2018 CAGNY PRESENTATION TRANSCRIPT

Driving Value Creation in the New U.S. Reality

Q&A Session

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Speakers:

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Slide: Title slide

The last presentation of conference! I am not sure if that means I am batting 9th or I am the closer. I'll pretend I'm the closer. Anyway why don't we get going. So just to set the stage I have been the CFO for six years for Nestlé in the US. I was just newly appointed last week as the CEO. What I will talk about is how we drive value creation in the new US reality.

Slide: USA is a key contributor to Nestlé Global

To remind everybody obviously the US is a key contributor for Nestlé globally. You know it is 30% of the globe, over $27 billion. What I will primarily talk about today is our core Food and Beverage business which is roughly 40% of our business in the US.

Slide: Competing in an ever evolving F&B landscape

If you look at and you have probably seen this over 50 times this week but we are competing in an ever changing Food and Beverage landscape. Everything in this business is changing rapidly. We are in this sustained low growth environment which I think is going to continue.

Consumer expectations are changing and they are changing faster than they ever have. Channels shifts are going on at an amazing rate. This kind of evolving market structure within the categories we play whether it is small food disrupting big food, private label expansion from our retailers, as we all chase to find the same growth I think that has been a big push in our industry.

Then across the industry there has been a hard focus around cost cutting these last few years. When we look at these they are really external factors that are driving disruption in our industry. They really cause us to go through this hard core internal transformation.

Slide: Driving continuous Transformation 2012-2017

We have really been focused on this continuous transformation for the last five years. I would say we have been more focused on the cost side and starting to build towards the growth side. If you look we have been able to take our structural costs down by 160 basis points in this market. Our total delivered costs we have taken down by 230 [bps] and our manufacturing and supply chain guys have done a tremendous job just taking inefficiencies out of the system.

We fundamentally believe that consumers are not going to pay for our inefficiencies so we have got to be relentless on anything that is not consumer facing, we are going after every single dollar. And it has allowed us to invest more behind marketing. Not only spend more on marketing but to drive sales capabilities as well. So that has been the last five years in terms of what we have done. Very successful, very strong cost discipline.

Slide: Driving continuous Transformation 2017-2020

If we look at the next three moving forward we still think that there are opportunities in structural costs. I think that most of you have seen that we have re-located our US headquarters from Glendale, California to Arlington, Virginia and that's been great. We believe in compete transparency with consumers. We believe in that same level of transparency with our employees. And I think that transparency around why you need to use these re-locations as fundamental catalysts to change the business. That's really why we see re-location as a very effective tool. It causes every single thing in your business to be put up in the air, be challenged and to drive the organisation to re-invent itself.

For us when we step back and say whoa that's a big decision for we have got a lot of employees whose lives we effect, that we take very seriously in that decision. But did we do it right and did we take our employees along the journey. The fact that we got 70% of our high potential employees to join us going from California to Virginia and over 40% of total employee base actually came with us has been great. We have had really good business continuity and they believe in the transformational journey that we taking them forward. We think that will continue to unlock structural cost opportunities and we think we going to get another 150 bps out of our structural costs moving forward.

François talked a little bit about manufacturing. For us we have got a really strong pilot going in our Ice Cream business that just takes a different approach to look at how we manufacture and we have seen really strong success in 2017. We are going to take that same mind-set and principal and roll it across the rest of our factories in the US. We think that will be a big unlock. Then François and Mark have both talked before about NBE and really globalization of our shared services and unlocking opportunities there. Then continue to drive building these new capabilities that it takes to win in the future.

Slide: …..to expand margins whilst investing for growth

So that transformation has really allowed us to accomplish what we think is a balanced game. We've expanded margins while we have been able to invest for growth on our core

Food and Beverage business. So in the last five years we've grown 280 basis points in margin, it's actually accelerating since 2014 it's up 220 bps and 2017 was over a 100 bps in growth in margin. So we've got a really strong focus around margin enhancement and that's actually in a rising commodity market. We know consumers today have been challenged on inflation in the market place so those things we haven't been able to pass historically so we have been able to deliver that margin enhancement in the face of commodity markets.

But we don't just drop all that transformation to the bottom line we actually believe that we have got to fundamentally invigorate growth in this market. Do I ever think it's going to be an explosive market in the near future, no, but we have got to find moderate growth that will drive the health of the fundamental business long term. So whether that's investing in innovation/renovation, driving marketing spend, whether it's better or more marketing spend.

You know project Pure. This is one that, fundamentally, we call it project Pure, kind of think of moving all your ingredient statements to kitchen cupboard type ingredients. We believe that's a price of entry in the food industry, that's what consumers want to see so we have really migrated. That's more expensive, we've been able to do that because we believe it is the right thing to do to bring our core brands back to relevancy with consumers. And then invest behind those capabilities

And as we look through that first phase of our transformation, we've been able to drive that margin, build those capabilities and hold the top line.

Slide: Pursuing a hybrid growth model

So as we shift and really start to think about where do we find and build the new growth model it's getting behind these five key tenets. Strategically evolving our Portfolio, Innovating the core brands, that's a fundamental one that a lot of people don't talk about. Exploring new innovation models. Investing in high growth channels, go where the growth is. And then building these capabilities and deploying them across the organization.

Slide: Strategically evolving our Portfolio

So for us we have been very disciplined and focused around how we deploy our resources in the market place. To go where the growth is. If you look at some of our core brands and we move our marketing and our trade investment where the core is. If you take our top ten Food and Beverage brands those grew at over 3 ½ % last year. We will continue that discipline to drive our investment behind the highest return generating growth vehicles.

Then you move to make sure your current resources are deployed as effectively as possible against your current brands. Find where in that Consumer needs state spectrum that your brands can't reach to and then fill that with M&A. We have been quite successful. I think *Sweet Earth* we're happy about, plant based proteins a big trend, I think we have a big opportunity. We don't think our core brands can extend completely into that space so we added *Sweet Earth.* You know François talked about *Blue Bottle* and *Chameleon*, we are very happy with that on the super-premium end. *Freshly* is one that is an investment, that's a direct to consumer business that is doing really well, we love the learnings we get from that company and they have been a great partner in the investment.

Then the last piece of evolving a portfolio is divestitures. We have all seen the confections announcement. We've divested over 11% of our sales in the US. We continue to evaluate the businesses we are in and the ones we don't want to be in long term and then we work to manage that portfolio.

Slide: Innovating our brands to address key trends

So this is one I think we are really proud of and we fundamentally believe there is still growth for your core brands in the market if you bring the relevancy the consumers want to those brands. If you look there. Active lifestyle, Organic, Natural are kind of the core macro consumer trends and then you bring the brands against those specific core, macro trends.

So whether it is Fit Kitchen bowl and Active lifestyle or, I won't go through all of these but I will use CoffeeMate as an example. Huge business for us, high single digit growth for us last year, we expect it to continue. We touch on several different macro consumer trends in this business and we continue to find new growth.

Slide: Exploring new innovation models

The next one is really just exploring new innovation models. For us I think when you look at where you find growth and go through that M&A land and you decide this is where we want to buy and the next step is we don't want to buy we want to build. We do it in two different kind of approaches.

The first one is this internal incubation. We set the teams to the side. We give them different research structure, different rules to run the game and we give them nine months from idea to launch. Frankly we would like to get that down to six months. We want a rapid prototyping, fast to market, test and learn and then go with these products. We have got some really good examples. *Outsiders* pizzas is doing quite well in the market. Right now *Wildscape,* one of my colleagues presented last year in this same conference and it looks really promising in the market results. So we will continue this mind-set of where we can't take our core we will internally incubate.

The second one is this external incubation. We have got a partnership with Rabobank and RocketSpace and this Terra. Great access to these start-ups. We have been really excited about that. I think one, it has been really good to get the exposure, to build the funnel a bit but two, the learnings and just the thinking as you start to understand these start-ups better and then to bring that learning back into Nestlé and drive the change and transformation in the organisation, to move with that pace of a start-up.

Then partnering with our vendors. We haven't done enough to partner with our vendors to leverage their expertise as well. We have world class suppliers across our network and we have tapped into that to leverage their collective intelligence as well.

Slide: Investing in high-growth channels

Then investing in high growth channels. Consumers and shoppers are shifting where and how they shop. Some channels are winning, some aren't. We have had really strong success, we have focused against these growth channels, Club, Value and Natural. We've had an 8% CAGR on those in our Food and Beverage business and we doubled E-com last year. We think we will double E-com again on our core Food and Beverage business. And if you look at our portfolio you wouldn't think that, with a heavy frozen presence that would be, but we have had some really good successes as our retail partners continue to expand with the click and collect model. But this one is not just about going where the growth, that is the obvious piece. But is about re-engineering your business to make sure you are set up for success to win in those channels. What are the right products, right packs, right price that it takes to win and we have got some good examples of that.

Slide: Deploying new growth-enabling capabilities

I won't go into this as we want to keep time for questions but really deploying these capabilities across the organisation. It is about changing the way you run the business. Whether it's analytics, digital excellence or flexible manufacturing those new capabilities have got to be brought to bear to capture these growth opportunities. The biggest change for us that I think we really push in the organisation is empowering our entire workforce to innovate. Innovation is not about product innovation, that's not the sole issue. Every single thing we do in the organisation can be improved and it can be improved every single day. We encourage our teams to innovate everything you touch to make the business better and to find new fuel to leverage that growth.

Slide: In Summary

Just in closing, look, you guys know as well we do, very competitive landscape. I think we are well positioned to continue to succeed. We are going to drive this continuous transformation mind-set. Transformation is not a project, it is a lifestyle and a way you are going to go about running your company. It never stops you can always get better. Really drive aggressing behind this hybrid growth model. You have got to have multi-pronged approach to growth. Then work these capabilities across the organisation to enable that growth. If we can continue to do that, we will continue to enhance our margins and we can seed for future growth

That's it for the US now we will turn it over to some Q&A

Q&A Session

Questions on :	**Outsourcing in the US**
	Time frame and parameters for portfolio management

Alain Oberhuber, MainFirst:

I have two questions. The first is for Steven regarding partnering with vendors. Does it mean that you are going to outsource more in the future? Like you do with Barry Callebaut?

The second question is for François regarding the time frame and the parameters for the portfolio. Could you help with a little bit how long time do you give to a brand which has a problem? Regarding the parameters you look at and regarding the time frame until you are going to divest it or keep it?

François-Xavier Roger:

Maybe I will answer that question first. Whenever we have a brand that doesn't work I know that there is an immediate temptation to go and off load it and sell it. This is not the way that we look at it because first of all we are not in the trading of assets. We are in the business of managing assets or operating assets. So that's what we do. Whenever there is a problem we have to fix it first provided that it is feasible to fix it. But we have plenty of examples. You saw two of them which I presented. *Gerber* it is still early to draw any conclusions but with

Yinlu we have been able to fix it. Even Frozen in the US, to be totally transparent, we had some issues a couple of years ago, we have been at -2% for two years in a row and then we have been able to fix it and grow again at 7% and then further even in the following year.

What we have to avoid first, or what we have to avoid is having this problem but they will always happen so we cannot avoid them totally but we have to make sure that we react fast enough. We have proven that we can fix them. But we need to move significantly faster.

There is another thing that there could be a point where we may decide to dispose of these assets. Not necessarily because they are bad assets but maybe we are not the right owner or maybe we don't have the ability to win which is exactly the conclusion that we arrived at as far Confectionery US is concerned. We like Confectionery as a category, we are still left almost CHF 8 billion of sales with leading positions in other markets. In the US, where we don't have the *KitKat* licence we had about 4% market share. With good brands, *Butterfinger*, *Crunch*, *Baby Ruth* and others. Our ability to win though with 4% market share was limited. So this is the reason why we decided that we better spend the resources on other categories.

It is difficult to apply, I would say, one single rule. We look at it on a case by case basis but we look at it with a certain number of dimensions but always first with a view of can we manage these assets and can we turn them around if they are facing issues.

Steve Presley:

Just on your question does it mean outsourcing I think was the question. No I think we look at every single part of the value chain and if that leads us to an outsourcing decision we would consider that but the discussion specifically was around look our suppliers are innovating at a rate just like we are trying to innovate so how do we leverage their innovation to help bring products to market faster and extend the innovation universe and the collective intelligence of our supply network.

Question on : Current situation in US market

Jon Cox, Kepler Cheuvreux:

Maybe a question for Steve just on the US market currently, I am just wondering if you have seen any improvement more recently in the last little while in compared to say much of last year. Maybe what you think about the market going forward is there any pricing coming back at all or does it remain a pretty deflationary environment out there?

Steve Presley:
Sure, look it has been a in challenged market in pricing for sure. I do think we see some improving trends whether the market baskets are growing at a little faster rate. You the challenge I think we have got to fundamentally understand and pricing coming back to the market is that consumers household disposable income continues to be stretched and the amount they are spending of food continues to be under pressure as other things occupy that. So inflation needs to return to the market. I think it will return, I think it will be at a very measured pace, that would be my view for 2018.

Questions on:	**DSD system**

Participant:
Steve, you have got I think a direct store delivery system in the US across Frozen Pizza and Ice Cream and I think you have done a lot to optimize that and bring them together in a more sensible way over the last couple of years. You know it has been interesting, we have some other companies with DSD systems to start to really challenge the notion of whether in some categories it is really a necessity, given the high cost nature of it.

Are there some elements around Ice Cream and Frozen Pizza that you feel are different or unique or in need of that or you get the return on that high cost system that we wouldn't necessarily appreciate? Or are there ways to think through it? May be there are some different ways or hybrid ways to go about it. How much do you challenge that thought process?

Steve Presley:
Good question. Clearly DSD is a big topic in the industry right now. For us we have actually really gone after aggressively the structural cost of that business and been able to reduce that by 250 bps and we have driven a lot of that ROIC growth actually by improving the cost structure of our DSD model. It's a fairly simple maths equation in terms of you keep the volume in the network and drive your cost down. It becomes a very efficient route to market. I think for us for us if look at everyone's struggle to finish that last mile in the distribution network, DSD does have some real core strategic advantages in our category. What we like in our Pizza and Ice cream categories we have leading brands, premium brands with *Häagen Dazs, DiGiorno, California Pizza Kitchen.* That we are able to leverage this network to extend

those businesses and as you look in those high growth channels DSD is actually an enabler for us to get to those pretty effectively and outpace our competition.

The other thing is operational excellence in DSD right now, if I go back to the natural disasters we had in the US in 2018 whether in Texas, Puerto Rico or Florida we were first back on shelf in Frozen in every single instance. Generally because of our DSD network and we were able to do that through that asset, so the question is how do you leverage it better? We are always looking for what is the right mix of a hybrid model, to best serve our retailer and consumer needs.

Question on :	**Reasons behind issues in the business**

Participant:
I am bit confused by the message about whether the issues in the business are more about the portfolio that you have got or the fact that you haven't really focused on the growth agenda and been too focused on the cost agenda. So maybe you can talk a little bit to that both in the US and globally, François

François-Xavier Roger:
I think there is not one single issue. Portfolio is part of the equation and we have to work actively on our portfolio, we have already made some steps in 2017. There is more to come we have indicated that we are expecting to turn around about 10% of our portfolio which is the sum of what gets in and what gets out. That's part of it and I discussed earlier the fact for example that it will help us both on the top and bottom line.

That being said I indicated as well that this doesn't prevent us from working on the base business because the base business is CHF 90 billion of business which last year did not grow as fast as we expected. So we have to work predominantly on that part. In all dimension which is the reason why you can see that it is not just working on one single issue which is innovation because innovation has different features itself. It can be innovations with technology, it can be innovation in new business models. We have to get growth in other markets. In some markets where we don't get growth, and the US is one of them, I have said it, if we want to go to mid-single digit we have to do more than we have done last year in the US. In the US we were flat in a flat market. Nothing wrong, again the market, but we have to do more than that and this is clearly what we have to do. So there is not one single answer to the issue it is not only about portfolio, it is not only about fixing the issues that we have been facing in the past or that we may face in the future. It has several dimensions and I think in the US it is the same.

Questions on :	**Premium PetFood and Sparkling water** **Recent acquisitions**

Participant:

Thanks a question for Steve. Can we talk about Petfood and Sparkling water? I see Mars has been very active in the natural premium space. They just launched *Nutro*, they have *Eukanuba* [indiscernible].just tell us where are you in the process of evolving to natural premium in petfood in the US. That's one question. Then regarding sparkling water you know *Perrier* to me has moved into flavoured sparkling water but very expensive product, then you have your regional brands that you are extending to flavoured sparkling water but those are more mass market brands. If you can just give us some colour on those two points.

Then one for François-Xavier, when I hear about *Sweet Earth* and plant based and I see Danone buying *WhiteWave*, I hear about *Blue Bottle* coffee and I see JAB buying *Peet's,* buying *Panera*. I think back and you bought *Cailler* in chocolate in Switzerland a long time ago and you didn't do much with it. You know you are the largest food company in the world and here you are buying very small assets in categories where there are probably more attractive properties. So if you can comment on that,Thanks.

François –Xavier Roger:

I will take the question on plant based Food and Beverage. Actually we made some acquisition but we already have a sizeable business in that space. Already with *Yinlu* for example part of the asset that we have in China we are already playing in that space. If you take in Europe, in the whole of Europe we already market plant protein based Food and Beverage. It happened that in some geographies we are not well established in that category so we address it through M&A.

Take the example of France since we have the brand that is the best brand in the consumer mind which is called *Herta*, which is chilled, so we are leveraging on the fact of owning that brand in order to launch plant protein based Food and Beverage which we have done already for months. In the rest of Europe we launched it already a few quarters ago under the *Garden Gourmet* brand.

Maybe I can answer the question on *Perrier*. I am not sure exactly what the question was. Maybe you can reformulate the question.

Participant:
Sure I am just trying to understand you know. It seems that – again this is a general theme that I see with Nestlé. It is my interpretation of course, I could be wrong, is that you know sparkling water is there and you have *Pepsi* launching *Bubbly,* making a big bet on it, and here you are extending what I call mass market brands like *Poland Spring* and things like that. And again we were are talking about buying assets *Blue Bottle, Sweet Earth* I find that they are very small assets for what's available out there. So I want to understand that better. Plants and Sparkling water in general.

François –Xavier Roger:
On the Water business in the US we actually own basically the category of premium sparkling and we are doing very well. *S.Pellegrino* and *Perrier* are growing in the US and are growing elsewhere. High single digit so we are doing very well. What happens that in the US the market has developed very significantly. One of the fastest growing market, is sparkling mainstream, where we were not present so as we speak we are launching for five regional brands. We are launching a full range of water which is sparkling under the same brand which in the mainstream category is absolutely OK in our opinion.

On PetCare the fastest growing segment today in PetCare in the US and elsewhere is clearly organic and natural. Which is the reason why for example we made the acquisition a few years back with *Merrick* in the US. Because we had roughly speaking at that time, about two years ago, a third of the market; 32% market share. But we were weak in natural and organic. I think about 6% and we were relatively weak as well in specialised stores. So *Merrick* was a very good addition and complement to our range. But we do have our own range even under the *Purina* brand which is called *Beyond* which we currently market in the US, which we market as well in Europe. But we may need in some instances to have more than one brand. Which is the reason why it makes sense to complement organic growth in some instances with some of these smaller brands.

You are certainly aware of the fact that the smaller brands, in our industry, are the ones that are growing faster as well because they may address some specific needs of consumers. So it makes sense as well for us to do it as part of our growth agenda. It's not exclusive though.

Question

Participant
Question inaudible.

François –Xavier Roger:
The news of this morning I don't want to comment too much on it but just a general comment. First of all it is a change of ownership so it is not part of a consolidation. If it had been part of a consolidation in the industry in the specific segment of petfood that would have been different but a change of ownership is different. We welcome a new competitor but we know them quite well because we are in partnership in other segments with them and we value them. I think that what I saw as well that the price reflects certainly the attractiveness of the category so it confirms to me, gives me confidence on the fact that, I knew it before but it gives me further confidence that we are playing in the right category, which is a high growth category which is very attractive and it confirms one other thing as well. Is that in today's world asset prices are extremely expensive. I don't have any further comments to make but you saw the multiples as I did so that's a further confirmation of what we probably already knew.

End of Transcript