2026 HALF YEAR RESULTS
PREPARED REMARKS AND Q&ATRANSCRIPT

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Speakers:

Philipp Navratil, Chief Executive Officer, Nestlé S.A.
Anna Manz, Chief Financial Officer, Nestlé S.A.
David Hancock, Head of Investor Relations, Nestlé S.A.

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Good morning, and welcome to Nestlé's half-year 2026 results. I am David Hancock, Head of Investor Relations and I am joined today by Phillipp Navratil, CEO and Anna Manz, CFO. Before we get started, please take a moment to review the disclaimer on slide 2. Let me quickly take you through our agenda. We'll start with an overview of the key messages and updates from Phillipp, before Anna reviews the numbers in more detail. We will then open up the lines for Q&A. And with that, I'll hand over to Philipp.

Philipp Navratil, Chief Executive Officer, Nestlé S.A.

Thanks, David. Good morning, everyone, and thank you for joining us. Let me start with some key messages.
First, our execution is improving and this is driving growth. For the last 4 quarters, we have delivered good OG and RIG. Now we need to keep delivering consistently and accelerate RIG to at least 2%.

Second, we are sharpening our portfolio. The partnership for waters is an important step here. This is about focusing to win.

Third, efficiency and cash. We are becoming a more efficient company, and we're delivering cost savings slightly ahead of plan. This creates additional resources to reinvest in growth. Free cash flow was strong.

Finally, we are on track to deliver our 2026 guidance. Our strategy is clear. Now it is all about consistent execution, quarter after quarter, half after half.

The first half showed encouraging financial progress. Growth was broad-based, and RIG strengthened from Q1 to Q2. Profitability improved from the low point in H2 last year. Free cash flow was much stronger than at this time last year, and net debt is lower. The actions we are taking are gaining traction, and we see plenty of opportunities ahead of us to further improve execution.

By now this should be a familiar slide. I have shared these priorities before. The most important is RIG-led growth. Today I will spend most of my time on growth, and I will also touch on some of the other areas.

Let me start with the winning portfolio. For us, this is not about large, disruptive change. We don't need that. It is about focusing resources on our strong positions in the most attractive categories. The partnership for Nestlé Waters & Premium Beverages announced today is a part of this.

For Nestlé, it allows us to concentrate fully on our 4 large categories: Coffee, Petcare, Nutrition and Food & Snacks. For Waters, it will create a dedicated global leader with the right structure to develop the business further. In H1, we also moved ahead with our mainstream VMS and ice cream divestments. And we acquired the remainder of yfood and divested Blue Bottle Coffee. My goal on portfolio is very simple: a sharper Nestlé, focused on the businesses and brands where we can create most value.

Turning to growth. We target sustained organic growth of 4% plus, led by RIG of at least 2%. This slide summarizes how we think about our growth model. The model has two parts. Both are important, but we have different expectations on each.

First, in the core of our business, deliver 3-4% organic growth. This means executing consistently to hold market share. Second, in our growth platforms, deliver high single digit growth. This means accelerating our categories by stepping up investment in areas with the highest structural growth potential. Underpinning both are our leading brands. Take Nescafé. In Europe, Nescafé Gold has solid growth potential and is truly a core business. Elsewhere, the brand has higher structural opportunities – like within our cold coffee and out-of-home growth platforms. So, 2 parts of the growth model, different expectations on each, both underpinned by our leading brands.

Key to driving growth across the business is being deliberate about where and how we invest, and then relentlessly executing. Investment in growth is much broader than marketing. Growth does not come from one lever alone. It comes from better products, stronger brands, the right value proposition, increased visibility in store and online, and clearer communications with consumers.

We are rigorously monitoring execution KPIs across all of these areas, like taste preference, price competitiveness, shelf space, and marketing ROI. In all cases where our execution scorecards are green across metrics, we are consistently gaining market share. Felix in Europe is a great illustration of this, but the same principles apply across every brand.

Coming to marketing, which is an important focus area for me. As you know, we have been increasing investment in marketing – up from 8.1% two years ago to 8.9% today. But it’s not just the amount – it’s how we spend and where we spend. On the how, we are increasing effectiveness. On the left, you can see some color on this. Paid media spend was up double-digits in constant currency, with strong increases in retail digital media and influencer marketing. Non-working media is now below 20%, coming from a number closer to 25%. So overall, investing more and better.

On the right, we show where we are deploying the marketing spend. It’s critical that we invest in both the core business and the growth platforms – to ensure we at least hold share in the core and to help to accelerate our categories in the growth platforms. As we polarize spend, we are not taking away from the core. You see that on the chart. And you see that we are overinvesting in the growth platforms. The additional funds from our cost savings programs are being invested here, because we see the strongest opportunity to accelerate.

As well as increasing investment in marketing, we are also strengthening innovation. Working from consumer insight back, rather than technology insight forwards. And we are seeing the impact of increased speed and scale of deployments. And in all of this, increasingly leveraging AI across marketing and innovation.

The good news is that it is working. In the core, growth accelerated meaningfully year on year, but we still have more work to do to deliver 3-4% and do it consistently. In the growth platforms, first half OG reached 7%, and we still have further opportunities. So, moving in the right direction, and more to come.

Finally, I want to share an example that brings to life the changes underway at Nestlé. Let's watch this 2-minute video.

I said this illustrates the changes at Nestlé. In fact, 2 specific changes. First, a change in marketing. More digital, more social, more organic, more fun. Tapping into how younger consumers engage with the world. Connecting our brands to consumers and culture in real time. You saw the stats on the business results. And we were proud to win 9 Cannes Lions awards for the campaign.

The second change goes beyond marketing. It's a change in overall culture at the company – to a performance culture. In this KitKat example, a handful of our people in Europe spotted an opportunity, did a rapid risk assessment, got a speedy sign-off and acted quickly. Within days, a local incident became a global conversation. We didn't have weeks of alignment meetings, debates on press release wording, layers of approval hierarchy. Old Nestlé might well have missed this opportunity. But Nestlé is changing. We don't just use this as a case study for you externally. We have communicated about this loudly within the company to reinforce what we mean by performance culture.

Empowering teams. Moving faster. Reducing complexity. Prioritizing business impact over comfort and consensus. One campaign does not transform a company. But it is a tangible example of the change we are driving.

So, to conclude from my side – we have made good progress during the first half, but there is still more to do. The strategy is clear, it's now all about consistent execution.

And with that, I will now hand over to Anna to go through our Q2 and half-year performance

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

Thanks Philipp and good morning.

In the first half, we delivered solid organic growth, supported by improving RIG across the business.

Our underlying trading operating profit margin improved nicely compared to H2-25, despite an increase in marketing investment. This was helped by cost savings slightly ahead of our original plans.

Cash generation was strong and while the operating environment is uncertain, our focus on execution is unchanged. We are building positive momentum and we are on track to deliver our full-year guidance.

We delivered 3.6% organic sales growth in the first half, with RIG of 1.5% and pricing of 2.1%. Sales continued to be impacted by foreign exchange. And as a reminder, the Swiss franc strengthened sharply in April last year. This meant we had a strong FX drag on sales in Q1 of 9%, and a much more benign impact in Q2 of 3% - taken together, a 6% drag in the half.

Assuming current spot rates, the year-on-year FX impact reduces in the second half, with a full-year impact on reported sales of around 3%.

Looking at RIG in more detail, I'll focus on the quarters, as that gives the clearest view of our performance. RIG accelerated from 1.2% in Q1 to 1.8% in Q2, and this is now four quarters of good growth. The chart on the right shows quarterly RIG by category. Growth was broad-based with all categories RIG positive in the second quarter.

This momentum is being driven by several factors: strength in Emerging Markets, stabilization of China, solid performance in developed markets, and ongoing recovery from the infant formula recall. I'm going to get into these in more detail.

First, Emerging Markets excluding China. The chart on the left shows the strengthening we have seen over recent quarters, especially in RIG. Growth here has been broad-based, across Asia, Africa, and Latin America. Turning to China. Our business is now stable. We have completed the inventory reduction started in Q2 of last year. The reduced year on year impact drove positive growth in the second quarter.

Our transition to a demand-led growth model is progressing well and provides a stronger foundation for the future. At the same time, the categories we participate in are currently still declining.

Turning to North America. The organic growth trend has been improving since the beginning of last year and we maintained momentum in the second quarter. In Q2, pricing increased and

RIG declined. This was driven by coffee and Petcare, which together are more than 60% of sales.

In Coffee, significant recent Starbucks pricing impacted RIG. As we saw last year, when we take price in coffee, there is an initial elasticity reaction, with RIG then recovering afterwards, and we expect the same here.

Second, Petcare growth was negatively impacted by retailer inventory reduction in the quarter. Petcare organic growth has been lumpy over recent quarters as we have moved from capacity constraints to pipeline replenishment, pre-buying ahead of a price increase and now retailer destocking as our customers adjust to consistent supply.

Looking through this noise - the retail sell-out data on the right shows an acceleration in consumers buying our products. The category outlook is improving in both cat and dog, in part due to our actions to drive it.

Taking a deeper look at Nutrition. OG has improved considerably, from a decline of 3.9% in Q1 to growth of 1.7% in Q2. The main driver of improvement was Infant Formula. In Q1, infant nutrition sales were down mid-teens, while in Q2 the decline was mid-single digits. We expect further improvement through the second half, and to have largely recovered by the end of the year.

Infant nutrition is only around a quarter of our overall nutrition business. Kids & All Family remains impacted by the performance of Gerber in the US, but we saw strong growth in Adult and Medical Nutrition, together 40% of our sales.

Turning to the Zones, and I will be brief as we've already covered a lot of the moving parts. Q2 performance in Zone Americas needs to be broken down: North America I've already talked through, and in Latin America, we saw significantly less pricing, with strengthening RIG across all categories.

In Zone AOA, China was the largest factor in the acceleration from Q1 to Q2. But the drivers of growth are broad-based across the zone. Market dynamics vary, but improved execution is consistent across all.

In Zone Europe, OG has slowed over the last 4 quarters. This largely reflects reduced pricing in coffee along with the impact of the infant formula recall and we were also impacted by some temporary customer delistings in the quarter.

UTOP margins across the 3 Zones were flat in AOA, down 30 bps in the Americas and down 120 bps in Europe. AOA benefitted from the strongest growth leverage and largest cost savings impact. Americas was negatively impacted by tariffs, as well as higher consumer investment.

And in Europe we had the largest increase in marketing spend, plus the impact of the infant formula recall.

Turning to the globally managed businesses. Nespresso delivered solid performance with OG a bit lower than a few quarters ago, and that's mainly due to reduced pricing and with softening consumption in Q2. Our consumer acquisition activities are attracting new and younger consumers to Nespresso. Margin declined as higher coffee costs flowed through the P&L. Commodity prices impact Nespresso later than the rest of our coffee business due to the longer supply chain.

And finally, Nestlé Waters delivered strong growth, supported by momentum in the U.S. and a hot start to the summer in Europe. Our international brands performed well, benefiting from innovations such as San Pellegrino CIAO! and the ongoing expansion of Maison Perrier.

Moving to our categories. Coffee continues to perform well. As expected, RIG slowed in Q2 from the very strong level in Q1, and pricing reduced. Also as expected, profitability declined year-on-year, mainly driven by higher input costs now hitting the P&L.

Petcare growth remains below our mid-term expectation. But we are confident in the category. I already talked through the improving sell-out in the US and this is combined with consistent RIG-led growth in Europe and strengthening in emerging markets.

In Nutrition, we've already covered the key drivers of the growth performance. The profit decline was largely attributable to the infant formula recall.

And finally, Food & Snacks. As you can see, we are delivering consistent good growth, now with a balanced profile of RIG and pricing. And we saw double-digit RIG-led growth in emerging markets where we generate more than 5 billion of annual sales.

Turning next to profitability. We delivered 16.4% UTOP in H1, a 10-basis point decline year on year.

On the left-hand side, you see that we faced very significant headwinds this year. These included higher input costs, tariffs and FX. Net "Others" here includes the impact of the infant formula recall, partially offset by a 30-basis point benefit from changes we made to one of our pension schemes. And we increased marketing spend.

We worked hard to largely offset these factors in the half, through more than 300 basis points of positive impact from cost savings, pricing, and RIG leverage. This slide shows gross profit and UTOP margin progression over the last few periods. I just explained the year-on-year change in UTOP margin, and the drivers of gross margin are largely the same.

Looking forward, after a good profit delivery in H1, we now expect the second half margin to be broadly similar to the first, with no change to our full-year outlook.

There are many moving parts but I'll on focus on the most material. Compared to H1, we expect H2 UTOP margin to benefit from lower coffee and cocoa costs, impacting the P&L and further cost savings. On the other hand, we will have some higher transportation and energy costs arising from the Middle East conflict.

Our Fuel for Growth program continues to make strong progress and contribute to our margin delivery. In the first half, we delivered 600 million of incremental procurement and operational efficiency savings, slightly ahead of plan, bringing cumulative savings to 1.7 billion Swiss francs. This puts us firmly on track to deliver our target of 2 billion cumulative savings for 2026 and 3 billion by the end of 2027.

Now let's look at marketing. Philipp talked earlier about how we are using these cost savings to fund additional investment, particularly on our growth platforms. This is a journey we have been on over the last couple of years. We continued to step up investment in the first half, increasing spend by 30 basis points year-on-year to 8.9% of sales. With a sharper emphasis on effectiveness and return on investment, we are not only spending more, but we are getting more out of each Swiss franc we spend. As we look to the second half, we expect a similar level of marketing investment as a percentage of sales.

Now let's look at the items below UTOP, shown as a percentage of sales. I will touch on the two most significant. Restructuring costs increased by 90bps. This is linked to the delivery of our cost savings plans and is delivering a good pay back. Second, the loss on disposal impact of 290 basis points. This comes from a write off as we classify the businesses we are divesting as "assets held for sale".

Turning to underlying EPS. In constant currency, this increased by 4%, driven by our operating performance. At actual exchange rates, underlying EPS was down -2.4%, reflecting the strength of the Swiss franc.

We delivered 3.4 billion Swiss francs of free cashflow, a significant improvement versus the prior year. EBITDA was lower year-on-year, mainly due to the currency with working capital and CAPEX driving the improvement. On working capital, this is partly due to the reducing cost of raw materials in inventory, but the improvement in both working capital and capex also reflects tighter execution and a stronger discipline on returns.

Net Debt was 56.3 billion francs, down from 60 billion a year ago. As usual, net debt increased compared to the year end, as we pay the dividend in April. The primary driver of the net debt reduction was the 3.4 billion of free cash flow.

Turning to 2026 guidance. On topline, we have tightened our guidance slightly. We now expect organic growth to be in the range of 3 to 4% - previously we had said "around 3%, up to 4%".

On profitability, no change to our view of the full year, with UTOP margin expected to improve versus 2025. And as I mentioned, we now expect second half margin to be broadly similar to the first. And finally, no change on free cash flow, which we expect to be above 9 billion for the full year.

So, to conclude. We set out our strategy at the beginning of this year, and we are fully focused on putting it into action. The objective is accelerating RIG led growth – this is the most powerful lever we have to drive shareholder value creation. In the first half, we made good progress. And we are well on track for our full year guidance.

So now, it is all about delivery, consistently, quarter after quarter, half after half.

And with that, I will hand over to David, to open the Q&A.

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

Thank you, Anna.

So, we'll now begin our Q&A session. As usual, please limit yourselves to a maximum of 2 questions each, in order to give everyone the opportunity to ask their questions. And we'll take our first question from Olivier Nicolai at Goldman Sachs. Please go ahead, Olivier.

Olivier Nicolai, Goldman Sachs

Hi, good morning, just two questions.

First on pets, you said in your prepared remarks that pet growth remains below your mid-term expectations. When do you expect to reach those? And should we expect also further de-stocking in North America in H2, or will sell-in equal sell-out?

And then the second question is more on the margins. If we could go back to the building blocks for margins and your margin outlook for H2, concerning the lower coffee and cocoa price, and on the other side, the logistic costs. And if I think about next year, full year '27, should we assume some margin improvements, despite the fact that you will lap the pension adjustment this year?

Thank you.

Philipp Navratil, Chief Executive Officer, Nestlé S.A.

Yeah, thanks, Olivier, thanks for the questions. I'll pass those to Anna, to give you the answer on numerics.

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

On Petcare, we feel good about the medium-term expectations of the category. And actually, you see really good RIG-led momentum in Europe growing at mid-single digits. You see the emerging markets growing really nicely. So, what's held Petcare back in the half, and specifically the quarter, is the performance in the US, which as I talked through, is really a function of retailer inventory reductions, because you see that strong and improving sell-out data. So, the fundamentals of the category are really good. It's been a bit lumpy because of that retailer inventory reduction.

Looking forward, I don't particularly see any further lumps, but I would just point out that the comp in Q4 for Petcare is higher because, of course, we had the pre-price increase buy-in a year ago, but good underlying momentum in the category.

And then secondly, on margin and how to think about it for both 2026 and 2027, maybe just a step back a minute. Both last year in 2025 and in the first half, we've had significant headwinds in the context of incremental commodity costs, tariffs, and then more recently some impact from the Middle East. And through that period, actually, we've been stepping up our PFME (marketing and advertising) investment. And both in 2025 and in the first half of 2026, you've seen us make good progress through really driving that cost savings lever, driving RIG leverage through accelerating the business, and through the benefit of pricing.

So, as I look forward to the second half, you'll see us do the same. We've got good momentum around cost savings. We will have a little bit more of a headwind in the context of the Middle East crisis, but we're comfortable that taken in the round, the second half margin will be broadly similar to the first, with good momentum.

And looking forward to next year, we've said our medium-term margin outlook is 17% or more, and we're absolutely focused on getting there, so you will see progression in margin as we look forward to 2027. The exact make-up and shape of that will depend a little bit on the external environment between here and there.

But again, the actions that we're taking to accelerate our growth, drive cost savings, and make sure we're delivering the right consumer proposition means that I'm confident we've got the levers to improve margin, as we go into 2027.

Olivier Nicolai, Goldman Sachs

Thank you very much.

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

Great, thank you. The next question comes from Guillaume Delmas at UBS. Go ahead, Guillaume.

Guillaume Delmas, UBS

Thank you very much, David. Good morning, Philipp and Anna. Two questions for me, please. The first one is a bit part of a follow-up to Olivier's question, because there were clearly a couple of factors that held back your growth in the second quarter, so the inventory reduction in North America and the delistings in Europe. Just wondering if you could give us a sense on the impact these two factors had on your Q2 OG, and also if you would expect these headwinds to very rapidly fade away, or maybe they could continue to weigh on your OG for the next couple of quarters. So, any visibility on impact and future impact on your OG would be helpful.

And then my second question, it's on the core business. So, Philipp, you mentioned in your presentation your growth platforms, I mean, they're basically already delivering a performance consistent with your medium-term objective. The core business is not. So, my question here is, do you think this softness in the core is mostly attributable to, the few underperformers like the Gerbers, Nespresso Europe of this world, or is it more broad-based and showing some continued market share erosion. So, any color on this would be very helpful.

Thank you very much.

Philipp Navratil, Chief Executive Officer, Nestlé S.A.

Yeah, thanks, Guillaume. Look, I'll start with the second question and I'll give the follow-up then to the factors, Europe and US, to Anna.

Look, on the core business, it's a good question. And you saw the growth platforms deliver 7% OG, so we're happy with that. And as you know, these are the areas where we overinvest and where we see higher structural growth. On the core, the growth was indeed lower. So, we have said before, the growth on the core, we wanted to get in the area of 3% to 4%. That's the objective. But on the core, you also have to consider we have improved, half on half, we have improved over 170 basis points in terms of core performance, in terms of OG. So, it's going into the right direction.

And what we focused on there is really executing brilliantly against the core. And what's important to understand is what we do in the growth platforms also will help the core to perform because what's common between the two, as I have said in the prepared remarks, is our billionaire brands. So, they span across the core and the growth platforms. And in the core, we also have innovations that go below those billionaire brands.

So, what we know and we have said that as well, and you saw that in the in the Felix example in the presentation before, is where we execute brilliantly where we have the right taste the great tasting product, where we have the right visibility, where we have the right consumer communication and where we also have the right value in terms of price and architecture. Where all of that works together, we consistently win share.

And then there is also to consider still there is one large drag still on the core business, which is infant formula, as you know, we have called that out. And that is also improving as we are investing in consumer communication and rebuilding that trust.

So, I'm confident that we'll get steadily towards that 3% to 4% organic growth that is also RIG driven in the core.

And I'll pass to Anna on the follow-up on the two factors that you mentioned.

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

Thanks. So, I see both these things as somewhat one-off in nature. With respect to retailer inventory, I can't speak for our retailers and they look at their inventory levels from time to time. But the element of the inventory reduction in Petcare that was around our supply, so the fact that we now have the supply that we need and we're delivering more consistently for our customers. That element which has allowed them to reduce their safety stocks, that's absolutely one-off in nature. And with respect to levels of retailer inventory, they adjust them from time to time. We don't expect them to be putting the inventory levels back up, in this current environment, but we're steady where we are at now, so more one off in nature.

And with respect to Europe, yes, we did have a customer delisting in the quarter, and this is normal course in Europe, and I would look at it as a phasing thing, rather than anything else. I would say underlying consumption in RIG Q1, Q2, or underlying consumption by our consumers between Q1 and Q2, the momentum is consistent, so this is a phasing thing, associated with a single customer. And when we have that situation, we're of course working with all of our other customers to make sure that our products are well available for our consumers. So yes, again, it's somewhat one-off, but it's the normal course of business in Europe. I can't remember, was there another bit to the question? No, I think I've answered it.

Guillaume Delmas, UBS

In terms of quantification of this impact?

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

Quantification, so we haven't quantified it and I'm not going to. Neither of them are material at a group level, but at a zone level they're big enough to call out as a factor, but what we're not going to do is give a sort of running commentaries on the ups and downs, and give you the picture in the round.

Guillaume Delmas, UBS

Thank you very much.

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

Thank you, Guillaume.

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

David Hayes, Jefferies

Thanks, David, good morning, all. I'm just going to quickly follow up on that question from Guillaume and the answer on the European delisting. Is that pan-category or are there certain categories that have been delisted that are affected and others that are not affected?

And then my question will just be on the coffee dynamics around Starbucks and Nespresso. Obviously Starbucks is taking pricing quite late, can you just explain to the drivers of that? And was there a bit of a pre-buy in Starbucks in the first quarter ahead of that change? And I'm thinking of Nespresso, you called out that the supply chain there maybe is even longer, instead of seeing the input cost headwind.

So, should we expect a Nespresso price rise to come through maybe in the third quarter, a bit like we saw in Starbucks and be aware of that dynamic?

And then, you mentioned the consumption softening in Nespresso, and it's obviously one of the key growth platform areas, can you just talk to us about what's going on there? Is that a consumer discretionary spend issue, is that going to improve as you go through the second half?

Thank you.

Philipp Navratil, Chief Executive Officer, Nestlé S.A.

Yeah, thanks, David, I'll take those. So, look, the delistings, it depends. I mean, it's not pan-category, but it's mainly related to categories where you see input costs moving, so mainly Coffee and Confectionery. But it's something, as Anna said, normal of doing business in Europe and where we have the team working through that. And I'm really confident we'll get that solved because price is one aspect obviously that we discuss with our retail partners, but we're really focused on driving category growth through innovation and other aspects than pricing. And so, that will weigh in, while we solve those temporary delistings. We're very confident we'll work those through.

On the coffee dynamics, look, the pricing on Starbucks it's not late pricing and it was also not a pre-buy in Q1 at all. What we do, and this also relates to your question on Nespresso, when we price, and we've always said that we do that in a staggered way, so we take consumers along and you have seen, coffee specifically, go up steep last year and also 2024, and we did not reflect all of that input cost increase in prices. And so, what we tend to do is to stagger prices as we want to take consumers along when we price, and that last price increase end of Q1 this year obviously reflects one of those last adjustments that we did on Starbucks. And you see obviously in normally in the first quarter after a price increase in coffee, you see consumers adjust. But then, as coffee is a habit that is that is really much common and people will go back to their normal usage, normally after a quarter. So that is that is the dynamic in terms of the pricing.

In terms of Nespresso, we do the same, we apply the same in terms when we price and you've seen us price in Nespresso, specifically in the US last year, and we have not taken more price there. As far as consumption is concerned, what we see now, and that is what we measure, and what I'm really focused on when we look at Nespresso is really household penetration. As we have said, in Nespresso in the US, we're still gaining share. In an environment where portion coffee growth is negative, we're gaining share within that, as we're gaining household penetration. So, what I'm focused on is really looking at machine sales, how many households buy a Nespresso machine and then have access to the pods. And those households, what we have seen, those households that come on board now are households that might have a little bit weaker purchasing power than the households we had in the past or we already have. But that is exactly the opportunity we have with Nespresso, to get them into the system and then making sure they have access to the coffees they love, through our boutiques, through our online store, through retail partners like Wal-Mart or Amazon and Target, where pods are available online as well. So really still doing well in terms of consumer acquisition in Nespresso as we have vast opportunities to still get household penetration in the largest portion coffee market in the world, which is the US.

David Hayes, Jefferies

Thank you.

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

Thank you, David.

The next question comes from Warren Ackerman from Barclays. Go ahead, Warren, your line should be open.

Warren Ackerman, Barclays

Yeah, thanks, David. Hi Philipp and Anna. It's Warren here at Barclays.

I've also got a couple of questions. The first one is AOA RIG was pretty strong, I think 6% in the quarter, and China was better than it indicated. I think you were still expecting it to be small down in the quarter and is actually up, and it seems quite broad-based. So, could you do a bit of a tour of the key AOA countries for us? I know Nestle India printed, but just what you're seeing in India, China, Southeast Asia, Middle East, and your outlook. Should we be overall expecting China better in H2, but the rest of AOA maybe less good? Just trying to understand how you're thinking about the big geographies in the region, and what's going on is obviously very strong.

And then the second one is a bit of a kind of detailed one, maybe for Anna, on the margin bridge. Apologies, Anna, for the kind of geeky question. But on the sort of 70-bps other line that you showed us, there's a footnote that talks about a 30-bps pension credit. And I guess you also mentioned the infant formula recall. So, I'm assuming that must be almost a minus 100-bps impact to get to the 70-bps headwind overall netting of the credit of 30. So, I'm just trying to understand that because I thought that you had booked the margin impact from the recall on infant formula in the second half of last year. So, it looks like there's an additional 100-bps headwind on the margin from that in the first half, which seems pretty big. I know you haven't quite got through the whole thing, but formula did improve quite a bit in the second quarter. So just trying to understand that, why it's ongoing.

And then the second part is on the pension credit. Can you explain what's happened and whether there's any kind of additional benefit to the margin in the second half? Just trying to understand those two sort of bits within the other buckets.

Thank you.

Philipp Navratil, Chief Executive Officer, Nestlé S.A.

Thanks, Warren. I'll take the first part, and the second one is obviously a detailed one for Anna. Thanks for that one.

On AOA, the whole zone was strong, as you rightly point out. And as you also rightly point out, there's two parts of it. Obviously, China, we're happy to see that back to positive growth after one year of adjustment. And we were now through our stock adjustments in China, building this consumer-led model, consumption-led model. There's, as you know, a new management team in place, focused on driving innovation, focused on driving the right distribution, the right numeric and weighted distribution, and also the right level of brand support that we need. So, really through with rebuilding the model. But you have to take that sort of in the context of where the categories stand, in China. So, the category that we play in China still show negative growth, negative 1%, 2%, 3%, depending on the category. So, our more steady performance goes against that backdrop and, in some categories, we're still losing share as we're rebuilding the model. So, China we expect to have stabilized but you have to take that into context with the categories and environment we play in China. But definitely, we're setting the business up to be able to capture any change in that underlying category growth, over there. And then the rest of AOA, ASEAN including Japan, very strong, Southern Asia, India, very strong. And that's really to draw back to our execution muscle in those markets. And that goes even beyond AOA, the whole emerging markets, we're really proud about the growth there. And it's really where the execution muscle comes together in terms of having the right product at the right place, where consumers shop, where consumers consume. And just the power of our brands. And that is where the power of Nestle really comes to life, and that you have seen reflected in some of the AOA performance.

Then, as you asked for outlook, just two caveats there. So, India obviously there is a tailwind in terms of the change in sales tax and that will lap now in Q3. But we still expect double digit growth coming from India. So, India is a growth driver for us, definitely. And then obviously comparable numbers are getting stronger. But definitely, emerging markets and AOA will continue to be a place of growth for us going forward while China is stabilizing its performance in this still negative category environment.

And I'll pass to Anna on the bridge.

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

On the bridge. Actually, just one last thought on AOA, and we're consistently growing share. The share gains are broad-based, so what may change is the category dynamics, but we are outperforming the categories that we're playing in, very largely, across emerging AOA, China to one side.

With respect to the margin bridge, and thanks for the question, I always like a detailed question. And so, on the others, there's a few things going on here. So, you do have the impact of the infant formula recall, but it isn't just that. There's a number of other headwinds in that others box. And we didn't do a long list of them, but it's things like transportation costs being higher because of the Middle East, things like that. So, the biggest element of the headwind is infant nutrition, but it is only one element, it's by far not all of the 100 basis points that is effectively that net head headwind. And where that's coming from is the impact of the lost sales. Our sales are lower, we've got the same cost base, so that obviously has a margin impact in the period. It's not the cost of recalling or writing off product, that was taken in the prior year.

So that's the headwind element. In terms of the pension credit, so yes, there was a 30-basis point benefit that we also put in that other bucket. We didn't call it a cost saving because it's one off in nature, and that was why we put it in the other bucket. What we've been doing in the context of the performance culture, that you hear Philipp talking about, is we've looked at our employee benefits, and we're working to make sure that employee benefits and packages are better aligned with what employees want today and are modernized in some areas. A big chunk of where this has come from is that we offer, within this pension scheme, our employees the opportunity now to take a lump sum when they retire or as an alternative to taking a pension. Previously there was only the pension alternative and that gives you a one-off curtailment gain in the period. In terms of the ongoing impact of that, none in the P&L but obviously there will be a cash flow benefit which will be small over time. But maybe if you step back overall, on that bridge, I guess what we were laying out for you is that there are a lot of moving parts in terms of input costs, tariffs, the others, the increase in investment and we've been really focused on driving the right-hand side of the bridge which is the piece under our control. So really focused on delivering those cost savings and you'll see us absolutely remain on that trajectory, really making sure that we are accelerating RIG, which gives us the RIG leverage, and of course, appropriate pricing, where the consumer can take it, where it works with our product proposition. And that's why we're confident of the overall margin and the overall margin outlook, and positive progression as we look forward to 2027.

Warren Ackerman, Barclays

Thank you both.

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

Thank you, Warren. The next question comes from Nicolas Ceron from Bank of America. Please go ahead.

Nicolas Ceron, Bank of America

Thanks, David. Morning, Philipp, morning, Anna.

Just one question on your US Petcare business. We've seen some of your large competitors doubling down on the fresh pet food in the US, and so far, you've not made any strategic announcement there. So, my question is, do you really intend to continue losing share in dog food to protect the margins, or do you think you need to enter the space at scale at some point? And in that context, do you think the margin growth or margin protection is more important than RIG at Nestlé.

And I have a second question on capital allocation. Would you consider re-deploying capital in the US infant formula, if there was a business that became available?

Thank you.

Philipp Navratil, Chief Executive Officer, Nestlé S.A.

Yeah, thanks, Nicolas. So, I'll take those.

Look, in US Petcare, in fact, overall, we're doing well on share. In terms of fresh, which is an area of obviously growth, we're looking at it and we're actually playing in it through two areas, and obviously there's always opportunities to do other things. So, we have our brand *Merrick* where we play in fresh pet, and we have a stake in *JustFoodforDogs* as well, where we play in that. And it's a space obviously we look at it, as I've always said, we're interested in growth, margin is one thing, but we want to drive RIG-led growth, but it has to make sense as well on the bottom line. It's a space we're looking at, we're playing in it, and obviously we're always interested and focused on driving RIG-led growth, and fresh pet is one of those.

In terms of infant formula in the US where we don't play, look, we have no plans there at the moment. The infant formula today in the US is a space of not much growth, and we're focused on infant formula at the moment in any case to drive trust, with consumers and healthcare professionals, trust back in everywhere else in Asia and Europe, and that's where we're focused on, but no plans to enter the infant formula market in the US.

Nicolas Ceron, Bank of America

Thank you.

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

Thank you, Nicolas.

The next question comes from Jeff Stent from BNP Paribas. Please go ahead and ask your question, Jeff.

Jeff Stent, BNP Paribas

Good morning, everyone.

Just one question, if I may. It sounds like Nespresso is still very much driven by the success of Vertuo. I was wondering, are you able to give us any quantification of how much of Nespresso that now represents?

And also, I think I'm correct in thinking some of the important Vertuo patents start to come off over the next few years. When do you expect to see some generics come in on the Vertuo platform?

Thank you.

Philipp Navratil, Chief Executive Officer, Nestlé S.A.

Yeah, thanks, Jeff, for the questions.

Look, it is indeed. I mean, most of the growth now comes from Vertuo line, where we are still patent protected. Most of that growth comes today from the US and Canada, where we still see strong growth on the back of that system. But also, we see growth in the original line system as we still roll that out in terms of penetration across the rest of the world. But Vertuo is definitely what we are focused on also because Vertuo drives more into where consumers want coffee to be, which is a more versatile system. You can drive more flavors, we have different recipes in terms of cold coffee. You have seen our new brand ambassador Dua Lipa really promoting Vertuo line mostly which is giving this variety and versatility of the Nespresso system. So, we're really investing behind that. You've also seen us launching a new machine on Vertuo which is more practical, smaller and reminiscent of what consumers love about the machines in the original line. So, this is still a growth platform for us, especially in the US And Canada, but also in Europe, as said. And in terms of patents, we're still patent protected for some years, there`s several patents on that system, but at some stage it's clear that we might see compatibles coming onto the market as we have seen in the Original line, in the other system. And we have plans for that, and really what we're trying to do is building a Nespresso brand, making Nespresso not only a coffee brand, but really a lifestyle brand that goes beyond just a coffee, it's an experience. And we're winning today because it's just a superior proposition for consumers, and we will continue to do that while we're obviously looking at how we will drive potential as patents coming off. But we're confident in what we're doing, good innovation, good marketing, and good progress so far on Vertuo line, but also generally on Nespresso still.

Jeff Stent, BNP Paribas

Philipp, are you able to give any sense of what proportion of revenue it represents?

Philipp Navratil, Chief Executive Officer, Nestlé S.A.

No, I think we don't split that. We don't split that. But it's the main system in the US and Canada in North America, so you can get a bit of an idea. That's as far as I can go.

Jeff Stent, BNP Paribas

Okay, that's brilliant. Thank you.

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

Thank you, Jeff.

The next question comes from Tom Sykes from Deutsche Bank. Go ahead with your question, Tom.

Tom Sykes, Deutsche Bank

Yeah, morning, thank you. Just firstly on the US inventory commentary, I think, Amazon's by far and away the highest growth in the channel, in the Scanner data. Are you seeing a negative mix impact on inventory to sales from that and how healthy is the retailer base that isn't Amazon, Walmart, or Costco? Because they seem to be losing share of every category, and they're probably slightly higher margin for you as well.

And then just on the marketing spend, how bifurcated do you see the marketing spend getting between the core and the growth platforms? Because obviously, the core has dipped a bit and the growth isn't quite where you want it to be. So, are you at all thinking that the core marketing spend would at all go lower as a proportion of sales?

Philipp Navratil, Chief Executive Officer, Nestlé S.A.

Yeah, let's start with the marketing one, Tom. Look, marketing spend, I mean, you have seen in the chart that I showed in the presentation, we're not taking away marketing spend from the core. What we are doing is we're deploying the additional marketing spend to the growth platforms that comes out of the growth, out of the savings initiatives that we have. So, there's about CHF 600 million additional investment this year into the growth platforms while not taking away from the core. And the core it's important we don't take away from the core, because the core still is an important engine of the company. And you have heard me say in a previous answer that we still need to step up the growth on the core. And that comes obviously with sustained investment also sustained innovation, and that we're doing. And then again, these two buckets are somehow connected, because if we invest, for example, in Nescafe in a growth platform, that will have a positive effect also on the core business. And so, somehow those two buckets are connected. But we're not going to go down that road again to take away money from the core to then fund something else. I mean, it's important we have both well-funded but expect additional investments to go into the growth platforms. And you've seen us do that as well. Look at where we have also invested, not only marketing spend, but also Capex. You have seen the last two big announcements of factories; they were bang on the growth platforms as well. One was the coffee factory in Thailand, which is all about driving coffee growth in emerging markets, mainly on Nescafe there. And then in pet food in Europe, it's mainly about driving wet cat, but also dog food, which is where we expect additional investments, Capex and marketing to go against.

In terms of US inventory, I don't know if I got your answer correctly, but it was about Amazon and the rest.

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

It's about mix, yeah. So just one comment on the marketing spend. We're accelerating the core. The core has gone from; it's accelerated nearly 200 basis points, with the investment that we've got. And on specific brands, you've seen the investment go up, because we've reduced things like our non-working marketing spend significantly, from 20 plus plus to around 20. So, there's a lot going on to make sure we've got everything right. And it's driving the acceleration. If we felt we needed more marketing to further accelerate the core faster, we would invest it. We don't feel held back by that, maybe, is a different way of saying it.

On inventory, I think the question was around, do we see a negative mix? And does Amazon have a negative mix on us, because it has lower level of inventory? No, that's not what's going on here. Actually, our customer mix is good. And actually, our profitability by customer is pretty consistent, because we have different offerings and we work in a different way with each customer. So, we don't suffer from customer mix as such. And yes, they have different ways of selling and they hold different levels of inventory, but that's just how we operate with them, we have different, effectively, business models with each of them. What's going on here is quite different, it's our existing customers reducing their levels of inventory. And that's been the impact in the quarter, it's as simple as that. And that's why it's somewhat one-off in nature, it won't continue, it's not in any way systemic.

Philipp Navratil, Chief Executive Officer, Nestlé S.A.

Yeah. And what really matters more and more is focusing on sell-out data. The inventory, customers just need to hold as much inventory as they need to serve their consumers well. And we're focused on actually the takeoff out of those customers into consumers' homes and then consumption, and that's where we focused on everywhere, and that is why it's one-off.

Tom Sykes, Deutsche Bank

Okay, many thanks.

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

Thank you, Tom.

We'll squeeze our last question in from Celine Pannuti from JP Morgan. Please go ahead, Celine.

Celine Panutti, JP Morgan

Good morning. Thank you for squeezing in my questions.

My first question is on the pricing and probably the overall cost inflation framework. Is it possible to have an idea in terms of where you see for the full year, the cost inflation? I mean, it seems like you had inflation in H1, it would be less in H2, but you also mentioned, on cocoa and coffee will be less, but you also mentioned the higher cost in energy and transportation. So is it possible to have a broad figure, and then could you as well comment on maybe other costs that are important to you, like milk, how you see it trending. And within that, it seems to me that it's higher cost than expected potentially, and does it mean that pricing deceleration would be a bit less than what we envision, would that be a fair commentary?

And then my second question is on the overall outlook on demand and RIG for the second half of the year. I think you mentioned that you will be facing higher comp in AOA ex. China in the second half already. And then, we have been talking about this delisting and probably the retail environment. So, are you feeling that the demand environment is a bit tougher as you look into the second half of the year? And would it be fair therefore, to expect that RIG will decelerate. Well, otherwise, could you explain why RIG would be broadly similar to the first half?

Thank you.

Philipp Navratil, Chief Executive Officer, Nestlé S.A.

Yeah, Anna, you want to take the pricing one?

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

Sure. So, the moving parts are: we've got a tailwind on cocoa and coffee, and we've got a smaller headwind on the Middle East conflict. And I'm not going to quantify what that means in terms of COGS inflation, because, frankly, it moves around a lot. Almost every time I check the news, oil prices move. And so, whatever it is today, it won't be that by the end of the year. It could be better, it could be worse. I think the more important piece is how we think about managing it. And we do that through driving really, really consistent cost savings and then really focusing on how we accelerate RIG and what the right level of pricing is to take. And you'll see us take pricing where we think the consumer can tolerate it and where we think it is appropriate. So, you've seen in Q2, for example, us take pricing in Starbucks in the US, but you've also seen us with slightly higher pricing in some markets, in some categories in AOA, for example, where we think that the consumer can tolerate it and we've got a moving cost environment. So, we look at it all very specifically and we manage it as we go through the lens of the right proposition for the consumer. But if you step back from it all, I'm confident in the first half margin guidance. And I think we've proven over the last 18 months that we have the levers to manage this and we've had a lot of practice at managing cost inflation, probably more so than most because of coffee and cocoa.

And pricing deceleration, we will work our way through it will take price where we think we can take price and we won't where we won't. We're coming off some highs in coffee and cocoa, but as I say, there are pockets where we're taking price and you see that already show up in Q2.

Do you want to talk about demand and RIG?

Philipp Navratil, Chief Executive Officer, Nestlé S.A.

Yeah, I mean, it's very similar, lots of movement lots of moving parts there as well as consumers adjust. What you can expect going forward definitely is more innovation, more renovation, faster rollouts of innovations into more markets. Also, more marketing, so you will keep investing into growth platforms, into the core and generally what we do, we control what is in our control and we execute that brilliantly. Whatever is thrown at us from the outside in terms of cost increase, etc., we will take price, we will adjust promotions, we will adjust price and packs, etc., to drive growth, balancing RIG and pricing, but you should expect, in general, less pricing and more RIG going forward as we work towards this 2% RIG mid-term guidance.

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

And on the specific H2 RIG question, and while we don't guide that precisely, what I would say is we've had a couple of one-off impacts in Q2, we do have slightly tougher comps in the second half, and we have ever-improving momentum vis-a-vis the category because of all the actions that Philipp was just talking about. So, if you put all of that together, we feel confident about our RIG performance.

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

Thanks, Celine.

That concludes our Q&A session. I will pass over to Philipp for some concluding remarks.

Philipp Navratil, Chief Executive Officer, Nestlé S.A.

Yeah, thanks David, and thanks all for your questions.

Look, just to conclude, you have seen us talk a lot about execution and execution is improving, and this is driving the growth.

We have delivered good OG and RIG over the last four quarters, which we're happy about. We are on track to deliver our 2026 guidance.

Strategy is very clear. And now it's all about consistent delivery, quarter after quarter, half after half, year after year.

Thank you very much and have a great day.

END OF TRANSCRIPT