

NESTLÉ S.A.

## 2018 NINE-MONTH SALES CONFERENCE CALL TRANSCRIPT

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Speaker:

**Mark Schneider, Chief Executive Officer, Nestlé S.A.**  
**François-Xavier Roger, Chief Financial Officer, Nestlé S.A.**  
**Luca Borlini, Head of Investor Relations, Nestlé S.A.**

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**Luca Borlini, Nestlé S.A, Head of Investor Relations:****Slide: Title slide**

Good afternoon to everyone. Welcome to the Nestlé Nine Month Sales Conference Call. I'm Luca Borlini, Head of Investor Relations at Nestlé. Here with me is our Chief Executive Officer, Mark Schneider and our Chief Financial Officer, François Roger.

As usual, first, we will start with some opening remarks from our CEO Mark Schneider, we will then hand over to our CFO, François Roger. At the end, we'll open the lines for questions and answer.

**Slide: Disclaimer**

I draw to your attention to the disclaimer and our notes on the restatements.

And now, I hand over to Mark.

**Mark Schneider, Nestlé S.A. Chief Executive Officer:****Slide: Title slide**

Thank you Luca, and a warm welcome to our conference call participants today. As always we appreciate your interest in our company.

**Slide: Key messages**

We're pleased to report steady progress on our path of accelerated value creation. Organic growth has continued to improve in the third quarter and we are on track for our full year organic growth target.

I'm particularly pleased with the progress in our China Infant Nutrition business and our increased momentum in the U.S. market. So as you will see in this presentation, it has been a solid quarter on the operations front.

Having said that, we also saw areas of improvement. This includes pricing on a global basis and our growth in Nestlé Waters and in U.S. Frozen Food. On the strategy front, we completed our review of the Gerber Life Insurance business this quarter and started the review for our Nestlé Skin Health business.

Methodically and with a full support of our Board of Directors we are sharpening the strategic focus of our group, advancing growth areas and addressing either areas of weakness or situations that are outside of our strategic boundaries. Nestlé Skin Health is a good example of the latter.

Our Starbucks transaction has closed ahead of schedule and we are on track to get Starbucks products on store shelves in key international markets by early 2019, again beating our original business plan.

By separate press release today, we announced changes to our Executive Board. I very much regret Wan Ling Martello's decision to leave Nestlé at the end of this year. At the same time, I am deeply grateful to her for her significant contributions in turning around our business in Zone AOA as well as for her previous contributions as Group CFO. What an outstanding job. I respect her decision and wish her all the best for her new endeavors.

Management bench strength is a hallmark of Nestle, and so, we are glad to be able to fill the resulting vacancy without missing a beat. I'm particularly pleased to announce that Chris Johnson will succeed Wan Ling as CEO of our Zone AOA as from January 1, 2019. Chris has not only run one of our Zones before, he also has on the ground experience running several Asian businesses and markets in the past. He is an outstanding leader with a growth mindset, entrepreneurial vision, operating rigor and strong people management skills.

On a personal note, let me say how much I enjoy working with him as he is driven and fun at the same time. Replacing Chris as Head of Group Human Resources and Business Services will be Béatrice Guillaume-Grabisch, our current CEO of Nestlé Germany. Béa will continue to drive HR initiatives started by Chris that are very important continue to thrive HR initiatives started by Chris, that are very important and dear to us. This includes a business focused mindset in HR as well as our ambition to significantly develop diversity and improve gender balance in our leadership ranks.

Béa has shown a deep interest in and dedication to those initiatives. Prior to joining Nestlé in 2013 she worked in several leading consumer goods companies including L'Oréal, Coca-Cola and Colgate. I very much look forward to working with Béa on the Nestlé Executive Board.

This concludes my initial remarks. Let me hand it over now to François and I look forward to your questions later.

**François-Xavier Roger, Nestlé SA, Chief Financial Officer:**

**Slide: Title slide**

Thank you, Mark. Good morning or good afternoon to all.

**Slide: Nine-month sales growth**

Let me start with the highlights for the nine months. Organic growth was 2.8% in line with our expectations.

RIG stayed strong at 2.3% remaining at the high end of the Food and Beverage industry.

Pricing increased slightly since the half year and was at 0.5% helped by improvement in the Americas.

The net effect of acquisitions and divestments was slightly positive at 0.1% with the acquisition of Atrium Innovations and the acquisition of the *Starbucks* license being offset by divestments mainly U.S. Confectionery.

Foreign exchange was a 0.9% headwind largely due to currency depreciation in a number of emerging markets.

Sales for the nine months were CHF 66.4 billion, a 2% increase on a reported basis.

**Slide: Broad-based OG and RIG across geographies**

This slide illustrates the development of our sales including our Zones as well as our globally managed businesses.

Our growth was broad based both in terms of organic growth and RIG. All three geographies show an improvement in RIG versus last year. The most notable increase came from AMS, more specifically in North America and to a lesser extent from EMENA.

Overall, pricing remain limited, but improved in Q3 versus the first half. Pricing dynamics are different by geography, partly depending on our category mix and their related commodities.

EMENA is more weighted towards Coffee, where input prices have fallen resulting in slightly negative pricing. On the other hand, AMS is more weighted towards Waters and PetCare where increasing input cost have allowed us to take pricing.

**Slide: Strong RIG in developed and emerging markets**

Now looking at the growth dynamics between developed and emerging markets; developed market saw an improvement of organic growth versus last year, driven by higher pricing and RIG in North America. Emerging market posted mid-single digit OG,

RIG was helped by improved growth in AOA as well as in the Middle East and North Africa.

**Slide: Zone AMS**

Let's now look at the results by operating segment starting with Zone AMS. Sales were CHF 21.9 billion, organic growth was 1.4% with RIG of 0.8% and pricing of 0.6%.

North America had positive growth for the nine months. We continued to place emphasis on faster innovation and portfolio management. Pricing increased in Q3, reflecting inflation in commodity and freight cost. There was continued solid growth in PetCare with *Purina* and in *Coffee-Mate* creamers. Ice cream had a strong performance in Q3 supported by *Häagen-Dazs* and *Outshine*. In the Frozen category, *Pizza* and *Hot Pockets* did well.

Latin America reported low single-digit organic growth with positive RIG and pricing. Organic growth accelerated in Q3 compared to the half year. Brazil returned to positive growth in the quarter, helped by an improved pricing in Q3, particularly in Dairy. There was good growth in Confectionery with *KitKat* and in Coffee with *Nescafé Dolce Gusto*. The trading environment in Brazil remains challenging with soft consumer confidence. Mexico had mid-single digit organic growth with positive contributions from most categories particularly *Nescafé*. There was continued strong momentum for *Purina* PetCare and Professional across the region.

**Slide: Zone EMENA**

Next is Zone EMENA where sales were CHF 13.7 billion. Organic growth was 1.6%, growth in the sub-quarter looks slightly slower, as it faced a very high comparable from last year when organic growth was exceptionally high at 3.6%. RIG at the 9 months was resilient at 2.3% in the context of a low growth environment, particularly in Western Europe. Pricing declined by 0.7% as deflationary trends in Western Europe persisted in Q3, largely as a result of lower commodity cost.

Looking at growth by region Western Europe showed slightly negative organic growth, as positive RIG was offset by negative pricing. Both Central and Eastern Europe as well as Middle East and North Africa saw mid-single digit organic growth supported by good RIG.

EMENA is now managed at category level for the Zone. Therefore, I will provide more details in the category dynamics. *Purina* PetCare, Infant Nutrition, and Nestlé Professional were the main contributors to growth across the Zone. Premium products had a strong momentum in these categories, especially *Gourmet* cat food and human milk oligosaccharides infant formula. *Nescafé* remain positive in a competitive market and in spite of difficult comparables. Confectionery was positive helped by innovations as well as a continued strong performance from *KitKat*.

**Slide: Zone AOA**

Moving now to Zone AOA with sales of CHF 15.8 billion, Organic growth was 4.4% with RIG of 3.7% and pricing of 0.7% totally consistent with the level of the half year. Overall, the Zone continued to deliver good broad-based growth with all geographies and all categories contributing. All the developing markets posted mid-single digit organic growth with solid RIG and positive pricing.

Looking in more details by market, China grew well driven by e-commerce and innovations in Infant Nutrition, Coffee and Culinary. South-East Asia was led by Vietnam and Indonesia with *Milo* and *Bear Brand*. In the South Asian region, growth was supported by *Maggi*, *Nescafé*, and *KitKat*. In sub-Saharan Africa, there was strong momentum in the Central and West Africa region. In the developed markets, organic growth was slightly positive as robust RIG was partially offset by negative pricing. Overall for the Zone, Infant Nutrition and PetCare accelerated in the third quarter, posting high single-digit growth.

In China, the Infant Nutrition business had mid-single digit organic growth in the nine months with a high single-digit performance in Q3. The performance in China was driven by strong growth in e-commerce and encouraging results from recent launches such as *Illuma Organic* and a2 formula. We also had strong momentum from *Gerber* Infant cereals

**Slide: Nestlé Waters**

Moving on to our globally managed businesses and starting with Nestlé Waters. Organic growth for the nine months was 2.1% reaching 4.1% in Q3. The growth for the nine months was driven entirely by pricing while RIG declined modestly by minus 0.2% Total sales were CHF 6.1 billion

In the United States growth was positive and price driven. We took pricing in June to reflect significant inflation in packaging and distribution cost. We also saw a good performance of our recently launched Sparkling range under our regional Spring Water brands such as *Poland Spring*, *Ice Mountain* and *Ozarka*.

In Europe growth for the nine months was positive, thanks to a solid RIG driven contribution in Q3. These results were supported by the hot summer as well as innovations such as *Perrier & Juice* as well as *Levissima+*.

Emerging markets improved across most regions driven entirely by pricing. Our international premium brands *S.Pellegrino* and *Perrier* continue to deliver accretive growth globally.

**Slide: Other Businesses**

Finally we finish with the other businesses which includes *Nespresso*, Nestlé Health Science, Nestlé Skin Health and Gerber Life Insurance. We have reached an agreement for the sale of Gerber Life Insurance and we announced very recently that we are exploring strategic options for the Skin Health business

Total sales for the other businesses was CHF 8.9 billion, RIG was strong at 5.7%. Pricing contributed 0.3% resulting in organic growth of 6%.

*Nespresso* maintained strong mid-single digit organic growth with a positive quarter in all three Zones supported by further boutique expansion as well as continued innovation in both systems and capsules.

We opened 24 new boutiques in the third quarter bringing the total number to 752. The *Vertuo* system expanded into six new markets in the third quarter Germany, Switzerland, Sweden, Norway, Finland and Mexico, for a total of 14 markets.

The Americas and Asia saw strong growth and Western Europe was flat in a competitive environment. Nestlé Health Science continue to deliver mid-single digit growth supported by the medical nutrition and consumer care products, as well as, by the expansion of *Atrium* products into food, drug and mass channels.

Nestlé Skin Health had high single-digit growth.

**Slide: Growth by products**

Looking now at our growth by product categories, where all segments sustained positive organic growth showing the strengths and the consistency of our portfolio. Powdered and liquid beverages saw some decelerations in the half year as *Nescafé* faced difficult comparables in Q3 in Europe.

Waters we already discussed, Milk products and Ice cream improved since the first half helped by a good Q3 for Ice cream particularly in the U.S. This was driven by strong growth for *Häagen-Dazs* and *Outshine*. Ambient Dairy showed improved in the quarter driven by Brazil.

Nutrition and Health Science grew well driven by solid RIG in all three subcategories. Nutrition continues to be supported by innovation such as our HMO and a2 protein infant formula as well as organic and natural ranges.

In Prepared dishes and cooking aids, growth came mainly from the ambient segment. In Confectionery pricing was negative but it was more than offset by solid RIG.

Excluding the U.S. business for Confectionery, this business was sold in April this year, organic growth would have been 20 basis points higher. *KitKat* was a highlight in many regions, including Zone EMENA, Japan and Brazil supported by strong execution and innovations such as *KitKat Ruby* in Europe and *KitKat Gold* in Australia.

And finally PetCare continued to accelerate versus the half, helped by premiumization, helped by our natural portfolio including *Merrick* and by e-commerce channels.

**Slide: 2018 guidance confirmed**

Finally, to close I finish with our guidance for 2018 which we confirm. Our full year organic sales growth expectation is around 3%. Underlying trading operating margin improvement is going to be in line with our 2020 targets. Restructuring costs are expected to be around CHF 700 million. And we expect underlying earnings per share in constant currency and capital efficiency to increase.

I now hand back to Mark for his final remarks.

**Mark Schneider, Nestlé S.A. Chief Executive Officer:**

With that, we'd like to open our Q&A. So, Luca, over to you

**Q & A Session**

Yes. Thank you, Mark. Thank you, François. With that, we move to the Q&A session, and we open the lines for questions from financial analysts. [Operator Instructions] The first question is coming from Eileen Khoo from Morgan Stanley. Please go ahead, Eileen.

**Questions on:** Beverage performance  
Priorities for Starbucks business  
Growth dynamics for Nutrition

**Eileen Khoo, Morgan Stanley;**

Afternoon François and Mark and Luca. Two questions for me please. The first one is on Coffee. I just noticed that your Beverages like-for-like was weaker in the quarter. Was this just comps or were there other dynamics driving this? And then, now that you've closed the Starbucks deal, can you give us some colour as to your priorities for this business, you know immediate priorities? Also given that it does exclude the fastest growing part of the overall Coffee market, which is ready-to-drink. Maybe you can give us some colour on what your strategy is for this particular segment?

Then, the second question is on Nutrition. Can you give us some more colour on the growth dynamics for Nutrition in the quarter, specifically in your key markets, U.S. and China? And I was also interested about a2 milk you've launched it in China. I see that you've launched it in Australia and New Zealand as well. Are you planning to roll it out in more markets and I was curious in China specifically which channels you're selling it in?

Thanks very much.

**Mark Schneider, Nestlé S.A. Chief Executive Officer:**

Eileen, thanks for your question. So let me tackle the one on Coffee. So I think aside from comps what you're seeing is quite a bit of competitive intensity in Western Europe and that applies both to Soluble, but also to the *Nespresso* side. And so, I think this is what you're seeing here in the nine-month numbers.

When it comes to Starbucks, we're very excited about this. As I said, we closed the transaction early and I think we're also ahead of our plan to get products on the shelves early next year. Let me remind you, this does not include ready-to-drink. So, we're talking about roast and ground here. We're talking about capsule systems and soluble formats and those are the formats we're going to be playing in. When it comes to ready-to-drink our understanding is that Starbucks had other contractual relationships with various partners in various geographies. I'm super excited about the products I'm seeing and I'm very convinced that this will support our growth in Coffee going forward. Let me also remind you in addition to the retail side of it, there's also a significant opportunity in out-of-home, in what we call Nestlé Professional, since the *Starbucks* brand is a very recognized global brand, this will play extremely well.

For Nutrition, let me hand it over to François.

**François-Xavier Roger, Nestlé SA, Chief Financial Officer:**

Yes. Good afternoon, Eileen. Infant Nutrition, actually our growth for the 9 months improved to 3.1%. This is essentially driven by RIG, but this is also driven by innovation which have the fair contribution there. We are talking of HMOs, Oligosaccharides and then organic, a2 and so forth. So, we clearly saw a significant contribution of innovation in that growth.

If you look more specifically at Q3, so our growth was 3.7% which is the highest level since 2016. So, we are pleased by that. Nutrition – Infant Nutrition is now better in terms of OG than the Group average which is another point of satisfaction. The growth is broad based by geography more specifically in China. It's a little bit softer in North America which is still

something that we need to fully address. Since we are talking of China, we are interested in the improvement which is once again coming from innovation. We see an acceleration in China. Q3 was as well the strongest quarter that we had over the last three years and there again this is about premiumization, this is about innovation, organic, a2 milk, even in a market that is growing less we do accelerate our growth which is very attractive. We have some contribution as well from Infant cereals in China under the *Gerber* brand.

For a2 milk we don't disclose in advance where we are going to launch products. But it's a product that for the time being is more appropriate, we believe, for China and Oceania. This is what we have done, but we don't share commercially sensitive information ahead of launches.

**Luca Borlini, Nestlé S.A, Head of Investor Relations:**

Next question is coming from Jean-Philippe Bertschy from Vontobel

<b>Questions on:</b>	<b>Frozen food performance Appointment of Chris Johnson</b>
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**Jean-Philippe Bertschy, Vontobel:**

Good afternoon, gentlemen. The first one would be on the Frozen foods, you had a kind of weak quarter in terms of RIG. And I think Mark you're mentioning weak Frozen foods in the U.S. So, I guess it's like *Lean Cuisine* and *Stouffer's*, so if you can share your view on that. I think you had a big relaunch planned back in 2014, I think, we have seen some volatility in those segments?

And the second one would be on the management change and that would be interesting to know whether Chris Johnson is like an interim solution or if not, if it is you didn't find any candidates from the Zone AOA itself or in the Group in order to renew the executive committee?

**Mark Schneider, Nestlé S.A. Chief Executive Officer:**

Philippe, thanks for your question. So on Frozen, I wanted to tackle this one upfront. So, we're not happy with the development we're seeing this year. Since I know that some of you asked strategic questions around Frozen, I just wanted to acknowledge our operational issues very openly.

So, we are as committed as ever to the strategic promise of it but we know that on an operating level, we have work to do. And you're right, it kind of centres on the *Lean Cuisine* and *Stouffer's* brands. I think when we developed a whole lot of other initiatives we

sometimes lost sight of that base. In particular, when it comes to some of the renovation drives and innovation drives that we have put in place in 2014, 2015 and early 2016, too much of that was a one shot deal and it was not followed up by second and third wave of continuing innovation. These days of course, within a few months typically, competition follows you and hence you need the next thing to be ready to go and give you an edge and this is what we're working on now.

So, this will probably persist for the rest of this year, but we're laser focused on improving the performance and coming out with meaningful innovation that will help us in 2019 and 2020 and beyond.

Regarding the management changes, I just want to confirm very, very strongly, Chris is not an interim solution. I think Chris has made significant contributions to this business and the Zone management job, the Zone CEO job, is not an easy one. To really do that, you need on the ground experience. You need to have managed, ideally, a country market, but you also need to understand how the entire organization works. He brings that to the table. I'm very excited with the leadership that he can bring to that Zone going forward.

**Luca Borlini, Nestlé S.A, Head of Investor Relations:**

Next question is coming from Céline. Hello, Céline. How are you? Go ahead with your question.

<b>Questions on:</b>	<b>Pricing Innovation</b>
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**Céline Pannuti, JPMorgan;**

Yes. Good afternoon, everybody. Thank you for taking my questions. First, I wanted to come back on pricing. I think you mentioned that you were happy that pricing is accelerating. I was a bit surprised to see not much pricing momentum in AOA. So, I just wanted to know whether that was specific to the categories there. And in general, if you are still happy with your guidance that pricing recovery in H2 along with the change in raw materials should help. Remember, you had a 20 basis point hit from that in the first half margin.

My second question is on innovation. I think recently there was a newsletter from your head of Innovation. Could you give us some example of how Nestlé becomes first to market, and an example of where you are more innovative? Thank you.

**François-Xavier Roger, Nestlé SA, Chief Financial Officer:**

Celine, good afternoon. I will take the question on pricing. So you could see in our numbers for Q3 that pricing has improved moderately. This is essentially coming from North America

across categories actually. This is also coming from Brazil where we have somewhat easy comps on the higher milk prices. You may remember that milk prices started to fall in Q3 last year.

It is true that we have had some headwind in commodities in H1 and we will have some tailwind in H2. So this is absolutely confirmed. You are mentioning most specifically AOA. So, as I mentioned during my earlier presentation, we have very different dynamics in terms of commodities between the three Zones. We have actually a significant increase for the whole year in AMS which explains partly the fact that we are in a position to pass on price increases. While we have, overall for the full year, a significant decrease in EMENA which partly explained the fact that we have negative pricing there and to a lesser extent in AOA as well. So it's not that our pricing is directly linked always to commodities but it has some impact. So once again very different dynamics from one Zone to the other.

**Mark Schneider, Nestlé S.A. Chief Executive Officer:**

Céline, this is Mark. Let me take your question on innovation. I'm glad you're bringing this up because when we talk about pricing, I think one of the ways to get around the pricing pressures is through fast and meaningful innovation and bringing that to the market. It has to be things that really resonate strongly with consumers, but also that they have to get out there fast, before someone else takes the opportunity.

We have seen now over the past year, several very encouraging examples where from concept to the store shelves, we made it in six to nine months and this, in my opinion, has to become the new-normal. This is what we as an organization have to strive for. So that is not just an ambition, we are putting in place now an entirely new process, which we call Idea-to-launch, that supports this innovation and supposed to facilitate it. Significantly lower number of discrete steps required, compared to the former process, when it comes to getting products out the door. We are also differentiating much more between what I would call more superficial renovation, which requires less effort and less steps, and the deeper innovation that really goes to the heart of the products' nature and where you may want to put in more diligence and more steps to be sure that all aspects are being considered.

So, I think by differentiating more, wanting to be more discerning on the process, we allow the easier ones to go faster and the more meaningful ones will get more scrutiny so that our quality and safety reputation doesn't suffer as we crank up the rate of innovation. So, I think this is an area in summary where, beside from the leadership change beginning of the year, you're seeing a lot of works sort of underneath the surface, stuff that doesn't hit the headlines

and it doesn't sort of make material for separate announcements, but collectively I'm very encouraged by the progress I'm seeing.

**Luca Borlini, Nestlé S.A, Head of Investor Relations:**

Next question is coming from Martin Deboo from Jefferies.

<b>Question on:</b> <b>Pricing development</b>
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**Martin Deboo, Jefferies:**

Yeah hello everybody, Martin Deboo from Jefferies. I think it relates to Céline's question actually on pricing. I just want to sort of push a bit further on this. How do you see your pricing evolution going in the rest of the year, have you taken the price you want to take or are pricing actions still going through the business. I mean from the outside it looks if you probably exited Q3 at sort of 1.5% positive pricing or am I over interpreting the trend, just the perspective on the development of pricing from here please?

**François-Xavier Roger, Nestlé SA, Chief Financial Officer:**

On pricing, Martin, I don't expect very significant changes from Q3 to Q4. I think that we might have some further changes next year because as I said the commodity cycle is slightly positive overall for the year 2018 but we already know that we will be facing some increase in commodity pricing next year. We can compensate some of it through efficiencies and so forth but we know that there will be an additional consideration to finance which, once again, part of it will have to go through pricing for next year, 2019.

**Luca Borlini, Nestlé S.A, Head of Investor Relations:**

Next in queue is Jon Cox from Kepler. Please go ahead.

<b>Question on:</b> <b>Pricing in Western Europe and EMENA</b>
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**Jon Cox, Kepler Cheuvreux :**

Thank you very much guys, Jon Cox, Kepler Cheuvreux here. Actually I want to come back to the pricing as well if I can and in terms of Western Europe and EMENA negative pricing 1.1% which I think is probably the worst ever, in line with, I think, about 18 months ago. What are your thoughts on Western Europe and the whole pricing environment?

Obviously you have a lot of retailers getting together, wanting to negotiate centrally. You mentioned Coffee as a commodity coming down but obviously a lot of other people are

talking about wage inflation and there is inflation coming through the system. How do you view this going forward, particularly in terms of the big restructuring programmes you have going on? Is it a case of, Europe you don't expect pricing to come back anytime soon but you just have to work harder on the restructuring programs, or do you think there are signs that some of the European retailers are now prepared to start accepting price increases? Thank you very much.

**Mark Schneider, Nestlé S.A. Chief Executive Officer:**

Jon, thank for the question. I think you named the various elements quite well. So, I guess the only one that you left out is sort of isolated categories that have intense competitive pressure like Coffee for example. You mentioned the European retailers and I think the pressure from there is something that will go on and just continue to exist. But then for 2019, I think as the world is re-inflating I think that will also offer some opportunity for Western Europe when it comes to pricing.

The restructuring activity that you are seeing, that is not something that we do in a direct relation to pricing. I think this is simply when you look at Nestlé and it's old and inherited industrial structure, you see a lot of, what I would call, silo structures in various European markets that used to be run very independently for decades. That was not only the marketing and sales end of it, but also the manufacturing and supply chain end of it. So, as we harmonize this and go for efficiencies and avoid duplication and go for focus, plants, there is a need for restructuring here, which I think will benefit the business not only in Western Europe but also beyond, but that is not directly related to the pricing side. So on pricing I think on the one hand you have some headwinds like the competitive intensity and increased retailer cooperation, but then on the other hand I think for 2019 and beyond it seems like the world, including Western Europe, there's are some inflationary tendencies that will help us.

**Luca Borlini, Nestlé S.A, Head of Investor Relations:**

Okay. Next question comes from Patrik Schwendimann from Zürcher Kantonalbank. Please go ahead.

<b>Questions on:</b>	<b>Split of Organic growth Underlying trading operating margin</b>
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**Patrik Schwendimann, Zürcher Kantonalbank:**

Thank you. Good afternoon, Mark, François and Luca. The split of the organic growth in quarter three was roughly two-third RIG and one-third pricing, do you see for next couple of quarters a shift towards more pricing and less RIG? That's my first question.

The second question regarding the underlying trading operating margin, the consensus is expecting a 50 basis points improvement in 2018. Do you think this is still a fair assumption or has anything changed since the July conference call? Thank you.

**Mark Schneider, Nestlé S.A. Chief Executive Officer**

Patrik, let me just take the second first, you form your assumptions. I think we gave our guidance beginning of the year and that did not talk specifically about BPS for the year but rather on a path for 2020. Just as a matter of good form I need to remind you of that. So, we see a lot of progress here when it comes to operating efficiency in UTOP but we did not give any specific guidance here when it comes to the basis points. Then on the organic growth and it's composition, on pricing and RIG, François, maybe you want to comment.

**François-Xavier Roger, Nestlé SA, Chief Financial Officer:**

So, indeed I mean we have about two-third of RIG now and one-third of pricing. Obviously on RIG we are leading the industry, that's a good reflection of the volume growth that we enjoy as well as a good reflection of our capacity to innovate because it includes a mix and the mix is largely linked to innovation. We do expect to continue maintaining a high level of RIG so that's clearly what we've been working upon and I think Nestlé has been very, very consistent over the last couple of years in that regard.

As Mark said, we do expect to have a little bit more pricing as a consequence of commodity pricing moving up next year, as a consequence of inflation coming back, especially in the West. We may see a little bit more as well of pricing coming from currency depreciation, especially in emerging market, because over time we will have to pass it on.

You asked a question, is there some impact of pricing on RIG? It may happen usually in the short-term that there is a little bit of negative elasticity. For example, if you look at, in the UK last year after Brexit because of the currency depreciation, we had to pass on some price increases. We suffered for a quarter in Q2 last year and then we recovered everything and went back to a normal situation in the following quarter. That's a little bit what we have seen as well with Waters in the U.S. this last quarter where we raised prices. Usually, whenever we are category leader which is often the case, it's up to the category leader to take the

initiative as far as pricing is concerned and usually competitors follow and then it adjusts back in terms of volume growth.

**Patrik Schwendimann, Zürcher Kantonalbank:**

The question of margin also relates to input costs. Did I get it right that in H1, I mean there was – having 70 basis points and you just have confirmed that the second half is unchanged, which means plus 20 basis points tailwind is that correct?

**François-Xavier Roger, Nestlé SA, Chief Financial Officer:**

I don't quantify, but I confirm the fact that it was headwind in H1 which is the reason why we increased our margin by 20 basis points and I confirm that this will be a tailwind in H2. Absolutely, yes, with a net impact for the full year slightly positive in terms of contribution from commodities.

**Patrik Schwendimann, Zürcher Kantonalbank:**

And for 2019 you just mentioned some headwinds, how much would you expect?

**Mark Schneider, Nestlé S.A. Chief Executive Officer**

We will talk about 2019 with you in February Patrik, I hope that's okay.

**Patrik Schwendimann, Zürcher Kantonalbank:**

Okay.

**Luca Borlini, Nestlé S.A, Head of Investor Relations:**

Thanks Patrik for your questions. Next in the queue is Alain Oberhuber from MainFirst. Please go ahead.

<b>Questions on:</b>	<b>Brazil</b> <b>Foreign currency impact for FY</b>
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**Alain Oberhuber, MainFirst;**

Thank you. Good afternoon Mark, François and Luca. Two questions from my side. The first is could you give us a little bit more insight regarding the development of the different categories in Brazil, where we're really happy with the recovery and where you still see upside potential.

The second question for today, what do you expect the foreign currency impact could be for the year?

**François-Xavier Roger, Nestlé SA, Chief Financial Officer:**

So on Brazil the trading environment remains challenging with soft consumer confidence. We were happy to see that we're back into positive territories in Q3, which is something that we expected; it should probably be the case in Q4 as well.

So that's positive. You know that we had these trucker's strikes in May, we have recovered the most of it, not everything, but it's moving in the right direction. We had been facing as well, at the end of last year and still in the early part of this year, some pressure coming from the price decreases in Dairy. We are seeing the opposite now, so Dairy prices are moving up so which is certainly helping.

We saw some interesting development since you are asking about categories. In Confectionery we did very well and *KitKat* performed very well. In Infant cereal, *Nescafé Dolce Gusto* has been a good contributor along with Professional. A little bit more difficulty maybe in cocoa based beverages but no significant issues.

As far as Forex is concern it's difficult to say, we are still at the beginning of the quarter. We saw some deterioration very recently, especially coming from emerging market. Is it going to be sustainable, it remains to be seen. So anyway we're in these markets, we have been there for a long [time], we have a long term view and we can accommodate these ups and down. Emerging markets are a strong contributor in terms of organic growth because they grow two to three time faster than the average of our markets. They are good margin improvement driver as well, because we have a better market share, better margin on average in emerging market. But it's brings a little bit more volatility, so this is what we may be facing. To be seen, difficult to say but anyway we are equipped to handle these difficult conditions if they come.

**Luca Borlini, Nestlé S.A, Head of Investor Relations:**

Thanks, Alain, for your questions. The next person in the queue is Robert Waldschmidt from Liberum. Please go ahead.

<b>Question on:</b> <b>RIG in North America in Q4</b>
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**Robert Waldschmidt, Liberum Capital:**

Thank you taking the questions. If I look at the RIG growth in the Americas and given what you've just said about step up in the growth rates in Brazil. There's not much delta Q3 versus

Q4, sorry Q3 versus Q2 in terms of RIG, so taking the other major market there, outside of Mexico, would be the North America. What are we seeing there in terms of volumes, is it the slowdown in reaction to pricing taking outside of the Waters category? And if so should we expect that to continue or should we see some rebound in RIG in North America in the fourth quarter?

**François-Xavier Roger, Nestlé SA, Chief Financial Officer:**

So, it is true that we start seeing a little bit more traction in terms of pricing in North America, it applies to Water but it applies to other categories beyond Water. So it might, once again, as I said put a little bit of pressure in the short-term on RIG. That being said our RIG in Q3, was at the same level as it was for H1, slightly lower maybe but marginally lower. We are obviously positive in RIG, while we were flat last year, so which is we remain with the good volume growth and good innovation pipeline as well because a significant portion of our growth in North America is coming from innovation. If you take Water for example, this is coming from flavoured water and sparkling water, *Coffee-Mate* is growing, thanks to innovation we are regaining traction a little bit, even if it is not exactly what we would like to see, with *Gerber* with our organic and natural products. We see a very strong momentum within Coffee with *Nespresso* and especially with the *Vertuo* system, so RIG is positive in North America.

**Luca Borlini, Nestlé S.A, Head of Investor Relations:**

Well, thanks Robert for your questions. The next in queue is John Ennis from Goldman Sachs. Please go ahead.

<b>Question on:</b>	<b>Importance of R&amp;D</b>
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**John Ennis, Goldman Sachs;**

Yes. Good afternoon. One from me, please. You talked about the speed of product launches and innovation that's becoming increasingly important. I guess, do you think that this means the R&D will maybe take a greater share of overall brand investment over time?

**Mark Schneider, Nestlé S.A. Chief Executive Officer:**

John, just to be sure, are you saying taking over from brand investment or is it the absolute amount of R&D that you're interested in?

**John Ennis, Goldman Sachs:**

No, I just mean, do you think R&D will be, I guess, an even more important investment behind your brands than maybe A&P, over time?

**Mark Schneider, Nestlé S.A. Chief Executive Officer:**

Look, I think product attributes and hence things that are coming from R&D, are going to be critically important going forward. I think this is what's behind many of the small to mid-size companies and their taking share, is that their product attributes were new and refreshing and superior and very much favoured by consumers. What I said previously is we have an industry-leading R&D budget both in absolute amounts and in percent of revenue. We have not been looking for savings from that budget but what we wanted, for that budget, is a steadier stream of more meaningful products hitting the market quicker. So, it's all about rededicating that budget in ways that we get more output for the money we put in. I don't see you know this amount to increase in leaps and bounds. I don't see that there is an immediate push-pull relationship to the brand building expenses in advertising promotion. It's simply all about you know bringing the brands to life with meaningful product attributes and I think that can be handled really well with a kind of budget envelope for R&D that we have today.

**Luca Borlini, Nestlé S.A, Head of Investor Relations:**

Okay. Thanks, John. We have a last question from Jeff Stent from Exane. Please go ahead, Jeff.

<b>Question on:</b> <b>Accounting policy for Argentina</b>
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**Jeff Stent, Exane:**

Good afternoon. Could you just confirm there has no been change to the accounting policy for Argentina? Thanks.

**François-Xavier Roger, Nestlé SA, Chief Financial Officer:**

We are implementing a change as of the 1st of October because we are moving Argentina under the hyperinflation accounting treatment. Just to give you a perspective, Argentina is relatively small for us. It's about 0.5% of our total sales. So it does a limited contribution to our overall business. We continue consolidating Argentina, but we are moving it once again into the hyperinflation treatment.

The impact that it has had so far, since the beginning of the year, is rather limited. You may have seen by the way that our pricing in emerging market has even declined. So, what we will do from the 1st of October is, as we used to do in the past, to cap pricing as far as Argentina is concerned, just to make sure that our RIG and OG, especially OG in that case, are reflecting the reality on the ground. You remember that we applied the same kind of policies in the past for Venezuela in order to make sure that once again our KPIs and APMs are reflecting the economic reality.

**Luca Borlini, Nestlé S.A, Head of Investor Relations:**

Okay. Thanks. Jeff We do have a last question from Torsten Wyss from BZ Bank. Please go ahead.

<b>Question on:</b> <b>Organic growth for the Full Year</b>
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**Torsten Wyss, BZ Bank:**

Yes. Thanks. Just one question indeed. Your guidance for the full year of 3% organic growth implies an acceleration in Q4 to say 3.5% or something, now do you expect this to be supported more by RIG or by pricing? And by which product groups, so to speak, if you can differentiate that? Thanks.

**François-Xavier Roger, Nestlé SA, Chief Financial Officer:**

Indeed we expect to see some acceleration in Q4. This is largely coming from the comps. Actually, we had unfavourable comps in Q3 because we had a very strong Q3 last year, but we had a very soft Q4 last year. We did only 1.9% of organic growth. So it's certainly going to help. It's valid across categories. It's probably, if I look at in terms of geography, it may be even more positive probably for AMS because this is where we had a little bit of softness last year in Q4, but we do confirm that we expect some improvement of OG coming from Q4.

**Mark Schneider, Nestlé S.A. Chief Executive Officer:**

Plus I think there is also an additional trading day.

**François-Xavier Roger, Nestlé SA, Chief Financial Officer:**

Yes. There is an additional trading day, which usually we don't want to talk too much about it, but we can because usually we can absorb it every quarter. But indeed, there was one less

trading day in Q3 and there will be one more trading day in Q4, so which will help a little technically speaking indeed.

**End of Q&A session**

**Luca Borlini, Nestlé S.A, Head of Investor Relations:**

Well, thank you. Thank you very much. I don't see anyone else on the list. So I believe that we can conclude our session today.

**Mark Schneider, Nestlé S.A. Chief Executive Officer:**

Thanks for joining us and we look forward to talking to you in February.

**End of Transcript**