

## 2013 CAGNY PRESENTATION TRANSCRIPT

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Speakers:

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## Chairman

### Introduction

CAGNY is indeed honoured to have Nestlé back at this year's conference after a number of years. Nestlé's had a very consistent message to investors over the last two decades and has predictably delivered to its shareholders amid some scepticism that bigger can't be better. Some CFOs and CEOs have come and gone, but one pillar of the Company that has not changed is its IR Head, Roddy Child-Villiers, who many of you know quite well. Roddy, thanks for coming today and for bringing along Chris Johnson, Nestlé's head of Zone Americas, who we're all looking forward to hearing from.

Lastly, if you're looking for the PowerPoint hardcopies, there aren't any because Chris is not using any slides today. With that, I'll turn it over to you. Thanks again for being here.

**Chris Johnson, Zone Director for the Americas, Nestlé S.A.**

### Agenda

Thanks, Andrew. Good afternoon, everybody. If it's okay with you, I want to talk about three things in the next hour. First, I'll just tell you a little bit about myself, then talk a little bit about Nestlé's presence participation in the Zone Americas. And then third, open it up for Q&A.

And I want to do this in more of a conversational style. I'll try to be as transparent as I can be, but I also know how the rules of this thing work as well, and there's certain things I can and can't say. So, that's why I brought Roddy along as well. And not only that, I'm going to give Roddy this pointed stick so if ever I find myself saying something I shouldn't be saying, he can gently nudge me during the presentation.

So as was mentioned, I don't know if you're disappointed or not, I don't have any slides with me. I don't have a script with me. So I just want to again, have more of a conversational style with you and share about Nestlé in the Americas.

### Personal Background and Experience

So first, just a little bit about myself. I was born and raised in Los Angeles, California. And I think it was probably fate that I ended up working for this company. When I was growing up, I used to spend a lot of time at my grandparents' house. And my grandparents lived across the street from the Carnation Company head office on Wilshire Boulevard in Los Angeles. And the bedroom I would sleep in had a large window that faced the Carnation neon sign that at night, and this is true, I'm not making this up, would spell out C-A-R-N-A-T-I-O-N Company in red and white and flash. And this was something that I saw and fell asleep to night after night.

I didn't think much about that until then I went to college. I went to Occidental College and received an academic scholarship, by coincidence, from Carnation Company. And so every year I would write to the CEO, then CEO at the time, and thank them for the money. Tell them what I was doing, tell them how much I liked their Ice Cream sandwiches, which I ate everyday at that time. And then when I was a senior, just got out and graduated, looking for a job, I called them up and I got a job with Carnation.

I started off in sales and then worked in marketing. And this was back in 1983 when I started. And in 1985, Nestlé acquired Carnation Company. And I thought it was a great opportunity because I was interested in working overseas and

in 1991, eight years after I started, I got the opportunity to work in Japan. Worked in Japan for five years, then moved to Paris. I worked for Nestlé Waters there a few years after the acquisition of Perrier by Nestlé.

Then transferred to Taiwan, where I was the market head of Taiwan. And then I got this phone call, really out of the blue one day, from my boss who said, we'd like you to come to Switzerland, to head office, because we have a little project we'd like you to consider. And I said, well what project? He said, we'll, it's an IT project, something about SAP. And I said, well I think you have the wrong guy. I don't really know anything about IT or SAP. I can barely turn my computer on. He said, no, no, no, that's okay. Just come and see.

So, I went from Taiwan to Switzerland and, as often happens when you have connections, was delayed. The flight was delayed. I arrived late to my boss's office. And I said, I'm here. And he said, you're late. And I said, I know, because it was delayed. And he said, well we have to go see the CEO, Peter Brabeck at the time, right away. I said, well what's this job? He said, that's okay, he'll explain it to you.

So I went up, jet lagged, a little bit nervous. Actually very nervous. Went up to Peter Brabeck's office, met him and he said, so what do you think? And I said, I don't know what to think. It hasn't been explained yet. He said, well let me explain it to you.

Basically we have a project we'd like to do, because our concern is that Nestlé is getting bigger and bigger as a Company. And the concern is that as we're getting bigger, our size perhaps will become a liability for us. We've been very good and very successful because we're very decentralized. We're close to customers, we're close to consumers and we've been doing that for over 100 years. But we don't need to decentralize everything. In fact, it would be better if we can find some ways to standardize some things and harmonize some things.

So he said there are three things. He said it's very simple, just three things we want you to do. One is to harmonize business processes, especially that back end stuff. Second is we want you to standardize and figure out a way to manage our data, because our data is very messy and even at that time we didn't even know how many SKUs we sold. We weren't able to leverage purchasing power and all these sorts of things. So, manage the data and standardize it. And third was to standardize the IT systems, IS/IT systems. Because back in that day 12 years ago, every country, every Nestlé country had their own software, their own hardware, their own systems, which were not only expensive and our IT costs were going through the roof, but also couldn't connect and talk to each other.

So he said, okay, that's it. What do you think? And of course, being a good Nestlé soldier, I said, yes, sure. I'll do it. And so I shook his hand and left the office. And I had really, no more information than that.

But the one thing that concerned me most of all, was not that this turned out to be the biggest SAP implementation I think still to date in history. And it wasn't all the weight and challenge that comes along with that. At the end of the day it was what he told me the project name was because he said, Congratulations, you're in charge of Project Bean. I'm like, what? Bean. Business Excellence at Nestlé.

Probably many of you know, and I've already run into many of you here that have heard me talk before, back in those GLOBE days, eventually this became known as GLOBE, and in certain instants I also was known as Mr. Globe. I knew that it'd be very difficult to pull this project off. Very difficult called Project Bean that I would be known as Mr. Bean. And that's a true story. Thank God they changed the name.

I did that for six and a half years, happy to answer any questions you might have about it later. But I can't imagine this Company today running without GLOBE. It wasn't easy to put in, but the benefits far exceed simple cost benefits. It really enables us to work and to be more competitive. Glad to be a part of that program and that history of Nestlé.

So then from there, went back to Japan, was the market head of Japan for four years and then got another phone call out of the blue, this time from Paul Bulcke, who said we'd like you to come to Switzerland and head up Zone Americas. And so that's what I've been doing now for the last couple of years.

From a personal standpoint, I'm married. Met my wife in the US just before moving to Japan. We got married just before we moved to Japan. She worked for Nestlé. She was the brand manager on Come N Get It dog food, and I at the time was the brand manager on Fancy Feast cat food, so that was just a marriage that just had to happen.

I have two daughters, two teenage daughters who I love dearly of course. And maybe one other thing, if you want to ask in the Q&A or not, it's up to you. In 1976 I came in second in the World Junior Frisbee Championships. So if you have any Frisbee questions, you can also ask that later on.

## **Nestlé in the Americas**

All right. So, that's about me. Now, Nestlé in the Americas. Probably most of you know that Nestlé splits up the world into three pieces. They call them AMS for the Americas, Europe and then AOA, which is basically the rest of the world. So I'm responsible for that geographic zone. But when I'm talking to you today, I'd like to share with you about really all the businesses that we have in the Americas, so not just my responsibility, which is about 70% of that in the Americas with Zone AMS.

So I mentioned we have five globally managed businesses. They include Nestlé Nutrition, Nestlé Waters, Nestlé Professional, Nestlé Health Science and of course, Nespresso, which you've been enjoying out in the hallway.

We also have four global joint ventures, which are present in the Americas as well. We have CPW together with General Mills in Latin America. We have BPW with Coca-Cola for Nestea, which in the Americas today is limited to Canada. We've got Galderma, we've got Innéov, joint ventures with L'Oréal. And then we have a joint venture, a fifth one in the Americas, which is with Fonterra for chilled and liquid dairy products in Latin America as well as milk powder production.

So, that's basically how Nestlé's organized there. North America and South America. So total population is about 950 million or so. Out of the world population of 7 billion, that's about 15% of the world's population. But for Nestlé, our total sales in the Americas is around CHF41 billion.

Now, when you talk about population, and that's CHF41 billion is about 45% of Nestlé sales.

When you look at the population north and south, 37% of the population is in the north, 63% is in the south. But Nestlé sales of that CHF41 billion is actually the reverse. So we do 63% in the top, in the north and 37% in the south.

We're present in all countries and territories. We have 170 factories, 110,000 employees. And to put it in perspective as well, we have three countries which do about 80% of the total sales in the Americas. And by the way, I should also mention just for growth, that CHF41 billion in the Americas, all the Nestlé businesses grew about 5.9% last year.

Three countries, 80% of the sales and there's 12 product categories, which represent about 90% of the sales. So that's what I want to do, explain to you a little bit about the countries, but then more importantly, go sort of category by category and then talk specifically about how we're doing in the different countries where we participate in these.

Nestlé is not a simple company this way, but I'm hoping that this is may be more of a memorable way for you to take away what we're doing in the Zone.

### **Zone AMS main markets – No 1 Nestlé USA**

So first of all to start, the biggest market by far for us, number one in the Zone is Nestlé USA. About CHF24 billion in sales, represents about 25% of Nestlé's total turnover, 58% of the total sales in the region. And last year, our sales in the United States grew by 3.4%.

We have 120 locations in 47 states. We have about 51,000 employees. And many people are surprised about this because we're not that well known for actually the products that do most of the business in the US. In fact, seven product categories or seven products do again about 90% of the sales in the US. It's PetCare, it's Frozen foods, it's Waters, it's Nutrition, Ice Cream, Nestlé Professional, which is our out of home business, and coffee enhancers, all the way down at the end on Coffee-Mate. And most of these brands do not carry the Nestlé brand on the label.

When people think about Nestlé in the United States, you think about what? Chocolate, right? Because of that jingle from the 1950s, that N-E-S-T-L-E-S, Nestlé makes the very best -- chocolate. And that is now in the Jingle Hall of Fame I hear and it kind of drives me nuts because the reality is very different. About 3% of our sales, but top of mind, that's what people think of.

And just an interesting anecdote, two years ago the writer of that jingle, Adam Scott, who wrote that with his wife, Marilyn, wrote me a letter asking if his son could have an interview to work at Nestlé USA. And so of course, I mean I was honoured to help him out and at least get his son an entry into talking to the Company.

But I also wrote him back, I said wow, I really wish you didn't write such a good jingle, because you just can't get that out of peoples' heads. But that's where we are in the US. And I'll talk about each category as we go through.

### **Zone AMS main markets – No 2. Nestlé Brazil**

Next is Brazil, CHF5 billion. Number three in the group CHF5 billion. Number three in the Group, number two for the region, 6% of Nestlé sales, 13% in the region, grew 9.8%. Despite what you hear, Brazil continues to be robust for us. We have a long history in Brazil, over 90 years. The first factory in Latin America is still operating in Brazil in Araras. And they're very different than the US, the Nestlé brand is very, very strong. Three product categories make up 60% of the business. It's Ambient Dairy or milk powders, it's Chocolate and it's Nutrition. So those three combined are key.

### **Zone AMS main markets – No 3. Nestlé Mexico**

Mexico would be number three. CHF3 billion in sales, number six in the Group and number three for the region. 4% of Nestlé, 8% of the region, grew 9.4%. Again, all the sales within Mexico for Nestlé.

Like Brazil, very, very strong Nestlé brand and like Brazil, Ambient Dairy, the largest product category. Although Chocolate's number two, in the case of Mexico, Coffee down on the end is number two and Nutrition is number three.

So those are the three geographies that make up the majority of the business. So let's talk about the product categories. And I feel like I'm on one of these cooking shows where they go down and move along the table and explain things.

## **Zone AMS Product Categories – PetCare**

We'll start with PetCare. So PetCare last year about CHF7 billion. About 18% again of the region and grew 8%. Now, about CHF6 billion of that CHF7 billion is in North America. We've reached now the CHF1 billion market in Latin America.

PetCare has been very consistent for us, strong growth in the north and double-digit growth in Latin America. As you know, we have leadership -- overall we have leadership in dog, we have leadership in cat. We have leadership in snacks. And I didn't bring any litter here because it was too heavy, but this is the portfolio that we have.

We participate in all segments, we participate in all channels with a wide range of items. And one of the strengths of Purina really is a focus and a real emphasis on innovation. Very long, very strong innovation pipelines and really one of the most outstanding acquisitions was the Purina acquisition that Nestlé did around 10 years ago.

## **Zone AMS Product Categories – Ambient Dairy**

The second area, and by the way, I'll touch briefly on these because we can come back for the Q&A if you have more specific questions. The second area is Ambient Dairy. So Ambient Dairy is about CHF4 billion. So this one I said is about CHF7 billion, this is about CHF4 billion. Grew 5% last year and these are primarily milk powders in Latin America.

So there's a range. Full cream milk powder, this product is coming from Brazil. In effect, this is, of the 20,000 SKUs we sell, in effect with GLOBE we do know we have 20,000 SKUs in the Americas. So of the 20,000 SKUs we sell, this is the number one selling SKU that we have, the full cream milk powder.

We also have growing up milk powder. Very strong in Mexico. Getting good traction also now in Brazil. But these milk powders are for age gates 1-plus, 3-plus, 5-plus, 1-plus being the strongest. We also have adult milk powders generally targeted for women, often with added calcium for bone health. And then also very important area for us is what we call the affordable milk powders, a vegetable filled milk powder, which is fortified with iron, vitamin C, A and D and calcium. So it's an affordable chance for folks to get the Nutrition they need.

Innovation is important in all of our categories and milk powder is no different. Last year we launched a new product in both Mexico and Chile, ActiCol with phytosterols. Two cups a day clinically proven to reduce cholesterol absorption. This is something also we'll be rolling out across Latin America. And we're also taking advantage of selling it in different formats at the same time to leverage the brand, in this particular case, in UHT as well as in a drinking shot.

## **Zone AMS Product Categories – Frozen Food**

Next, Frozen Food. I know there's probably a lot of questions about Frozen Food. So Frozen Food is, as you probably know, primarily in North America. So it's about CHF4 billion for us, it's about 10% of the region. And it's been a bit of a struggle. The whole Frozen category has been a bit of a struggle. Down slightly in our prepared meals and also down on Pizza last year.

We compete in basically four segments. First is Frozen Pizza, which was an acquisition, was you know, from Kraft in 2010. The Pizza category is huge in the United States, around \$38 billion let's say this time, or Swiss francs, it's about the same. And majority of this volume is consumed out of home at restaurants or take out or home delivery.

Frozen Pizza only represents about 10% of that or so and the category was down last year, largely because some very aggressive activity from the carryout and home deliver people. But this is something we've seen over time in this

category. There's been ups and there's been downs, but in the long-term we're convinced that there is good opportunities to continue to expand our presence in frozen Pizza.

We have a range of items from the more premium California Pizza Kitchen, more value offerings with Tombstone and Jack's. And an interesting innovation that's coming out, mentioning that DiGiorno has been successful from really going head-to-head with take out and home delivery. We really don't have an offering, or have not had an offering so far that goes after the independent pizzerias. And this is a product that's just been launched. It's called Pizzeria with an artisanal crust, with crispy outside, soft and airy on the inside, dribbled with extra virgin olive oil. So I'm also trying to sell to you at the same time. This is on shelves now. But I think it's an interesting opportunity for us to go into a new segment that really hasn't been targeted.

Now the other three segments I think you're fully aware of. You've got what's called regular meals. This is the Stouffer's line, Lasagne, Macaroni and cheese, Alfredo are the three main SKUs that we have in that line. Lean Cuisine is single-serve nutritional meals. And Hot Pockets, which competes in the sandwiches and snacks.

Now, these categories mentioned, Pizza category was down, we were able to hold share last year. In these particular categories, these two were down slightly. Hot Pockets in the sandwich segment was up slightly as far as the category goes. But this is one also where we have to look at this Frozen business holistically and also look at the future. Clearly in the difficult economic times that we had, there's no doubt that the Frozen category in supermarkets suffered. The last place to shop in the shopping trip in the centre of the store. People were looking to save and so there was a certain crimp on that.

At the same time, prices had gone up, we had deliberately pulled back on some promotional activity in this particular category. And that had an impact, because we're the leaders in this category on the total volume. And there's also a perception issue with Frozen. Although freezing is a great way to preserve food, there is a certain perception that it's somehow artificial or not as good as other methods. But the fact is it is. And as a leader in these different segments and all the segments we participate, we will work on all of those dimensions to improve with improved innovation, being more aggressive and at the end of the day, also work on the image of this as a leader.

The good news is that while we saw some struggle in the first half, three quarters of the year, in the last quarter we saw increased and acceleration in volume and in market share across all these different segments. So I think we're starting to move on the right track.

#### **Zone AMS Product Categories – Waters**

Waters - number four. About CHF4 billion in sales. About 90% of this is in North America that we sell. We grew 6% in the north and 18% in Latin America, so stronger growth in Latin America, but our presence is smaller.

The biggest brand is Nestlé Pure Life, which you see here, but also of course very strong are the regional brands, like Arrowhead, or perhaps you might have Zephyrhills here in Florida.

This is an important category for us, showing again strong growth, but also when we talk about being a trusted Nutrition Health and Wellness company, this is a great product that is consistent with where we want to go.

## **Zone AMS Product Categories - Nutrition**

Number five would be Nutrition. Here also a little bit less than CHF4 billion, grew 4%. Consists of three different parts. So we had the Infant Nutrition part, which is the Gerber brand in the US and Mexico consisting both of formula and in what we call meals and drinks.

In Latin America, the balance of Latin America, we have the Nan brand as well as primarily cereals under the Gerber or under the Nestlé brand. This happens to be a new cereal we're going to be launching in North America, but most of the Latin American cereals are branded Nestlé.

Here we have leadership in Infant Formula. Clearly in Latin America leadership in the baby food, both in the north and the south. And it's also one where innovation is important, re-launched in fact, changing the approach to eating from glass jars to other forms and this is a pouch, Gerber Organic, that's been restaged and it's been very successful.

Next is Performance Nutrition. Performance Nutrition is primarily made up of PowerBar, which you're aware of, and we're kind of going back to our roots on PowerBar. We're going back and focusing on the endurance athlete, and again innovation, performance energy blends, this product that was just launched. And it's interesting, one of the advantages of having a large portfolio like this that we is learned a lot from the Infant Nutrition people. Basically this pouch [Gerber pouch] was taken over in this format [PowerBar pouch] and also even the recipes. These are for tolerance for stomach or stomach upset, a problem that athletes have, we have some of the same sort of stomach soothing qualities in this product as well.

And the last one, which is a bit more of a struggle, and I think it's no surprise, is our weight management business with Jenny Craig. And Jenny Craig is a proven approach, a holistic approach to weight management, which is not only about providing portioned foods, but at the same time also providing counselling and behavioural guidance. And we know that this works, we believe in this product, but the business model, our ability to attract and retain people, we've really struggled with this. And so we're in the process now of sort of revamping, looking at this business from all angles, from the products we offer to the way that we go about our business model. And this is one that we would hope to see some improvement with in the future. So that's it for Nutrition.

## **Zone AMS Product Categories – Chocolate**

Number six is Chocolate. Chocolate's about CHF3 billion, about 7% of the region, grew 5% last year, about a third of the business is in Brazil. The Brazilian chocolate business is over CHF1 billion. These are the two main brands under the Nestlé brand and also under the Garoto brand.

Number two is in the US where again we've had some good success last year in the US, growth in both in share and in volume. One of the contributors to that was a promotion that we've done now with the Girl Scouts of America with Crunch.

Third largest is Canada. This is a Kit Kat from Canada, but I wanted to bring a Kit Kat from Brazil because one of the interesting things that we're doing is we've re-launched now Kit Kat in Brazil and it's taken off very well. It's not the first time that we've tried to launch Kit Kat in Brazil, I think it's the third time, but this time it's really working out well. So Brazil is somewhere we're going to be expanding in Kit Kat.



### **Zone AMS Product Categories – Ice Cream**

Next, Ice Cream. Another area which I think you have a lot of interest in. And very honestly, if you look at the Americas, our Ice Cream business results are mixed. They're mixed. We have some outstanding businesses, like in Peru, like in Chile. Also a very solid business in Canada as well. We have some businesses which are improving, like Mexico and Brazil, which came off some tough years last year -- two years ago and did better in 2012. But two-thirds of our Ice Cream volume is still in the US. And we grew last year. We had positive organic growth. And the categories where we compete grew, but we also lost share in these different segments.

So, three segments, starting first with super premium, a new product that we're launching Häagen-Dazs Gelato. Then the premium segment, which is the most problematic for us. Dreyer's or Edy's. This particular product is an outstanding product and it's one of the ones that I find most frustrating because it's got all the taste with one-third fewer calories and half the fat, the slow churn product, has not met expectations up to date.

And then of course we have also the snacks category also grew last year, Drumstick being an important brand. And we have launched some new products as well. Skinny Cow again providing this NHW (Nutrition, Health and Wellness) values through Ice Cream bars. And we are also launching a new coconut water [product] with Dreyer's as well.

So the focus for us has really been more on the super premium area as well as in the snack area. But Ice Cream for us is a challenge.

### **Zone AMS Product Categories – Nestlé Professional**

Next, Nestlé Professional. This is our out of home business. Two-thirds of the business for Nestlé Professional is done in North America. Two parts to it. There's Food and there's Beverage. Actually the Food part, the Food solutions business is about 60% and the Beverage solutions is 40%. This is just an example of Minor's, which is a beef base for restaurants, gluten-free. There are a lot of innovations in the Food area.

And then, an example of the bag that goes inside one of our coffee system machine that we have in Nestlé Professional, and we have three. We have Viaggi at the high end, we have Milano and we have Alegria. This Milano machine has gotten some great traction, some great listings in key accounts, like Tim Hortons up in North America and also Burger King in Latin America. So Nestlé Professional is important, again around CHF2 billion, around 7% organic growth last year.

### **Zone AMS Product Categories - Coffee**

Next is on Coffee. And coffee in the Americas is relatively underdeveloped. If you compare this to the rest of them, you can see where it is on the line-up of products here on the table.

The largest business that we have today is in Mexico with very strong leadership under Nescafé Clasico. And because of this success and because of the growing Hispanic population in the United States, we've also been successful in growing this business in the US.

But we have many dimensions that we can play on across Latin America. Now that Nescafé Dolce Gusto is now available in 10 countries across the Americas. We have struggled to gain traction in North America and today we have a limited

presence in the specialty retail channel. And we're trying to figure out ways to really penetrate better with this item. It's a great product. It's done well everywhere that it's been launched.

I could mention in Latin America and the other eight countries it's doing extremely well, particularly strong in Mexico and Brazil. But it's going to require a different approach, probably a different route to model given the competitive state that we have. I set up a separate organization here in the United States, an independent organization to try to figure out how to make a good business out of this and that's Dolce Gusto.

We also have of course some interesting innovations in Brazil with Nescafé Duo Grão, known as Nescafé Molienda in Mexico, a soluble coffee with micro grinds. Works particularly well, penetrating a market like Brazil, which is a roast and ground market. We're able to create something of a new category with this product. And so far results are good.

And then the figure that I told you, the CHF1.8 billion, doesn't include Nespresso sales. We're very secretive about Nespresso, so I just left that out of the sales figures. But when we talk about our opportunities in the Americas for Coffee, we have a number of different platforms to play on. On the high end of course Nespresso. We have Dolce Gusto, which is sort of an in-home barista experience. We have our soluble coffee, not just the pure soluble, but also the mixes with innovations. And of course, as I mentioned earlier, we have the out of home business as well. So I think there are some good opportunities for us in Coffee that have yet to be explored.

#### **Zone AMS Product Categories – Cocoa and Malt Beverages**

Next in line, number 10 if you're keeping score, is Cocoa and Malt Beverages. A little over CHF1 billion, 7% organic growth. And here in the US, you probably think of Nesquik as the number one brand, and it is in the United States. But the number one brand in the Americas is actually Nescau from Brazil, which is a Nesquik type product.

Second would be Nesquik. Nesquik is sold in a number of markets, US, Canada, Mexico, Central America, Peru and Argentina. This happens to be a product from Peru. This one is very interesting too because it actually includes Andean cereals, like quinoa and kiwicha and these sorts of things. So it's a very unique product, fortified with vitamins and minerals.

#### **Zone AMS Product Categories – Nestlé Health Science**

Next is Nestlé Health Science, which is the latest globally managed business, a little over CHF1 billion in sales. Includes the Heritage Healthcare Nutrition business that we acquired from Novartis a few years ago, so globally this is around a CHF2 billion business. It's about CHF1 billion as I mentioned in the Americas. And it's also a big part of this business is pioneering some new territories in Nutrition and Health science. Pioneering that area between Nutrition and Food and Pharma.

And we're focusing on three platforms. Gastrointestinal, we're focusing on brain and metabolic. And we already have done a number of acquisitions or participations, whether it be Prometheus for gastrointestinal. Accera participation in this company with respect to Alzheimer's and metabolic for severe weight issues with Optifast. This is all supported by a dedicated R&D centre, which was inaugurated last year in Lausanne, Nestlé Institute of Health Science.

#### **Zone AMS Product Categories – Coffee-Mate**

And then last but not least, a CHF1 billion category, which is also close to my heart, because I mentioned when I started my job at Carnation, the first job I had was to be an associate brand manager on this particular product, which is Coffee-

Mate. And Coffee-Mate was invented back by Carnation Company in 1960 and over 50 years later is still going strong. Over CHF1 billion, primarily in the United States.

What is growing fastest, actually the biggest category now, is the liquid Coffee-Mate. Powder is also an important part of our business. And we also launched or expanded last year, we launched in 2011, but expanded Natural Bliss, which is a new all-natural coffee creamer, which is just milk, cream, sugar and natural flavours. And this one is doing extremely well. And this particular category, as you probably know, is growing very rapidly.

So that's in a little over a half hour then a rundown of the geographies we participate in as well as the categories -- main categories, which represent about 90% of the business.

### **Nestlé in Society - Compliance**

I want to touch on just one more thing before we go over to the Q&A. And that is about the importance we put in our role in society, which we call Nestlé in society. And there's three components to that. And these are very important. The first is compliance. And that may sound very boring or tedious, but the fact is, and I'm sure as you can tell with the issues that are hitting the news that compliance is extremely important.

In order to operate as such a decentralized company and to make sure that we're all on the same page and have glue that sticks us together, we do have common principles. The first is Nestlé corporate business principles, along with a code of business conduct and a supplier code. These codes go, of course, beyond what is legally required in the different countries we operate in, but it's how we engage externally with our customers, with our suppliers. And it's something that all employees, all 339,000 employees in whatever local language they have, are aware of, have access to and subscribe to.

We also have something called the Nestlé Management and Leadership Principles. Again, call it somehow maybe the glue that sticks us together. This is basically expectations of our management and our employees. These are audited, both internally and externally, and we're also going through anti-bribery and anti-corruption training across the zone amongst our white-collar employees. So that's first base - compliance.

### **Nestlé in Society - Sustainability**

Second area, which is very important, is sustainability. And here we really focus on the importance of preserving the environment for the future. We produced last year something around 10 million tons of product and this is a 10% increase over the last four years. And during that last four years we set very specific objectives for reductions in energy, reductions in water, greenhouse gas and waste to landfill.

And in the areas of water, greenhouse gas and waste, we're actually able to reduce in absolute terms or absolute amounts versus what we had four years ago. And in the case of energy have reduced it per ton produced.

### **Nestlé in Society – Creating Shared Value**

So once we do these, and those are sort of the foundations, then we can talk about something called Creating Shared Value. The idea behind creating shared value is that we feel that it's important for us, not out of obligation, but it's in our interest to ensure that we have a bright future. Not just for our own Company, but that we can do what we can to help society at large.

And there are three areas where Nestlé is heavily involved, as you know, and where we can have that sort of impact. So one is Nutrition, the second one is rural development and the third one is water.

And so in Nutrition, this means first of all being very consequent with our products. Our products must not only be tasty, but also be healthy and for that we have a concept called 60/40 plus, which means that in blind taste tests, our products need to be preferred versus competition, but then the plus part means they need to have a nutritional foundation and also a competitive advantage versus the competition.

Sometimes you may be wondering or asking, you say you want to be a Nutrition, Health and Wellness company, but look, you're selling Ice Cream, you're selling Chocolate, you're selling other things. We really believe that as people, whether we're in these businesses or not, will eat these products, we have an obligation to provide the best products we can in these areas; to use our research to provide the healthiest choices and options possible.

Education is clearly an important part and that means of course on-pack but also we are involved through the world with a program called Nestlé Healthy Kids, which is a training program for Nutrition in schools. Nutrition training in schools is something that's lacking around the world and it's something that we've now touched millions of children with. We've also combined this now with a tie-up with the International Amateur Athletic Foundation to make sure there's an exercise component with this as well.

And we also, to be consequent, have Nutrition training amongst our own employees. 75,000 employees in the Americas have gone through basic Nutrition training as well.

But then you also have the situation where obesity is a concern. And as the world's largest food company, we have a role to play as part of the solution. We're not the only solution and it's complex and it will involve partnerships and involve work with others, but we're fully dedicated to dealing with this. But on the flip side as well, and particularly in the Americas, there's issues with malnutrition.

Iron, zinc, vitamin A and iodine are micronutrients that are lacking in many diets. And we have the ability again because of the nature of the products we sell to provide things like this. Looks very simple, this product is sold across Central America. It's a bouillon. Just a few pennies per serving, but this provides 15% of the requirements of iron daily. And this is a daily usage product.

We deliver over 3 million servings of iron everyday through this product and even products like -- biscuit products like we have in Brazil. A very popular brand that's even fortified with zinc. We talked about before the growing up milk powders by definition, the affordable milk powders also fortified. So that's an area that we're also dealing with. So it's both ends that we have concerns about, whether obesity and on the malnutrition end.

Rural development, very briefly. We have a long history in Latin America, as I mentioned. Brazil, over 90 years, milk districts we have across the region. And we touch a lot of farmers through education programs and helping them to improve their efficiencies. Coffee, Nestlé globally has a Coffee plan that we've committed to where we have involvement in a number of markets, like Mexico, Brazil, Columbia and most recently in Haiti, helping them to rebuild after the earthquake.

And then the Cocoa plan, another commitment that the group has made to ensure that we have a good, high quality cocoa supply in the future, which we have participation in Mexico, Brazil, Venezuela and Ecuador.

And last but not least, water. Mentioned before what we're doing on the usage standpoint to try to minimize our water footprint, but at the same time also we're involved in a lot of education programs and have a longstanding program in the US called Project Wet on education.

## Summary

So, that's basically it. To summarize it then, we had a -- you've seen the numbers, we've had a good year. But I think what looks to me most assuring and what I appreciate about -- I can't say any forward-looking statements -- but the fact that we have strong presence, strong brands, I think bodes us well for the future.

## QUESTION AND ANSWER SESSION

### Question on; Direct to store delivery systems

#### **Andrew Lazzard, Barclays:**

I know over the last couple of years in the US you've been looking to integrate better some of the direct to store delivery systems that you've got across Ice Cream that you got with the frozen Pizza acquisition and perhaps into the middle of the frozen space, meals and such. Perhaps you can give us an update on where you stand on where you stand on that.

And more importantly, what's the ultimate goal in terms of what you're trying to accomplish with that? And does it ultimately give you perhaps a competitive advantage in the frozen space, maybe at the point of sale that maybe others won't or can't have ultimately.

#### **Chris Johnson, Zone Director for the Americas, Nestlé S.A. :**

Well, maybe just as a bit of background. We had a direct delivery system with the Dreyer's business and we've had that for a while. Then in 2010 with the purchase of the Kraft Pizza business they had also a direct delivery business. So for the last couple of years our focus has really been on integrating these two routes because we basically had a lot of duplication. Duplication in trucks and routes and drivers. And we realized a certain number of synergies by putting these things together.

And it hasn't been that simple. The ways of selling the product portfolios, as you can imagine, the people now who only sold Pizza are now selling Ice Cream. Vice-a-versa, Ice Cream to Pizza. There's more SKUs on these trucks. But what we feel very confident about. And by the way, there's still improvements to be made. I mean we're not satisfied with our customer service levels in most cases, and that's certainly understandable to a point when you're putting things together.

But what we do believe though is that this really is an interesting competitive advantage because as mentioned, we have a big presence in the frozen aisle. This allows us to go in and to merchandise. We know that when Pizza boxes are standing up, the off take is higher. It seems like a very basis thing. When you have the opportunity to install small

freezers, or we call them points of interruption, which do well, in those cases the Ice Cream, particularly the impulse items sell particularly well. And you have that ability to do that when you have your own direct delivery network.

Now at the same time, you've heard that the volume on this particular business has been down. And so that's put a certain amount of strain on the system, a certain amount of strain on the cost. So we're in the process of optimizing this, in the process of optimizing the routes that we're delivering to and so on. But we're convinced this is a really interesting advantage that we have in the future.

So we've kind of gone through the first step and I think we've done it fairly well. Delivered the synergies that we expected and actually a bit more. The next one is how do we turn this really into a competitive advantage?

<b>Question on;</b>	<b>Single cup coffee in US</b>
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**Bryan Spillane, Bank of America :**

A question about single cup coffee in the US. You've got a competitor who expects to have an install base, household install base by the end of the year of 16 million households. The concept has really exploded here in the US in terms of consumer adoption.

So could you talk a little bit about how you see Nespresso fitting into that? Has the adoption rate in the US grown faster than you thought it would? Maybe some parallel between what you've seen in Europe versus what you've seen here. And sort of what your expectations are in terms of how you play in that space.

**Chris Johnson, Zone Director for the Americas, Nestlé S.A. :**

I'm going to talk about the Americas and maybe I'll throw it to Roddy.

As I mentioned before, this category for us is underdeveloped. And in fact, Nespresso's been around for the US for a long time but has not had the sort of I would say rate of growth or adoption that we've seen. And I must say, although I can't give you the sales figures, the growth has been significant in the area of Nespresso.

Because Nespresso's offering something very different. This is not offering basically the coffee that you can have in your office, at home, this is really truly a specialized coffee experience. And it seems like American consumers are getting more and more interested or maybe even accustomed to these types of coffees. I know that in the US, historically, a flat black cup is sort of the norm, but now people are actually seeing crema on the top of coffee and perceiving this as something that's worthwhile.

So we are seeing some good growth. We have in the Americas 44 boutiques. We have 20 in the United States, we have four flagship boutiques, we just opened one in San Francisco. And the response from these things has been tremendous. So we think that we have a good opportunity to grow in what has been very underdeveloped for Nespresso.

As I mentioned, Dolce Gusto -- I don't think Dolce Gusto has any aspirations to become the leader or the number one, but it also provides an interesting niche in a category which is growing very rapidly. And as I mentioned as well, the other coffee offerings that we have, would be soluble coffee, mixes, which is something that is starting to get some more traction in the United States, as well as our out of home presence, I think we're on a good path to compete in the US. Anything else you wanted to add?

**Roddy Child-Villiers, Head of IR, Nestlé SA:**

I think the -- (inaudible), the market itself is growing quite rapidly, so there's clearly room for more than one player. I'm sure many of you come here every year, so you're able to do a year-on-year taste of Green Mountain last year and Nespresso this year. And they are quite demonstrably different products, playing in different areas of the market. And I think Nespresso, like Dolce Gusto, never has the ambition to be the leader in the market. It has the ambition to be the leader in high-end super premium more luxury coffee.

That is what it has achieved in Europe, it's achieving it in other parts of the world. And it has a very strong position in the US growing comfortably into double-digits, even if we are not going to tell you the number, off a base that is actually quite sizable.

<b>Question on;</b>	<b>Infant Formula Category</b>
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**Robert Moskow, Credit Suisse:**

I remember a couple of years ago I think it was that you took the Gerber brand into the Infant Formula category in the US. And I notice that the performance of the brand has really accelerated. And I wanted to know what your aspirations are in the infant formula category? I had always thought that one of the limitations were that Nestlé didn't have a big direct professional sales force for pediatricians. Has that changed? And what other steps are you taking to grow this category?

**Roddy Child-Villiers, Head of Investor Relations, Nestlé S.A.:**

Infant formula is not one of Chris' direct reports. I think one of the great things about Gerber is they have 90% unprompted awareness with mothers. So put that together with Infant Formula, which is obviously the obvious thing to do. And as you say, it's been a great success. And we've clearly been expanding our team of people who interact with the pediatricians and such like.

And it's going extremely well. Clearly we're handicapped because as you all know, the birth rate in the US has fallen quite dramatically, albeit not in the Hispanic section, but in the US as a whole. But we're optimistic those are postponed births, not cancelled births, so the market will come back. And I think we'll come back very strongly with the market.

<b>Questions on:</b>	<b>Productivity targets</b> <b>Cost Pressures</b> <b>Alternative retail channels</b>
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**Unidentified Audience Member:**

Rob actually stole my question, but that's okay. I guess I don't know if -- I got in here a little bit late, so maybe you pointed this, but do you have -- like when you benchmark yourself against some of the US based competitors in terms of productivity targets, are you also kind of -- do you think that 3% kind of productivity levels relative to COGS is reasonable? What kind of inflation do you see broadly across your territory in 2013?

And from the retail perspective, is there -- the changing outlet landscape, how does Nestlé see approaching that? I don't remember you talking about much of the products, other than maybe at the end, being an organic item. How do you adapt to whole foods in the bifurcation of the consumer?

**Chris Johnson, Zone Director for the Americas, Nestlé S.A.:**

So I think there were three questions in there. Productivity. So I would say that if we look at the US it's a bit historical about how Nestlé in the United States has come about. As I mentioned, in 1985 the acquisition of Carnation Company is what really put a footprint into this country. Then of course built upon with acquisitions, like the Gerber acquisition, like the Purina acquisition, Waters, Health science.

So, we've had a lot of large businesses that have been built over time. And I think there are good opportunities to leverage a bit more of the synergies we have between these different businesses. It's sort of Nestlé's way when acquiring a business to sort of just let them run and let them go. And that's one of the reasons why they're successful.

But, as we talked about in the GLOBE example, sometimes there are certainly synergies in the back, which you can certainly find. So, I'm convinced there are still some more synergies that we have in the US.

Now the second one, the cost pressure. So, we don't give guidance on cost. We don't see, I think probably like all of you, anything right now that would indicate some sort of a hugely volatile situation. But I remember last year here in the United States in June, looking at the corn crop as I was driving through St. Louis and thinking this is going to be a great year for grains. And it turned out of course to be a horrendous drought.

So you never know in these sort of situations, but I have to say at this point we don't have any indications there's something that's usually volatile that's going to happen.

And the last part maybe about channels, or let's say alternative channels, if I look at the business in the United States, we are I would say relatively strong or very strong in the grocery channel. There are clearly opportunities for us in the club channel, in the dollar channel, as well as in the digital or e-channel space. And that's not necessarily with all products, but those are three particular areas where I think that we could probably do a bit better.

**Roddy Child-Villiers, Head of Investor Relations, Nestlé S.A.:**

I think just on the input cost, I mean historically we have guided on input cost and we said we wouldn't this year because there wasn't much to guide on. We're not expecting anything very significant. So it basically is low single-digit for the group. But we started guiding because we had this massive volatility and we wanted to help the market understand how we had managed through that. But when it's normal course of business stuff, the guidance seems rather redundant.

<b>Questions on:</b>	<b>Sales from innovation</b> <b>Product adaptations for alternative channels</b>
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**Chris Growe, Stifel,**

I just had a question for you if you could quantify or even in broad terms the amount of innovation. Like how much that generates of your sales, whether it's over the last three years or last year, however you look at that?

And then I was also curious, and maybe it fits a bit into Eric's question about channels. Other companies have talked about using innovation packaging, for example, in the emerging markets to move to get into say Dollar Stores or get into a cheaper format in the developed markets. So I'm just curious if you were doing that and then if not, how Nestlé's set up to allow for those to flow through the markets?

**Chris Johnson, Zone Director for the Americas, Nestlé S.A.:**



Do you want to comment maybe on the group, what we say for the group as far as innovation goes? Just to make sure I use the right figure, so.

**Roddy Child-Villiers, Head of Investor Relations, Nestlé S.A.:**

At the Group level, Chris mentioned 60/40+. 60/40+ is a key driver of innovation because the point of 60/40+ is to ensure that we have consumer preference on blind taste and nutritional superiority relative to its main competitor.

If we test for 60/40+ and we have it, then we don't necessarily need to innovate because we're already in the best possible position. And we did something like 7,000 product upgrades in 2012 out of 60/40+. But we did well into the tens of thousands of 60/40+ tests. So where we were already winning, we didn't do the innovation.

Having said all that, we are churning the portfolio something like every four or five years, setting aside things like Poland Spring and the like, which clearly are too pure to be innovated.

**Chris Johnson, Zone Director for the Americas, Nestlé S.A.:**

And it really varies, to be very frank, by category for us. I mean this one [indicates PetCare], much higher rate of innovation and churn. And one of the areas where we've struggled very honestly is in Frozen Food where we are now building up an interesting pipeline. I don't even think I mentioned this one [picks up Salad Additions package]. I have to mention this one. Did I mention salad additions?

**Roddy Child-Villiers, Head of Investor Relations, Nestlé S.A.:**

No.

**Chris Johnson, Zone Director for the Americas, Nestlé S.A.:**

Ah, this is a great way to also make a point. A very interesting innovation is in a category, which has not seen necessarily a whole lot of innovation. This has just been launched. It is an add-to salad or add- to fresh, value added frozen components. It includes a dressing, it includes frozen chicken and some crunchy bits. This allows you basically at home or at work to make a restaurant quality meal.

And this is something that's very interesting. We look at the Frozen landscape, a lot of the products that are out there are everything in a bowl or everything in a tray. And this is an interesting future area of a value added component. So I'm glad I got this chance to pass that one.

**Roddy Child-Villiers, Head of Investor Relations, Nestlé S.A.:**

You were asked a question about the packaging.

**Chris Johnson, Zone Director for the Americas, Nestlé S.A. :**

Oh yes, packaging as well. Well, we often talk about at Nestlé are PPPs or Popularly Positioned Products, which in the developed world or developing markets are similar to this, which are small unit cost per item.

In the developed world these are often products which are targeted to certain channels, like Dollar Stores, where you need a certain price point. What's very important about these is that they're not a lower quality product. You're not sacrificing quality. What you're doing is you're putting the same product, same quality in a packaging or format or a size and then along with it a route to market that allows us then to be profitable.

This category or PPP products for Nestlé are growing at more than twice the rate of the balance of our products here and are profitable as well.

**Chairman:**

We'll go ahead to the breakout room and take some more questions. Please join me in thanking Nestlé for being here and for sponsoring the coffee all week.

**Chris Johnson, Zone Director for the Americas, Nestlé S.A. :**

Thank you very much.

END OF TRANSCRIPT