

NESTLÉ S.A.

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PRESENTATION TRANSCRIPT

A comprehensive growth model in the Americas

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Laurent Freixe, CEO Zone Americas, Nestlé S.A.**Slide: Title slide**

Good afternoon to everyone and welcome to Nestlé in the Americas, which is the largest region for Nestlé operating in a huge economic space, North America, Latin America which has been experiencing a slower economic growth in the last couple of years and where we are driving a comprehensive and holistic growth agenda.

Slide: Disclaimer**Slide: The Americas account for 45% of Nestlé group sales**

So that's CHF 41 billion in sales for Nestlé, CHF 41 billion, dollars that's the same and that's total Nestlé. If you look at what is zone-managed, locally and regionally, this is CHF 31 billion in sales.

If you take into account U.S. Food and Beverages, the Purina business, Nutrition business, Gerber, and the Professional business, this is two-third of Nestlé in the Americas. One-third of course is LATAM.

Slide: Zone AMS 2017 sales by product category

When we look at it by product category, you can see the dominant weight and role of the PetCare category. But you can see as well that, further to the Starbucks deal, the Coffee and Beverage category becomes even more prominent, 15% of our sales compounded - second category. So we'll have going forward two big pillars – the traditional PetCare one plus Coffee. Then you can see also the rest of the Nestlé's portfolio, Frozen, Nutrition, Dairy and Confectionery.

Slide: Strong ability to win with 88% of sales in #1 position

What makes Nestlé certainly unique, and I think in this respect we are an industry benchmark, is the strengths of the portfolio, the strengths of the footprints. We've got 88% of our sales in the region where we are number one. If you take into account number one, number two positions, this is 94% of the portfolio. So we are virtually leading in – and practically leading in every space where we operate.

Slide: Unique portfolio of powerful brands

This is based on the unique portfolio. Of course, you know the global brands like *Nescafé*, *Nido*, *KitKat*, *Purina*, and many others. But I like to highlight that even the global brands like

Nescafé in Mexico, they have a Mexican touch, Mexican consumers would consider that they are making brands, *Nido* in Brazil the same.

We've got also a large portfolio of big iconic local brands and I think this is extremely relevant in the current context where everything which is local is in fashion. Just a few examples there like *Garoto* in Brazil, *DiGiorno* in the U.S., *Stouffer's*, *Nestlé Toll House* or *Malher* in Guatemala for instance. Those are really local iconic jewels and increasingly we got as well in the portfolio born pure brands. Some of them are born – having born organically as part of our portfolio like *Cultive* for instance in Brazil or *Outshine* in the U.S. or *Wildscape*, in the premium frozen segment and *Nature's heart* for instance has been recently acquired, but we got this uniqueness of very strong footprint with the global brands, with iconic local jewels and a nice portfolio also of growing born pure brands.

Slide: Key external drivers of industry transformation

So what are the industry trends and what is driving industry transformation?

First, a few words about how growth is developing in the region. So North America remains fundamentally a low growth environment. Brazil is challenging, unpredictable and volatile and the recent strike, end of May, 10 days between the 21st and 31st, which has basically, put at stop to the entire Brazilian economy, is the best example of that. Fortunately, the rest of LATAM continues to grow.

Now, if you look at the consumer trends, it's a lot about natural, authentic, locally-sourced, organic, vegetarian, flexitarian or so are in fashion. Gluten-free, plant-based proteins, all those are trends, consumer trends shaping the industry and of course we are embracing each and every one of them.

If you look at the market structure dynamic, you see the proliferation of start-ups especially in the U.S., which are increasingly playing in the space and have easier access through Internet to the end-consumers. You see also the channels evolution, grocery and mass continue to be under pressure; specialty channel, club, convenience, proximity and value are growing; and e-commerce of course continues to experience very, very high levels of growth and this is not only in the U.S. it's also really emerging in the rest of Latin America.

E-commerce is increasingly giving price transparency and of course there is also an industry-wide cost cutting in the low growth environment, and we are of course no exception.

Slide: Zone AMS: fit to win with consumers and customers

What I would like to highlight is that in our case the cost agenda is not only a margin agenda, we really want to drive, what I call, a Strategic Virtuous Circle of sustainable and profitable growth.

The objective is to get the growth as part of the equation. So we put a lot of focus on achieving efficiencies in our value chain and in our cost structure, not only to fuel margins though that is part of the agenda, but also to generate the resources, the fuel for growth that we can invest behind our brands, that we can invest behind innovation to drive market share gains. If you want to grow in a low growth environment, you have to gain market share, drive category growth and through that our objective is to achieve sustainable and profitable growth, so that's the model that we are driving.

Slide: Achieving efficiencies across the Zone

Few words about the cost agenda, which is of course, being a large part of the group, high on the agenda of the Zone. I'd like to highlight that, on top of the focus on total delivered cost; and our objective is to improve 6% year-on-year every year through cost reduction and the cost avoidance, and on top of the structural cost efforts, we are also putting an emphasis on agility, reducing the number of layers in the organization, objective to reduce at least one, and increasing the spans of control, so as to increase agility and speed across the organization.

On the structural cost side, I'd like to highlight that integration of Nestlé Professional and Nestlé Nutrition into the Zone structure is working well. The transfer of the head office in the U.S. from Glendale, California to Arlington, Virginia is also absolutely on track. The latest news is that we have decided to move together U.S. head office from Florham Park, New Jersey down to Arlington, Virginia. So all this is on track delivering expected benefits and creating the modern and collaborative work space environment.

We have similar projects across LATAM, Mexico, Brazil, and Chile in the critical geographies as well as in Canada. We are putting, as part of the Nestlé Business Excellence project, increased emphasis on shared services, Centres of Scale and Centres of Competence and the latest initiative is that in LATAM, we will be opening a new hub in Paraguay, which is one of the lowest cost countries. It's a good idea when you want to have a shared service to put it in the lowest possible cost environment and Paraguay is a good fit for that. We got a good presence. We got good access to talent and this is also definitely a low cost environment.

We are on track generally speaking with all targets that we have been communicating in the last months and year.

Slide: Ability to win: Category focused units supported by a common back office

The one word about the model, which we are pursuing in terms of the organization. What we want is to have category-focused business units and it can be globally managed or regionally or locally. You can see that we got different models according to the category.

All of those supported by a common back-office and with common shared services and Centres of Scale, organized around the critical end-to-end processes, like source-to-pay or order-to-cash, and we are implementing NBE in those new processes across the business as we speak.

Slide: Total Delivered Cost: Factory 2020

We are putting also increased emphasis on Factory 2020 and leveraging the experience which we have been through in the Ice Cream North America area. We want to have as lean as possible structure in the factory and the people in the factory to focus on three fundamental things: Cost, cash, and cases. So everyone in the factory has to have something to do with one of the three and we are leveraging the administrative part of both factories, so that we got really focused and empowered shop floor organization across our factories. We expect significant benefits from this transformation.

Slide: Pursuing a holistic growth model

What we are pursuing at the end of the day, leveraging all the efficiencies that we are generating or most of them, is a holistic growth model starting with reviewing the portfolio, innovating our brands, investing new capabilities and leveraging digital across the value chain.

Slide: Strategically evolving our portfolio

Reviewing the portfolio, we have made a number of significant steps in the last year. A very impactful and visible one has been the disposal of the Confectionery business in the U.S. We announced recently that we are reviewing the *Gerber Life* Insurance business.

The process is ongoing and we have been active on the acquisition front, strengthening the portfolio in the core categories and acquiring companies that have a nice and motivating growth profile like *Atrium*, *Sweet Earth*, *Blue Bottle*, *Chameleon* and the *Terrafertil* business in Latin America, and of course the recently announced deal with *Starbucks*. So this is the transformation ongoing, which will have a significant impact.

Slide: Building a unique coffee portfolio with three iconic brands

Few words about the acquisition of the *Starbucks* CPG business to say that we are building up a formidable and unique Coffee portfolio with three of the major global brands in the Coffee arena,

Nescafé, which is the world's preferred Coffee brand, ubiquitous and strong across geography. But this is also a brand that has with *Nescafé Dolce Gusto* a coffee shop, portioned coffee system, very successful in excess of CHF 1 billion with 20 million consumers.

There is also *Nespresso*, which has really transformed the Coffee industry and leading the premium portion Coffee category

And we have on top *Starbucks*, which I don't need to introduce, which is the iconic coffee shop brand leveraging the modern American lifestyle.

So we will be combining of course all three and that gives us increased exposure to North America, potentially to Brazil, the number one and number two Coffee markets in the world, and also an opening into the premium R&G category. A big step and really strengthens our portfolio.

And on top of that, of course, we've got *Blue Bottle* and *Chameleon* and a few of the local iconic brands in Europe.

Slide: Innovating our brands to leverage trends

Innovating our brands to leverage key trends, that's of course leveraging Nutrition, Digestive health and Cognitive health with PetCare. But it's also the introduction of HMOs, Human Milk Oligosaccharides across our Infant formula portfolio and we are the first company moving at scale to introduce HMOs across our portfolio and across the geographies. This is the third most important component in human milk and it's playing a role in the healthy development of the baby and the protection.

We are also of course investing in the organic and natural space. We have a number of initiatives to address food intolerances, we're very active in the lactose-free area for instance, or gluten-free. We are expanding our portfolio of plant-based protein products in Dairy or in non-dairy plant-based and in Ice Cream primarily.

We are also leveraging the trend towards local origin that is particularly visible in the Coffee space. We are pushing ready-to-drink in Beverages; in the U.S., it's been on the agenda for a

while. It's now very strong on the agenda in LATAM. We are pushing Super Premium. And we are also investing on convenience in the grab-and-go category in the U.S.

Slide: Exploring new innovation models

We are also looking at new innovation models, developing what we call internal incubators and there are two very visible outcomes of that in the U.S. One is the launch of the *Outsiders Pizza Company*, and the second one is the launch of *Wildscape*. I'll show you in a minute what this represent, what this means in terms of ways of working and in terms of outcomes.

What we tried to do there is to reproduce what start-ups company would do, but benefiting from the scale and the strengths of Nestlé. We are also increasingly developing an open innovation model with 9-Square Ventures in *Purina* or HENRi@Nestlé in the Silicon Valley promoting again an open innovation framework – enabling an open innovation framework.

But let me show you what in practice this *Outsiders Pizza Company* and this *Wildscape* mean.

[Video Presentation]

So what is interesting there beyond the launch of *Outsiders Pizza Company* and *Wildscape* is the capacity to reinvent the way of working and to reinvent the organization so as to be more innovative, more agile and hopefully have an impact in the marketplace. So more to come of course in that area.

Slide: Investing in high growth channels

We want to invest also in high growth channels and win with the winners, win with the ones growing. So a big focus on e-commerce and not only in the U.S. of course. We have been growing 38% in Q1 [inaudible] industry benchmarks. We have put in place also, in September last year, a Global Amazon Acceleration team in Seattle which is driving joint initiative, the joint business plan between Nestlé and Amazon, but it's just one example.

We are really working with everyone and every key players and of course Walmart.com and Chewy.com or Rappi or MercadoLibre in Latin America are at top of the agenda.

We are also investing in the proximity channel, because this is growing form of convenience and this is growing fast. Out of home is an important driver and club as well is part of the agenda.

Slide: Strengthening the consumer engagement model

We want to strengthen consumer engagement model. Digital has opened an entirely new space and we want to achieve personalized consumer experiences for the consumers. And of course it's very visible and particularly relevant in the PetCare arena, but also in the Infant nutrition arena and certainly there Gerber is a benchmark and we want to accompany the parents in their parenting through a personalized nutrition journey.

Slide: Deploying new growth-enabling capabilities

We are deploying new growth enabling capabilities across the organization. We've got Digital Centres of Excellence in all the key markets in the U.S.; in the U.S. Food and Beverage, U.S. PetCare, we've got one in Mexico and one in Brazil. We are putting in place eBusiness Units in each and every of our operating organization across the Americas.

We are investing in sales analytics. We are investing in data to make better business decisions and to be more agile and more relevant.

We are investing also in flexible manufacturing so as to enable fastest possible process between ideas to launch.

We are enhancing our shared services [inaudible] and beyond Brazil, Ribeirão Preto and Panama. We are opening up as we speak a new centre in Paraguay and of course we are leveraging digital across our organization and across our value chain.

Slide: The impact of science and technology

We are also of course leveraging science and technology. I already mentioned a few initiatives. I think we made the headlines and rightly so with the launch of our new structured sugar, and one of its first application with the *Milkybar Wowsomes* in the UK, where we basically achieved a reduction of 30% sugar content without compromising the taste.

We got a second solution which is micro-aeration which we have just launched in Mexico, which is getting a better taste profile and a smoother chocolate while reducing significantly also the sugar content proportion.

We are moving aggressively in the direction of recycled PET. We are using as we speak 50% of the usage in bottle is recycled PET and we are moving aggressively towards more and towards 100%. We are leveraging and rolling out the HMOs across our Infant formula and we have great success also with this medium-chain triglycerides, which we have introduced in our PetCare, which is giving the food for the pet brain and improving

impressively mental – the cognitive capabilities of aging dogs. That's one of our big successes and of course, we are pushing it across the board.

Slide: Investing in our industrial footprint

We are also investing in our industrial footprint and logically we do that in the categories where we have the best footprints and where we want to expand. So PetCare is one of them both in North America, dry and wet, but also in Latin America, Chile and Mexico. We're also investing in the U.S. and in Latin America in the Coffee space.

Slide: Creating sustainable economic, social and environmental value

And we want to do that in a way that creates sustainable shared value for society, for Nestlé, for consumers, for employees and for society at large. There are three focus areas where we put the emphasis. One is Nutrition, Health and Wellness and we are putting a big focus on the Nestlé for Healthier Kids programme focusing on children nutrition and making sure that they can have a healthy lifestyle and you learn healthy habits from a young age.

We are putting a lot of emphasis as well on the youth employment and youth employability and promoting decisively vocational training schemes, the ones that combine the theory with the practice based on the Swiss or German model. We will have our 3rd Pacific Alliance Youth Summit in Colombia in the next weeks and we will have the first Mercosur Youth Summit in Montevideo at the end of the year. We have built up alliances with more than 100 companies across the continent to have a bigger impact on that issue of the youth employment.

Last but not least, of course, the environment Water Stewardship is important. We got it up and running across our factories in the Americas and we are driving as well zero waste to landfill in our factories, but also in our distribution centres. We are promoting the usage of renewable energy and moving towards 100% to reduce our carbon footprint.

I'd like to highlight that as an experiment, but a successful experiment which we would like to develop, we got our first triple zero factory up and running in Brazil. It's a zero water factory, zero water impact, zero waste to landfill and zero carbon footprint, using 100% of renewable energy.

Slide: Zone AMS focused on reigniting growth with improved returns

And of course, as we are focusing on reigniting the growth, we are seeing an acceleration, especially at RIG level. Pricing is a little bit more under pressure, especially because of Brazil, but volume mix is picking up, while delivering significant improvement in underlying

trading operating profit, 60 basis points last year. We continue on that path towards the objective that has been set of 150 to 250 basis points improvement by 2020.

Slide: In summary

So as a conclusion, it's clear that the change is there and is not abating in terms of the speed and the dynamic. We are driving a mind-set of continuous transformation not only to enhance margin, but primarily to drive growth and drive Strategic Virtuous Circle of sustainable and profitable growth. And we are fundamentally pursuing a holistic growth model, including internal and external innovation, but including as well M&A.

With that I am happy that we have a bit of time for Q&A, 16 minutes or so. And I'm happy to open up to any question.

Q & A Session**Question on: Innovation**

Hi, two questions for me. The first one is really on innovation. So you presented today some really interesting innovations in different product categories. To be fair, when we look at growth over the past couple of years in the U.S. and in the Americas, it feels like actually you've missed quite a few things in pet food, in ice cream, what you're presenting to this seems to be like solutions. But from what you presented today it also feels like it's been kind of a wake-up call at Nestlé that actually you need to be more aggressive in terms of innovation. Is that the right way to think about it, that actually you're really pushing more aggressively in the context of probably recognition there is more disruption in the market?

Laurent Freixe:

I think the trends you are referring to like the move to organic, natural, more local, more authentic is not completely new and maybe it's been new to the U.S., but we're seeing it developing across the world, probably starting in Europe and now crystalizing in the U.S. at a pace that has impacted significantly the industry.

So I think we are on top of it now since the number of years, it's not just a wake-up call of the last months. We have been really on top of it. We understand that in a context, which is changing very, very fast, expectations are different, consumers see the industry and our categories differently. We have been capable in the few cases to reshape also the way consumers look at the categories, like in the Coffee area for instance. So that drive and that focus is there since a while.

Now between the moment you start to put the focus increasingly on that one and at the moment you see the impact, there is a lag in time – but many things that we have been doing and which we have been developing, I mean those have been developing in the last couple of years. You start to see coming on-stream and impacting the marketplace.

Now it's clear that *Wildscape*, *Outsiders Pizza Company* are relatively small business today, no business is starting huge. *Nespresso* started very small for many years before picking up. It is the same for those, we have to be patient. We have to continue supporting them. We have to plant the seeds and we have to invest as well in our blockbusters and make sure that they stay relevant at all times. We have to strengthen our consumer engagement model. We have to invest increasingly across our operations and this is the agenda that we're embracing and this is what I wanted to share today.

It is not just a wake-up call of today. This agenda has been embraced now since a while and you start to see some of the fruits coming on-stream.

Question on:	Coffee
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Sorry, and the second question. There's a lot going on in the world of Coffee and you presented some of your own initiatives. I suppose the question is really around actually getting your different businesses to work together, I mean, you talked to us about actually single packaging, the Water business on one hand and Coffee on the other hand. One could think that actually there may be more to do in terms of having your route to market playing a bigger role – as [indiscernible] to the Water business - actually helping out your Coffee operations as well. I mean, is there any sense of that you may be looking at different type of business models, route to market in the context of actually Coffee playing a bigger role also in the cold [indiscernible]

Laurent Freixe:

It's a very good question and I'm happy if this question is triggered by our moves. It's clear that in the last years we have built up a slightly different vision on how we play and how we need to play in the Coffee arena. So we moved from a position where we wanted to be a leading player in the Soluble coffee space and the Portion coffee systems into a more holistic vision where we want to be a global leader, but as well locally a leader. We got many components in the strategy, many brands, many systems, many technologies that we can leverage, many routes to markets, you're right. We're adding now a new tool in the tool box.

But, if you look at it, this is pretty focused. I mean, I've been talking about three major brands, a few major technologies. So I'm absolutely confident that we'll be capable to orchestrate all

these and make a big impact in the marketplace, the same way we have been capable to orchestrate *Nespresso* and the development of *Nescafé Dolce Gusto* into a billionaire brand in Europe and globally. I'm confident that we'll be capable to orchestrate *Nescafé*, *Nespresso* and *Starbucks*.

In the last couple of years, we have put in place a global coffee council, where all the key stakeholders in the Coffee space at Nestlé are meeting regularly to discuss the strategies going forward and initiatives. Just to make sure that we are on top of it and we are at the cutting edge when it comes to our strategies and that we don't leave any stone unturned and that we really capture the full value and the full potential of the category globally.

Question on: Improving agility at Nestlé
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You mentioned agility at the very beginning of the presentation; you removed a layer from the organization. Can you just expand on that a bit, tell us what that layer was, whether there is more you can do and what else you've done to increase the accountability and the entrepreneurship of your organization?

Laurent Freixe:

So there is one thing which we have seen is that, we are mobilizing and increasingly mobilizing teams on specific topics or specific projects. Sometimes we can put them outside of the organization and outside of the boundaries, outside of the framework, like in the case of *Outsiders Pizza Company* or *Wildscape* or we did that also in the past with *Nespresso*, this is the way *Nespresso* has been developing. So we're just replicating a model, which has been successful for us in the past, and which is very successful. That's one way to look at it.

Now, it's clear that increasingly we are in a world where we have to work beyond traditional, hierarchical boundaries, so we want the organization to be fluid, we want people to be able to organize according to projects, according to ambitions and we want people increasingly to work end to end. So the fact that we flatten the organization and increased the span of control is certainly allowing that, is a big enabler that facilitates also the speed of the communication and creates greater agility, greater speed, greater accountability across the organization. So this is fundamentally what we're pursuing with that. There may be some benefits also in terms of structural costs, but the main thing there is to increase agility and speed across the organization.

Question on: Pricing in North America

Laurent, just in terms of North America specifically, some of the remuneration packages have been altered to put a greater emphasis on price than perhaps was the case in the past.

Could you talk about how you've envisaged that working or change in the environment for your operations in North America where pricing is difficult for the industry?

Laurent Freixe:

Yes. Pricing is difficult and it's a little bit like in Europe, since a while. Pricing is difficult because it's fundamentally a no growth or low growth environment, so everyone is fighting for a share of the consumer wallet. Plus, there is good competition across channels because the channels and the customers are also fighting for the same. Plus, Internet and the web players are creating price transparency and they're also quite aggressive and quite quick to align on the lowest player.

So what we're doing fundamentally is to capture the value of our brands, in the eyes of the consumers. We put greater emphasis on strategic revenue managements and we work the mix as well and, through innovation/renovation, try to create additional value and additional pricings through that. We try to leverage as well our cost efficiency initiatives to mitigate the cost pressure impact. But if we have to increase prices we do. And you see some pricing coming in North America in this respect. It's been visible already in Q1, and it's there.

Question on: Pricing in Coffee
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Hi. About Coffee, could you – again related to pricing as well, could you give us an idea of what the *Starbucks* deal is going to mean for pricing through selling the *Starbucks* brand through the Keurig channel? How it's going to impact on the *Nespresso* channel? What can expect to see in terms of pricing between those two different channels?

Laurent Freixe:

Yes, it's probably bit early to enter into the details and the deal is not closed yet, and we are still in a phase to share information, and we have not even really entered into developing the plans. But I see fundamentally a great deal of complementarity. From a channel perspective, *Nespresso* has got, and this is the purity and the beauty of the model, control of the value chain end-to-end and they control the price 100%. So they got that lever totally under control and they got their own route to markets.

Then *Starbucks* of course is leveraging other channels. When you think of where is the battle field today, which is the U.S., complementarity is absolutely perfect. The \$2 billion or so business of *Starbucks* CPG is through indeed the Keurig system, but also through the mass channels and through e-commerce, and this is in perfect complementarity.

I don't see an issue with the brands competing with each other, and the beauty of having *Nespresso* in the portfolio and *Starbucks*, even *Nescafé*, is that those brands are premium or super premium brands, they command high value in the eyes of the consumer, and they are generally not brands that are heavily promoted or down-traded. So in this respect, the *Starbucks* deal is a big plus for us, gives us complementarity and space in terms of value creation.

End of Q&A session

Laurent Freixe:

Many thanks. Thank you

End of Transcript