Growth and returns

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EVP, Chief Financial Officer
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Agenda

• Progress towards our 2020 targets
• Capital allocation
• Return on invested capital (ROIC)
• Earnings per share (EPS)
• Capital structure
On track to deliver our 2020 targets at the half-way point

Organic growth (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Organic Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>3.2</td>
</tr>
<tr>
<td>2017</td>
<td>2.4</td>
</tr>
<tr>
<td>2018</td>
<td>3.0</td>
</tr>
<tr>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
</tr>
</tbody>
</table>

Underlying trading operating profit (UTOP) % of sales

<table>
<thead>
<tr>
<th>Year</th>
<th>UTOP % of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>16.0</td>
</tr>
<tr>
<td>2017</td>
<td>16.5</td>
</tr>
<tr>
<td>2018</td>
<td>17.0</td>
</tr>
<tr>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>17.5 to 18.5</td>
</tr>
</tbody>
</table>

Capital allocation

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>17.5</td>
</tr>
<tr>
<td>2017</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
</tr>
</tbody>
</table>
Portfolio geared for profitable growth

- **2018 Organic growth**
  - Group: 3.0%
  - High-growth categories: 4.0%
  - Emerging markets: 4.9%
  - Premium products: 6.5%

- **UTOP margin**
  - 17.0%
  - >18%
Portfolio management contributing to growth

Acquired / Invested

~3% of sales

Aggregate pro forma sales growth

+ 12%

Sold / Strategic review

~6% of sales

Aggregate pro forma sales growth

< 0%*

*of sold businesses
Gross margin evolution reflects portfolio strength

Gross margin driven by:

- ✔ Pricing
- ✔ Positive mix
- ✔ Premiumization
- ✔ Volume leverage
- ✔ Industrial productivity
- ✔ Procurement efficiencies
- ✔ M&A

Gross margin = (Sales - Cost of goods sold) / Sales

- 2012: 47.1%
- 2013: 47.8%
- 2014: 48.1%
- 2015: 49.6%
- 2016: 50.6%
- 2017: 50.0%
- 2018: 49.6%

* 2017 restated to reflect implementation of IFRS 15, IFRS 16 and reclassification of certain cost items from marketing and administration to cost of goods sold
## 2020 Savings program on track at the half-way point

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>0.6 – 0.8</td>
<td>0.2</td>
<td>~30%</td>
</tr>
<tr>
<td>Procurement</td>
<td>0.5 – 0.6</td>
<td>0.5</td>
<td>~90%</td>
</tr>
<tr>
<td>General &amp; administrative</td>
<td>0.9 – 1.1</td>
<td>0.5</td>
<td>~50%</td>
</tr>
<tr>
<td><strong>Total savings</strong></td>
<td><strong>2.0 – 2.5</strong></td>
<td><strong>1.2</strong></td>
<td>~50%</td>
</tr>
</tbody>
</table>
Margin increase supported by growth and cost discipline

% change since 2016

2016 | 2017 | 2018

Reported sales

~100 bps margin contribution

Structural costs*

* Mainly production, distribution and administrative fixed costs
Accelerated restructuring to support efficiency programs

CHF m

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019 guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>165</td>
<td>300</td>
<td>673</td>
<td>651</td>
<td>~700</td>
</tr>
</tbody>
</table>
# Capital allocation options

## Deploying capital for profitable growth
- Organic growth
- M&A

## Returning capital to shareholders
- Dividend
- Share buybacks
Investment for profitable growth takes many forms

**Investment for profitable growth**
Indicative targeted payback

- Efficiency programs: < 2 yrs
- Capex: < 3.5 yrs
- R&D and marketing: 0.5 - 4 yrs

**M&A investment**
Targeted returns

- ROIC > WACC: 5 to 7 yrs
Pace of M&A transactions has accelerated

CHF value of completed transactions (acquisitions and divestments)

- 0.7 bn (2015)
- 2.1 bn (2016)
- 0.8 bn (2017)
- 13.8 bn (2018)

Strategic reviews to complete in 2019:
- Nestlé Skin Health
- Herta charcuterie
Dividend increased for 24 consecutive years in CHF
# A track record of regular share buybacks

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</tr>
</thead>
<tbody>
<tr>
<td>Value CHF</td>
<td>1 bn</td>
<td>3 bn</td>
<td>25 bn</td>
<td>10 bn</td>
<td>8 bn</td>
<td>20 bn</td>
</tr>
<tr>
<td>Avg share price purchased</td>
<td>CHF 36 (+171%)</td>
<td>CHF 39 (+149%)</td>
<td>CHF 48 (+101%)</td>
<td>CHF 53 (+83%)</td>
<td>CHF 71 (+37%)</td>
<td>CHF 82* (+18%)</td>
</tr>
</tbody>
</table>

* As at close of 2 May 2019

Historical share prices restated to reflect 1:10 share split which occurred in 2008

- **2005**
  - Value CHF: 1 bn
  - Avg share price purchased: CHF 36, +171%

- **2005-2006**
  - Value CHF: 3 bn
  - Avg share price purchased: CHF 39, +149%

- **2007-2010**
  - Value CHF: 25 bn
  - Avg share price purchased: CHF 48, +101%

- **2010-2011**
  - Value CHF: 10 bn
  - Avg share price purchased: CHF 53, +83%

- **2014-2015**
  - Value CHF: 8 bn
  - Avg share price purchased: CHF 71, +37%

- **2017-2019**
  - Value CHF: 20 bn
  - Avg share price purchased: CHF 82*, +18%
Pulling on all ROIC levers

**Culture & accountability**
- ROIC targets introduced in long-term and short-term incentive KPIs

**Profitable growth**
- Driven by high-growth categories and geographies
- Cost discipline
- Responsible tax planning

**Asset productivity**
- Industrial asset productivity
- Optimizing real estate
- Reducing working capital

**M&A discipline**
- CHF 35 bn transaction value reviewed over the last 2 years but not pursued
- CHF 14 bn of deals completed in 2018
Disciplined, focused capex with faster returns

**Disciplined approach**
Capex as % of sales

- **2012**: 5.9%
- **2018**: 4.2%

**More focused allocation**
% of total capex allocated to high-growth categories

- **2012**: 46%
- **2018**: 63%

**Shorter payback**
Payback period of priority projects above CHF 25 m

- **2017**: 4.8 yrs
- **2018**: 3.6 yrs
Continuous improvement of working capital

Working capital 5-quarter average (as % of sales)

- 8.5%
- Trending towards zero
- ~ CHF 7 bn of cash freed-up

<table>
<thead>
<tr>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017*</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
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* 2017 restated, reflecting implementation of IFRS 15 and IFRS 16
Pulling all levers to improve ROIC

Four consecutive years of improvement

- 2017 restated and excluding Nestlé Skin Health impairment

Improved returns
- Sales growth
- Margin improvement
- Responsible tax planning

Controlled invested capital
- Working capital reduction
- Disciplined capex
- Industrial asset productivity
- Disciplined M&A

Included in incentives

* 2017 restated and excluding Nestlé Skin Health impairment
Underlying EPS on an improving trend

Underlying EPS growth in CHF (as reported)
Avg. growth p.a. in CHF: +4%
In constant currency: +7%

Pulling all levers:

- UTOP
- Finance costs
- Responsible tax planning
- JV’s & Associates
- Share count
- 50% of LT incentives
A more efficient capital structure

Lower share count
25% fewer shares in issue vs 2003

<table>
<thead>
<tr>
<th>Year</th>
<th>Share Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>4.0 bn*</td>
</tr>
<tr>
<td>2018</td>
<td>3.0 bn</td>
</tr>
</tbody>
</table>

Net debt / EBITDA
Leveraging our balance sheet

<table>
<thead>
<tr>
<th>Year</th>
<th>ROIC</th>
<th>EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 year avg.</td>
<td>AAA</td>
<td>0.9x</td>
</tr>
<tr>
<td>2018</td>
<td>AA</td>
<td>1.6x</td>
</tr>
</tbody>
</table>

Cost of debt
Low cost of net debt

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost of Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 year avg.</td>
<td>3.1%</td>
</tr>
<tr>
<td>2018</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Debt maturity
Average debt maturity extended, securing liquidity

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2.4 yrs</td>
</tr>
<tr>
<td>2018</td>
<td>5.3 yrs</td>
</tr>
</tbody>
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* Share count restated to reflect 1:10 share split which occurred in 2008
2019 guidance and 2020 targets

2019: Confirmed full year guidance. Continued improvement in organic sales growth and underlying trading operating margin towards our 2020 target

2020: Confirmed targets of mid single-digit organic growth and underlying trading operating profit margin of 17.5% - 18.5%

The DSD exit and ongoing strategic reviews are factored into these targets
Key Takeaways

• Confirmed 2020 targets

• Disciplined capital allocation, with clear priorities and accountability

• Increased focus on both ROIC and EPS

• Optimized and efficient capital structure
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>OG</td>
<td>Organic growth</td>
</tr>
<tr>
<td>RIG</td>
<td>Real internal growth</td>
</tr>
<tr>
<td>AMS</td>
<td>Zone Americas</td>
</tr>
<tr>
<td>EMENA</td>
<td>Zone Europe, Middle East, and North Africa</td>
</tr>
<tr>
<td>AOA</td>
<td>Zone Asia, Oceania, and sub-Saharan Africa</td>
</tr>
<tr>
<td>EPS</td>
<td>Earnings per share</td>
</tr>
<tr>
<td>COGS</td>
<td>Cost of goods sold</td>
</tr>
<tr>
<td>FCF</td>
<td>Free cash flow</td>
</tr>
<tr>
<td>TOP</td>
<td>Trading operating profit</td>
</tr>
<tr>
<td>UTOP</td>
<td>Underlying trading operating profit</td>
</tr>
<tr>
<td>ROIC</td>
<td>Return on invested capital</td>
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<tr>
<td>Structural costs</td>
<td>Mainly production, distribution and administrative fixed costs</td>
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<tr>
<td>SBB</td>
<td>Share buyback</td>
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