Full-year results 2018

Thursday, 14th February 2019

Opening comments

Christoph Meier

Head of Corporate Media Relations, Nestlé S.A.

Good morning, ladies and gentlemen. Welcome to the 2018 results press conference. My name is Christoph Meier. This conference will be held in English. If you watch the webcast, you can choose a French and German translation by clicking on the respective link on your screen.

With me today are our Chief Executive Officer Mark Schneider and our Chief Financial Officer François-Xavier Roger. In the room, we have several members of the group Executive Board: our three Zone Heads, Laurent Freixe, Americas; Chris Johnson, Asia, Oceania and sub-Saharan Africa; Marco Settembri, Europe, Middle East and North Africa. We also have our Head of the Strategic Business Units, Marketing, Sales and Nespresso, Patrice Bula, as well as our Chief Technology Officer, Stefan Palzer.

I take the safe harbour statement as read. And let us start now, and I am handing over to Mark Schneider. Thank you.

Full-year results 2018

Mark Schneider

CEO, Nestlé S.A.

Christoph, thank you, and a warm welcome to the press conference participants this morning. To everyone who joined us here in the room and also everyone who has taken the time out there on the web to follow this event. We certainly appreciate your interest in our company and we appreciate the opportunity to update you on the significant progress that has been made at Nestlé over the past year.

This is also an opportunity, and we will follow with this at 10 o'clock, for everyone who joined us here in the room, to showcase some of the products that are under development or about to be launched. And this should also signal to you this strong commitment the company has to continue meaningful innovation in the food and beverage space, exciting must-have products sold under strong brands that really care, and we hope that we will be able to showcase this to some of you at the event after ten o'clock.

Key Messages

Moving on with the key messages. What I was stressing to you on previous occasions is the fact that this industry is changing very fast and that it requires that we change fast to stay in lock step with it and continue with our lead. I think that has really happened in 2018. You are seeing significant, meaningful progress on all fronts with our accelerated value creation model that we outlined in the June 2017. The key metric of course is organic growth, as you know, and this is the biggest long-term value driver that the company has. And I am proud to say that it jumped back to about 3% from 2.4% in 2017. We were also very encouraged by the strong second half of the year, and in particular the strong fourth quarter. And as you can see from this slide, this is driven by progress in two of our largest markets, the United States and China, and also in a very significant category, and that is infant nutrition.

As you know, we have put considerable efforts in all of those three areas. We have had a new leadership team take charge in China in 2016, we changed the leadership team in the United States last year, and we did a massive reorganisation in our infant nutrition business, which was transformed from a globally managed business in 2017 to one that is handled by the zones. This transition was managed between November 2017 in January 2018, and I think it is delivering results in all three zones. And I am very encouraged by what I am seeing, not just on the growth front, but also on this more [inaudible] direct way of handling the business and market share gains in key markets.

We have seen a strong improvement in the underlying trading operating profit margin of 50 basis points. So, with our growth and with the margin, we are fully on track towards the 2020 target that we outlined at our London investor seminar in September 2017. And you also see that reflected in our 2019 guidance, which we will explain later.

You have seen strong progress with our portfolio development. Clearly, we were able to complete some reviews that we had announced to you earlier. Most notably of course, just at the beginning of the year, US confectionery, at the very end of the year the global life insurance business which got completed literally on the last day of the year. We announced a review of our Nestlé Skin Health business, and just this morning as you know with the press release, we announced a strategic review of our Herta charcuterie business.

So, very disciplined portfolio adjustment in line with where market trends are going and where we see growth opportunities going forward.

Strong underlying earnings per share growth, strong return of cash to our shareholders, I think two of the key metrics that I will focus on later. Let me add one key message here, and that is thank you to all the more than 300,000 Nestlé associates around the world that made this happen. I talked on earlier occasions about something that really puts this company apart, and that is at all levels and all locations the sheer will to win, and I think that really showed through in that year and [inaudible] the day and we very, very much appreciate it. It also gives us hope and confidence when it comes to the future.

Strong 2018 Financial Results

François will handle the financials in more detail, but let me just show you that at the group level, all the key metrics are pointing up, some of them actually quite strongly, and in particular when you look at the first three ones from left to right, it vindicates our balanced approach to growth and margin. So, you are seeing good improvement on organic growth, you are seeing good improvement on the underlying trading operating profit margin. When those two things come together, very good things happen for underlying earnings per share. And yes, that number, 13.9% for 2018, it did benefit some from US tax reform, we all know that. But even if you strip out some of these unusual items, you see that essentially the underlying earnings per share doubled from 2017 to 2018. And hence that balanced approach between top-line and bottom-line, that key hallmark of Nestlé, I think that really shone through in 2018.

The next item, free cash flow, if you see that as a proxy for our capital efficiency and balance-sheet efficiency, I think that also improved very strongly. And when all of that comes together, like strong underlying earnings per share and then capital and balance-sheet efficiency, yes, then you are seeing strong uplift on return on invested capital, and you are seeing this bounce here from 9.1% to 12.1%. Yes, again, some of this was aided by the fact that last year was unusually low with our Nestlé Skin Health write-off, but a lot of that is also just solid underlying improvement, and that is what is giving us hope for the future.

Delivering On Our Commitments

Delivering on our commitments on a whole lot of fronts, not just the financials, I will not spend a lot of time on all of these items, but let me talk about this sharpening of our strategic focus, because on earlier occasions, we talked about the fact that in our view, strategy is not a one-shot thing. It is not a photo. Strategy is a movie. Something that unfolds over time. A consistent set of actions that gets the company from one place to another in the face of a changing environment. And I think this is essentially what we have done over the past several years in a very consistent manner, and this whole focus on our core food and beverage and nutritional health products range, I think that is really shining through now. So, when we talk about that, especially after announcing the review on Nestlé Skin Health, I think it becomes clearer what we really mean. And inside food and beverage, when you think about today's announcement on Herta, it also shows you how we position the company towards benefiting from higher growth future areas such as plant-based offerings that are very much in trend with where the consumers are going.

And so, this whole portfolio revolution happens at a very disciplined pace. As you know, each and every one of these steps is, in the case of an acquisition, a significant integration effort, and in the case of a sell-out, it is also a significant carve-out effort, and all of that needs to be handled operationally in a very diligent and prudent manner, and that dictates the pace. But that disciplined pace, to hurry on this but not to haste, I think this is something that the majority of our investors have really taken heart to, and we will remain committed to that going forward.

At the very bottom of the slide let me also point out our strong commitment and the key essence that really defines Nestlé, on creating shared value. I have a slide on this at the end of my presentation and I will give you some of the key priorities for 2019.

Clear Path To Achieving Mid-Single Digit Growth By 2020

This slide you have seen two years ago, the outline of the slide, basically the actual organic growth on the left-hand side, and then the three drivers that are getting us to our 2020 target of mid-single digit organic growth. And I also updated that slide for you last year. We will continue to update it for you, and what I am going to do now is, for the next few slides, give you more details on each of these three buckets. But I think those are the three drivers that really help our organic growth over time. It is fixing the base business, portfolio management, and then continued focus on high-growth categories.

Fixing Base Business

So, fixing the base business, just three examples here, and there are many more inside the company, but three that certainly you have followed and reported on from the outside over the past few years. And let me start here, a little unusual perhaps with Nestlé Skin Health, because as you know, Nestlé Skin Health is also a business that we have under review, but credit where credit is due. And what we have seen here over the last two years is a stunning, stunning turnaround. This business has been going back to very solid organic growth over the past year. The business has been put on a very competitive cost base. And more importantly, we have defined three clear winning segments in this business, and have a very well-defined strategy in each of them, and we have a strong management team that now executes on these three strategies in those three sub-segments. Those sub-segments, as you know, are consumer, aesthetic and corrective, and prescription, and we are winning in all three of them and doing very well. So, the company has gone through a significant restructuring in the years 2017 and 2018. We are now accomplishing a larger business volume with one quarter of the workforce less, and clearly the business enters this review of strategic options from a position of strength. And that is a hallmark from us as well. We are committed to portfolio management, but when we do portfolio management, when we do reviews, let's do them from a position of strength.

Gerber, the centre of the slide, here we return to positive organic growth in Q4 2018. We are committed to this ongoing expansion of the organic range and new packaging materials, and I think we also communicated this whole new approach with a new campaign called Anything for Baby. On a lighter note, anyone who has a soft spot for kids and babies, spend a bit of time, look it up on the web. I can tell you these ads will put a smile on your face. So, very nicely done and communicating that new approach to the Gerber business.

And then Yinlu, as you know, that business had given us quite some grief in 2015 and 2016 with strongly negative growth rates. We stabilised the business in 2017 and we returned to better growth in 2018. As you know, one of the signature product ranges, peanut milk, remains a challenge category in China, but we have been able to reposition the business to a strongly growing segment, and that is ready-to-drink coffee products that are very much in demand in China and that use the existing Yinlu capacity. So, a good way of pivoting this business in line with the changing market conditions in China. And again, another testament to the fact that when we focus on the business and we are committed to turnaround, we can make it happen.

Developing Our Portfolio

Next, developing our portfolio. I have two slides on this. First, a more general outline that you see on this page, and then specifically some information on our Herta review that we announced this morning. So, looking back over the past year, the total deal volume for 2018 was round about CHF14 billion. Pretty significant when you add up the buying and selling. You are seeing here on the sell side, the US confectionery and global life insurance business as I referred to earlier. Under review we have now the Nestlé Skin Health business and the Herta business, which could run the next slide. And then you see under the acquisition headline, quite a few deals, some of them very significant, such as Starbucks and Atrium, some of them in the small to mid-size categories such as Blue Bottle, Sweet Earth, Terrafertil, and the acquisition of a majority stake in Tails.com, and also Chameleon Coffee, cold brew coffee, in the United States.

So, very much along the lines of products in food and beverage that are on trend, rising strongly in the market and also in growth categories where we intend to accelerate going forward.

Exploring Strategic Options For Herta Charcuterie

On Herta, so, what we put under review is the charcuterie side of the business, so that covers cold cuts and meat-based products. It is a sales volume of about CHF680 million. This is based on 2018 numbers. The main country for our Herta range is France, where this is an iconic meat-based products company. In addition to that, with operations in Germany, Belgium, Luxembourg, UK and Ireland, a total of about 2100 employees and three factories. So, it is important for me as part of this announcement to underline our commitment to the food sector and to food products going forward, but within food products, we see a significantly better growth opportunity for plant-based offerings. We have very strong brands to carry such plant-based offerings. For example, the Garden Gourmet range in Europe or Sweet Earth in the United States. And I think this is very much on trend as more and more consumers are looking at balancing their protein intake, and as they are also getting increasingly concerned about the environmental consequences of their food intake. So, I think that whole focus on plant-based offerings is very much on trend and it will be with us for years to come.

Supporting Growth Through Innovation

And last but not least, supporting growth through innovation. I will not spend a lot of time on these three specific examples. They are stunning success stories, but what is more important to me is to describe the backdrop here. And especially with our Chief Technology Officer present, let me say I tip my hat to the research and development community at Nestlé for the significant retooling we have seen in 2018. This is a strong, vibrant organisation that now has significantly cut cycle times, significantly improved bang for the buck when it comes to using the world's largest budget in research and development when it comes to food and beverage, and really translating that into a continued stream of exciting, must have products. That is what it is all about. When we talk about sustained organic growth performance, what we are ultimately talking about is improved products that really carry the day with consumers, and that has to be supported by a strong innovation engine. And that is happening right now out of R&D. So, the pipeline is refilling as we speak, doing very well on this, and again, I am very, very impressed with the changes that happened in a short order of time.

2019 Guidance

When it comes to the 2019 guidance, we are seeing continued improvement in our organic sales growth, so this means over and above the 3% of 2018, and also continued improvement in the underlying trading operating profit margin. That means over and above the 17% you saw for 2018, and absolutely in line with the 2020 targets that we had outlined at our London investor event in September 2017. And so just as a reminder, this calls for mid-single digit organic sales growth, and this calls for an underlying trading operating profit margin of 17.5 to 18.5% for the year 2020. So, the year 2019 will be a lock step towards that and we are confirming all the things that have been said in this direction before.

As of now, we are expecting restructuring costs of around CHF700 million and we will update you on that as we go through the year so that you have good visibility on what our restructuring activity will mean for the bottom-line development. And then we also continue of course to expect underlying earnings per share to improve in constant currency and capital efficiency to improve as well.

Business As A Force For Good

This is the point where usually I would hand it off to our CFO for a more detailed look at our operating performance and financial performance, but what I would like to do today is to spend a few minutes on a broader agenda here of sustainability and social goods that the company stands for. In the credo here, business as a force for good, is one that I really like to bring home in a more detailed way to you. Now, let me say on a personal note, having joined Nestlé about two and a half years ago, many, many times I have been deeply moved, deeply struck and sometimes humbled by the strong commitment I am seeing from hundreds and thousands of colleagues, at all levels, all geographies of the organisation, in really making business as a force for good come to life. So, the strong commitment to sustainability, to creating shared value as an approach to doing business, I think this is something that goes right back right to the inception of the company and in so many of our categories dealing when it comes to supply with fragile agricultural communities that are exposed to the elements and are exposed to varying prices, and really being a partner for the long-term to these communities and being very much devoted to sustainability.

And then downstream, in the communities where we are active in the communities we are catering to, being a long-term, reliable and dependable partner and good citizen wherever we do business. And as I said, it resonated very strongly with me. And it also reminded me why, 35 years ago, I was interested in a career in business. And it was not just a paycheck in the job, but it was this whole notion that when business gets done right, it can be a force for good, and I think that is increasingly recognised. And this notion, this credo, is more important. And it is getting more and more important every day, because I think consumers are taking an increasing interest, not just in what they buy, but they also want to know how the products that they buy are being made and what are the business practices of the companies that they buy from. And among NGOs and governments, the enlightened NGOs and the enlightened governments are also more and more interested in having business have a seat at the table when it comes to finding solutions that really get traction on the ground, that are not just ideas. To make it happen, business needs to have a seat at the table.

I also see in this context a renewed opportunity for big business, because when you look at the past few years, it seemed like small is beautiful seem to be a ubiquitous mantra. But big business can have big impact. Big business can make big strides towards having a development to the better. And I think that notion shines through more and more. We can be a role model. We can bring scale and technologies and know-how to the table on a level that small companies simply cannot do. A good and specific example on this from last year, you may remember our announcement from September of 2018 that we are using now satellite tracking technology to ensure that when we source palm oil, that our suppliers live up to their commitment of no deforestation. We were the first food company to do this. I am personally convinced, give it a bit more time, this will become the operating standard in the industry. We trust our suppliers, but frankly verifying from above is a whole new level of doing business, and really enforces honesty in the supply chain over and above the documentation and audit approach that has been used before. And that sort of spearheading, that sort of pioneering, I think that is something that big business can do in a better way than smaller companies can, and hence I think this is a responsibility we want to live up to.

So, this is our approach going forward. It has always been our approach, and it is something that is worth highlighting and something that in the future we will want to stress more as part of our press conferences and also as part of our earnings; because even among the investment community, I think there is more and more interest in being sure that these results are achieved in a sustainable manner and not just a sustained manner.

When it comes specifically to the agenda for 2019, I would like to highlight three areas of focus. One is contributing to healthier lives. You know, we launched our Nestlé for Healthier Kids campaign in May 2018; a significant campaign over several years that really tries to make an impact and tries to have an impact at an age where nutrition habits are formed, and that is in childhood. And it is a whole set of activities. It is global, it will have an impact on the products we offer, it will have an impact on partnerships that we strike with schools and with educational institutions around the world, and it will also have an impact on just providing better information so that people can make informed choices. So, that campaign continues to get scaled up in 2019.

At the centre of the slide, you have seen our commitments and our specific actions from last year when it comes to a waste-free future, especially when it comes to tackling the problem of plastics waste. So, a significant amount of activity is going into that. And I hope you appreciated when we made this detailed announcement at the beginning of 2019 that it was not just high-level commitments, it was not just longer-range commitments, but it was also very specific things that we are doing right now and we will be launching later this year to contribute to a waste-free future. And it was also a commitment to lead by example when it comes to solving some of the problems that have been created in the waste area in the past.

And last but not least, when it comes to inside Nestlé, we are proud that when it comes to diversity, inclusion and in particular gender balance, we were able to achieve a rate of 30% female senior executives in our company last year, but we also recognise that is not enough, and the right thing is to go beyond that. So, we will have an accelerated gender balance plan put out to you in March. There will be a separate event on this, 4th March, and between the years 2019 in 2022, you will see, just like with the Nestlé for Healthier Kids campaign, a very consistent set of actions at all levels in the company that are designed to drive up gender participation in gender equality at Nestlé. It is the right thing to do, it is the right thing for the business, but more importantly, morally it is the right thing to do. It has been too long and we have to act on this.

So, those are three areas that we will focus on in 2019 in particular. But let me say, over and above these areas of focus, what usually does not get the credit is at the ground level those many, many occasions and many places where Nestlé colleagues, Nestlé [inaudible] do good things to their surrounding communities each and every day. And I think that is also something that we need to point attention to, because I think it sets the company apart.

Let me close with that and hand it over to François.

Full-year results 2018

François-Xavier Roger

CFO, Nestlé S.A.

Thank you, Mark, and good morning to all. I will start my presentation with a high-level review of our portfolio.

Balanced And Diversified Portfolio

We have a well-diversified and balanced portfolio in terms of geographies and market. We are not overly dependent on any single market. AMS contributes 45% of our sales, EMENA 29%, and AOA 26%. All three geographies have contributed to the growth last year. AMS has been the largest contributor to the improvement of the growth from 2017 to 2018. EMENA did a solid year with 2.1% of growth, especially when taking into consideration the deflationary environment that we are facing in Western Europe. And AOA has been able to deliver the highest level of growth.

Strong Emerging Market Footprint Delivering Profitable Growth

We have a strong footprint in emerging markets. Emerging markets contribute a 42% of our total sales. They are driving growth. Actually, last year, they grew three times faster than the developed markets, and emerging markets are actually attractive not only because they bring growth, but they bring margin as well given that we have a higher margin on average in emerging markets.

Growing In All Product Categories

We have a well-diversified portfolio in our business in terms of categories as well. There again, we are not overly dependent on any single category. Our largest category which is powdered and liquid beverages which is mainly coffee, contributes 24% of our total sales. The second one is nutrition and health sales with 18%, and we have two other ones, pet care and milk products and ice cream contributing 14%.

Our growth has been broad-based across categories. All categories have contributed to the growth. Obviously, what we define as high-growth categories, and I will mention more specifically coffee, pet care, infant nutrition and consumer healthcare have been growing two times faster than the rest of the other categories. The other categories may have been assigned different roles, starting with capital generational margin improvement.

Revived Growth In Key Markets

We were pleased last year to see that we had revived growth in our two largest markets, namely the US and China, especially after a soft year in 2017 in these two markets. In the United States, we improved our growth from 0.2% in 2017 to 2.6% in 2018. This came mainly from coffee, pet care, Coffee-mate, and to a lesser extent even pizza.

In China, we accelerated our growth. Our growth in 2018 was three times higher than the previous year at 5%, and it happened across categories.

Full-Year Sales Growth

Last year in 2018 we reached CHF91.4 billion of sales. That is equivalent to a reported sales growth of 2.1%. The main component of the main driver of that growth is organic growth at

3%, which was made of RIG at 2.5% and pricing at 0.5%. Organic growth as mentioned earlier increased in 2018 by 60 basis points over 2017. RIG at 2.5% remains at the higher end of the industry, and it has been the case for quite some time. RIG is a combination of volume and mix. Volume is important, because we are talking of share of stomach for consumers, and mix is also very important because this illustrates very well our capacity to innovate and our capacity to premiumize as well.

Pricing was soft at 0.5%, but also it accelerated during the year. We started the first half at 0.3% of pricing and concluded the year at 0.9% in H2. Net M&A had a positive contribution of 0.7%. This is a net impact of acquisitions, mainly the Starbucks licence as well as Atrium Innovations, less the disposal. The main one has been US confectionery. And we had a negative impact of foreign exchange by 1.6%, which is mainly coming from depreciation of emerging market currencies.

Underlying Trading Operating Profit Margin +50 Bps Mainly Driven By Cost Reductions

Our underlying trading operating profit margin increased by 50 basis points last year. This is the second year in a row that we have been at that level of increase. The main driver has been the improvement of the growth margin by 50 basis points. This came as a consequence of pricing, so we have a good capacity to price up. This came as a consequence as well of our product mix. We have been able to reduce our fixed costs, fixed industrial costs for example have reduced last year by 2.1% in absolute value, and we have been able to deliver operational efficiencies as well. Our growth margin has been increasing in five out of the last six years, which shows the quality of our portfolio as well.

We had some headwinds in terms of distribution costs. This is mainly coming from higher transportation costs. This happens mainly in the US and hit mainly our water business, but it went even further than that because it started to hit as well some of our categories in the US and some other markets like in Japan or even some European markets. We delivered some significant efficiencies as well in administration, and we have been able to achieve some interesting marketing efficiencies in our marketing spend and R&D spend. As far as marketing and R&D is concerned, we have reinvested a significant proportion of the savings.

Strong Free Cash Flow: CHF 10.8 Bn

To complete my presentation, just a quick highlight on our cash flow. It was a very strong cash flow last year, CHF10.8 billion. You can see that we have been fairly consistent in our cash flow delivery over the last couple of years with even more than 11% of sales in most cases. This is really the outcome of all the positive ever louche and of our key financial KPIs. We have been able to drive growth and accelerate our growth. We have improved our margin, we have been very disciplined in managing our CAPEX, we have reduced our working capital, and so all of this contributed to the strong cash flow generation.

This strong cash flow generation leads us to the point where we want to accelerate our share buyback programme, and we expect to complete it as a consequence by the end of 2019. Initially we had thought of completing it by the middle of 2020, so we will complete it six months ahead of the original schedule as a consequence of this strong cash flow generation. That completes my presentation and I am now handing over to Christoph for the Q&A.

Q&A

Christoph Meier: Thank you, François. We will now take questions from the room. May I ask you to ask one question at a time so that we can give everyone the opportunity to ask questions. Yes, Mr Ueli Hoch, , AWP?

Ueli Hoch (AWP): We can hear a lot about recession everywhere. Do you see in any of your markets signs of a major slowdown or signs of recession? Thanks.

Mark Schneider: So, yes, I think globally GDP growth has slowed a little in some countries more than in others, but it is important, and I think this has shown through in this presentation, while of course no company is totally decoupled from GDP growth, we are not selling GDP. So, our job is within a given market to do as well as we can, and that means new and improved products, working on efficiencies, and really winning with the consumer every day. And so, the progress you are seeing in 2018 is not a macro progress. It is not something that the world economy was doing better. The progress happened because at the ground level we were putting a lot of things in place that paid off. And that to me when it comes to 2019 in 2020 from whatever I can see now, should also carry the day. So, of course we are watching the macro environment. We are watching with concern some discussions. Take the Brexit debate and making sure that no matter what happens we can live up to our promise to the UK consumer and be able to supply. But nonetheless, at the end of the day, it is micro steps. It is business that that we are taking to position our business the best we can no matter what the overall economy is doing.

Christoph Meier: Next question, Angelika Gruber, Reuters.

Angelika Gruber (Reuters): You already mentioned Brexit. Are there any specific steps you talk to make sure you can supply your customers there?

And then I would have a second question. Since the US and China are your biggest markets, do you see any negative effects from the debate about the trade dispute? Thanks.

Mark Schneider: So, on the first one, we had commented on previous occasions that the way that the business can prepare for this is of course to increase inventories, because if there is going to be some disruption, it will be about import handling and it will be about trucking and freight, and the best way to counter that is with more local warehousing, so we are preparing along those lines.

When it comes to the US and China, do keep in mind that we have very, very, very few shipments going from one market to another, and so of course we do not want a trade dispute because as a company, we are very much committed to open trade and free markets, but specifically we are not chipping very much from one market to another, so hence while we are watching with interest, it is not something that is giving us specifically at Nestlé deep concern.

Christoph Meier: Next question, please. Yes, Erich Bürgler, Tages-Anzeiger Sonntags Zeitung.

Erich Bürgler (Tages-Anzeiger Sonntages Zeitung): Talking about pet care, we have seen over average – above-average growth there. Where does that growth come from, in which areas? Are acquisitions a priority there? And where do you go with innovations there? What kind of new products? Do you also go towards plant-based products there maybe?

Mark Schneider: So, pet care is one of our growth areas we are very committed to. And the good news when you look at 2018 was we had a fairly even successful development across all of our geographies. The key geographies of course are the United States and Europe, but this is a growing category pretty much all throughout, and we are very committed. And in fact, this is one of those long-term success stories were over almost two decades now we have been patiently building our product position and really making the most of a long-term opportunity.

As acquisitions opportunities arise, of course we are always interested but there is nothing specific I can point you to. We did invest as you know last year in Tails.com. We acquired a majority stake in that company. That is an exciting company because it stands for personalisation in pet care which I think is a key trend going forward to be sure that you have a direct relationship with the consumer and that you tailor the product exactly to the needs of the pet. And so, I think this is an exciting development and we are looking to scale that up over time.

Christoph Meier: Another question, otherwise, it looks everything is clear. One question, Mr Zwior, NDR.

Tobias Zwior (NDR): Yeah, good morning Mr Schneider and Mr Roger. I have a question on packaging. I just saw this pen here on the table. It says this used to be an espresso capsule, so I was a little bit surprised because we are doing research right now on packaging and we bought like 100 products of Nestlé last week in the supermarket, for example this or some others, and we talked to Mr Braungart, who invented the cradle to cradle theory, and we let Mr Braungart check it, and he said in the end the majority of these products they are not really useful for sustainable recycling. Either it is because of composite material or it is coloured plastic. And the question is, why do you not stop producing these packages? These are clearly harmful for the environment.

Mark Schneider: Look, it is very hard to comment now on the spot on what a professor said somewhere, but let me just say very clearly that our first priority is food safety and food quality. And so, these products were not invented over the past decades with the goal of polluting the environment. They were invented because we wanted to be sure that when it comes to shelf life, when it comes to food safety, and giving you the food with the best properties and quality, that we do the best we can. And this does not apply only to us; it also applies to everyone else.

And collectively then over a long period of time, we see now that a packaging waste problem has built up, especially around plastic packaging. And so now, based on what we all know and what we collectively learned, it is about how do we take action. And so, this is again where you separate the snapshot which is, yes, there is an issue, from the movie. And the movie is, what are we going to do about it going forward and how are we going to improve. And this is where we issued then our commitment to have products be recyclable or reusable, the packaging by 2025. We outline specific steps. We have founded an Institute of Packaging Science to make sure that we are not only dependent on what our packaging suppliers give us but rather that we can drive some of these innovations as well. So, it is not about the snapshot right now. It is about the future, and making sure that we can maintain the same level of food safety and food quality and yet at the same time have something that can be recycled more easily or avoids waste in the first place.

So, this is what we should be judged on going forward, and hence we gave this commitment. But I think just going shopping last week and saying, okay, there is a problem; yes, we know there is a problem, that is why we work on it. And that is not good enough.

Christoph Meier: Other questions? Yves Genier , La Liberté.

Yves Genier (La Liberté): Climate has become a top agenda issue, and I wanted to know what kind of work you are doing to reduce your CO2 impact by your production processes, executive travels, any kind?

Mark Schneider: You are right. I think climate concerns are another major sustainability area. And here I am proud to say that over several years now we have been making a consistent effort to reduce the CO2 footprint. We can give you the specific numbers of the reductions that we have accomplished over the past years and we are committed to reducing even further towards 2020 and beyond. And this happens at all levels, so it happens from the sites that we occupy, the manufacturing processes we use, and also whether we can encourage better personal behaviour. We also do that.

Christoph Meier: Gret Heer, Sonntagszeitung..

Speaker: Water is not performing well. What will you do? Did you hear it? I think I have a loud voice. So, water is not performing well. What will you do?

Mark Schneider: So, on water specifically, it is important that we do appreciate the significant cost increase that happened last year on US distribution and also on PET, which is the material for the plastic bottles. Because with oil prices rising, PET increased significantly. And in the US over and above the distribution increases that we have seen elsewhere, I think we are in a pretty dramatic situation following some of the hurricanes in the fall of 2017 where in all categories, we are seeing significantly higher distribution costs. But you can imagine for bulky and heavy products such as water, the distribution expense component is particularly strong.

The reason I am talking about this in such an amount of detail is when you compare our business to other water businesses elsewhere, do keep in mind we are 60% US, so we are much more exposed to that situation, that geographic problem, than someone who may have a different geographic footprint. And that is important for me just to state there, we know we have an issue, we know we have to reduce our costs, and we have done that in a very disciplined way in 2018, but as you compare now the operating metrics and the operating performance, it is important to understand that our geographic mix is so much more focused on the one area that is giving us the problems. And that is not something we can change short term.

So, we are committed to addressing this with better efficiencies, and we also noticed that of course in our premium products, we are a little less exposed to that than our value priced products. And hence, the continued success on premium products in waters is going to be one of the ways to achieve better growth rates and also better profitability.

Christoph Meier: Corinne Gretler, Bloomberg News.

Corinne Gretler (Bloomberg News): I would just like to touch or circle back to the water. I understand that the bulk of your business coming from the US and that is facing challenges, and I know you are not going to make like any overnight changes to your geographical sales, but do you think you might want to push a little bit more, expanding into maybe emerging markets, considering the challenges in the US? I understand not overnight, but is that something you are thinking about, to maybe push more in other regions like emerging markets?

Mark Schneider: In the water business, what you have to avoid is what I would call creating islands. And that is, you know, to just say oh, this market is attractive, let me buy something small there; because scale is very, very important to have some distribution efficiencies. And hence, the fact that we have such a strong position in the US market, most of the times, people would have seen that is a good thing. It just happens in a particular year when you have all these pressures on the packaging and the distribution, yes, it works against you. So, it is important to me when we are working on efficiencies not to over-interpret this thing. Water is a cyclical business, so when you go back with Nestlé over the past ten years, you see years when the margin has been improving quite nicely in line with for example lower energy costs and lower plastic costs. In some years, it has been working against us. In 2018, as we outlined in some of the quarterly conference calls, it was a particularly difficult year because you had these input cost increases and then some of the price increases only started to kick in at around midyear, the price increases that we put in place to offset that effect, and hence you are getting the full year effect when it comes to the cost side, but you are only getting a partial relief when it comes to the revenue side.

Christophe Meier: Next question from –

Silke Koltrowitz (Reuters): Silke Koltrowitz, Reuters. I know I already asked about the guidance, so you are guiding for more than 3% organic growth this year, and an improvement in margin, and so we have last year's performance, we know what your 2020 targets are, so there is only this one year, 2019, in between. So, maybe can you still give us a bit more granularity on is this going to be a steady improvement towards your targets, or can we expect this year to be sort of at the midpoint between last year and the target, or can you just give a bit more on what you expect really this year? Is it going to be rather backloaded? What do you see?

Mark Schneider: I can only reiterate what we said on earlier occasions, and that is to expect more of a steady improvement on the cost and margin, because this is something we have better under our control. You saw us even in 2017 make progress on this faster, and any benefit on the sales side is something that is a bit more backloaded. Here again, especially last year when we had a disappointing organic growth performance, we told you that anything we did in 2017 would take some time to actually translate into better organic growth. And of course, the same applies now even on the back of a very encouraging organic growth number. Anything we did in 2018 to help our organic growth going forward takes some time to kick in. If it is internal growth, then it is something, if it is new products for example, it is something that needs to be developed, launched, and scaled up in the market. If it is M&A, you have to find those transactions, you have to close them, because here is another disconnect. Many of you start counting the sales from the moment we announce the transaction, but in fact, first you have to close it because only then do you become the owner, and in most cases, we have to wait under our accounting rules for a period of time before then that organic growth from those acquisitions gets counted. So, there are time delays no matter what you do and hence the organic growth number we told people from the beginning was going to be a bit more backloaded as we ramp up towards the 2020 targets.

Christophe Meier: Next question from Corinne Gretler from Bloomberg News.

Corinne Gretler: I just wanted to follow up on Silke's question on the guidance. Does it make sense then to expect 4% organic growth and 18% margin this year since that would be mid-point of 2018 and 2020 targets?

Mark Schneider: I would love to help. I would love to be transparent, but for now, we have to stick to what we wrote, so I think you have a very precise set of targets for the year 2020. That range of 17.5 to 18.5% for the underlying trading and operating profit margin and mid-single digit organic growth. And we are saying that 2019 is going to be an improvement over 2018 towards those targets. So, compare that to many companies out there, there is only very few that offer that level of clarity.

Christoph Meier: Erich Bürgler, Sonntags Zeitung.

Erich Bürgler: You gave an estimate of the restructuring costs for this year. Will there be further closures of production sites in Europe, for example?

Mark Schneider: So, restructuring related costs are not only plant closures. It is very important to underline that so it is not seen as a proxy year for the number of plant closures. But as you can imagine, when you operate 413 facilities worldwide, even in years when there is no significant restructuring, there is always a certain amount of facilities that you get out of, but then there is also always a number of facilities you newly get into, either because you start them up or because you acquire them as part of an M&A deal. And so, it was interesting, while last year a lot of the media attention was highlighting the number of plant closures, when you compare the number of plants at the end of 2017, it was 413. 2018, it was 413 as well. So actually, for whatever we lost, we also gained new plants. And so, this kind of development is an ongoing thing. So, that means, yes, there will be closures as we make these adjustments going forward. There always have been. So, this is not news. But then we will also acquire new facilities as we start up new facilities or acquire new companies.

Christoph Meier: Any further questions? Mr Hoch, AWP. And afterwards,Seraina Gross. Mr Hoch first.

Ueli Hoch, AWP: Do you think investor pressure will a bit fade away with the results you are showing now?

Mark Schneider: In all modesty, I would call it investor interest, and it has been always very strong. And I think a majority of our investors are very happy with the change they are seeing in the company and the development they see in the company. As you know, we have a huge share of super long-term investors who have been faring extremely well with Nestlé over long periods of time. And so, I think you will see continued investor interest, but that had always been the case, and I think the people who stayed with us for the long term have been very richly rewarded.

Christoph Meier: Seraina Gross, Handelszeitung.

Seraina Gross (Handelszeitung): Could you elaborate a bit more on what made you take the decision to do a strategic review of Herta?

Mark Schneider: So, in Herta, again, the key point is plant-based offerings clearly offer a much, much better growth rate than meat-based offerings. And in meat-based, so in addition to a low growth rate, you also have an enormous cyclicality, because meat supply is a very cyclical supply. And so, here you have a business that is not in line with our long-term nutrition health and wellness ambition when it comes to food. And it is a business that also from a growth perspective was just not living up to its potential because, again, the consumer had moved on towards more plant-based offerings and this is where we want to be. So, it is one of those cases where the strategy and also the financial results pretty much tell you that the focus should be elsewhere.

Christoph Meier: Any other questions? Mr Zwior again.

Tobias Zwior, NDR: Again here, just one more. I have a little quote from the NZZ where it says that environmental protection is a huge topic for your company. And on the main agenda, there are activities to reduce, reuse, recycle the packaging. But this quote is from 1944, and the question is, you talked about your new agenda, and the question is, why should the consumer believe that now environmental protection is important to the company?

Mark Schneider: Well, I do not see a contradiction, because, look, a lot has been done already. And if you are focusing on Nestlé products then I would also invite you to focus on what is out there in the market. And I think for what has been accomplished already, I think we compare very favourably. But we are recognisant of the fact that more can be done, and this is what the commitment is about, and that is why I invite you also to read very carefully the press statement from January, because, again, it is not only longer-range commitments. It is also specific steps that we have undertaken or that we are undertaking right now to actually move towards better solutions. And so, I think you have things that you can follow, and that is why I am saying, it is not one of those things where a snapshot should decide. It is where a consistent set of actions over time should carry the day.

Christophe Meier: We are getting close to the end. Yes, Corinne Gretler, please. Bloomberg News.

Corinne Gretler: I just have a question on pricing. I know we talked earlier a little bit about some re-inflation coming back, but do you see any signs of inflation returning to Europe, and how confident are you about your pricing ability, given the tough retail environment?

Mark Schneider: So, even within Europe, of course, the picture is differentiated so it is pretty hard to give one answers the Europe overall. And I think where you see specific input cost increases, then yes, you have to have a pricing conversation, and I think this is, these days, rather than using a price increase as a regular tour I think more and more what people expect is that you have a specific conversation about what has increased and why you have to do increase prices. So, where that is justified, we do it. And we do our best to explain that.

Christoph Meier: There is room for one more question. It does not seem to be the case.

Mark Schneider: Well, we assume that you cannot wait to sample our products, and I understand where you are coming from.

Christoph Meier: Thank you very much for your interest. We are closing the press conference. And, as always, you can send your follow-up questions to our mailbox, or call us this afternoon or this morning as well. Thank you.

Mark Schneider: Thanks, everyone. Thank you.

[END OF TRANSCRIPT]