

NESTLÉ S.A.

## **2017 CAGNY PRESENTATION TRANSCRIPT**

### **Nestlé Overview and Strategy**

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Speaker:

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**François-Xavier Roger, Chief Financial Officer, Nestlé S.A.:****Slide: Title slide**

Thank you very much and good afternoon to all. We are happy to back in CAGNY we could not participate over the last couple of years because of conflicting dates with our own disclosure.

**Slide: Disclaimer****Slide: Agenda**

I will start by covering an overview of Nestlé' since we have not been at this conference for some time. Then I will talk about our strategy and the direction that we are taking. Then I would like to close our structural cost initiatives, to give you a little bit more colour on the programme we launched a little bit more than six months ago.

**Slide: The Nestlé Story**

Just an overview of Nestlé. Nestlé celebrated last year its 150<sup>th</sup> Anniversary. The company was created with Swiss original roots, created by Henri Nestlé but we have some American roots too because in 1905 it merged with a company founded by Mr Page who was an American citizen.

Over the last 150 years we actually even created entire categories like Infant Nutrition, like Soluble Coffee and more recently Portion Coffee. We have grown quite extensively through a combination of organic growth and external growth. We have been in many of our markets for more than 100 years.

**Slide: A strong global footprint.**

We are the largest Food and Beverage Company in the world by far. We are operating in 190 countries. We have more than 450 plants, we employ more than 340,000 employees. We have 30 R&D centres across the world and 4 innovation hubs as well around the world. We have a unique global footprint.

**Slide: Very diversified and balanced portfolio**

Our portfolio, both in terms of geographies and categories, is well diversified so we have an interesting risk profile. We are not heavily dependent on any single country.

Our largest country is actually the United States where we have a total value of sales of \$27bn out of a total of \$90bn. So the US is our largest country, we employ 51,000 people and we have 87 plants in the US. Our second largest market is China with sales amounting to \$7bn. So once again we are not depending on any single country.

Category-wise we are not depending on any single category either. Our largest category, which is Beverages which is predominantly Coffee, accounts for 22% of our total sales.

So we have a well-diversified portfolio of categories as well

**Slide: Strong global and local brands**

We have about 2,000 brands globally. Which is a mix of global brands like *Nescafé*, *Nespresso*, *San Pellegrino*, *Perrier*, *Purina*, *Maggi* I could give even more.

We have a lot of local brands as well just to give some flavour in the US; *Coffee-mate* for example or *Gerber* our brands which are very strong in the US context.

**Slide: Agenda - Long term value creation****Slide: Commitment to Long-term value creation**

Our strategy, the foundation of our strategy is based on Nutrition, Health and Wellness. Nutrition, Health and Wellness does not mean just Nestlé Health Science and Nestlé Skin Health. It does apply to all categories and it starts with for example with reducing the amount of sugar, fat and salt in our products. We have achieved almost 10% reduction for these three components in our products over the last couple of years.

We have a strategy of long-term, and I insist on long term, value creation which is based on a balanced growth of the top and bottom line. We expect to be, by 2020, in mid-single digit

organic growth levels. To do that, as our new CEO Mark Schneider presented on the occasion of our Full Year results a few days ago, we have identified clear building blocks. The first one is to invest selectively in categories and regions that have a strong growth potential.

Regions, Mark mentioned the other day, Asia and Wan Ling will cover it in a few minutes. When we talk about fast growing Categories Mark mentioned Coffee, Water and PetCare. These three categories are already growing north of 5% with a strong potential to go even further than that.

What we need to do as well is to address our under-performing businesses. *Yinlu* for example is a business that is under-performing today and Wan Ling will talk about it in a few minutes. Jeff will share with you exactly what we have done to turn around our Frozen food franchise in the United States with a lot of success.

We will need to be active in our portfolio managements. We have been and we can make some bold moves as well as we have done with the creation of *Froneri* in Ice Cream, partnering with the private equity firm recently. The disposal of *Davigel* that we did at the end of 2015 is a good example of what we can do as well. This is a sizeable business, it is about €800 million of sales.

We are really in the business of innovation and I will come back to that. We are strongly investing as well in digital and I will detail that a little bit later as well.

We have a strong culture of cost efficiency and this will be the later part of my presentation and we are now executing new programmes.

We value a lot share-holder return so we have a growth oriented dividend and I will show you a chart in a few minutes. In order to get there we are valuing a lot capital generation and we are very positioned in the industry as far as cash flow generation is concerned.

We have a very careful approach to capital allocation, including M&A. That being said we have been doing quite a lot. Just as an example we spent \$40bn on acquisitions over the last eight years.

**Slide: Quality Organic Growth driven by Real Internal Growth**

Just look briefly at the profile of our growth over the last three years. The blue part is what we call RIG which is Real Internal Growth. It's a combination of volume predominantly as well as mix.

As you can see we are clearly at the higher end of the industry. Last year we achieved 2.4% of RIG which puts us clearly at the number one position among the big players in the industry. This is important, volume growth, because this is about share of stomach, this is about share of shelf space in the trade, so we are really creating substance for the future there.

Pricing has gone down over the last couple of years, predominantly as a consequence of a deflationary environment in Western countries combined with a very low commodity pricing level which we have seen some turnaround about 9 months ago so we should see or which could help us a little bit further in the future.

**Slide: Cost efficiencies and portfolio management driving gross margin evolution**

We have been driving significant efficiencies throughout our P&L. The good illustration of it is the fact that we have been able to increase our growth margin by 350 bps over the last four years. This is a consequence of our efficiency programme called NCE, Nestlé Continuous Excellence, where we deliver north of CHF 1.5bn savings a year. Last year it was even more than CHF 1.7bn. This combined with portfolio management, this combined with premiumisation as well as the component, a smaller component though, of a tailwind in terms of commodity pricing.

**Slide: Continuous margin-improvement over time.**

Part of what we have achieved in terms of savings has flowed to the bottom line, we have increased our trading operating profit by 28 bps on average over the last four years. Last year it was 30 basis points.

If we look more specifically last year at Food and Beverages we increased our margin by 50 bps. Food and Beverage accounts for 95% of our total sales. This is even after restructuring costs, and we doubled our restructuring costs last year, which means that Food and Beverage before restructuring costs increased by 65 bps which is a level that we have not seen for quite some time.

**Slide: Consistent industry-leading cash flow generation**

We are generating a strong cash flow 11.3% of sales last year, which puts us at the higher end of the industry. Clearly we do not only deliver a high level of cash flow but it has been very consistent over time.

**Slide: Sustainable dividend per share in CHF**

We value share-holder return, as I said earlier, so we have increased our dividend over the last 22 years. We are proposing another increase to the annual meeting of share-holders in a few weeks and actually we have not decreased our dividend over the last 75 years. We have even increased our dividend in Swiss Francs which as you know is a currency that has re-valued.

**Slide: Balanced Emerging and Developed Markets**

We have increased significantly our franchise in Emerging markets, Wan Ling will talk about it in a few minutes. 42% of our sales, it was 10 points lower ten years ago.

**Slide: Driving our profitable growth in emerging markets**

This is important because we have a higher level of profitability in Emerging markets. So not only do Emerging markets contribute a higher level of growth, between let's say 3-5 times higher growth as in Developed markets, but it is a more profitable driver as far as the bottom line is concerned as well. We do invest a little bit more in the marketing but it is positive for the bottom line.

**Slide: Quality growth: leading in eCommerce**

We do not only invest in marketing we invest in R&D, we invest also a lot in new forms of distribution and new forms of interaction with consumers. One good illustration is the success we have reached with e-Commerce which almost accounted for 5% of our total sales last year while it was only 2.9% in 2012. If it were a country I think it would be our third or fourth largest country.

Our eCommerce sales have increased by 18% last year and if we put aside *Nespresso* it is even a 34% increase, We have a higher market share, in 57% of the businesses where we can measure our market share on-line and off-line, we have a better market share on-line in 57% of the cases so we are doing well as far as e-Commerce is concerned.

**Slide: Playing in the right categories**

We are playing in the right categories. We are playing in 7 of the top fastest growing categories in the Food and Beverage industry, which is really good. We are talking of [Portioned] Coffee, Bottled water, Milk Formula and so forth.

Not only are we playing in the right categories, because they drive growth, but we have leading positions in these categories. We are number one or two worldwide in these seven categories.

**Slide: Growth driven by innovation**

We are in the business of innovation. About a third of all the products that we have in the market were not on the shelves three years ago. We renovate about a third of our range every three years, renovate or innovate.

It takes different shapes or forms it can be about premiumisation, you have an example there with Premium Chocolate, *Les Recettes de l'Atelier* in Europe, which is currently present in 8 countries which grew by 34%. You can see there also *Nespresso Vertuoline* which is a different system to the original system because it is a different technology, a different coffee experience. It provides the opportunity to do long coffees as well. This is a system that we market in the US, we now market it in Europe as well, we started in France in November of last year.

Innovation can be scientifically driven as well. This is the case of *Illuma* for example on the right bottom corner there [of the slide]. This is a product that did not exist a little bit more than five years ago. We reached CHF 900 million of sales in China alone last year and the product still grew by 34%.

**Slide: Focusing on our billionaire brands**

We are very focused in terms of promotional support. We invest about 80% of what we do behind our 34 billionaire brands. It is not such a large number relative to our size and these products are growing much faster than the rest of the range and they drive a high level of profitability, so we are very focused in terms of marketing support

**Slide: Addressing the polarization of consumer trends**

We are really addressing well the polarization of consumer trends. We are doing a good job in terms of premiumisation which is growing 3-4 times faster than the average of our range. This accounts for 19% of our total sales.

We are putting a lot of emphasis as well on the affordability concept or what we call PPP which is growing as well faster than our total sales, fully addressing the needs of our consumers.

**Slide: Driving our NHW profitable growth journey.**

What we do in terms of our Nutrition, Health and Wellness is not only relevant for consumers because we bring healthy propositions to them, it is also relevant to our share-holders.

If we split our total sales in two parts; the part that is more NHW and the part that is less Nutrition, Health and Wellness, that does not mean it is not it just means that it is less, we can see that the part that is more NHW is growing 80% faster, it doesn't require any additional marketing support but it is bringing about 50% more profit as well. So once again not only is it relevant for our consumers but it is relevant for our share-holders as well.

**Slide: Agenda – Structural Cost Saving Initiatives**

Let me move now to the last part of my presentation our structural cost saving initiatives.

**Slide: Identified eight structural savings beyond NCE**

I discussed them in our Capital Market Day last year. I shared with you that there were three areas we wanted to work upon; Operations, Procurement and G&A, with a view to take out of our P&L bar 200 bps, as a percentage of sales, with an horizon of 2020.

**Slide: 2016 Achievements: Operations**

Let me now share where we are with some of these projects. As far as Operations is concerned the objective is really to 'Sweat' assets, to increase our capacity utilization and to reduce our cost of doing business from a manufacturing and supply chain point of view.

We have done relatively well in '16. The bulk of what we do is linked to this programme called TPM – Total Performance Management – when we run that programme, in a given line, we usually increase productivity by 15%. We ran that programme, we have done it in 22% of our lines last year which is 10% increase over the beginning of the year. We aim at 90% by 2020.

We have increased, as a consequence, our asset intensity by 4 percentage points we have completed a comprehensive review of our industrial footprint which will allow us to make the right decision soon. We have last year closed or sold 8 factories.

**Slide: 2016 Achievements: Procurement**

Looking at procurement the idea there is really to consolidate more procurement activities, above markets to be able to leverage on scale. We used to buy only 40% of what we source in terms of goods and services above market and 60% at market level. We are looking at reversing the percentage and buying 60% above market.

To do that we are creating 3 global hubs; one for Asia, one for Europe and one for the Americas. We have already set these three hubs and 60% of the positions have been staffed. 6 markets have already been transferred to this new setting and three categories Dairy, Laminates and Media are already operational. So we expect to deliver already some savings in 2017 and the following years.

**Slide: 2016 Achievements: NBE**

NBE, Nestlé Business Excellence, which is largely the combination of what we call GLOBE, our IS and IT systems, as well our Shared Services. This is about simplifying, standardising and sharing some non-consumer facing activities. In order to do that we need to align and have standardised business processes for example source to pay or hire to retire for the

staff. We have already completed four of the six process designs. We have increased the contribution of shared services, what we share above market, from 6 to 10 % and we have created two new shared service centres, one in Portugal and one in China, taking the total to 9.

**Slide: 2016 Achievements: Site Optimization**

For site optimization, this was one of the other projects as well, the idea to consolidate some of our operations in given markets. As I shared in May last year we are operating with 3,000 sites, serviced by 22,000 suppliers. We know that would could improve significantly the efficiency there.

We have already done some moves. We have announced ten day ago a consolidation of our sites in the US. Predominantly to Washington D.C. and Solon, Ohio. We have started to restructure our sales force in the US and we have started to reduce the number of sites that we are operating from at the Head office in Vevey, Switzerland.

**Slide: Agenda - Summary**

So we are moving already fast. There is a lot to be done but we have really entered into the execution phase.

**Slide: Summary**

As a summary we are really working in order to create value for the long term through both a combination of top and bottom line growth.

We are very much on the top of our cost base in order to bring more discipline there and leveraging on what has been done in the past.

We are focusing quite a lot on free cash flow and we have done a very good job last year but we can do more.

We continue to be prudent in terms of Capital allocations including M&A and we ambition to move faster and make decisions quicker.

Thank you very much. I will leave the floor now to Wan Ling who will talk about growth and other topics in AOA.

**End of Transcript.**