NESTLÉ S.A.

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Slide: Title slide

Good morning everybody.

Slide: Disclaimer

I will take the disclaimer as read

Slide: Agenda

During my presentation today I will cover mainly two topics. The first one is our growth agenda and our ambition to go to mid-single digit growth by 2020 and I will detail the building blocks to get there.

Then I will talk about our continued focus on efficiency and margin improvement.

Slide: Balanced and Diversified portfolio

I will start with just a quick summary of our portfolio just as a reminder. As you know we have a very diversified portfolio of assets, both in terms of countries, in geographies and categories. We are not actually dependant, or relying on any single geography or country or any single category.

From a geography point of view our largest market is the US with $ 28 billion of sales and from a category point of view our largest category is Beverage which includes mainly coffee and cocoa malt beverages which accounts for 23% of our sales.

From a geography point of view you know we operate in 190 countries.

Slide: Iconic brands around the world

We have a large number of brands many of them are local or regional or global. Most of them are iconic brands and they resonate very well amongst consumers including with millennials. We have 34 brands with a value above $ 1 billion at retail value.

Slide: Full-year 2017 performance highlights

A short recap of 2017.

We had sales of almost CHF 90 billion. Organic growth at 2.4% which is clearly below our expectations. Real internal growth at 1.6% which clearly puts us, as far as volume is concerned, at the higher end of the industry. Our underlying trading operating margin increased by 50 basis points on a constant currency basis which puts us on the right track for our margin improvement by 2020. The 50 basis points is actually quite good taking into consideration the fact that we had CHF 900 million of additional cost coming from commodities last year.

Slide: Positive growth across all product categories in 2017

If we look at our broad range of categories you can see that all of them are actually positive by volume which it the blue part of the bars. You can see that all categories but one are actually fairly close to the group average which means that we have a very consistent portfolio of assets.

The only category that was not growing really was Confectionery, still positive by volume. If we adjust for the US we would be close to 1% and it was a little bit at a lower level due to the timing of Chinese New Year given that we have a sizeable business there with *Hsu Fu Chi*.

Slide: Clear path to achieving mid-single digit growth by 2020

Moving now to our ambition for 2020 to move to mid-single digit growth. We have three building blocks. Fixing the base business and we have made some progress last year with stabilization at *Yinlu* and the re-launch of *Gerber,* I'll come back to that on my next slide.

We made some progress as well in terms of portfolio management, with the disposal of US Confectionery and with a couple of acquisitions; *Atrium, Blue Bottle Coffee, Sweet Earth*, *Chameleon, Terrafertil* and so forth. And we have announced as well the strategic review of *Gerber Life*. I will cover most of these topics in my coming slides.

Then the key growth engine is on our base business, on our high growth categories. There we have achieved quite a lot already in 2017. If we look at our performance for E-commerce +32%, if we look at *Nespresso* in the US we are at mid-teens in terms of growth; strong development of our business, PetCare in Emerging markets and so forth and so forth.

I am just talking there, by the way, of drivers of growth. If I were talking of geography I would certainly point to the US, we have to get growth in the US. We were basically flat in the US last year, we have to get growth in the US to get to our mid-single digit ambition. I won't cover that specifically because Steve is going to talk about it in the next few minutes.

Slide: Addressing underperformers

Starting with addressing the underperformers. *Gerber* has been a drag clearly for Nestlé for many years. We have relaunched the entire range and re-positioned the entire range. It goes beyond packaging, we changed the packaging. We launched a new range of organic and natural. We simplified our number of SKU's as well. We expect to have 90% of our range which will be GMO free by the end of 2018. We have already seen some signs of it, because we did that in the middle of last year, we moved from negative to flat already as at the end of last year.

Yinlu is another asset that was underperforming. In 2016 we were at – 22%. We finished the year, last year, slightly positive so we are happy to see that trend. As you know *Yinlu* is in China, it is made of three large categories. One of them is peanut milk which is still underperforming, we are still working hard in order to fix it. The second one is congee which is a traditional Chinese breakfast, a kind of porridge, which is actually doing well we are back into positive territories. The third part of the business is ready-to-drink coffee where we are actually doing very well and it is growing fast.

So addressing underperformer is really driving our growth for 2020 and once again we made some progress last year.

Slide: Active portfolio management

Moving to the next one, portfolio management. We made some progress already in 2017. You can see that roughly speaking what we have done is to swap $900 million of sales that were declining with our US Confectionery franchise and swap it with a certain number of assets which for the same value of sales, $900 million, which is growing at double digit growth.

That means that this swap will contribute about 20% of additional organic growth on its own. What have we bought? We have bought *Atrium* which is a vitamin, mineral supplement company with sales of about 700 million. They are very differentiated products growing double digit. We bought as well *Blue Bottle* which is in a new space for us, which is coffee shops, but they are in roast and ground as well. We bought *Chameleon* which is the leader in the US of organic cold brew coffee. We bought other assets with plant protein based products; *Sweet Earth, Terrafertil* and so forth.

It's very good as well for the bottom line if we just take the swap from Confectionery to *Atrium* we are disposing of a business with low profitability and acquiring a business with much better profitability. So it has some positive impact on the bottom line as well.

Slide: Active portfolio management

Moving further with the active portfolio management we have announced the strategic review of a business that you might not have been aware that we had it; *Gerber Life Insurance*. It was part of what we acquired in 2007 when we bought *Gerber* from Novartis. We have been a good owner of that business over the last ten years. We grew it from $400 million of sales to $840 million last year. That is clearly a business that is non-core to us even if we developed it nicely. That is a regulated insurance business, not something that we are especially expert in. We remain fully committed though to the *Gerber* business which is about meals and drinks and infant formula which is obviously a core business for us.

Slide: Driving growth through innovation

Moving now to the last part of our growth agenda, which is certainly the most important, growing our base business. This is very much about innovation, innovation is really at the heart of everything we do. We renovate or innovate about a third of our products every year and last year we even accelerated it we innovated or renovated 1,200 products which is an acceleration from the pace we had in the past, it is 8% more than we did in the past.

Innovating means what? It may mean new products obviously. A lot of it has to do with naturalizing our products, making them more natural, organic. This is what we do there with *Maggi,* what we do with Dairy, what we do with PetCare for example with *Beyond* for *Purina* or *Merrick*.

Innovation can mean other forms like premiumization which I will cover in a minute. It can mean scientific innovation which is what we do for example with oligosaccharide that we introduced in summer for Infant formula with *Nan* here.

Innovation can mean as well new business models such as for example Direct to Consumer and I will elaborate a little bit further during my presentation on that one.

Slide: Driving value through premiumization

Innovation may mean premiumization as well and this addresses clearly one part of consumer demand. There is clearly a polarization of consumption towards affordability at the bottom end and premiumization at the high end. As far as premiumization is concerned we do a very good job. We increased the share of premium products from 11% of our total sales in 2012, five years ago, to 21% last year. So these products grow two times faster than the average of our sales. We have as well a benefit on the bottom line because these products have an average operating margin which is around 300 basis points better than the average of our other products.

I have a lot of examples for that, *S.Pellegrino* and *Perrier* for water, we could take *Häagen Dazs* for Ice cream, we could take *Nespresso* for Coffee and we could take *Illuma* for Infant Nutrition for example. So we have many examples of it and we will continue to drive that. I am confident on the fact that we should have one fourth of our portfolio coming from Premiumization soon.

Slide: Expanding in emerging markets

Emerging market is another growth driver. We have a strong franchise there. We have almost CHF 39 billion of sales in Emerging markets. We have been in many of these markets for a long [time]. We opened in China or India around 1870, we opened in Brazil in 1921 so we have a very strong franchise. Very good growth. Last year we grew in Emerging markets, in terms of organic growth, by 4.7% to be compared with 0.7% in the Developed world. So that is really, clearly a growth driver.

We happen to have a better growth margin as well in Emerging markets which gives us some support on the bottom line as well. You can see that we have increased our footprint moving from 32% of our sales ten years ago to 43% last year.

The opportunity doesn't stop now. The opportunity is very large because of our exceptional footprint in these markets. I am just indicating one opportunity that we have for Coffee for example where consumption is on average quite low. If you look at the number of cups per consumer in China, India or Africa it is below 15, it's above 140 in the rest of the world. We are confident that even in markets where there is a strong tea culture we can move consumers, especially younger consumers, progressively to Coffee. You have the example of Japan which illustrates extremely well that opportunity.

Slide: Growing Nespresso, especially in North America

Growing our base business can also be valid for businesses that have been there for quite some time. *Nespresso* is an amazing business. We launched *Nespresso* 30 years ago. In spite of the fact that we don't have any patent protection on the original system, in spite of the fact that we have thousands of compatible offerings in the market we still continue to grow mid-single digit with the business and we have a business that is north of CHF 5 billion. We grow in our three geographies, In Europe, in Asia and in the United States. The United States became our second largest market recently and we grew at about 15% last year in the US. We are even in the US in the third position as far as portioned Coffee is concerned.

We keep on innovating with Nespresso, launching new SKU's. We launched for example 30 new ones last year. We increased our footprint we opened 80 new boutiques last year, we entered 8 new countries and we launched as well, as we expand with our new system Vertuo which is doing long coffee We entered in to new markets, after the US, after France we entered in to Canada, in Australia and in the UK and we will continue pushing further into new markets.

Vertuo the new system with long coffee contributed to almost 1/3 of our growth last year.

Slide: E-commerce intensity is focused and rising

Driving growth may come from new forms of access to our products for consumers and E-commerce is one good illustration. You can see there has been a significant acceleration recently. E-commerce accounted for 6.2% of our sales last year and if we exclude *Nespresso* it grew by 32% last year so it is really driving growth. It is highly concentrated in terms of categories on four categories; PetCare, Water, Coffee and Nutrition. So they represent 90% of our [E-com] business - PetCare, Water, Coffee and Infant Nutrition. It is highly concentrated as well in terms of markets because we have 6 markets that are contributing as well 90% of our E-commerce sales. This is the US, France, Germany, the UK, China and Japan.

So we clearly see that as a good growth driver with no negative implications at all on the bottom line.

Slide: Channel innovation by going direct to consumer (DTC)

As I said earlier innovation can take different shapes and forms. It can mean as well introducing new engagement with consumers and going direct to consumer – DTC. This accounted last year for 8% of our sales. We do it in many categories. *Nespresso* is part of it but we do a lot of it with *Nescafé Dolce Gusto*, *Blue Bottle* is a good example of it, our franchise with *Ready Refresh* in the US, 20% of our Water sales in the US are actually direct to consumer. We do it even for Confectionery with our *KitKat* stores which we call Chocolatory. We did it originally in Japan, we expanded it in Malaysia, we expanded it in Australia as well.

We like DTC because we control the entire value chain, because we have a better engagement with consumers, we can do promotion much faster, the price point is higher as well, even if the distribution costs are higher we usually have a better margin with Direct to Consumer. So we are investing heavily in that space as well.

Slide: Targeted underlying TOP margin improvement

Moving now to conclude on margin. We improved our margin by 50 basis points on a constant currency basis last year. 40 basis points on reported basis. So we are clearly on track for our ambition to improve our margin by 150 to 250 basis points by 2020.

Slide: Structural savings to support margin improvement

The main building block is to really attack our structural cost. As I presented in our Capital market day in London in September we had the ambition to take away permanently between CHF 2 and 2.5 billion of cost from our P&L. I am saying permanently because these are things that we do not want to re-instate. We are delivering as per the plan. We took away about CHF 500 million of cost last year. Mainly in G&A and procurement. Manufacturing will come but we need a little bit more time as we shared originally with you. So we are really delivering as per the plan.

Slide: Driving digital investment and efficiencies in marketing

The idea is really to attack non-consumer facing activities so as to protect our capacity to grow. That being said we mentioned as well that whenever we can reap off some benefits in terms of marketing spend we do it and we do expect to get about CHF 500 million of savings between now and 2020 by being more efficient in managing our marketing spend. We got a significant portion of it last year which explains the fact that we marginally decreased in terms of absolute value in marketing spend, we got it through efficiency. You have some examples there. Obviously we are spending more in digital which accounts for 32% of our total spend. But we are centralizing some activities. We reduced the number of agencies that we are working with dramatically, consolidating whenever we can. Not is a single market but at a regional level. We do more production in house as well. So this has been a critical factor for margin improvement last year as well.

Slide: Key Messages

So to conclude we are confident about our growth agenda mid-single digit growth in 2020 even if the landing point of 2017 was a little bit disappointing. We are aware of the fact that we need to accelerate from now on and the US will be a critical part of it, but we are very confident on the fact of getting there through a combination of fixing the underperformers, addressing whatever can be addressed with these underperformers. Be active in portfolio management and accelerate our high growth categories.

We are not worried at all either about our capacity to deliver our margin improvement by 2020.

End of Transcript