you think any incremental pricing can be landed without too much RIG elasticity?

Anna Manz, CFO, Nestlé S.A.:

Yes. So, to unpack those pieces, we've said that pricing will be positive for the year, and it will. So just to reiterate that point, maybe just to unpack Q2, I think, maybe three areas impacting our pricing in that quarter.

Firstly, we've seen in the US a return to a much noisier promotion environment, which, as you've heard from Steve, we participate in, in order to make sure our price gaps remain correct. So that's probably number one.

On top of that, you've just heard about the activity that we've undertaken around Creamers and Pizza specifically to fix incorrect price gaps. And you saw those come through in Q2.

Now, the promo environment isn't going to change. The work that we've done to fix price gaps won't change in the short term. But as we innovate into it, we reset our price ladder, which will help us. So those are the two big US points to call out.

The third one would be you see extra pricing going in around, Nestlé Health Science. That's a good thing. That reflects us getting back to shelf and then starting to promote so that we bring consumers back into the franchise. So that just gives you a bit of sense of Q2 and how to read it forward.

So, for example, Nestlé Health Science depth of investment won't continue. It's a few quarters, a couple of quarters thing.

In terms of Coffee and Cocoa, yes, we do see more inflationary costs coming through there. We're already taking price on Confectionery. You'll see us do the same on Coffee, and just to be clear, it's predominantly Robusta where, we've seen the increases come through, which affects Nescafé, in that Starbucks and Nespresso are a little bit more Arabica skewed.

I feel differently about our ability to take price. Now, we won't know until we do it, but the way we think about it is, as the market moves, we reflect that price. You have to because that's your one opportunity to take it. You can then see how the consumer reacts to it.

I think the difference this time is, last year and the year before, the whole basket of goods was going up for the consumer and everything was more expensive. Now, the whole basket isn't going up. And in some cases, it's going down. I think that's a helpful piece of context.

I think also these two categories are two of the most resilient to price. Confectionery, because it's an impulse brand, you know, and if you're treating yourself, you're less worried about the little bit extra cost on that treat. And Coffee, because, and I speak personally here, it becomes a valued and treasured part of your daily routine. And it's not something you readily give up on.

So, I think we're in quite good shape going into this and well-positioned. We'll have to see how the consumer reacts. But yes, we will be taking price.

Question on:	Gross Margins

Warren Ackerman, Barclays:

In terms of gross margin, one of the big things that's been talked about a lot at Nestlé is getting back to pre-Covid gross margins of 49 to 50. They went down to 44 and then back at 47.

You're now saying that the second half gross margins could be down. So how should I read that? Does that mean that the ambition to get back to 49 to 50 is pushed back or, because it seems like most other companies are back to pre-Covid gross margins. You guys are not. Why is that?

Anna Manz, CFO, Nestlé S.A.:

I think it really depends on the categories you play. So, if you play in personal care, it's much easier because you've seen a big input cost decrease. So, you have to look at it, category by category. I have no concerns over the medium term to get back to our gross margins, pre-Covid gross margins. And you see us consistently making progress towards it. And we've closed a good chunk of that gap.

And you hear me describing us correcting price points and then innovating behind, so we have the right margin structure. You know that's how we work.

A few things around when we'll be back there, and I can't tell you when it will be. It will depend on of course our ability to take price but how input costs evolve, our pace of innovation behind them to bring those consumer offerings at the right margin structure, and then of course efficiencies that we're driving. And we're doing all of those things.

The one thing I'd just say to you is gross margin evolution is lumpy, in that pricing cycles, you can't just take price when you want to as you know. In Europe, there are pricing cycles. So generally, we see the cost hit us a little bit before we're able to start to solve the pricing on it.

And that's what you're seeing in the second half of this year. You’re seeing some costs come through and we're taking the pricing, but we won't be able to get it away as quickly.

Steven Presley, CEO Zone North America, Nestlé S.A.:

If you look globally, if you look across. It'll come unevenly. If you look in North America specifically, we're actually at pre-COVID or slightly higher than pre-COVID gross margins with increased investment behind the brands. So, I think as it was longer for the price curves to ramp up in other parts of the world it will be longer a little bit from a margin standpoint. But the model is there. It's actually delivering quite well in terms of where we are in North America.

Question on:	**Operational efficiencies**

Warren Ackerman, Barclays:

Anna, you touched on operational efficiencies. I think the comment which you can fund it from operational efficiencies. I'm sure you're doing the deep dive analysis on this. You alluded to that. Could you maybe give us an early idea of the biggest buckets of cost opportunity? How much can you do? I am not asking a specific number, but ballpark in terms of structural cost how quickly can you unlock those savings, if you're able to frame it for us? Any numbers will be great.

Anna Manz, CFO, Nestlé S.A.:

Maybe let me start with numbers. Well, I'm not going to give you everything you want. I’ll just take you back to the slide that Francois showed in Barcelona about 18 months ago now. Where he talked about this business delivering from 2016 to, I want to say 2021. 800 million of cost efficiencies each year and that going up to nearer a billion more recently. That model is easily deliverable, there is absolutely scope in the cost base and actually one of the lovely things coming into Nestlé as CFO is genuinely a cost-conscious culture that is perpetually looking for savings. So, I think that's a helpful place to start from.

In terms of buckets and I'll sort of call these out in order of ease and speed. I can't help with the first one. I'm a CFO, I say this every time, we can spend what we're spending better. We can polarize our resource allocation more. We can be really clear on really making sure that those returns are transparent across the levers that we were talking about earlier. So, job number one, spend better. Alright, CFO moment over.

In terms of buckets, the fastest bucket to get is really around digitizing marketing and sales. In the old world, we did focus groups. In the new world, we have an AI virtual consumer that we can test a lot more against much more quickly. There's a significant efficiency that we're already liberating using data and AI in a very different way. We'll continue to do that, and we can go faster, that's quite quick.

Our manufacturing base, we've taken out 100 factories, as I look at it over the last decade, so the muscle is there. But if you look at Nestlé's legacy or where we've come from, we've tended to have a geographic model with factories in markets, which doesn't optimize supply. And so there is more to do as I look at line efficiency and the brackets, the numbers of lines that are in each of the efficiency ranges, there is absolutely more opportunity there and that is one that we remain focused on.

And then thirdly, and this is my take coming in, we've done a really good job of optimizing the efficiency of each team, but actually when you look at some of the end to end processes across the group, they are not yet efficient.

So, the feedback from my team when I arrived was, Anna the processes are dreadful and it's always the team next to me. So that's really high-quality cost take out because it's not just taking out cost it's removing irritation and creating a much faster and more agile organization.

Question on:	**Mid-single digit growth**

Warren Ackerman, Barclays:

I'm going to pivot back to growth because I guess do you still think Nestlé has a portfolio that can deliver mid-single digit organic growth on the consistent basis beyond this year? Where do you see the biggest step up in performance coming from?

Anna Manz, CFO, Nestlé S.A.:

Yes, I absolutely do. And maybe just to give you a quick count through the categories and then you've got share growth on top.

The fundamentals of Pet are super. You know the number of pets in the world, pet adoption is increasing pretty much everywhere, I think the UK is the only one that's perhaps slightly down it's a slight exception, and across the emerging world as well. The propensity to treat pets as members of the family is present and greater in the younger generation. Who also, by the way, also have a greater propensity to adopt pets.

So the demographics as they move through will see both more pets, but also incremental premiumization. And then you've got this concept of calorific value. So, you know the degree to which pets eat pet food as opposed to home cooked food. If I'm honest coming into Nestlé, it was a bit of a PowerPoint statement that I had to go and prove it to myself. So, I went to Croatia which was 70% through that journey and sat with the team and went through, what have you done to create the pet category and actually how the pet aisle in retail looked a year ago, two years ago, three years ago, four years ago. It's absolutely fascinating because you can literally see the number of meters increase. Really clear playbook.

I went and looked at Mexico and did the same thing. Same playbook working. Absolutely saw the same acceleration and then it's flattened, it's stuttered as consumer wealth hasn't been there to continue. So that's a long way of saying Pet, it's all there. It's just about how fast you realize it.

I've done something similar around Coffee and how coffee shop culture is driving the propensity to drink coffee. Again, it's really global, I was looking at the aspirational super premium nature of coffee shops in Pakistan. So, this is a global phenomenon that we are creating the at-home consumption for and can really sort of close some of those gaps between hot and cold coffee. So, lots there.

We've talked about Nestlé Health Science, where you know, great momentum.

The other thing I would call out, sometimes investors look at Food and say you know Food is a bit disinteresting. Well, if you look at affordable food in AOA, it's growing 8%. It's not disinteresting at all, and Maggi is a phenomenal brand. You have to look at some of our categories at more of category-region level and there are some massive pockets of growth. Confectionery and LATAM would be another. The emerging world more generally, India, e-commerce.

So, if you lay it all out, we need to unpack these building blocks for you at the Capital Markets Day. I'm confident.

Question on:	**Share buyback**

Warren Ackerman, Barclays:

Can I maybe move again, switching gear to cash returns. Your buyback is coming to an end. The balance sheet is less good than it was. I mean it's more levered. Doesn't seem to me there's that much room to reload on a buyback. Do you agree with that assessment? And is there any other way that you could think about cash return? You've also got L'Oréal stake and other stuff going on. How do you, I know that's a Board decision, but how do you frame that?

Anna Manz, CFO, Nestlé S.A.:

So, I think two to three times net debt to EBITDA the right range.

Mathematically, if you look at that at the end of this current buyback given where towards the top of the range. That does not mathematically leave space for further buyback, absent of disposal. Which is why you asked the L'Oréal question. I can't comment on that as that, it's a board decision. All I would say is we've always thought of that as a financial stake rather than the strategic stake and will continue to.

Question on:	China

Warren Ackerman, Barclays:

I'm going to move to a couple of geographies. I'm going to start with China. I was a bit shocked by pricing down 4.3% in Q2. Especially given a big FX headwind. Normally you'd expect that to be priced through. We've seen quite big deflation. Can you maybe touch on, where have you taken pricing down. I assume it's Infant nutrition, I don't know. Are there any glimmers of light for your business in China's second half of the year? How do you see it, obviously the macros weak?

Anna Manz, CFO, Nestlé S.A.:

So, I mean the going into Chinese New Year, 'cautious recovery' was the term used by everybody and then coming out of Chinese New Year, I think we've all seen that the consumer is pretty weak. What we're seeing is a lot of use of social platforms to really look for the best deal.

The other thing that I'd really call out that China is just if you look at the comps, there was a very high comp for Wyeth in Q2 that falls away in the second half. So a chunk of this is also comps.

Question on:	U.S. consumer

Warren Ackerman, Barclays:

OK, I'm going to move to you, Steve, for a couple of questions, starting with the U.S. consumer. Can you give us a kind of high-level take on what you're seeing? Obviously, a lot of your peers are talking about value-seeking behavior, trading down. It's been going on longer than most people expected. I'd love to get your perspective about what got us into this funk and what needs to happen from a macro and a Nestlé perspective to try and change the narrative?

Steven Presley, CEO Zone North America, Nestlé S.A.:

Yes, and I think, I mean you definitely see a challenged consumer environment, right. I'm sure you heard it all week from everybody, and you don't really see, when you look at it today, the consumer has, the inflation against wages has been a pretty large gap, and if you look across the entire wallet spend. So, if you look in major cities, rents up almost four times what the wage growth has been in that, and so in terms of where they can compress their spending, so you can't really do it in house, and can't really do it in other necessities. And so, what's been contracted a little bit is in the food and beverage space in terms of the choices. And so, it's been one of the most impacted across that. And I think, as you look across, with the removal of all the subsidies, as you come through, and people you know, you don't really understand the macro impact unless you step back. $7 trillion of extra stimulus into the economy overall, related to that, that's come out. That stimulates some false demand, and as the consumer starts to settle and understand, ok, where are they from a wallet standpoint in terms of wage growth. And where are they in terms of the inflationary curve.

I think what you see is, especially in core food and beverage, you know, you're getting to a flat pricing basically overall, but not really a deflationary environment at all. And it's going to take time, I think, for the consumer to actually settle down and accept these new price points. I think you've seen that term a little bit, inflation hangover, you know however you want to describe it, but it's this resettling at these new price points, I think it's going to take consumers time.

I do think you've got a bit of a disconnect right now, in terms of consumer sentiment and consumer fundamentals. And I know sentiment is not in the bank, but it does drive purchase behavior. And when you look at it, the consumers in the U.S. are very negative on the outlook of the overall U.S. economy. And regardless of how the election goes, we are in a pretty important period of time, it doesn't really matter but let's get through it, it provides a bit of certainty of what the next four years looks like. And I think then it starts to slowly build back some consumer confidence. And then we need, you know jobs to stay stable, we need to continue to see growth. But there is undeniably, this is a very challenged consumer right now, and especially for the bulk of households, from the middle class down. And you see in the upper income households, they continue to do well and continue to not really be affected by this cycle, but that sentiment is even driving behavior changes amongst those households, that you're starting to see, which is unique in this environment.

Question on:	**RIG and SKU management**

Warren Ackerman, Barclays:

It was interesting because your U.S. volume-mix or your RIG went to -5.8 to 2.8 in Q2, so it was an 800-basis point positive swing. Given what you just said about the U.S. consumer, that's a pretty good, or very good result, I would say. Can you maybe explain the reasons behind that dramatic improvement. How much of that was sell-in of new products? How confident that's going to translate into sell-out into the back half, and how do you guard against too much SKU proliferation and creating a new tail?

Steven Presley, CEO Zone North America, Nestlé S.A.:

Sure, when you look at it I'll start with SKU 'cause that one's an easy one we've actually reduced 20% of our overall portfolio across North America so when we look at reintroducing innovation, in terms of the total breadth, it's actually not very large. And we're very disciplined, not only for our own, in terms of driving efficiency but also driving shelf efficiency for our retail partners right. Everything that comes to shelf has to earn its place, and so we're very focused on making sure every new SKU plays a very specific role with the consumer, the retailer and the category. And so, I'm not I'm not so worried about SKU proliferation.

If I look at the swing in terms of RIG and overall, we have a lot of innovation across every single category and depending on when the resets happen, Q2 was a big launch of all of our Water innovation, a lot of the innovations came in that, and I think as Anna and Mark talked at the half results, there was around 100 basis points of that 2.8 that was really a shift between Q3 and Q2 that was a sell-in. The rest was good strong return to investment behind our brands, actually return of capacity in Pet and some of the other big categories where we start to have these new facilities come online.

When you look at Pet where we've been so constrained, our new facility in North Carolina started up, with our investments in wet cat and several of the different facilities, starting to bring that capacity online. And so, you start to drive investment behind those, and start to drive RIG. And across every single category we really start to close, where we may be priced too aggressively versus competitors or whatever, we close those price gaps, we brought those down into Q2 and then that started to drive positive RIG.

I do think we're going to be in an uneven environment. I'd say the health of the consumer has been less than expected, and we thought H2 might be a little better from an overall consumer standpoint. I think we got to accept a bit of a bumpiness as we move through H2, but overall, I think we continue to feel confident about our ability to drive occasions with consumers, which drives our volume.

Ultimately, we want to get back to winning occasions with consumers, and if you look at some of our most challenged businesses like pizza for instance, we're actually back to positive volume share in pizza, which means we're back to winning occasions through those changes.

And so that's what we're really focused on today, is driving the volume across.

Question on:	**PetCare business**

Warren Ackerman, Barclays:

Can you drill a bit deeper into U.S. Pet obviously the biggest part of your U.S. business. There's a lot of topics. Capacity coming on stream, getting the price points right, down trading, market share, can you just, you know, how do you feel about Pet in the U.S. from here? You've got a lot of innovation coming in.

Steven Presley, CEO Zone North America, Nestlé S.A.:

Yes, Pet continues to be an incredibly strong category from just the overall fundamental standpoint. Consumer sentiment in terms of how they treat their pet, beloved, and in terms of where they're going to cut spending or trade down that's one of the last places they're going to do. And so, adoptions continue to be strong, and when you look at overall Pet at a macro level, tonnage continues to be strong, so it's not a volume issue you're not losing volume like in some of the other categories.

I do think you see some trade-down in the category as challenged consumers maybe move down, but at the top-end of the category in the super premium and the premium space where we lead, you continuously see growth of those households, you continue to see premiumization in Pet and so as we bring new capacity online it allows you to bring innovation back, and I think the concern always is OK, are we going to come into some kind of pricing challenge in that category, but for us, you're actually coming off price increases, so you're finally lapping the price increases in Pet, which comes a little slower than it did in food.

But, when you look at it, we actually don't expect to deflationary pricing at all. We see promotional levels returning to basically pre-COVID levels really, no higher, and just normal healthy demand-generation promotion. And actually, the return of promotional spending is good for the category. It will help stimulate the category back to those accelerated growth rates.

And so, I think we'll see a far greater normalization of the overall core generating-demand behavior that has driven Pet for years.

Question on:	**U.S. Frozen**

Warren Ackerman, Barclays:

And may be one of the other big categories, U.S. Frozen, obviously we've touched on. You had a very weak Q1, better Q2. Can you explain a bit more detail what you're doing? You called out pizza, obviously it's a wider portfolio, with Stouffers, Hot Pockets, Lean Cuisine.

What's your outlook from here, and if this business cannot deliver positive RIG on a sustainable basis, is it time to think about it more fundamentally in terms of other options? How much time do you give it to actually start winning sustainably?

Steven Presley, CEO Zone North America, Nestlé S.A.:

Yes, and look, Frozen is a great business from a financial standpoint, perhaps we talk about that a lot, but when you step back and ask, why are we in Frozen, what is it about? It fundamentally, from a consumer standpoint, has a really unique role that not many categories do. Consumers are interacting with the category four times per week, which is incredible. Unless it's Coffee or some of the daily categories, you just don't have that kind of consumption.

And so, for us, I do think it's a category that's much higher exposed to volatility of economic performance, which gives it a bit more of this volatility index, where it's up and down. Not perfect for the Nestlé model, but what we are confident in the long term, is if you focus on this core idea of, how do you win with consumers? How do you generate demand and win share? it is a long-term category that we can drive healthy sustainable RIG growth. Will it be at the mid-single digit range for Nestlé in terms of four to six? No, it's probably a lower single digit space for us, but it can play a significant role in our portfolio.

Question on:	**Good for You target**

Warren Ackerman, Barclays: Warren Ackerman, Barclays:

And a final question for you Anna is a bit more of a bigger picture question, and one of the big themes has been around health in this conference. We're seeing that healthiness has been a big topic. You've got a target to increase your healthier food sales by 20 to 25 billion, big number, by 2030. So, I just want to get your perspective on that, in terms of the healthiness of the Nestlé portfolio, and how you can actually hit that kind of number?

Anna Manz, Nestlé:

Yes, happy that we're on track to hit that number.

Three big levers really, firstly we are growing faster in healthier categories naturally. So, that full range of Nutrition and Specialized nutrition categories, Water, Coffee, they are all naturally growing faster.

I think the second area that we've touched on as we've talked, there's a lot of acceleration possible in that Specialized Nutrition space, be it Medical Nutrition, be it VMS, be it how we bring that into the food portfolio, so we'll be driving that. And then thirdly, there is a chunk of our portfolio in the 2.5 to 3.5 star range, and there we are systematically going through and looking at the recipes to make them healthier, which is exactly what we should be doing.

End of Transcript