

NESTLÉ S.A.

2019 THREE MONTH SALES INVESTOR CALL TRANSCRIPT

18 April 2019, 14:00 CET

Speakers:

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, Head of Investor Relations, Nestlé S.A.

Slide: Title slide

Good afternoon, good morning to everyone. Welcome to the Nestlé Q1 investor call. This is Luca Borlini, I am head of Investor Relations at Nestlé. Today I am joined by our Chief Executive Officer, Mark Schneider and our Chief Financial Officer François Roger.

We will begin the call with some prepared comments by Mark, François will follow with the usual financial review and then we will open the lines for your questions.

Slide – Disclaimer

Before we begin please take note of our disclaimer which I take as read. Now I hand over to Mark.

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

Slide – Title

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 are pleased to report a solid start to 2019 with a broad based year-over-year acceleration in organic growth. We were particularly encouraged by the acceleration of our growth in Brazil and continued good growth momentum in the United States and in China.

Four out of five of our largest global markets did very well.

Real Internal Growth remained at the high end of our industry with 2.2% and pricing improved to 1.2%.

Looking at our categories we were particularly encouraged by growth in *Purina* petcare, Dairy and Infant nutrition. Coffee saw some weakness in Western Europe and in Japan largely as a consequence of category dynamics. I can assure you that we are working very hard to turn that around over the coming year.

While on the subject of Coffee I would like to mention the launch of our *Starbucks* range in March. We now have product on the shelves in the United Kingdom, Spain, Netherlands, Belgium, Japan and Korea. The United States will follow later this month with other markets following soon.

Portfolio management is fully on track. The Q1 performance of Nestlé Skin Health confirms that we have accomplished a significant turnaround of that business over the past two and half years. It is now a high growth business with strong brands and a winning strategy in each of its three business segments.

We have also seen substantial interest in our *Herta* business, the European leader in cold cuts and meat based products.

While Q1 is focused on sales I would like to assure you that all efficiency and margin programs are fully on track and delivering. We are confirming our 2019 guidance. We feel very confident about 2019 but it is important for me to ensure that your expectations do not overshoot. When we held our Q4 conference call in mid-February we told you to expect a slow start to the year. Q1 came in a little stronger than anticipated but I would like to point out that this is not materially changing our organic growth expectations for the full year 2019.

<p>Slide – Our business as a force for good: Creating Shared Value is at the heart of Nespresso's consumer proposition</p>

Turning to the next slide I would like to focus on a sustainability topic. I told you in February that we will do this on a regular basis, each quarter from now on. Since this is the first time I will spend a bit more time on this than usual.

We are starting this series by showcasing the Shared Value project of *Nespresso* and the sustainability benefits of portioned coffee.

Let me start by addressing the common prejudice that *Nespresso* or portioned coffee in general is environmentally unfriendly. When you look at the facts it is one of the most environmentally sustainable ways of enjoying high quality roast and ground coffee. The precision consumption system uses only the exact amount of water, energy and coffee needed to brew one cup. This reduces wasted resources, as a result *Nespresso* coffee actually has a lower carbon footprint than traditional roast and ground coffee preparation. People tend to focus on the additional packaging but the efficient use of resources typically offsets this, especially when compared to a situation where people make too much coffee and keep it warm only to throw away the excess coffee later. What's more *Nespresso* capsules are fully recyclable, both the aluminum and the coffee grounds are recovered and recycled. Aluminum was chosen as the capsule material because it perfectly preserves the flavors of the *Nespresso* coffees. It guarantees in-cup quality for the consumers and is 100% recyclable. Since 1991, so long before recycling became crucial as a global business model, *Nespresso* has been investing in recycling

infrastructure to cover 53 countries and provide 92% of *Nespresso* consumers with recycling options.

Nespresso's sustainability approach is not limited to the recycling of aluminum and the benefits of portioned coffee. What matters most is *Nespresso's* mindset of creating shared value when it comes to the coffee itself. *Nespresso's* supportive approach to fragile coffee farming communities around the world truly does stand out. At the heart is the AAA sustainable quality program which involves considerable investment. 460 *Nespresso* agronomists work closely with 100,000 coffee farmers to improve quality and yields. They also drive environmentally and socially responsible farming practices. Greater productivity of high quality coffee increases farmer's incomes and contributes to sustainable livelihoods. The average age of coffee farmers around the world is increasing and good financial prospects are important to motivate the younger generation of farmers to go into this business.

Nespresso has been at the forefront of reviving the coffee sector in countries with challenging conditions and declining production. One example is South Sudan whose coffee industry was largely destroyed after forty years of civil war. We partnered with Technoserve, an international not-for-profit organization that promotes business solution to poverty, and also with the ministry of agriculture in South Sudan. In 2015 *Nespresso* was the first and only company to offer South Sudanese coffee to global consumers. In September 2018 we announced a long term investment plan to help revive Zimbabwe's coffee industry and stimulate the rural economy. This follows a sharp decline in local coffee production over the past 18 years. Other countries will follow and benefit from our coffee revival initiatives.

This brings me to man in the photo, George Clooney. We started working with him in 2006 and initially focused on advertising, most noticeably the iconic *Nespresso* TV ads. Over the years George came to appreciate our approach to creating shared value and became more and more involved in our sustainability initiatives. We deeply respect his well-known public advocacy and humanitarian work and I believe the feeling is mutual when it comes to *Nespresso's* approach to the coffee business. George has served on *Nespresso's* sustainability advisory board since 2013 and is a very active board member. He was personally involved and instrumental in our ground breaking work in South Sudan. When thinking of *Nespresso* and George Clooney the broader public sees award winning TV ads and of course our delicious coffee, but I hope that this section has given you a different and little know perspective of our *Nespresso* business.

This completes my initial remarks, let me now hand it over to François and I look forward to your questions later.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.

Slide – Title

Thank you Mark and good morning or good afternoon to all.

Slide – Three-month sales growth

Let me start with the highlights for the first three months. Organic growth was at 3.4%, a little stronger than anticipated at the beginning of the year. Excluding Nestlé Skin Health and *Herta* which are under strategic review, organic growth was 3.2%.

RIG remains strong at 2.2% again at the high end of the Food and Beverage industry. This was achieved despite the earlier timing of Chinese New Year, the late timing of Easter as well as one less invoicing day in the quarter.

Pricing increased to 1.2%, mainly coming from the United States and Brazil. This was the highest pricing level we have seen in the last ten quarters.

The net effect of acquisitions and divestments was positive at 1.2% with the acquisition of *Atrium Innovation* and of the *Starbucks* license being offset by divestments, mainly *Gerber Life Insurance* and US confectionery. Foreign exchange was a minimal 0.3% headwind.

Sales for the three months were CHF 22.2bn, a 4.3% increase on a reported basis.

Slide – Improved momentum in the Americas

This slide illustrates the development of our sales by geography. It includes both our Zones as well as our Globally and Regionally managed businesses.

Organic growth and RIG were positive in all geographies. Pricing was positive in the Americas and AOA and very slightly negative in EMENA. In the Americas pricing increased in both North America and Brazil. In AOA higher pricing in emerging markets was partially offset by deflation in Oceania and Japan. In EMENA pricing was impacted by deflation in Western Europe with negative pricing in coffee resulting from lower green coffee prices.

Slide – Strong OG in emerging markets

Now looking at the growth dynamics between Developed and Emerging markets. Developed markets remain with a low single digit growth, continued solid momentum in North America was offset by negative growth in Western Europe as well as in Oceania and Japan. RIG was negatively impacted by the one less invoicing day which has an impact mainly in developed countries.

Emerging markets clearly accelerated, RIG remained strong and pricing improved significantly versus last year. The biggest driver was Latin America and particularly Brazil. ASEAN also improved with a broad based contribution by most markets. Russia also did well and grew double-digit. China remained strong with mid-single digit growth.

Slide – Zone AMS

Let's now look at the results of our five operating segments starting with Zone AMS where we continued to see the organic growth momentum building up. Sales were CHF 7.5bn, organic growth was 3.4% supported by higher pricing of 2.5%.

North America carried its good momentum from the end of 2018 into the first quarter as we continued to place emphasis on faster innovation and portfolio management. There was a re-balancing of the growth as pricing increased and became the main driver. RIG was positive.

The improvement in pricing was mainly driven by PetCare and Nestlé Professional. Both businesses had strong growth and were the two main contributors to North America's momentum. Beverages including *Coffee-mate*, *Starbucks* and *Nescafé* had mid-single digit growth. Frozen food returned to positive growth led by the *Hot Pockets* and *Stouffers* brands. Innovation and better execution supported growth in Frozen.

In Latin America we had mid-single digit organic growth driven by Brazil, our fourth largest market, with double-digit growth. Pricing increased significantly in Brazil across categories particularly in Dairy, Infant Nutrition and Confectionery. Mexico maintained consistent mid-single digit organic growth with a strong contribution from *Nescafé Origins*. Purina petcare delivered another quarter of double-digit growth.

Slide – Zone EMENA

Next is Zone EMENA sales were CHF 4.7bn, organic growth was 2.1% which is a relatively consistent level we have seen over the past two years. RIG was resilient at 3.1% and all sub-regions in the Zone had positive RIG despite the headwind of a late Easter. Pricing remained

negative due to Western Europe. Eastern Europe, the Middle East and North Africa had positive pricing.

By Category *Purina* Petcare and Infant Nutrition remain the key growth engines, particularly in Central and Eastern Europe and in the Middle East and North Africa. Both categories benefited from strong growth in the premium segment supported by innovation. Coffee had a subdued quarter with negative pricing in the category reflecting lower coffee bean prices.

Slide – Zone AOA

Moving now to Zone AOA with sales of CHF 5.4bn, organic growth was solid at 3.3%, RIG slowed to 2.3%, pricing increased slightly to 1%. China maintained its mid-single digit growth despite its headwind of the earlier timing of Chinese New Year. Growth was driven by Infant nutrition, Ready-to-drink coffee and Culinary products. Adult milks, milks with Yiyang, also did well.

South East Asia maintained mid-single digit growth with double-digit growth in both Vietnam and Indonesia. Most product categories contributed, most notably *Bear Brand*, *Maggi* and *Milo* Ready-to-drink. *Nescafé* posted a marked improvement versus the prior year thanks to improved execution. South Asia grew low single digit whilst sub-Saharan Africa posted mid-single digit growth. Japan and Oceania saw negative growth. Japan in particular decelerated as it faced unfavorable comparables and softness in the Coffee category.

Slide – Nestlé Waters

Moving on to our globally managed businesses and starting with Nestlé Waters, organic growth for the quarter was 2%. Growth was entirely driven by pricing of 4.3% with negative RIG of -2.3%. Total sales were CHF 1.8bn.

In North America organic growth was positive due to the significant price increase we took last year to pass on the cost inflation in packaging and distribution. This positive pricing partially led to negative RIG.

There were strong contributions from our established premium waters *San Pellegrino*, *Perrier* and *Acqua Panna*. In the mainstream segment *Nestlé Pure Life* was negative. *ReadyRefresh* our Direct-to-Consumer business had good mid-single digit organic growth.

Europe saw slightly negative growth with temporary slow-downs in the UK and Germany. Emerging markets improved with high single digit organic growth.

The international premium brands maintained high single digit growth driven by innovations such as *San Pellegrino Essenza* and *Perrier & Juice*.

Slide – Other Businesses

Finally, we finish with the Other Businesses which includes *Nespresso*, Nestlé Health Science and Nestlé Skin Health. As you know we are currently exploring strategic options for the Nestlé Skin Health business but its sales remain consolidated until that process is finalized.

Total sales for the Other Businesses were CHF 2.8bn, organic growth accelerated to 6.8% almost entirely driven by RIG of 6.5%. Pricing was slightly positive at 0.3%. *Nespresso* maintained mid-single digit organic growth with a strong momentum in North America and Asia. Europe was resilient in a competitive environment. *Nespresso's* global performance was supported by the continued progress of the *Vertuo* system rollout which has seen strong demand. *Vertuo* is now sold in 15 different countries.

Nestlé Health Science sustained mid-single digit growth supported by double-digit growth in the Medical Nutrition business as well as expansion in emerging markets. Innovation also helped growth.

Finally Nestlé Skin Health had double-digit growth further confirming its recovery since its reorganization.

Slide – Strong portfolio with broad-based organic growth

Looking now at our growth by product category where all segments sustained positive organic growth. Powdered and Liquid Beverages saw slower growth this quarter. Pricing in coffee decelerated versus last year especially in Europe, largely as a consequence of lower green coffee prices. Japan was impacted by softness in the category. The *Starbucks* brand contributed positively and Ready-to-drink coffee grew double-digit.

Nutrition and Health Science had strong growth driven by RIG in all three sub-categories. Infant nutrition continued its good momentum from the end of 2018 into the first quarter with 4.6% organic growth. Growth was driven by the *Illuma* organic range in China as well as innovation such as our HMO formula range which is now available in 50 markets.

Milk products and Ice cream had its strongest quarter of growth since 2014 reaching 4.2%. Ambient dairy improved significantly driven by pricing in Brazil. Innovation supported growth

with natural and plant based offering such as *Coffee-mate Natural Bliss* and *Häagen-Dazs* non-dairy.

PetCare continued to see strong growth globally, based on e-commerce, super premium and natural offerings, *Purina One*, *Felix* and *Tidy Cats* grew strongly.

In Prepared dishes and cooking aids growth improved and was driven by RIG as we return to positive growth in US Frozen foods with *Hot Pockets* and *Stouffers*.

Confectionery growth was solid and based on a good balance of RIG and pricing. The slowdown versus the prior year was mainly due to the later Easter.

Water we have already discussed.

Slide – 2019 guidance confirmed

Moving now to our full year guidance, which we confirm. This is a continued improvement in organic sales growth and underlying trading operating margin towards our 2020 target and an increase in underlying earnings per share in constant currency and capital efficiency

Once again we confirm that our outlook for the full year 2019 has not materially changed in light of the Q1 results.

Let me now hand over to Luca for the Q&A session.

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

Thank you François. With that we move to the Q&A session and we open the line for questions. The first question comes from Eileen Khoo from Morgan Stanley.

Question and Answer Session

**Questions on; Coffee – market share and brand performance
PetCare relationship with IVC**

Eileen Khoo, Morgan Stanley:

Good morning gentlemen, afternoon rather. Two questions from me. The first one is on Coffee. The Powdered and liquid beverages OG at 1.3% was relatively weak and I understand pricing being under pressure due to green coffee deflation, but why is RIG also flat? Could you talk a bit about your market share versus competitors? Also, if you can give

us a bit more granularity on the brand performance so if *Nespresso* was mid-single digit does that then imply that the *Nescafé* brand was flat or even negative? So that's the first question. By the way, some initial indication on the *Starbucks* rollout, how that is going, that would be great as well.

The second question, a bit of a minor one I suppose but quite interesting, on Pets. I was wondering if you could give some color around your recent minority stake in IVC? What was the strategic thinking behind that, what sort of information will be shared by the two parties? Are you intending to sell Nestlé products in this channel? Just more color on understanding your view on the opportunities here would be really helpful.

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

Thank you Eileen. This is Mark let me try and address both questions.

So on Coffee, clearly most of this centers around *Nescafé* and let me also say whilst I don't usually like to resort to seasonality you see a little bit of seasonality in here because especially in Europe the late Easter impacted the RIG a little bit. The RIG development is connected to the soft Coffee pricing because as you can imagine we are trying to be very prudent on pricing and when you have softness here on the commodity we rather work slower our way downwards. So there is some pressure on market share and RIG as a result of that. We don't try to be the leader when it comes to going south on pricing.

There is also an issue in Japan, that we highlighted in our press release and that François alluded to, so there we had a price increase April 1 last year and hence we had difficult comps because people were purchasing in anticipation of that, more strongly than usual in the first quarter. So all in all I think our path of differentiating and premiumising *Nescafé* more, insulating it a bit more against some of the effects you have seen here in Q1 is on the way. That's why I was saying we are working hard to address that issue. When it comes to the category overall, when it comes to the brand overall I have no concerns and I continue to be very bullish going forward.

Starbucks, I mentioned the countries where the product is on the shelf. There has not been a material sales number yet for Q1 because we literally started to stock the shelves in March so initial data is mostly anecdotal but I can tell you that it is very, very strong. Strong velocity and people are literally pounding the doors to get their hands on the products. So that is also making me quite bullish when it comes to the ramp up of this business.

Pets and PetCare, IVC, this is basically our way of experimenting with an ecosystem and building closer ties to petcare clinics. As most pet owners know at some point or another you have to establish a relationship with a clinic and of course the advice of vets is a very important source of information for pet owners. Unlike some of our competitors we don't think that the path is to own these clinics outright but I do think that a closer cooperation does make sense. So the beauty of this deal is, that not only is this relatively capital light for us, since we don't own the clinics outright, it also does not expose us to the day-to-day challenges of running a chain of petcare clinics, rather leave that in the hands of a very experienced and accomplished management team, overseen by a private equity fund that has done very well with that management team. So we can focus on what matters to us and that is potential relationship benefits here between the clinic side of things and the pet food that we have to offer.

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

Next question comes from Céline Pannuti from JP Morgan. Go ahead Céline.

Question on;	Outlook US categories - Infant nutrition, Frozen and PetCare
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Céline Pannuti, JP Morgan:

Good afternoon. My first question is regarding the outlook, so you acknowledged that there was a better start to the year yet you don't want to change the outlook. I just want to understand what is holding [you] back. In the better start to the year could you explain what you think, within Nestlé, has done better or you think you had tailwinds from the market itself.

My second question is in North America, the U.S. So you said that you continued the momentum from Q4 could you talk a bit more specifically about what has not done so well last year; Infant nutrition category, baby nutrition category, as well as Frozen – how you are doing there. Did I understand that PetCare was driven by pricing which I thought was a bit surprising given what you said on e-commerce? If you could comment on that as well.

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

Thanks Céline. Let me first start on the outlook and then hand it over to François for some more detailed comments on the outlook and also the U.S. question.

On the outlook, as you know, we are strong believers in meet or exceed mindset, and we are also trying to be as helpful to you as possible when it comes to managing expectations. There was a seasonality impact in Q1 that we were mentioning so for example there is a trading day less in March, that's a fact, late Easter was also a fact and the unfavorable timing of Chinese New Year was another fact. So those did have a negative impact. When it comes to what has gone better it is fairly broad-based which is good. The underlying base business has performed somewhat better but again we are not talking about something that materially that would now lead to a revised guidance.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

Good afternoon Céline. So on North America we are at the same level in Q1 as where we were in Q4 last year, around 2.5% organic growth across categories. So you wanted to have some further light on different categories. Frozen we are happy to see that we are back into positive territories. We grew by about 2% this is still work in progress but we are encouraged by the recent development which is largely linked to innovation, mainly with *Stouffers* and *Hot Pockets*, it's linked as well with a better execution on our side as well. PetCare is back with a good momentum, in the U.S. we are pleased by it. It is not only coming from pricing by the way, there is volume growth as well. Pricing did help but this is not just about pricing in this quarter.

You mentioned Infant nutrition, we are seeing some progress there especially in terms of market share, but this is still work in progress we need to do more. We worked actively on packaging, the brand and on positioning but still more to come. Once again encouraged by the positive development in terms of market share.

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

Next question is from Warren Ackerman from Barclays. Hi Warren.

Questions on;	Performance in Brazil Nestlé Waters – Differentiation and performance
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Warren Ackerman, Barclays:

Good morning Mark, François and Luca. Two questions from me as well. The first one is can

we dig into Brazil a little bit more? Double-digit growth, obviously very impressive. How much of that is comps versus last year versus how much is underlying. Given that we have got easier comps in Q2 and the truckers strike I am assuming that you don't want us to extrapolate double-digit growth. Are you able to give us some details on what's happening in some of your bigger categories in Brazil like Confectionery so we can understand what is actually happening on the ground? That's the first question.

The second question is really back on the Waters business and it is one really for Mark. I can see the good growth in the International brands Mark but on your brands like *Pure Life* in the U.S. you've been taking pricing, or you have been trying to take pricing, competitors haven't followed. It seems more and more difficult to differentiate against private label with brands like *Pure Life*. Given that you are trying to move up the value chain and trying to premiumize your portfolio how do you differentiate with brands like *Pure Life*? I am just interested in your perspective on that and just generally on Water are you happy with the performance of the Water business? That would be helpful. Thank you.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

Good afternoon Warren. I will take the question on Brazil and Mark will take the question on Water. On Brazil the comps help a little bit but it goes much beyond that so we grew double-digit in Q1 which obviously we were happy with. But it is half volume and half price. We are very encouraged by the development in volume growth. It is true that consumer demand is starting to regain some strength, which does help, but we believe that our innovation pipeline has certainly contributed to it as well. The volume growth has been especially strong in some categories and I would mention Dairy that has experienced a very strong momentum, as well as Nutrition and Professional. The truckers strike did not have any impact in Q1 so we do expect to get some additional traction in Q2 in Brazil coming from the comps because of the truckers strike where we lost a significant part of our business in the month of May last year. We had recovered some of it in June but net-net in Q2 we had lost some, so it will help us a little bit more in Q2.

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

Warren, this is Mark. So to get to the Waters question and are we happy with the performance, no we are not. We know that we have work to do and I think that's consistent with what I told you in conference calls in the various quarters last year and I think we are working very hard to do that. There's some part that's not related to OG that's simply related

to cost efficiency and the management team is very much focused on that and I think they have done a very nice job on improving our cost position. But then of course as a growth business we want to return to strong organic growth rates. Bearing in mind that the category overall, Waters, has a growth around the world of about 6-7%. So it is a high growth category if you are in the right segments in the right geographies. What we started last year internationally is to retreat from a few markets where we have a low ability to win. Brazil for example was one of those markets where we had local brands and we withdrew from that. We will continue that process and assess it market by market.

Then when it comes to North America I think we are in a multi-year transition where we start to get stronger, and emphasize more our international premium brands including *Acqua Panna* which was recently launched there. Then also our premiumized flavored and carbonated offerings and also increasingly in the future you will see from us functional water offerings that sell for a premium price. So that is clearly the way.

Then we take it a little easier at the lower end of the pricing spectrum. There is no point here in chasing growth and trying to out-compete private label and then chase un-profitable growth. That doesn't make sense. So we are much more selective now even with a brand like *Pure Life* in where we play geographically and by retail partner. What that means is, in that transition period, there is going to be a bit of drag on those volumes, that is unavoidable but I think it is good business and overall we need to move higher up the food chain when it comes to more premiumized offerings. No matter whether that is premium brands, flavored or functional. When it comes to the pipeline, when it comes to offerings, I am very encouraged but again this is a process that will take a bit of time until that growth will outweigh some of the volume loss that we are seeing at the lower end of the price range.

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

Thanks Warren. Next question is from Jean-Philippe Bertschy from Vontobel, go ahead Jean-Philippe

Questions on;	Pricing – link to incentives US Frozen – Pizza and Lean Cuisine businesses
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Jean-Philippe Bertschy, Vontobel:

Good afternoon gentlemen. My first question would be on pricing, a strong acceleration from the fourth quarter. The commodities are still attractive for you. I want to understand to what

extent is this linked to your new incentive plan, if you saw already some positive impact from there. Linked to that if you can give us an update on your outlook for commodities.

The second one would be again on US Frozen, you were mentioning *Stouffers* and *Hot Pockets*, what is the situation with the Pizza business and *Lean Cuisine*, how will you make sure that is fully sustainable and not just a blip as we have seen in the past years?

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

Thanks Jean-Philippe let me address the U.S. Frozen question and also the link of the pricing and the incentives. Then François can talk about commodities.

So U.S. Frozen I tip my hat to the team for the amount of work that has been going on during the last few quarters to aggressively address the situation. I think what François has been telling you is that we are getting traction here. We are getting traction on *Stouffers*, we are getting more traction on *Hot Pockets*. Pizza, as you know from our various quarterly reports last year, was never as much of a problem so in fact Pizza continues to run with positive growth and we have some very exciting initiatives in Pizza underway. *Lean Cuisine* will still take a little more time to get traction but I am as confident as I am for the rest of Frozen that the team is actually making good progress and I tip my hat to the amazing work that is going on. As you know when it comes to that category overall we are seeing renewed interest, especially from younger shoppers, so I think these efforts are worthwhile and it is important and good work for the company to defend our market position in this category.

On pricing and the incentive, it certainly helped. I wouldn't attribute it only to that. All we have done starting with the year 2018 is to be sure that we are not too over indexed when it comes to volume growth and that we have volume growth and pricing on a more balanced level when it comes to the incentives. That clearly helped but as you know we did a whole lot more, for example rolling out pricing tools and revenue management tools.

Clearly, when it comes to our management debates, market-by-market and category-by-category pricing has gathered importance. But we are also in an environment, as you know from last year, where we had seen a bit more inflation, and good inflation in Western markets, and we are benefiting from that.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

Good afternoon Jean-Philippe. On the commodity side, so let me maybe go back to 2018. Last year, we had an impact of commodity pricing and packaging material, which was neutral

for the full year. But it was not neutral during the year. It was actually a significant headwind in H1 and a tailwind in H2. So this year in 2019, we do expect to have a slight headwind coming from commodities and packaging material this year which will be the opposite of last year, which mean that we will probably not feel much of it in H1 but probably a little bit more in H2. So we still have time, by the way, because some of what we buy, we buy it on the spot market, so we have a fairly good visibility. So once again, some headwind for the full year and especially in H2.

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

Next question is from Alan Erskine from Crédit Suisse. Hello Alan

Questions on;	Nestlé Skin Health – growth level in Q1 Headwinds in Q2
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Alain Erskine, Credit Suisse:

Hi guys. Yes two questions. One just on Nestlé Skin Health, I think historically that business has been quite lumpy in terms of quarterly performances. So I just wanted to check the double-digit growth that we saw in Q1. Do you think that is sort of sustainable growth level? Or were there some factors boosting that?

Then my second question was just, as we think about Q2, just thinking of some of the factors there, you won't have the drag from one less trading day. You'll have the benefit of Easter. You'll have the benefit of lapping the trucker strike in Brazil. You'll have the ramp-up of the *Starbucks* rollout. I'm just wondering, are there any headwinds that you face in Q2 or baseline effects that we should think about when we come to model that quarter?

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

Thanks, Alan. So on Skin Health we are not trying to say that the long-term go-forward growth rate is double-digit. But there's also a whole lot more going on than just lumpiness. I think consistently now, when it comes to exiting 2018 and how we enter 2019, we're seeing much improved performance and again, fantastic work.

I think it only confirms what we all knew, and that is that skin care overall, personal care, inherently has somewhat higher growth rates than the food sector has. It doesn't mean it's a good strategic fit for us which is why we're putting it under review. But the attractiveness of the sector and if you get it right in that sector, that you can grow fantastically well, I think

that's just proven by that recent performance.

Now on Q2, as you know, we're always cautious not to get into quarterly guidance here. So there's a limit as to how far I can go. But I think all the fundamentals that you just cited are correct. There's not a particularly negative item that we could point you to or need to caution you on.

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

Next question is from John Ennis from Goldman Sachs. Go ahead John.

Questions on;	Nescafé pressure from competitors PetCare in North America
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John Ennis, Goldman Sachs:

Good afternoon everyone. A couple for me please. The first is a follow-up on Powdered and liquid beverages. I wondered if you could highlight where *Nescafé* is potentially seeing some share pressure outside of Japan and which types of brands is this? So is it private label that's taking share? Or is it local brands or other entities?

Then my second question is on PetCare in North America. Have competitors in general followed the pricing you've taken in that market? I wondered if you could give us a bit of flavor around your market share developments by channel, so online versus offline.

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

Thanks, John. We're trying to be helpful but we also have to be a little cautious so that we avoid here too much competitive signaling. So on *Nescafé*, Western Europe, I think, is a key area where we've seen some of this pressure. As you know, we do have one other major competitor there and we see quite a bit of competitive intensity. As I explained to one of the previous questions, we're not trying to be the people who lead pricing down. So I think that's as far as I would want to go on that. Then on Pet?

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

So on Pet in North America, so we are gaining clear market share in E-com, which we are doing very, very well in E-com. We are gaining market share as well in cat food in North America which is good. The rest of it, we are basically growing in line with the market.

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

Next question is from Alain Oberhuber from MainFirst. Hello Alain.

Questions on; European pricing environment Infant nutrition performance in China

Alain Oberhuber, MainFirst:

Good afternoon Mark, François and Luca. I also have two questions. Firstly, with regard to Europe, there is still deflationary development that we have also from a competitor of yours. What do you expect regarding the environment on pricing in Europe? Is there any light at the end of the tunnel, that we see some inflation in due course?

The second is regarding Infant formula. Could you elaborate a little bit more regarding China of the different segments? We heard *Illuma* was very strong, but the other businesses or the other brands you have in Infant formula in China, I would be very much interested. Thank you.

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

Thanks, Alain. Let me take the first one and then hand it over to François for the second one. Look, on Europe, yes, it has been a low growth and somewhat deflationary environment. I think from a cautionary perspective, it's important to approach it on that basis going forward. A lot of work goes on behind the scenes to streamline our European operations, avoid unnecessary duplication, pool resources when it comes to the more category-led and category-driven approach across Europe. I think some of that, we will also outline in Marco Settembri's presentation as part of our Investor Day in May. I think that approach is getting a lot of traction and working very well.

The macro environment is one that we cannot change, so we work from these rather somber assumptions. If something changes for the better, that's fantastic. I think the way to get pricing here is through differentiation and premiumization. All the more the importance of a vibrant R&D function and short-cycle innovation and constantly keeping categories exciting to the consumers and to the retail trade.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

Good afternoon Alain, François speaking. So on the China nutrition, so we enjoyed the mid-single-digit organic growth in Q1, which is pretty much in line with what we experienced last year as well. So this good performance is really based on premiumization which is what we have been following as a strategy over the last couple of years. But I would mention more specifically, for example, the launch of HMO in Hong Kong. We didn't do it yet in China. But in China, we are really successful as well with the organic range, with the relaunch of the S-26 GOLD. We are going deeper in smaller cities as well with the new route-to-market business.

We also have a strong momentum with the infant cereal that we sell in China under the Gerber brand which is an interesting development. We are doing well in e-commerce and more specifically with the cross-border e-commerce. You know that we were maybe a little bit late in entering into that specific segment but we are enjoying a strong growth which is close to 40%, 4-0. But let's take this figure with care because we are starting from low base, but it's very encouraging as well. Our market share is stabilizing to slightly increasing with gains, further gains in super premium with *Illuma* and e-commerce.

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

Next question is from Guillaume Delmas from Bank of America. Go ahead Guillaume.

Question on;	Performance of non-high growth categories
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Guillaume Delmas, Bank of America Merrill Lynch:

Good afternoon gentlemen. One question actually for me. It's on your non-high-growth categories. Because it seemed you're getting some very good traction there with organic sales growth of around 3% in Q1 for that part of your business which is almost double the rate we saw back 12 months ago. So my question is do you think 3% plus organic growth is a level that is sustainable for this part of your portfolio? I guess, looking at the bigger picture, when we think about your mid-single digit OG ambition, would it be fair to say that you're non-high-growth categories are already where they should be? And it's more your high-growth category that are lagging a little bit behind. Thank you

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

Guillaume, thanks. I think for this quarter, the picture is a little bit distorted because we've seen that Coffee weakness that I think dampened the OG from our high-growth categories. But on the non-high-growth categories, let me just say I'm very, very happy for them to get up, and there's no limit there. Just because we haven't called them high growth doesn't mean

they shouldn't grow more and I applaud that very much. I think in previous calls, we highlighted some wonderful examples of high-growth experiences, like for example *KitKat* which again has done phenomenally well this quarter. So I'm the first one to applaud them and if any one over time, if all of them over time make it to the high-growth category, I'd be very happy for that.

Specifically though, we need to be realistic here for this quarter. There was a geographic element, and that's in Dairy, Brazil in particular coming back. I think that made it look particularly strong. So again, while I see good efforts underway in our non-high-growth categories, it's important not to over interpret that one quarter.

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

Last question is from Jonathan Feeney from ConsumerEdge.

Questions on; E-commerce growth in North America vs globally PetCare business in US

Jonathan Feeney, ConsumerEdge:

Good morning. Thanks very much. Two questions for me. First, could you give us a sense of your e-commerce growth broadly in North America? I mean how that compares to your e-commerce growth globally?

Secondly, within PetCare, you mentioned pricing in North America. I see, at least through the retail data I have access to, that the category has grown a little faster than the Nestlé portfolio. I think that's because of, not so much pricing like-for-like, but the rapid growth in premium and super premium offerings where I think Nestlé is a little underrepresented. Would you think that is a fair characterization of your North America PetCare business? And is there an opportunity to develop that premium or super premium niche more aggressively? Thank you.

François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:

Jonathan, this is François speaking. So I'll take the first one. On e-commerce in general in the U.S., we enjoyed the strong growth. Just to give you the picture for e-commerce globally in the quarter, we grew at about the same pace as what we experienced last year, which is 18% in total, 18% growth over the previous year. If we exclude *Nespresso*, it's 25%. The figures are actually exactly the same as we had last year. If I talk more specifically about the U.S., our growth was even higher than these levels that we experienced internationally.

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

Yes, Jonathan, to finish it off on North America and PetCare, I think we have some premium and super premium offerings, too. So I think we've done well on that, starting with the *Merrick* range and *Pro Plan* as an example. We've done well in e-commerce in that segment. Overall, I think where we can, we would like to strengthen the natural portfolio. Even in some areas that are not typically mainstream in this category, like for example cat litter, there's premium offerings, and we have improved products there that are doing very, very well with consumers.

So where we can, I think we do benefit from this premiumization trend. A lot of people focus on natural premium dog food. It's not only in that arena. There's a lot more going on than that and I think this is where our broad-based stance comes in. Some of the data, especially for people that do well in e-commerce like us, is a little misleading because depending on what sources you look at, not everyone captures all of these elements of growth. We saw already last year that with some of the official market share data, it somehow painted a different picture, a not so positive picture, whereas we see our business do wonderfully well.

End of Question and Answer session.

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

Well, we thank you very much. We don't have any more questions at this point in time. Again if you have any further questions, don't hesitate to reach out to Investor Relations.

We look forward to speaking to you soon, and many of you will be at the Nestlé Investor Day, so we look forward to seeing you there. I wish you all the best.

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

Thank you. See you in May.

END OF TRANSCRIPT