Full-Year Results 2017

Thursday, 15th February 2018

Welcome and Safe Harbour Statement

Christoph Meier

Head of Corporate Media Relations, Nestlé

Good morning ladies and gentlemen, welcome to our 2017 Full-Year Results Conference. My name is Christoph Meier; I joined Nestlé exactly a month as Head of Corporate Media Relations. This conference will be held in English. If you follow us by webcast you can choose a German or French translation on your screen.

On the podium we have our CEO, Mark Schneider, and our Chief Financial Officer, François-Xavier Roger. In the room we also have the CEOs of our geographic zones: Wan Ling Martello, from the zone Asia Oceania and sub-Saharan Africa; Laurent Freixe, Americas; Marco Settembri, Europe, Middle East and North Africa; and also the Head of the Strategic Business Unit, Marketing, Sales and Nespresso, Mr Patrice Bula. They are also available to ask questions if you might have any to them.

I take the safe harbour statement as read and now let us start. Mark, the floor is yours. Thank you.

Full-Year Results 2017

Mark Schneider

CEO, Nestlé

Introductory Comments

Thank you Christoph and a warm welcome to our press conference participants today, both here in the room and out on the web. As always, we do appreciate your interest in our company.

What I would like to do today is take you briefly through some of our 2017 metrics and achievements, talk about the 2018 outlook but then also touch upon some of the underlying actions that we have kicked off, and in some cases also completed already, in 2017 that should position us well for the future.

As Christoph said, I appreciate the fact that our zone CEOs are with us today, and Patrice Bula is with us today, so we will be very happy to answer questions together that you may have. François Roger, as you know, is going to be presenting the financials in more detail. That should round off the picture, then, when it comes to 2017, 2018 and beyond.

Thanks to our Employees

Before I get started, from the bottom of my heart, a thank you to our more than 300,000 employees and associates around the globe who put in a lot of hard work last year to make the results and our initiatives happen, on top of the base business and day-to-day responsibilities that they have. This was a very demanding year; we kicked off a lot of initiatives during the year that will position us better for the future. We appreciate their hard work and commitment. That applies to all of our employees; it applies to our leadership team. So from the bottom of our heart, thank you, a big thank you, also in the name of our Board of Directors and the entire Executive Board.

Key Messages

Organic growth

Now talking about the key messages for this year and also pointing towards the future, you will have seen by now the press release. Our fourth quarter sales came in somewhat weaker than expected. And hence for the full year, while we still have organic growth at the high end of industry, it came in towards the lower end of our guidance. Within that somewhat negative picture I think there are still a few positives that I would want to point out.

One is all of this still gets supported by very, very strong real internal growth and you will see [that] better on the following slide, which I think bodes well when it comes to our sheer volume developments and also the market shares and prospects for the future. Second, we had a very uniform development across all of our categories. All categories, as you will see in François' presentation, contributed to positive growth. I think that very even profile, especially in turbulent times like ours, is very important.

Then, third, I do believe that the snapshot picture for 2017 does not full represent all the things that we have started, and in some cases things that we have landed already, that will really position us better for organic growth when it comes to 2018, 2019 and beyond. That is simply due to the fact that whatever you do to drive organic growth, there are lead times involved, whether it is internal developments or whether it is acquisitions. I will take you through that in a bit more detail during this presentation. I hope you will come away with an appreciation that, while the snapshot for 2017 did not take us entirely to where we wanted to be, we are positioned well then for the years to come.

Solid improvement of underlying trade operating margin

On the cost side, typically, internal measures are faster acting. Hence, turning to the second bullet point, we have seen a very solid improvement of our underlying trading operating margin. That one was actually a little higher than expected at the beginning of the year, and I think it puts us firmly on track towards our 2020 margin target that we articulated as part of our Investor Day in London.

Focus on organic growth and operating efficiency

Going forward, those two planks, the focus on organic growth and the focus on operating efficiency, are exactly the two planks that we will continue to pursue patiently. So no surprises here, and I think that should also give you confidence that we are not pursuing flavour of the day management. Rather, those are themes that we laid out to you over the years. I reiterated those themes as part of my first press conference last year. We gave you more detail along the two themes as part of our London Investor Day, and this is what we are patiently executing on. So it is not like each and every day there is a new strategy and a new direction, but rather very consistent, very dependable action that points in the same direction.

Portfolio management

We have also seen very encouraging progress when it comes to our portfolio management strategy. I will also highlight some of that in my presentation in a minute.

2020 growth and margin targets confirmed

Summing it all up, the 2017 performance, those actions and those prospects for the future, we are in the good position of fully confirming our 2020 growth and margin targets. So what we laid out to you in London still fully applies. It fully applies in a financial sense but more importantly, all the strategies, all the actions, all the initiatives that we had outlined to you, those really are the ones that we are working on. There are no changes there, an enormous amount of consistency again to what you saw there, and also to what we talked to you about earlier.

2017 Performance Highlights

Here is a quick recap when it comes to the key sales and operating data for 2017: sales of close to CHF90 billion. Do keep in mind this excludes for the full-year the ice cream that had been contributed to the Froneri joint venture. So when you compare these numbers, you are comparing to a year 2016 that only excluded one quarter of that ice cream business. Hence, there is a bit of a negative development, year over year, that we had to compensate.

When it comes to organic growth, as mentioned, 2.4%. 1.6% of that is real internal growth driven by our strong volume performance, which had also been the hallmark in earlier years. We expect that to continue going forward.

The underlying trading operating margin in constant currency: +50 basis points, in actual currency +40 basis points. Again, that is the one that did come in stronger than expected. As you will see later, especially on structural costs, in some of our operating efficiency initiatives, we have been able to accelerate some of our efforts. I think that bodes well for 2018 and the years to come.

Delivering on Our Commitments

The next slide shows you how we deliver on some of the commitments that we had laid out to you earlier. I will not go through each of these items bullet point by bullet point. Rather, what I would like to do is actually take a step back. I wanted to show you that the strategy and these commitments that we are pursuing are really all aligned with where we believe the consumer is going. Where the consumer is going, and has been going for several years, is towards healthier, higher-value, more premium offerings in food and beverage.

That consumer is so much more interested in the health benefits of his or her nutrition than in the past. That same consumer, when it comes to standardised articles, is so much more price sensitive than in the past. That consumer is also, with digital tools, so much in a better position through transparency to compare prices; hence efficiency is going to be very important. Then, when it comes to these new and premiumised products, the cycles are also getting ever shorter; hence the need on our side to innovate and renovate at a faster clip.

So, when you put all of these strengths together, the big picture that you are seeing is exactly the mirror image of the two initiatives I described to you earlier. We need to work on organic growth through improved innovation and renovation; bringing exciting, must-have products to the market faster and rolling them out very consistently. Then, internally, on anything that is not customer-facing, anything that is behind the curtain, we need to work on efficiency so that in our overall offering we are competitive.

So you see how these two initiatives are really the mirror image of what is happening out in the market and what is happening with the changing consumer. That is all of us every day in our purchasing decisions.

Clear Path to Achieving Mid-Single Digit Growth

What I would like to do on the next three slides is, then, to talk about these key initiatives. I would like to talk about organic growth. I would like to talk, on a very high level, about some of our efficiency efforts. And I would like to talk about portfolio management, which is a good tool to actually realign the portfolio with those changing consumer tastes.

Organic growth

Let us talk first about organic growth, which, as you know, is a very important metric to us and continues to be the key metric going forward. The slide I am showing you here is the same slide that we took our investors through in London. We have updated it for the latest 2017 data, so the starting point is now the 2017 organic growth of 2.4%. As you recall, last year, 2016, it was 3.2% so the incline that is needed to get to mid-single-digit organic growth by 2020 is steeper. However, we also showed you here, with the three steps, fixing the base business, portfolio management and backing high-growth categories, some of the specific actions that we have undertaken or initiated in 2017 to get towards that target.

Stabilisation of Yinlu business

Here, again, I will not go through all of those but let me just highlight [a few]. Among fixing the base business, you see one of the bullet points is the stabilisation of the Yinlu business. Under Wan Ling Martello's leadership we had been doing a lot of work already in 2016; I think it has started now to really pay off in 2017 when it comes to stabilising that business.

Our congee products there are showing new signs of success. The core peanut milk offering is still somewhat weak. However, we use that platform to capitalise on another big trend in the Chinese market and that is ready-to-drink coffee. That is showing very, very good signs so far. So here is a good example of taking a base business that was not doing well and then with strong, intense effort, adapting to changing market needs, we are turning it around, stabilising it and contributing to growth going forward.

Portfolio Management: acquisitions and disposals

What you see in the centre section, portfolio management, is our 2017 M&A activity, both on the acquisition side and the disposal side. The important thing is, on the acquisitions, all of these are high-growth businesses. All of these are businesses that are very much in line with consumer demand, enjoying very, very strong growth.

Now, when it comes to time lags and what I said to you earlier, the important thing to note is even though all of these deals are contracted and most of them, with very exceptions, are closed, none of them have contributed to organic growth yet. That is simply due to how the accounting rules work. Take Blue Bottle [Coffee] as an example, a very high-growth coffee business. We announced that transaction last September; it closed in the fall of 2017; it continues to enjoy very, very high organic growth. However, the first moment in time that this business will contribute to our group consolidated organic growth will be as from the fourth quarter 2018. That is simply the way accounting works.

If you now apply that to the other transactions, the same picture emerges. Take, for example, Atrium Innovations, which I am going to be talking about in a minute. That transaction was announced in the fourth quarter of 2017. Closing is expected towards the end of the first quarter 2018 now. If we hold that timeframe, the first moment that this high-growth business will affect and support our group organic growth will be, then, from the second quarter in 2019.

So, again, a lot of good things have been done that will support organic growth. However, they will only, on the acquisition side, kick in with an one-year timeframe after the closing of these transactions.

The same applies, by the way, on disposals, not the one-year timeframe but you may know we already initiated the review on our US Confectionary business last June. We now announced the transaction with Ferrero in January 2018. We expect that that transaction closes at the end of the first quarter 2018. Only from that moment on, so only from the second quarter of 2018, will we get relief when it comes to the organic growth. As you know, that business grew lower than the average of Nestlé; hence its disposal will support our organic growth going forward.

High-growth categories

Regarding the high-growth categories on the right-hand side, here you see lots of initiatives, especially centred around our high-growth categories that should support growth going forward. I am also very proud to point out our continued success in e-commerce. I think we already started to talk about this in our press conference last year. Since the last press conference, our e-commerce activities have really gathered steam and [we are] very proud to see that 32% organic growth in the e-commerce area. That is without counting our direct-to-consumer Nespresso business. So strong success there.

I think our model of providing tools centrally and then applying the tools in line with local market digital habits, that model is really paying off because the nature of e-commerce and the nature of digital usage around the planet is really quite different. We are a company that prides itself in reading local market habits, observing those the right way and then implementing our strategies around that.

Operating Efficiencies Driving Margin Improvement

Next, on operating efficiencies, I am only focusing here on one aspect. Operating efficiencies are wider than what you are seeing here on the structural cost chart, and that is structural costs. There was a core issue that we had to deal with. Our structural costs for most of the past decade had been rising faster than our revenues. You see it here graphed for the years 2014–2016. In fairness, some of that structural cost increase was due to some investments. However, nonetheless the maths was that the structural costs were rising faster than the revenues, and we had to stop that trend and it turn it around. I think we were successful in doing that in 2016–2017. You see that the percentage of structural cost of revenue is coming down from 19.6% to 19.2%. We intend to pursue with that trend going forward.

It is important to us to do this in a tactful and also in an appropriate way. What you do not want to do is undercut some of the initiatives, some of the investments, that are important for future growth. It has to be aligned with our strategy. It has to be non-customer-facing. It has to be non-related to future growth initiatives. And, also, the way we do implement it, the how, it has to be in line with our Nestlé principles, with our Nestlé culture. I think so far we have been making a very good effort on this and we are dedicated to pursuing this going forward.

Active Portfolio Management

Transactions in North America

On portfolio management you saw on the previous slide, there were more transactions happening than the two that are outlined on this slide. However, I just wanted to highlight, with this particular slide and these two transactions, the sale of US Confectionary and the purchase of Atrium Innovations, the benefit that can come from good portfolio management that is aligned with the company strategy.

So here you have two transactions that are both in the North American environment. You see from the transaction value that they are sort of in a similar size bracket of $2–3 billion. You see from their sales number, $900 million for US Confectionary and $700 million for Atrium Innovations, that they are roughly the same size.

According to our time plan everything should get done inside that first quarter, or right around first quarter, second quarter. When these transactions are closed, the picture you will have and the benefit you will have is a sales profile in North America and a strategy that is much more aligned with our nutrition, health and wellness goals. So, clearly, getting out of the confectionary business in North America and getting into some of these vitamin supplements and minerals, advancing good nutrition and micronutrient fortification, I think, is a good thing when it comes to implementing our nutrition, health and wellness strategy.

On the sales side, once a year has passed, you will see a 20 basis point bump up in our organic growth. Just disposing of the US Confectionary business will relieve us by ten basis points when it comes to organic growth. Buying into the Atrium business, with that one-year time lag I described earlier, is going to support organic growth by another ten basis points.

Last but not least, since the Atrium business is higher margin, it will also support our group underlying trading operating margin. Last but not least also, over and above all of those benefits, you are seeing a $500 million delta here. Those are funds that are available for future investment in line with our strategy.

So it shows you, while portfolio management needs to be done in moderation, it can really advance our goals when it comes to shifting the portfolio towards a product line-up that is more in line with our nutrition, health and wellness strategy, and also a product line up that has a more attractive financial profile.

Terrafertil and Global Life Insurance

Before turning to the outlook let me also say, when it comes to portfolio management in particular, that as you look at the first few weeks of 2018, the same journey and the same strategy continues. You will have seen, as of last Friday, we announced the acquisition of Terrafertil, a South America-based company that is active in organic and healthy food offerings and snacks. We have also, with today's press release, announced that we are exploring strategic options for our Global Life Insurance business, and we will keep you updated as we go through that process later this year.

2018 Outlook

When it comes to the 2018 outlook, we are expecting for 2018 organic sales growth of 2–4%. We expect that, as in 2017, to be broad based and supported by strong, real internal growth. As we practised in 2017, we will narrow down that range for you as we go through the year and give you a more precise expectation on where organic sales growth is expected to land.

When it comes to underlying trading operating margin, we expect that to be on the positive side and fully in line with the 2020 target that we outlined at our London investor seminar in September. We expect restructuring costs of around CHF700 million. That is more or less in line with the restructuring cost level that we have now seen in the year 2017. As always, we are committed to an increase in underlying EPS and also to an increase in capital efficiency.

That sums up my presentation for today. Let me hand it over to François and I look forward to your questions later on. Thank you very much.

Financial Results 2017

François-Xavier Roger

Chief Financial Officer, Nestlé

2017 Performance Highlights

Thank you Mark. Good morning everyone. Let me move first to the highlights of the 2017 year. We finished the year with an organic growth of 2.4%, made of 1.6% of RIG and 0.8% of pricing. That puts us, clearly, at the high end of the industry in terms of organic growth and more specifically in terms of volume growth.

Our underlying trading operating margin, which is before restructuring, increased by 50 basis points on a constant currency basis. This is above expectation and clearly puts us in line with our 2020 margin improvement target.

The free cash flow stood at CHF8.5 billion, which is equivalent to 9.5% of sales. That is a little bit less than what we had in 2016, given that we benefited less from a reduction of working capital. Our working capital did reduce but not to the same extent as it did in the previous year.

Our underlying EPS increased on a constant currency basis by 4.7%. The main driver of the increase is our margin improvement. The second largest driver of the underlying EPS improvement is growth.

Broad-based Growth across Geographies

Moving to the distribution of our growth between geographies, we are talking there of the combination of our zones, our globally managed businesses and regionally managed businesses. You see that the growth is broad based. We have positive RIG and positive organic growth across the three geographies.

AMS

If we start with AMS, we have a RIG of 0.6%, an organic growth of 1.3%. We had a softer end of the year, especially in the US. The US market is flat and we were flat as well in the US with weak consumer demand. We had to face, as well, some softness in Brazil at the end of the year, given that meal prices went down by almost 20% in Q4 versus Q3 and we had to adjust our prices accordingly, which put pressure on our growth in the later part of the year.

EMENA

In EMENA we had RIG of 1.8% and organic growth of 2.5%. We are pleased to see that the last two quarters were, in terms of organic growth, above 3%, which is a level that we had not had for quite some time. We therefore see an acceleration there. We were pleased, as well, by the fact that we have indication that we are getting steadily out of a deflationary environment in Western Europe. We had been with negative pricing in Western Europe for the last couple of years; it stabilises now and we are flat. The main drivers of the growth in EMENA are coffee and pet care.

AOA

In AOA we have an acceleration of the RIG at 3.3% and OG at 4.3%. This is the third year of improvement in terms of growth. China is now positive, which had not been the case over the last couple of years, and we had the very strong momentum in South Asia, in South-East Asia and in sub-Saharan Africa.

Accelerated RIG in Emerging Markets

Moving to the distribution of our growth between developed and emerging markets, there again you can see that both RIG and OG are positive in 2017. If we talk more specifically about developed markets, you can see that RIG was at 0.7% and OG at 0.7%. We had some slow-down, which is once again related to the soft consumer demand, mainly in the United States. We are pleased there again to see that there are signs of an improvement in terms of pricing. We are no more facing negative pricing.

In emerging markets we saw a clear acceleration of our volume, which is reflected there in an acceleration of the RIG. A little bit more softness in pricing at the end of the year but no specific concern at this stage.

Driving Growth through Innovation

Innovation is really at the heart of what we do and innovation is the main driver of our growth. You remember, and we mention very often, that about one-third of our products are actually either new or fully innovated every year. Innovation can take different shapes and form. It can be product innovation, which is what we have, for example, here with our Nescafé Gold, which we renovated entirely last year. It can be addressing new demands from consumers, for example for naturality, with more organic, more natural products, which is what you have here, for example, with Maggi; we do it as well for pet care; and we do it with Nido for dairy.

Innovation can be also scientific innovation, which is what we have down in nutrition with the introduction of oligosaccharides for NAN, which is illustrated on this slide. Innovation can be also new business models, like direct-to-consumer engagement. I will talk about it later on.

Driving Value through Premiumisation

One way to innovate and to develop our sales is through premiumisation. Premiumisation is important. Last year in 2017, we had close to 21% of our total sales which were premium products. We define premium products, depending on the category, as products with a price premium of about 20–30% against the mainstream products. The contribution of premium products almost doubled in the last five years. It was 11% in 2012 and 21% in 2017. Premium products are important because they generate growth but they contribute to margin improvement as well because we have a margin, with premium products, which is, on average, about 300 basis points better than the average of our products.

Let me give you some examples of premium products. Obviously, Nespresso for our coffee; San Pellegrino or Perrier for water; illuma for infant nutrition; or, as you see on this slide, it can be Les Recettes De L'Atelier for confectionery, just to name a few.

Channel Innovation by Going Direct to Consumer

Another way to grow is to be more engaged in direct-to-consumer sales. This accounted last year for almost 8% of our sales, while it was about 6.6% in 2015. Direct to consumer offers a lot of benefits. Because, obviously, we are directly engaged with the consumer, we can better manage our brand. We can control the entire value chain, which is obviously much better. We can accelerate innovation because we have a direct point of contact with the consumer. Pricing point is usually higher by definition, even if the cost of distribution might be higher in a certain number of instances. In most cases, not in all cases but in most cases, direct to consumer, what we call D2C, provides a better level of margin.

You have some examples of products where we are involved in direct-to-consumer sales. Nespresso is one of them; I could mention Blue Bottle; I could mention Ready Refresh in the US, where we deliver packaged water directly to homes and offices in the United States. However, it can be as well what we do with our KitKat stores, or what we call our Chocolatory. We launched that in Japan but we have it now in Malaysia, we have it in Australia as well. This direct to consumer can be quite significant in some markets. In Japan, for example, about 14% of our total sales are direct-to-consumer sales. In some categories as well it can play a significant role. For Nespresso it is 100%. But if I take water worldwide, we have about 15% of our sales which are coming from direct-to-consumer engagement.

Underlying Trading Operating Profit of +50 Basis Points Driven by Structural Cost Reduction

Moving now to our P&L, we improved our margin on a constant currency basis by 50 basis points last year, in spite of the fact that we had to face a significant headwind, which is an additional commodity cost of CHF900 million. However, we managed to mitigate that through price increases and through very strict discipline and cost management, especially on our structural costs, which is what Mark showed a little bit earlier. It is important as well that we focused, essentially, on non-consumer-facing activities: on administration; manufacturing; supply chain; trying to ring-fence, as much as possible, the consumer-facing activities. This effort on structural cost contributed to 40 basis points of margin improvement, which is the vast majority of the overall margin improvement that we had last year.

Further Progress on Working Capital

Moving now to our working capital, again in 2017 we managed to decrease our working capital by 60 basis points as a percentage of sales from 2.8% in 2016 – this is the average of the last five quarters – to 2.2% in 2017. This came after a very, very strong improvement in 2016.

2018 Focus

Let me finish my presentation with our focus for 2018. As I said when I started my presentation, we have an industry-leading volume growth. We aim at maintaining that, essentially, through innovation. We aim, obviously, at increasing our margin further than what we have achieved last year, which is this 50 basis points margin improvement, in line with our ambition for 2020. In order to get there, we will focus again on structural saving, as we did in the course of 2017. We will continue focusing on capital efficiency, which has to do with working capital, which I just described; it has to do with CAPEX management; but it has to do with a disciplined approach in terms of M&A.

Whatever our priorities are for 2018, obviously it is reflected in our 2018 outlook, with an organic sales growth of 2–4%, improvement in underlying trading operating margin, restructuring costs slightly higher than last year and a focus on capital efficiency and underlying EPS.

That concludes my presentation. I will pass on to Christoph, who is going to handle the Q&A session.

Q&A

Brian Blackstone (*Wall Street Journal*): Can you talk a little bit more about what the problem is with the United States. You made references to a decline in organic growth there, soft consumer demand, and yet the US economy seems to be doing quite well, even at the end of 2017. Unemployment is at record lows; the consumer outlook seems to be quite good. If you cannot turn things around in the United States, what does that bode for your outlook for 2018 and beyond? Thank you.

Mark Schneider: Brian, thanks for your question and let me answer some of it but also let me hand it over to Laurent Freixe, who is heading our zone Americas.

Big picture; when you put together some of the statements we made last year, it was very clear that, unlike previous recoveries, this transmission built from improving economic growth to higher consumer spending has been significantly delayed. So when you look at the first, let us say, three quarters for most companies in our space – the fourth quarter is not fully out for everyone yet – everyone was seeing a somewhat sluggish demand which was not totally in line with where the economy was heading. There are some recent signs, now, of acceleration so I think that bodes well for 2018. However, certainly for most of the year 2017, that is a feature we were faced with.

Second, I alluded to the sale of our US Confectionary business. That was a drag on our OG performance in North America last year. While we concluded the transaction now, clearly for the full year it was part of our organic growth in 2017. As you can imagine, when you publicly explore strategic options for a business as from June, that does typically not exactly help the short-term organic sales growth performance of such an entity. People are focused on the transaction then and it is not likely you continue to build the business very much in that short timeframe. So that sort of transition turbulence is something that, I think, is happening with most transactions.

I am confident, when it comes to our underlying categories there, that those have good prospects, we are in a good space and our leadership there is positioning the business for a good future. However, let me hand it over briefly to Laurent to comment on it.

Laurent Freixe: Yes, thank you very much Mark. Indeed, we have a disconnect, which is surprising; most of the time, that economic growth is there but does not translate into consumption. The main reason for that is that salary moderation continues to prevail and consumption continues to be subdued. So what we have been dealing with across 2017 is flat-to-negative food and beverage markets in the US. If you look at the reporting of the main players in the consumer goods industry, and especially the food and bev players, you will see that most of them are reporting flat to negative numbers.

That is the numerical part. There is a profound transformation of the organisation to be fit and agile that is taking place as we speak in the US. There is a profound transformation of the portfolio which has been highlighted by Mark. That positions us very well with the recovery in terms of the consumption that we expect to come in the coming months and years.

We are reviewing the portfolio profoundly, pushing categories that have high-growth, high-margin prospects. Beverages is certainly one of them; pet care is another one. We have been disposing – and that will be fully reflected in our numbers once we close the transaction – disposing of the confectionary business. We are making investments into the new spaces, reaching the new consumers and that also positions us very, very well for the future. On top of that we have been doing, also, a profound reshuffle of the organisation.

All those projects, starting with the relocation of the head office from Glendale to partly Solon and to Arlington, moving from five global organisations, five [inaudible] organisations into one, all those projects are on track, ahead of time, ahead of expected savings. And they will give us the resources and the muscle to keep investing in the business.

E-commerce has been highlighted also as one of the areas where we are thriving and where we are investing. Our pet care business, which is number one when it comes to e-commerce sales, has been doubling its sales in 2017. We believe that we will be capable to double again in 2018. We have two e-commerce players in our top ten list of customers, so we are really lining up to be able to capture the new consumers, capture the new trends and also leverage the dynamic of the most dynamic channels, e-commerce being one, the dollar channel, convenience being others of those dynamic channels.

Mark Schneider: Thank you Laurent. Let me say, this is a key example: there has been a lot more activity than what has been borne out here in the numbers. I think that positions us really well. When it comes to the US in particular, we have been always committed to this market, we have been there for more than a century. We did not wait for tax reform to keep investing there. We had significant CAPEX projects kicked off last year that position us well now for future demand. Almost all of our M&A activity, some of these new, fast-rising players that we acquired in the year were based in the US, so we are committed to that market. When that updraft now sets in, we are really at a good spot.

Michael Brächer *(Handelsblatt)*: Two questions, if I may, one regarding the L'Oreal stake. Your statement was rather ambiguous, to say the least. You say you are checking the options but you remain committed to the stake. So I am wondering: what does it actually mean? Would you consider selling it? What are the plans? Can you give us any insight on that?

The second question is regarding potential M&A targets. Is there anything in particular that you are looking at? What are the options [inaudible]?

Mark Schneider: Thank you. With all due respect, I think that our press release, when it comes to L'Oreal, was not ambiguous at all. It very clearly commented on the only decision that was on the table and that is, do we renew or do we not renew the shareholders agreement? What it says is that the board of directors has decided not to renew it. And when it comes to speculating about the future, that is not part of what we do, okay? However, for the one decision that clearly, until 21st March when that agreement is set to expire, had to be taken, we have given you now, a month ahead of time, a very clear direction of where we are headed.

When it comes to M&A, I think the same applies as what we told you last year. That is we continue to see M&A as a good way to complement our internal efforts to improve our portfolio, bring it more in line with an NHW strategy. We see a sweet spot when it comes to small and medium-sized transactions. We do not rule out larger ones. However, when you look at last year this is more or less what happened. Most of the transactions we did were small and medium-sized companies, very much on trend, very much in line with where the consumer is going. Then there was one that I would call a more medium-to-large and that is the Atrium Innovations acquisition. So I would not be surprised to see a very similar picture for this year. However, again, I would not rule out larger ones if and when the right opportunity comes up.

There are so many rumours and speculations about all sorts of transactions that we are seemingly involved in and you know, as per our policy, we do not comment on rumours. Every time we had a chance to underline to you our prudence in doing this and cautious capital allocation, doing one step after another, not getting ahead ourselves, we did that. Hence, the next time you see a rumour, keep that in mind because I think, especially from the seller side, it is sometimes fashionable to bring a big company like us in play. However, at that moment we cannot comment and I know then it creates a lot of confusion.

Johannes Ritter *(Frankfurter Allgemeine Zeitung)*: Two questions. Unilever just said that they are not very happy, to say the least, about the content surrounding their ads on Facebook and Google and so on. What do you think? Are you still comfortable advertising on these platforms, or could you also maybe consider to withdraw, at least partially, from these social medias?

Secondly, a political question, the Swiss party SVP recently launched an initiative in order to get rid of the free movement of people in Switzerland, which of course would hurt the bilateral contracts with the EU. What do you think of this? What is your opinion on this initiative? What would it mean for Nestlé if this was being taken on?

Mark Schneider: Thanks. When it comes to social media, clearly all forms of digital communication are gaining an importance. Yes, of course, we do track very carefully each of these providers; what is the content that is being transmitted there, and is that something that is in line with our purpose and values and principles? So far we felt it was best to do that, actually, on a provider-by-provider basis. I didn't see much commonality for one overarching policy. However, yes, on the principles we are on the same page but again I think it is important to do this situation by situation and provider by provider. We have been doing this very, very diligently. Where we saw developments that gave us pause and concern, then we would typically reach out to those providers.

Patrice, do you want to add anything to that?

Patrice Bula: I will just say it is not because we are vocal about it that we are not monitoring or concerned about it. We already, in 2016, appointed an agency to help our market guides in choosing programme integrity of some platforms. I would just say this year we did not hesitate to stop advertising, at one time for almost a month on some platforms, where we felt that we were not reassured that our advertising would not appear in sites or next to content that would not align with our values. So I think we are the same, we just choose to work with this platform, to inform them. They are doing a lot of effort to get there; we work with them and we will continue to do it this way.

Mark Schneider: Regarding the second question, as you know, typically, as a company, we do refrain from a detailed political comment. But as a fundamental principle, as a multinational firm that has a lot of movement of highly qualified people across borders, we are of course interested in policies that permit the movement of highly qualified, highly specialised people across borders in the future as well.

That applies to every market where we are present, but it is certainly also applies here to our home market where we do a large part of our research and development, and where, of course, a lot of senior functions are located.

Angelika Gruber (*Reuters*): I was wondering, are you interested or maybe still interested in the consumer health businesses of Merck and Pfizer? And then I would have a second question as it was your first full year of CEO of Nestlé, what was your biggest challenge or what did you find most difficult? Thanks.

Mark Schneider: Regarding the first question, again, in line with our policies, we cannot comment on specific transactions that are out in the public domain right now. Very clearly, when you go back to the London Investor Day, we have an interest in expanding in consumer OTC healthcare. I think with Atrium, now we have under contract a first meaningful step here to expand significantly the footprint in size of the Nestlé Health Sciences.

There is been a lot of rumours swirling around. And again when you put together the prudence, which I pointed out, with the fact that this Atrium deal has not closed yet. So first you sign something and then you close and then you integrate. I will leave it to draw your own conclusions. But other than that we do not comment.

In terms of the first year, look, a quick summary. Fantastic company. Could not be happier. And so I am feeling very good about that first year. The one thing that did surprise me, as it surprised every old hand in the industry, is simply the sheer pace of change and how it has quickened even inside that year 2017. So, just as a reminder for those of you that were here with us a year ago, this was the day before the Unilever rumours broke. And so who would have guessed that on that day?

This was also before some major activist activity in the industry, all across the industry, and major M&A activity, and also continued market share gains by focused small to mid-size companies in almost all categories and geographies that we serve. And so the pace of change, which is only a reflection of where these consumer preferences are going, that has certainly quickened. And hence the challenge to all of us is to keep up with that pace and stay ahead of it and take advantage of it.

And that is my one key observation. But again it was not only a surprise to me as a new CEO, I think it was surprised, to some extent, everyone. So, while the underlying trends had been at work for years, the simple speed, the sheer speed of it is quite impressive.

Olivia Détroyat (*Le Figaro*): Hello, good morning. Concerning L'Oréal, I need a precision because you told us that you do not want to raise your participation in L'Oréal capital. So why do you refuse to renew the shareholders agreement? Because all other options were available in the present Shareholder Agreement. And with a new agreement, are not you afraid of losing your board position and your seat at L'Oréal board? Thank you.

Mark Schneider: We would like to be as helpful as we can. But I will not comment over and above the statement that you have seen in our press release. It is a very, very, very carefully worded statement and so I encourage you to appreciate each and every word there. But over and above that, and especially when it comes to the intentions behind that, I will not comment.

Christoph Meier: Next question - not about L'Oréal probably.

Claudia Gnehm (*SDA Swiss News Agency*): Last year you published decisions to close or at least decrease Swiss production facilities. Will this continue, this trend? That is the first question. The second question is and you face again criticism about your baby milk. This time it is a bit more serious study about marketing claims. I mean, it is the year 2018, will this never stop? What are you going to do about this?

Mark Schneider: Let me address the Swiss situation first and let me preface that by saying that over the past ten years, we have created close to 5,000 jobs in Switzerland. And these are highly qualified jobs, as I pointed out in response to one of the earlier questions, centred around the leadership of this company, high quality, specialised, highly automated manufacturing, and also R&D.

But as I also pointed out during the cost reduction slide, and François pointed that out, we have to look at efficiencies all throughout the company. And as a matter of fairness, no specific location, no country market is exempted from that. We are doing this in line with our policies and with our culture of dealing with these issues sensitively. But the 'what' on adjusting to this changing environment, that is something we cannot run away from.

So specifically then last year, when it comes to our Nestlé's Skin Health business, we have announced, for example, the closure of our Egerkingen site. And as you know from some of the previous reports, our Skin Health business was in need and is in need of some serious restructuring. And the load that Switzerland was taking in that is not higher than the load we are seeing in some other country markets.

So again, we are not doing this with the country first in mind, but we are doing this first in mind with the business needs. And I think we are doing it fairly and in a socially responsible manner. And as we go forward and as we look forward, we will look at each situation with that same principle in mind, and over time then come towards a leaner, more efficient company that is better positioned for profitable growth.

Regarding the infant nutrition Changing Markets Foundation report that you are referring to from about two weeks ago, we already responded to that. And I think there is a public statement out there on this that shows very clearly our commitment to high quality infant nutrition. It also pointed out that there were a few factual mistakes. While we usually really, really are open towards direct engagement with these NGOs to be sure that the best thing is done for mothers and their babies, what happened here is we were not contacted prior to the publication. Hence we did not have a chance to address some of those factual issues earlier. We now remain open for that debate to do this and to really be sure that the public has a fair and appropriate view of what we are doing.

As you do know, for many years on infant nutrition, there is a legacy of concerns and issues. I think what is not always getting fair attention is the serious efforts that this company has been doing very consistently over 30, 35, 40 years now to be in the forefront of the responsible marketing of infant products. We are getting recognised for that by so many neutral bodies, including, for example, the FTSE4Good. And so I think in line with that we are dealing with new concerns as they come up, and we hope that we retain the public's trust on that.

Erich Bürgler (*SonntagsZeitung*): Talking about the changing consumer needs, how important is it to speed up the process to bring product into the shelves? How are you working on that and where is it especially important? And secondly on the Investor Days, you mentioned that you want to have your products more natural ingredients and fewer ingredients. How important is it to replace some kind of ingredients, like palm oil? Because consumers are more sensitive. Maybe other ingredients, I cannot think of that. How important is that and are you working on that too?

Mark Schneider: Look, on the innovation side, I think this applies to virtually all of our categories and it is something that we are working on. And it really happens at two different levels in the company. There is the renovation side where you constantly rejuvenate and update your offering close to the market, and that happens inside the zones and the markets that my colleagues here represent. And a lot of that has to do with local taste and changing local taste. That is ideally not something that you would do by remote control here from Vevey.

And then for the more meaningful fundamental innovation, you are drawing on our vast R&D resources, a lot of which, as you know, is based here in Switzerland. And then you make those improvements available to the various categories, and then translate them into new and improved products over time. Both of these, I think, we just need to speed up. We have done a lot of meaningful action in that recently.

And when I was talking earlier about some of these things taking a time lag before they kick in, this is clearly one of those things where you cannot see yet a lot of the activity that we have undertaken to actually translate into improved sales growth. But I am very convinced that it will come.

When it comes to replacing certain ingredients, yes, of course, overall, when it comes to proven negative ingredients or when it comes to simplification of the ingredient list – the famous kitchen cupboard principle, so things that you can easily recognise that do not sound overly scientific or unnatural – we are working on that across the entire spectrum.

On palm oil, as you know there is different opinions on that. And there is a question of, what is the alternative and what are the pros and cons of the alternative?

Corinne Gretler (*Bloomberg News*): Thank you. We have seen some big steps towards longer-term strategy of Nutrition, Health & Wellness in 2017. I was just wondering if you can explain a little bit more specifically how the category of ice cream and also prepared foods – not frozen. I know that there are some health aspects with frozen food that you have explained. But, for example, the Herta prepared meats, or pizza, just maybe explain to me how you see that fitting into your long term strategy.

Mark Schneider: Yeah, look happy to do this. What is important to me is in food and beverage, as a guiding principle, what we are committed to Nutrition, Health & Wellness is that principle that I mentioned on a few earlier occasions. Food is not fuel alone. And so some food and beverage products we consume not because we strictly need those nutrients, but simply for enjoyment or for social reasons or whatever. And that is not going to go away.

And so, while it is nice to have improved nutritional profiles of products on the positive side, reducing some of the negative ingredients and still providing the same level of enjoyment that is also, in my opinion, consistent with nutrition health and wellness. And hence 50 years from now, will there still be pizza in this world? Will there still be chocolate and confection in this world? Yes, absolutely. What I would hope that the nutritional benefits and the nutritional profile of that pizza and chocolate is going to be better than today's and that we will have been playing a big role in improving that.

So that is our way of doing it. And it is not just a high level principle. When you look at specific examples, so for example, our facets sugar reduction technology or aeration technology to reduce sugar content in confectionary, while giving you the same pleasurable experience, those are specific steps in technologies that make it happen.

When you look at sodium reduction, especially, for example, in our pizza line, in some of our prepared foods, nitrite free offerings on Herta range of cold cuts. So there are specific improvements that we can point to, or a specific technologies that we can point to, that make that same experience and the same pleasure that comes from it in nutritional way, more acceptable. And that is the direction.

Mark Schneider: We appreciate your attention, appreciate you coming out. Look forward to staying in touch as we go through the quarters and also, of course, look forward to seeing you again here next year. And thanks for your interest. And behalf of my colleagues, have a good day. Bye-bye.

[END OF TRANSCRIPT]