

NESTLÉ S.A.

**2025 HALF YEAR RESULTS
ANALYST AND INVESTOR CALL PREPARED REMARKS TRANSCRIPT**

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David Hancock, Head of Investor Relations, Nestlé S.A.**Slide: Title slide**

Good morning and welcome to Nestlé's Half-year 2025 results conference call. I'm David Hancock, Head of investor relations, and I am joined today by Laurent Freixe, CEO, and Anna Manz, CFO.

Slide: Disclaimer

Before we, begin please take careful note of the disclaimer on page two of our presentation.

Slide: Agenda

So for the agenda today after Laurent shares the key messages, Anna will take us through the results in detail then Laurent will provide an update on our strategic progress. We will then open up for Q&A. And with that I will now hand over to Laurent.

Laurent Freixe, Chief Executive Officer, Nestlé S.A.**Slide: Key messages**

Thank you David. Good morning to all.

Slide: Consistent execution, improving growth foundations

We delivered a good performance in the first half of 2025, in a difficult environment. Thanks to the focus of our teams, we are continuing to execute our strategy and transform our business. Our growth foundations are improving and we are beginning to see the results.

Looking ahead, we have maintained our guidance for 2025 despite increased headwinds.

And we remain confident in delivering our medium-term guidance.

Slide: Broad-based sales growth, solid margin

In the first half, organic growth reached 2.9%.

This reflects broad-based sales growth across geographies and categories, with a slight improvement in Q2 compared to Q1.

We delivered a solid UTOP margin, as we increased investment and faced COGS and Forex headwinds.

These results demonstrate our ability to manage short-term dynamics while staying focused on long-term value creation.

I will hand over to Anna to take you through the results in detail.

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

Slide: Half-year financial results

Thanks Laurent, and good morning.

Slide: CFO key messages

Here are the key take aways;

We delivered broad based organic growth. As expected, pricing accelerated and RIG slowed. UTOP margin was slightly better than our expectations, even though we stepped up growth investments and faced some headwinds from tariffs and FX.

In the second half, our margins will be significantly lower, due to these headwinds and the delayed impact of higher input costs.

For the full year, we are maintaining our guidance on organic growth and UTOP margin.

Slide: Improving organic sales growth, increased FX headwinds

We delivered 2.9% organic sales growth in the first half, with RIG of 0.2% and pricing of 2.7%.

Sales were negatively impacted by foreign exchange movements, especially in Q2, when the Swiss Franc strengthened by 10% against the dollar, and similar amounts against other currencies.

Slide: Organic growth driven by pricing

Turning to sales growth. As expected, pricing has accelerated and RIG has slowed during the half.

Pricing improved across all our categories in the quarter. The largest increases were in Confectionery and Coffee in response to input cost inflation. Most of our price increases took place during Q1, so Q2 saw the full benefit.

On RIG, there were two main drivers of the deceleration in Q2: Firstly Greater China, which had a positive impact of 20bps on Group RIG in the first quarter, but a negative impact of 40 bps in the second quarter. At Q1, we said our growth in China had been driven by sell-in ahead of underlying consumption, and that we expected that to reverse. In Q2, we have seen that reversal.

Secondly, we saw an impact from elasticities in response to pricing, particularly in Confectionery.

In Coffee we saw a different trend with lower elasticity, and positive RIG in the first and second quarters despite more pricing.

Going forward, we expect Group RIG to improve over time as consumer behavior and the competitive environment adapts to higher prices.

Slide: UTOP margin driven by COGS inflation and marketing investment

Turning next to profitability.

We delivered 16.5% UTOP margin in the first half, down 90 basis points.

Gross margin decreased by 60 basis points, and we stepped up advertising and marketing spend by 50 basis points. Distribution and admin costs were a small positive.

Let me get into a bit more detail.

Slide: Gross margin pace of recovery differs by category

Generally, input cost inflation has a negative impact on our margins in the short term, as price negotiation cycles mean we can't price immediately and we can't always price to fully cover margins. However, over time consumer-led innovation and further pricing sees our margins recover.

And you can see that on this slide. The spike in inflation in 2022 impacted all of categories. Since then, we recovered margins across our categories, illustrated here by PetCare and Food. But Coffee and Confectionery are below as we manage a new wave of input cost inflation.

The margins of Coffee and Confectionery will get worse before they get better, as commodity cost increases impact the P&L in the second half.

Looking further forward, we expect gross margins in these categories to recover over time as a result of the actions we are taking. The pace of that recovery will depend on what happens with commodity prices.

Slide: Gross margin decline driven by input cost inflation

Turning back to this year, gross margin declined 60 basis points in the first half, against the same period last year.

Forward cover partially delayed the increase in commodity costs hitting the P&L, and the impact of tariffs was small due to short-term mitigation efforts.

In the second half, we will see a larger reduction in gross margin as the impact of commodity cost and tariffs increases.

Slide: Increasing advertising and marketing investment to drive growth

We said we would step up investment in our brands. Good progress in our brand value proposition has meant we have done this faster, and A&P reached 8.6 percent of sales in the first half.

Our 'Fuel for Growth' program is delivering efficiencies, that's allowing us to achieve more consumer impact from our spend.

We are on track to reach our planned increase in marketing intensity, earlier than expected and at a lower cost. So given the efficiencies, we expect second half A&P as a percentage of sales to be similar to the first half.

Slide: 'Fuel for Growth' cost savings on track

At the full year results, we said that we had secured over CHF 300 million of 'Fuel for Growth' savings for the year.

In the first half, 150 million of savings were recognized in the P&L. The balance, plus additional savings secured since our last update, means we now have over 350 million benefiting the P&L in the second half. So we are firmly on track to deliver our CHF 700 million target for the full year.

Slide: Full year UTOP margin expected to be at or above 16%

Putting all these pieces together, UTOP margin was 16.5%.

Despite an acceleration of investment in A&P and some headwinds from FX and tariffs, this was slightly better than our expectations.

We landed pricing actions early and mix effects partially delayed the impact of cost inflation into the P&L.

As we progress into H2, pricing will be more than offset by the increase in input costs, we will see an increased tariff impact, and at current exchange rates, FX will be a further headwind. So we expect the second half margin to be significantly below the first half.

For the full year, we still expect our UTOP margin to be at or above 16%. And I'll come back to this when I talk about guidance.

Slide: H1-2025 Zone performance overview

Now let's look quickly at the performance of our segments in the quarter.

In Zone AMS, I'll focus on North America. Here the consumer remains weak. Despite this we delivered positive organic growth and RIG in both quarters. And we are making continued progress on market share.

Turning to AOA, growth was broad based with the exception of Greater China. In the weak economic environment in China, we need to shift our model from driving distribution to driving consumer demand. This transition will be a headwind for up to a year, but it will strengthen our business for the medium term.

And in Europe, we saw both broad based growth and market share improvement.

The margin dynamic I just described, can be seen playing out within each of the Zones, with some differences due to category exposure.

Slide: H1-2025 GMB performance overview

Turning to the Globally managed businesses,

In Nestlé Health Science, performance was mixed. Our VMS business was impacted by the discontinuation of some private label business and weaker performance in our mainstream brands. This was a drag on organic growth, but contributed to an improvement in UTOP margin.

Nespresso delivered another quarter of solid growth led by broad based pricing, while still maintaining positive RIG. Margin development was positive in the first half, thanks to pricing ahead of commodity increases, which impact later in Nespresso due to the longer supply chain.

Slide: H1-2024 Category performance overview

Turning now to our categories, Powdered & Liquid beverages, which is mainly Coffee, grew strongly led by positive price and RIG.

The growth of the PetCare category growth has come down from a year ago, but is now stabilizing. A return to a more normal promotional environment contributed to the slow down despite this we have maintained or grown market share.

I have talked about Health Science already. In Nutrition performance was particularly impacted by Gerber in the US. Gerber is a brand with great heritage, but it has been losing some of its relevance with consumers. We are working to address this.

Prepared dishes and cooking aids, was impacted by challenges within the Frozen category. Despite this, we are seeing improved market share trends particularly in frozen meals.

Milk products and Ice cream organic growth was positive, with price-led growth in ambient dairy and positive RIG in coffee creamers.

In Confectionery, we took double-digit pricing to offset commodity inflation. We are now seeing an elasticity impact, which appears in RIG. We expect this to settle as consumers and competitors adapt.

Finally, in Waters we saw broad based growth, particularly with Maison Perrier and S.Pellegrino brands.

Slide: Net profit progression mainly driven by UTOP

Now let's look at what sits below UTOP.

On most line items the change year on year is very limited, but I will call out two factors.

Net financing costs were slightly higher this period, reflecting a higher level of average net debt.

The underlying tax rate was slightly lower than the last year at 22.0%. This is consistent with our full year guidance.

Slide: Underlying EPS -1.0% in constant currency, -5.4% on reported basis

On the drivers of EPS I have already talked to operating profit, interest and tax.

On share buyback, we completed the program in December, so there is still some benefit to EPS in H1 from the lower share count versus last year.

However, this was more than offset by the significant adverse FX movement.

Slide: Free cash flow generation impacted by working capital

On free cash flow, just a reminder that this is typically seasonally weaker in the first half, with much stronger cash generation in H2. On top of this normal seasonality, there were three main elements impacting cash flow this year. EBITDA was lower, reflecting the margin reduction as we invest for growth, and the FX headwind.

On working capital, we had a higher negative impact in the first half of this year mainly reflecting a higher cost of inventory. And these were partly offset by a reduction in CAPEX. .

Slide: First half movements in net debt

As normal, net debt increased in the first half, due to the payment of the dividend in April.

Partially offsetting this, our net debt balance benefited by 2.5 billion from the strengthening of the Swiss franc.

Slide: Guidance maintained

Turning finally to guidance. We are maintaining our full year guidance, despite increased headwinds since the beginning of this year.

Organic sales growth is expected to improve compared to 2024, strengthening as we continue to deliver on our growth plans.

The UTOP margin is expected to be at or above 16.0% as we invest for growth. This includes the increased negative impact from tariffs currently in place, and today's foreign exchange rates.

While we are continuing to execute with focus, there is obviously macroeconomic and consumer uncertainty. As we navigate these headwinds, I want to be clear that we won't compromise on investing for the medium term.

And with that, I will hand back to Laurent to discuss our strategic progress.

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

Slide: Strategic progress

Thanks Anna.

Slide: Executing on our strategy

We have clearly set out our strategy: to accelerate performance and to transform for the future.

To drive growth, we are accelerating our categories and improving our market share. We are doing that through implementing the Nestlé Virtuous Circle – delivering efficiencies and investing to drive profitable growth.

We are also simplifying our organization, and digitally transforming our end-to-end processes. In doing this, we are leveraging Nestlé's scale, single ERP core, our enterprise data foundations, while expanding our AI platforms. This will further support us in improving execution, allowing us to run the business with greater agility and precision.

As I will show on the next few slides, we are implementing this strategy, and it is bringing results.

Slide: 'Fuel for Growth' plan on track

Driving growth starts with generating the fuel for investment. We are on track for the CHF 700 million in 2025 in our 'Fuel for Growth' Program.

I told you that procurement was the most important source of efficiencies. In the first half, we generated hard savings from rolling-out AI tools to review invoices, from increased use of e-auctions and from deploying global specifications catalogues.

Looking ahead to the second half of the year and beyond, we will drive further procurement gains and start to deliver savings from operational efficiencies and improvements in commercial investments.

Slide: Investing in the fundamentals of the value proposition

Investing this fuel for growth is not just about spending more on marketing. We are reinforcing our value proposition across four pillars: Unrivalled Product Superiority, Unbeatable Value, Unmissable Visibility, and Unforgettable Brand Communications.

Let me go through two examples; On Product Superiority, we are stepping up our focus on ensuring we have the best tasting products. We're bringing back discipline in how we test them with consumers.

Across 2022 to 2024, we tested 60/40 taste preference in less than a quarter of our top-selling products that account for half of our sales. By the end of this year, we will have tested 2/3 of these products, reaching 100% by this time next year. And of course, if we find products where we do not have taste preference, we will be acting quickly to correct that.

To achieve unmissable visibility, we are enhancing product performance across online channels. The Digital Shelf Score, tracks availability, discoverability, and attractiveness - three critical dimensions of execution enabling faster interventions and more consistent retail performance.

Finally, all four pillars are being enabled and scaled through the use of data and technology, ensuring we drive precision, speed, and measurable impact across the value chain.

Slide: Accelerating category growth and improving market share

We have talked about how we will drive growth through accelerating our categories and improving our market share, and the different ways we are doing this.

With our six global big bets, we are following a “fewer, bigger, better” approach - concentrating our resources behind a small number of innovations and rolling them out at scale much faster. In the past, we would typically take an innovation to a handful of markets over the first couple of years. This has changed. Across our six big bets we had 65 market launches in the first half of this year. This is driving impact – in the first half of 2025, we have reached CHF 200 million of sales with these six big bets.

In parallel we've taken targeted actions to improve underperforming businesses, focused around gaps in our 4U's value proposition. The impact can be seen in the improvement of our market share trends.

The aggregate growth gap to market for the 18 key underperforming business cells has reduced by a third, with most of the business cells improving their performance vs category.

Take CoffeeMate creamers in the U.S as an example. We resolved capacity issues, adjusted pricing, increased innovation, and reset shelves. Distribution is up, consumer engagement is back, and market share is improving.

This is our value proposition in action, and it's a blueprint we are applying across our business.

Slide: Strengthening our model for sustainable growth in Greater China

Greater China is our second largest market after the US, and we have a great business there. With a strong local presence, it continues to offer significant long-term potential. In recent years, we have grown the business through expanding distribution.

The model has become challenged in a weaker economic environment. To deliver sustainable growth, we need a different approach. One of the first changes I made to the organization when I took over as CEO was to bring Greater China back under Zone AOA, to drive greater alignment and strengthen governance. Following that move, we have also changed the leadership of the Greater China business.

In March this year, I visited China to meet with our teams, our customers, and our partners. The visit reaffirmed my belief that speed and agility are critical to win in this market. The new team will focus on driving growth through delivering our complete value proposition.

We are confident in our ability to rebuild momentum and capture the potential of the market.

Slide: Sharpening focus in Nestlé Health Science

Nestlé Health Sciences has built a leading position with a diverse portfolio of brands across VMS, Active Nutrition and Medical Nutrition.

VMS is an attractive category with clear growth drivers. To us, the highest potential is at the premium end. Going forward, in VMS we will focus on our global premium brands such as Garden of Life, Solgar and Pure Encapsulations, where our capabilities in science, innovation and brand-building give us a distinct competitive edge. We have launched a strategic review of our mainstream and value VMS brands, including Nature's Bounty, Osteo-Bi Flex, Puritan's Pride and US private label, which may result in the divestment of these brands.

All this is consistent with our approach across the group of focus and simplification, and it will help us to accelerate our performance in this important, high potential category.

Slide: Key takeaways

So in summary, we delivered a good performance in the half, and our full year guidance is maintained despite increased headwinds. We have a clear strategy and we are focused on execution. We are taking the right actions today to strengthen our growth foundations for the future. And we remain confident in delivering our medium-term ambition.

And now let me hand over to David for the Q&A.

END OF TRANSCRIPT