

NESTLÉ S.A.

2024 FY RESULTS Q&A TRANSCRIPT

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Speakers:

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David Hancock, Head of Investor Relations, Nestlé S.A.:

Question and Answer session

Thank you, Laurent. We will now move to the Q&A session. We will take our first question from Guillaume Delmas from UBS. Please go ahead, Guillaume.

**Questions on; Pricing and volumes
PetCare**

Guillaume Delmas, UBS:

Two questions for me, please. The first one is on pricing. So definitely a need for pricing actions this year given the higher commodity costs. My question here is what kind of price elasticity would you anticipate at this stage? Do you think we will see a stronger impact on volumes from price increases versus two or three years ago? And if so, could this result in your volumes being negative again? I mean, that would be the fourth consecutive year of negative volumes. Or are you committed to a return to positive volume in 2025?

And then my second question is on PetCare. Because 2024 was, I think, the weakest organic growth posted by PetCare in more than two decades. So here my question would be, what kind of visibility do you have on when PetCare should re-accelerate and return to a more mid to high single digit organic sales growth? And looking at the three mega drivers for the categories, so pet adoption, conversion to packaged food and premiumization, humanization, I mean, which are the ones you think will recover faster versus other drivers that could continue to be softer for longer? Thank you very much.

Laurent Freixe, Nestlé S.A., Chief Executive Officer:

Thank you very much, Guillaume. Great questions.

On the pricing, I will start and then hand over to Anna for more details. Number one, yes, input costs are increasing, but not everywhere. Only in part of the portfolio, essentially, coffee and cocoa. So, everything related to coffee and cocoa. It's a chunk of our portfolio, but this is not all the portfolio. And in the rest, we see mild inflation.

The good thing is that those two categories of Coffee and Confectionery are, and have shown in the past and the recent past, resilience in the face of cost increases. I think our portfolio on both sides, actually, is very well positioned. Coffee, we sell essentially soluble coffee and coffee

capsules where the green coffee component, and coffee out of home, by the way, and ready-to-drink.

But the green coffee component is a lot less than for the rest of the industry, which is selling primarily roast and ground coffee, we are more preserved. And next, our savings program, our savings efficiencies will help us offset part of that.

And if you look at Confectionery, what we sell essentially is chocolate with wafers or chocolate with biscuits. And this is the area which we want to develop; chocobakery, choco-biscuits, or tablets with biscuits. And there as well, impact of commodity certainly less. And we'll take advantage of our cost savings programs, the *Fuel for Growth* program, to make sure that we get the price right.

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

Very quick builds. Both very resilient categories. I think what's different this time is you haven't got the whole basket of cost going up, as we were seeing in that cost-of-living crisis. You've just got two very resilient categories going up, which I think will position them better.

With respect to Confectionery, I know our competitors have talked about various elasticities from 0.4 to 1. We see it very different by market and somewhere in the middle of that range, but it varies by market. And in terms of Coffee, actually that category has been very resilient to price. What we tend to see is maybe a little bit of trade down, but generally that benefits us.

Laurent Freixe, Nestlé S.A., Chief Executive Officer:

And on PetCare, we are very upbeat on the category. It's clear that there is a little bit of normalization of the growth after a tremendous period of fast growth, connected to the lockdowns and people adopting more pets in a context that we have lived through. But if you look at the drivers that you highlighted rightly the drivers, there is another one for us on top, at least.

Pet adoption will continue to increase, why, aging population, more urban population, less babies, more pets, the dynamic will continue without any doubt. Caloric coverage, you got 80% in the U.S., you got down to 20% in large parts of emerging markets. Maybe 40, 50% in the more developed of the emerging markets environment, it's ample opportunity to grow just through the caloric coverage. Premiumization, humanization, the trend is in there and will continue.

And we see the potential of our therapeutics. This is one of the categories where we can demonstrate, with the highest impact, the power of nutrition. Pet nutrition is a game changer at many, many levels. Cognitive health, immunity, and so on and so forth. So, we are very upbeat on that side.

And then two maybe unlocks for us. Number one, we have been building up capacity in the last years. That capacity will progressively come on stream. H1, H2, and 2026, we'll be able to supply the market adequately.

And last but not least, we see a tremendous opportunity in Asia. Urbanization taking place there. Aging population, of course, China, but beyond, is also a reality. More pet adoption is taking place. This is very impressive to see the dynamic. And we need to take, and we have to take, and we want to take our fair share of that market opportunity.

So we are really a bit about the potential of the category medium-long term.

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

And maybe just to sort of give you some help on 2025. While those drivers will start to feed through to category improvement, we don't expect a sudden big category improvement. We just expect slow, gentle progression.

Guillaume Delmas, UBS:

Very helpful. Thank you.

David Hancock, Head of Investor Relations, Nestlé S.A.:

Thank you, Guillaume. Let's turn and take our next question from Céline Pannuti at JPMorgan. Please go ahead, Céline.

Questions on;	Q1 weakness COGS inflation and margin
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Céline Pannuti, JP Morgan:

Thank you very much. Good morning, everyone. My first question, maybe I'll start where you finished Anna in terms of, you talk about slow progression through the year. You mentioned that, I presume, as well as for the first quarter. It seems to me that the first quarter had an easy comparative, especially on the RIG side. Yet your pricing already accelerated in the fourth quarter.

So how should we be looking at Q1? And is Q1 going to be below the algorithm for the year? And where is the area of weakness in what you are signaling?

And then my second question is trying to a bit square what you said on your margin and the COGS inflation. You say you flagged margin at 16% for the year. That implies 100-120 basis points lower than last year. And yet only 40 basis points investment in A&P incremental. So are we looking at about 80 basis points gross margin decline, despite the cost savings? And if you could, as well, give us a number of what COGS kind of inflation you're facing this year?

Thank you.

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

So you're absolutely right. I've talked about a sales progression through the year, which would imply improving organic growth through the year. So maybe just to talk a bit about Q1. You're right, the comps are weak, but there's some technical factors as well. Inasmuch as we have one less trading day in Q1, not in the other quarters. And also when you look at the timing of Easter, Chinese New Year and Ramadan, they all have a little bit of an impact on Q1. So I'd say it's really a technical thing.

The actions that we are taking, I think you'll see, progressively benefit the business as we move through the year. And I'm not calling out any specific particular area of weakness as we look forward to Q1.

And then with respect to margin, I think your question was really about how to think about COGS inflation and how that feeds through to margin. So maybe to give you a bit of a sense of each of the levers. We've talked about pricing, we will need to take price in the context of increasing commodity prices in coffee and cocoa. We're doing that now. Therefore, you would probably expect that to benefit a little bit more as we go through the year.

With respect to COGS, there, at the moment, and I'm giving you a view today, in that commodity prices are continuing to move considerably and this will change. As I think about COGS, and I'm looking at total COGS here, we would be looking at very high single-digit inflation at this point in time. But of course, don't forget that we've got quite some efficiencies that we can use to offset that in that Francois talked about the 1.2 billion of efficiencies that we look to generate every year. A large part of that will benefit gross margin. And of course, you've got some of the *Fuel for Growth* savings that also go into gross margin. So those are some of the moving parts that give you a

sort of sense of how COGS will progress. And we've called out the phasing of, we've called out the increase in our PFME (marketing).

So those pieces give you a little bit the shape of how we see the P&L today, but it's moving, right? Commodity prices continue to move, and pricing will be a factor of how we work through the next phase.

Laurent Freixe, Nestlé S.A., Chief Executive Officer:

Maybe one point on the A&P, because there is this question mark about the 8.5%. We absolutely are aligned with what we said. We want to get to the 9% towards the end of 2025. But bear in mind that this is not the only area where we will invest. We want to strengthen our value propositions. That means investment in quality. That means investment eventually in pricing through price-pack architecture. That means investment in distribution, availability, visibility. Investment in consumer engagement. Investment in digitalization. So investments will be there as planned. We are not walking away. We are investing to win in the marketplace and investing on all the levers. We highlighted A&P because this is the most visible, but bear in mind that we invest across the value equation, wherever it makes sense, on the all the levers that will make an impact.

David Hancock, Head of Investor Relations, Nestlé S.A.:

Great. Thank you, Céline. We'll now take our next question from Jon Cox at Kepler Cheuvreux. Jon, go ahead.

Questions on;	Guidance
	Free cash flow and CapEx

Jon Cox, Kepler Cheuvreux:

Yes, good morning. Thanks very much for taking the questions. Two questions, really, which will be long and rambling as always. The first one is on the guidance for the year. I look at Coffee prices, I look at Confectionery prices. You probably have to put through at least 10% price increases for this year for both of them. The ICO dollar price has doubled in a little over 12 months, for example, in green coffee. We can all see what's happening with the cocoa price as well.

That's about a third of the portfolio, 10%. A third of your portfolio, that's over 3% of price alone for the group this year. Your guidance is only 2.2%. It would seem sort of like you're pointing to some

sort of collapse in volume mix this year, and clearly that is not what you were planning. So that's the first question.

Second question, a bit of a rambling question about free cash flow. It will be lower than 2024. Just wondering whether it will be higher than 2023. And as part of that, maybe, Anna, if you could talk a little bit about CapEx to sales, it's really bubbled up in the last couple of years. Are we going back down to 5% of sales in terms of CapEx? As a result, are you guys internally thinking about an improvement in your free cash flow margin, which has been quite disappointing for quite a few years? Thank you.

Laurent Freixe, Nestlé S.A., Chief Executive Officer:

Yes, I'll start with the pricing. In saying that, of course, we'll have to price in some areas of the portfolio, but we need to invest in price in some parts of the portfolio, as we have done on pizza, for instance, in the US. So that is part of the equation to keep in mind. We want to grow our categories; we want to gain market share and raise our game when it comes to market share performance. And the reality of the dynamic, as I highlighted, is that we will have coffee, cocoa on the one end, on one dynamic, and the rest of the portfolio is a another dynamic. So we will see more pricing in those areas, but we are confident that we will be capable to drive growth and gain share in the overall portfolio.

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

So maybe if I just come back to the guidance point. So we delivered 2.2% growth in 2024, and today we've guided on an improvement in that. And as you know, we've said that our medium-term growth rate will be more than 4%. So to help you with some of the moving factors as you think about organic growth, firstly, I'm not expecting the consumer sentiment to materially change from where we are today.

Secondly, we had a couple of headwinds in 2024 that won't repeat in 2025, or at least we'll lap, which is the retailer destock that we've seen and also the consumer hesitancy to global brands. So that will help us.

Then you've got the actions that we are taking to accelerate growth, and we will see that build through the year.

And then finally, there's pricing, which will come on top of that. Now, you know, as we move into pricing, and as we've talked about, we're working our way through pricing now, we'll have to see

how the consumer responds to those price changes, and we will make sure that we are balancing our pricing to make sure that we're maintaining that penetration that we have of our portfolio, whilst at the same time optimizing margin. So those are the moving parts to help you think it through.

And maybe if I then move on to free cash flow, I'm not going to give more precise guidance, but I think at the heart of your question is, how focused are we on free cash flow? And are we really working to make sure that we are improving some of those metrics that contribute to free cash flow? So the answer to is CapEx is the percentage of sales coming down? The answer is yes. We've been through a period of quite intense investment, and we're working our way through that. You'll see a gradual decline there, which will obviously help free cash flow.

And then secondly, working capital. We said to you that we target zero working capital, and we're making good progress towards that, but there is more to do there, and we are very focused on that. And again, you'll see those metrics continue to improve.

It's just that we saw such a big step change in working capital in 2024, that I'm cautioning that the level of improvement won't be as high in 2025.

David Hancock, Head of Investor Relations, Nestlé S.A.:

Thank you, Jon. Let's take the next question from Warren Ackerman at Barclays. Your line should be open. Go ahead, Warren.

Questions on;	Pricing and affordability Innovation
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Warren Ackerman, Barclays:

Yes, thanks, David. Good morning, Anna. Good morning, Laurent. Two from me as well. First of all, on pricing, back on pricing. Your Chairman said back in November that in some places Nestlé had taken too much pricing and needed to roll back pricing in some places. It sounded to me like there was some concern about affordability. Which category or geographies was he talking about back in November? And does that mean that we should expect Nestlé to under-recover inflation again? And isn't that a concern, given your gross margins haven't recovered from the last wave of inflation, still down a few hundred bps as the next wave of inflation is kicking in? So I'm just trying to understand the kind of messaging around this, given you've got massive inflation in cocoa

and coffee. Where does that all leave us for kind of gross margins, not just in 2025, but actually going back to this kind of journey back to pre-COVID?

And then secondly, could you maybe update us a little bit more about your innovation plans for 2025? Laurent, you know, we went to the R&D centre post the CMD to hear about some of these CHF 100 million platforms you're building. Maybe you can give us an update on where we are on some of those for this year and perhaps how that plays into this addressing the underperformers. Thank you, Anna, for kind of giving us the numbers on that; 18 cells, 21% of sales. But how does the innovation play into addressing those underperformers? We're trying to see how much granularity there is in these plans and the part the innovation plays. Thank you.

Laurent Freixe, Nestlé S.A., Chief Executive Officer:

Thank you. Great questions. On the comment on price inflation, I think the comment by Paul was general in nature. And it's a matter of fact that we have been through a period of high food price inflation. And as I said on a few occasions, I don't think there is any place in the world including Switzerland where you would see consumers telling you that food prices are low or affordable etc. Everyone is impacted, everyone sees it. Those are the kind of expenses that you would do on a daily basis, in a country like Switzerland, maybe weekly basis. People feel it and see it. So that was the nature of the answer. And of course, we are mindful of that. And of course, our response to cost inflation will always be the same. We first look at all the levers that we can pull to mitigate the cost inflation and our savings program, the 1.2 billion that we had through project Tasty and others, plus *Fuel for Growth* is of course coming very timely to help us mitigate part of the cost impact.

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

Just to build on that very quickly, because there was quite a specific modelling question in there about whether we would cover inflation and gross margin. And I just wanted to point out something I said in the script earlier, that we will not fully recover the cost inflation through price and efficiency. So you would expect to see our gross margin be down. And you see us acting to make sure that we're driving that consumer penetration to deliver that medium-term growth trajectory.

Laurent Freixe, Nestlé S.A., Chief Executive Officer:

And on the innovation, you know that we put the focus on innovation big bets, and I guess you are following the news flow that we are expanding at pace those innovations, the Nescafé Espresso concentrate in the US and getting to the UK. Two massive opportunities for us and more rollouts to come.

With cat food, the wet, pyramid-shaped cat food is also getting rolled out in the US, across the US. Also again, a massive opportunity and more varieties getting into Europe. So we are executing on our plan and putting investment behind.

On the underperformers, seeing more of renovations, we want to make sure and we kind of highlighted the value equation. At the end of the day, when we lose share, is that our value equation is not at par with competition or is not attractive enough. So we need to strengthen the value equation. In that case, renovation plays a role, maybe innovation can also play a role. But the core of the focus will be to strengthen our value propositions. This is quality. We want to achieve a clear-cut quality preference. We want to have the price right, so price pack architecture. We want to maximize distribution and we want to engage with the consumers and make sure that we raise our game when it comes to our share of voice and our share of market. So the determination is to strengthen our value propositions and we need a marketplace. Renovation is part of the game sometimes, line extensions can also be part of the game.

David Hancock, Head of Investor Relations, Nestlé S.A.:

Thanks Warren. Let's take the next question from Olivier Nicolai at Goldman Sachs. Go ahead Olivier.

Questions on;	Water business Coffee inflation
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Olivier Nicolai, Goldman Sachs:

Thank you David. Good morning Laurent and Anna. Two questions please. First of all, there were a few headlines this morning regarding the Water business. Could you perhaps give us a bit of an update on the strategic review of this business in terms of your preferred option and also timing?

And then secondly, going back to the coffee inflation that you see in 2025, how much pricing should we expect in Nespresso or also in Nescafé and Starbucks? And what kind of pricing and elasticity are you assuming, which could affect volumes? Typically, if I look back in 2022 for

instance, the Nespresso pricing was up 5% and volumes were down 2%. Would that be a good proxy for this year? Thank you.

Laurent Freixe, Nestlé S.A., Chief Executive Officer:

So the first question on Waters, we are really moving quickly. You know that we announced that we set up the business as a globally managed business just three months ago, not even. And the organization is fully fledged, up and running, managing the business globally and this in a matter of a couple of months.

They are also working on the next phase and building up those partnership opportunities. What I would like to say there is that we are getting ready and that our commitment to the category remains. It's not that we want to get out of the category. We look for partnerships so that we can realize the potential of the global premium brands and as well develop the new space, which is the space of premium beverages, which is massive and which requires investment.

So we are organized and fully fledged, up and running and preparing for the next phase.

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

On Coffee, so I'm not going to give you specifics of price increases on Coffee because obviously we're working through that at the moment with our customers, but you can see us looking to take price increases in the context of the inflation that we are seeing and then we will see how the consumer responds to that.

Now with respect to price elasticity, actually it's quite hard to know in that last time we took price, the whole basket was going up and the consumer was in the middle of a cost-of-living squeeze that caused a broader set of changes in behavior. We're in a slightly different environment this time where the rest of the basket is pretty static and it's a couple of specific categories where we're seeing price increases and they're categories that are naturally quite resilient in that they're the things that the consumer tends to really stick with. So hard to say. We'll see as we go through it, but I'm optimistic.

And the other thing I would call out maybe with respect to our positioning in Coffee is that we're actually very well positioned in that we play in portioned and soluble particularly, which are areas which are going to be slightly less exposed to pricing vis-a-vis something like roast & ground because there is less coffee cost in the product that we're selling. So that will be helpful. And I

guess the other thing that I would say with Coffee is when we do see consumer reaction, usually it's trade down and usually we benefit from that given the nature of our brands.

David Hancock, Head of Investor Relations, Nestlé S.A.:

Thank you, Olivier. Let's take the next question from Sarah Simon at Morgan Stanley. Go ahead. Sarah.

Questions on;	Priorities Marketing spend
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Sarah Simon, Morgan Stanley:

Yes, good morning. Couple of questions. One was a sort of philosophical one. If you think about weighing up market share, organic revenue growth within that sort of RIG versus price and then margin, how do you prioritise those?

And then the second question was just on marketing. Obviously, you didn't actually increase marketing spending in the second half of last year. Is that because kind of the change or the changes you felt you needed to make came too late in the year? Because I think probably people thought that there was going to be a bigger step up in the second half of this year. Thanks.

Laurent Freixe, Nestlé S.A., Chief Executive Officer:

Thanks, Sarah. As we said, and I think we laid out very clearly that we want to accelerate performance. We want to accelerate the growth. And the two levers that we pull is number one, driving growth. Number two, driving market share performance. This is absolute top priority. We know that growth is the main lever of value creation, so this is where our focus is. Through the virtuous circle, through our *Fuel for Growth* savings program, we enable investments while kind of protecting margins at the same time. So this is the line that we are working.

On the marketing spending, there is an element of phasing there. We like to highlight that we need to get the value equation right. It doesn't make sense to invest in communication, in A&P, if you don't get the product right, if you don't get the quality right, if you don't get the price right, if you don't have the distribution right. So we want to make sure that we systematically put the right levers in the right place, that we got taste preference, that we got the right pricing, through the right price pack architecture, that we maximise distribution and fill rate and of course then we can go full blast with our communication effort. So there is an element of phasing in this, in there, as you rightly pointed out in your question. And putting the things and investing in the right levers

that will really make sure that we are preferred and that we drive growth, category growth and gain market share.

David Hancock, Head of Investor Relations, Nestlé S.A.:

Thank you, thanks Sarah. The next question comes from James Edwards Jones at RBC. Go ahead James.

Questions on;	A&P spend Mix Zone disclosure
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James Edwardes Jones, RBC:

Thank you very much, good morning all. Actually, I've got three but one doesn't really count. First one, can I just pin you down a bit further on that A&P? Should we be thinking about the 9% as the basis for the future or is there a risk that 9% is just a spike at the end of this year and then it reverts to 8.5% or something like that?

Second, on the mix, the 1.1% mix growth you saw in 2024 is the lowest since 2018. It's really useful incidentally to disclose that. Should we be concerned about that?

And then the final very small one is the regional disclosure which your Zones are looking at implementing. Is that available somewhere? I haven't seen it yet.

Laurent Freixe, Nestlé S.A., Chief Executive Officer:

So on A&P we are determined to invest and we put the ambition that the 9% level will get there by the end of the year and there is no way back.

We want to keep investing and because you know our brands and innovation, innovation being incremental, requires incremental resources and we are absolutely determined to keep investing from that level.

On the mix, we have various elements of the mix. The country mix, the category mix, the product mix. Normally they all play in favour but I guess Anna can give a flavor of that.

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

I wouldn't be unduly worried by the mix number this year in that there have been a couple of things you know about that have influenced it. For example, in PetCare, as we have re-

established some of the lower price point SKUs as we have had more capacity that's impacted mix. Our regional mix has been impacted by things like consumer hesitancy to global brands. I wouldn't be too worried. What I would point you to is the improvement we have seen in volume versus the losses that we were seeing last year.

We are moving in the right direction, and I think that is important. A little bit to go back to Sarah's philosophical question about trading off the different levers. Over the medium-term shareholder value requires our consumers to be consuming our products. That is why volume is an important metric, and we need to do that in a way that maximises margins so we can invest behind those products. So I think that improving volume trajectory is good and important and one we are focused on.

In terms of the regional disclosure, David, do you want to pick that one up?

David Hancock, Head of Investor Relations, Nestlé S.A.

We haven't published the new Zone reporting data today. We will publish it ahead of the Q1 results in April. So you will get that ahead of time in April where we will disclose 2024 restated for the new reporting structure ahead of the Q1 results.

So let's take the next question in the queue from Tom Sykes at Deutsche Bank. Go ahead, Tom.

Questions on;	RIG Pressure on lower income consumers
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Tom Sykes, Deutsche Bank:

Thanks, David. Good morning, everybody. Just to try and understand this view for full year 2025 on RIG, because consensus is about 1.4%. You're obviously pushing through price rises and potentially some elasticity. That 1.4% is pretty similar to what you did in H2. But if that's going to edge down potentially and your underperformers are getting better, are we assuming that the RIG in the rest of the business is therefore in aggregate going to be moderately slower than it was for the full year?

And then maybe could you make some comments on perhaps lower income versus higher income consumers or products exposed perhaps to lower income, higher income consumers, or whether there is a bit more pressure than you have seen before on those in lower income cohorts please?

Laurent Freixe, Nestlé S.A., Chief Executive Officer:

Maybe I can start with that one. We see this polarization of society in many countries and clearly the lower income consumers are more impacted because the weight of food in their household budget is a lot greater than the higher-level consumers.

So they are more impacted, they are more sensitive and that part certainly is under pressure. We see premiumization continuing to take place, confirming that even in more challenging times, there is still space for premiumization. We are very mindful of affordability; this is one thing that we have front and center. We want to make sure that our value equations are rock solid and that we are preferred by the relevant segments of the population. So that's something that we have core to our strategies.

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

And with respect to RIG, we guide on OG and so I'm not going to guide on RIG, but maybe just to go back to some of the drivers we talked about around OG and read them across to RIG, because that may help you.

The starting point is consumer sentiment is unchanged. I talked about then lapping consumer hesitancy to international brands, that's now in our base. We've also had some retailer destock this year that we shouldn't have in 2025. Both of those drive OG, but they are RIG drivers.

And then you've got the actions that we are taking to accelerate our portfolio and the categories that we are in. And obviously there is a clear RIG focus around those actions. And then you've got the price increases that we need to put through on coffee and cocoa, which will likely have some sort of negative impact on RIG. But to be honest, we will understand that as we work our way through this pricing environment.

David Hancock, Head of Investor Relations, Nestlé S.A.:

Thank you Tom. The next question comes from Jeff Stent, Exane BNP Paribas. Go ahead, Jeff.

Questions on;	Waters Fresh petfood
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Jeff Stent, Exane BNP Paribas:

Thank you. Two questions, if I may. The first one is you said you remain committed to Waters. Should I understand from that, regardless of what happens in terms of reshaping, it will be likely you will still be consolidating Waters revenues.

And the second one is just on pet. Slowly but surely, the fresh category seems to be growing and taking share. What are your current thoughts about Nestlé's presence in the fresh segment of pet? Thank you.

Laurent Freixe, Nestlé S.A., Chief Executive Officer:

Thank you very much. So we are absolutely committed to our brands, to our premium brands in particular, that are unique jewels in the Waters area, so we exclude an outright sale. But I didn't say that we look for keeping the consolidation. We look for partnership that will help us enhance and grow that business forward. And of course, there are many options possible on the table, bear with us a few months and we'll give more clarity on the way forward.

On the fresh pet food, this is a trend, absolutely. Especially in the U.S., we see it also emerging in other geographies. So the question mark is always on fresh and chilled attractive because they are close to, you know, as close as possible to natural in the perception. The investment equation, investment intensity and the returns and profitability but we, of course, are looking at that. We have some investments in the space and besides this, keep in mind that we see massive opportunities with what we have. Big segments, big geographies in particular emerging markets offer us an ample opportunity to grow. In those environments, it's less about fresh than about building up the consumption, calorific coverage and developing the right capabilities.

David Hancock, Head of Investor Relations, Nestlé S.A.:

The next question comes from David Hayes at Jefferies. Go ahead, David.

Questions on;	Procurement clawbacks Cost savings
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David Hayes, Jefferies

Good morning all. There's one on the procurement clawback and one on the cost savings. On the callback in the procurement, the 300 million that you talked about in terms of contract versus the prices that you paid, can you talk us through the process that led to that realization. Was that something that took place at the beginning of this year? Is that a review that has completed or is

there potential for further assessment to find additional clawbacks through this year that could help with the profitability?

And on the cost savings, more broadly, are you talking about any sort of headcount reduction as part of these savings over the next couple of years or do you see that saving to be achieved with a net no change in the headcount because it's just about process and system improvements that deliver on the 2.5? Thank you so much.

Laurent Freixe, Nestlé S.A., Chief Executive Officer:

On the cost savings, which is a very important part of our equation, this is the starting point of the virtuous circle, you see that we put on the table very significant numbers. On the procurement, we are really reviewing end-to-end the opportunity. Keep in mind that we spend CHF 60 billion in procurement, so we are talking big numbers and there are many areas of opportunities through consolidation of spend for instance, or simplification of specs and so on and so forth. We are working on all of those.

What we highlighted is the impact of AI on our procurement activities and what we have been doing now systematically is reviewing our contracts. Bear in mind that we got 100,000 suppliers plus. That's the base that we got. So imagine the number of contracts that we got to review, and we match that with the invoices. We are talking millions of invoices and just checking inconsistencies. There are always inconsistencies in those and identifying them and then getting back to the suppliers. This is where we have found the quick savings but there is a lot more to it and there is a lot of work happening between procurement and business and suppliers of course to make sure that we go to the heart of the opportunity.

So it's massive and we highlighted the impact on the *Fuel for Growth* program. It's real, it's savings. You know, it's interesting that there are question marks on is it real, is it not real. Ask the retailers, if it's real or not and if you can pull savings through negotiation and ask our suppliers as well if something is happening. At Nestlé you will see that something clearly happening.

On the productivity of the workforce, we are always looking at the impact of technology, impact of shared services. It's not by chance that shared services are under the responsibility of Anna now. We see lots of opportunities end to end to improve the productivity of our workforce and eliminating basically everything that can be automated, that brings quality speed in the processes and cost savings while freeing up valuable quality time for the people to analyse the data, act on the data and not pull up reports together.

Anna maybe you want to complement?

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

Maybe just one build. I mean your question was is there more? I think the attitude which we were approaching all of this is we're just going to keep going and we will continue to look for efficiencies. What we're sharing with you is where we've got to and as you can see, we found some great quick wins that are helpful but we really are doing a systematic review and that is what will continue to fuel our investment for growth going forward.

David Hancock, Head of Investor Relations, Nestlé S.A.:

Thank you, David. Thanks, Anna and Laurent. We will need to close the call here but thank you for your interest and for joining us today.

We look forward to meeting many of you as we are on the road over the next weeks. Otherwise, I look forward to connecting again when we have our Q1 results call in April. Many thanks.

Laurent Freixe, Nestlé S.A., Chief Executive Officer:

Thank you.

End of Transcript.