Nestlé

Capital Efficiency & Portfolio Management

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Disclaimer

This presentation contains forward looking statements which reflect Management’s current views and estimates. The forward looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures and regulatory developments.
A reference for financial performance

**The Nestlé Model**

- 5% to 6% OG
- Margin and EPS growth*
- Improved Capital Efficiency

*improvements in margins and underlying earnings per share in constant currencies*
Nestlé: delivery consistent with our commitment

10Y Average Organic Growth: +6.1%
10Y Average Trading Operating Profit Margin Improvement: +30bps
10Y Average Dividend Increase: +10%

Market Capitalization Multiplied by 1.5 Over 10 years
The and Company

Delivery of Top Line and Bottom Line
Growth in Emerging and Developed Markets
Improved Operational and Capital Efficiency
Making Choices to Divest, Fix and Accelerate
Delivering in Short Term and Investing in Long Term
Capital efficiency was identified in 2012 as an area of opportunity with 3 main levers

- CAPEX
- Working Capital
- ROIC
3 areas of focus to drive increased returns

1. Portfolio Optimization
2. Resource Allocation
3. Capital Efficiency
1. Portfolio Optimization
2. Resource Allocation
3. Capital Efficiency
ATLAS: Nestlé’s tool to drive value creation

- 2,200 Business Cells covered
- 100% of portfolio assessed
- Financial and strategic metrics
- Economic profit as proxy for value

- Yearly review of value drivers (growth, margin, return)
- Define strategic role of each Business Cell
- Decision Support Tool
- Driven globally, owned locally
An holistic framework to assess performance

Key Metrics

- Growth
- Margin
- Capital Efficiency
- Value Creation

- Market Growth
- Nestlé’s Share Trend
- Organic Growth
- Gross Margin
- Operating Profit
- Brand Investment
- Structural Cost
- Working Capital
- Asset Turnover
- CAPEX
- ROIC
- Economic Profit
ATLAS enables value creation visibility at granular level

**Value Creation**
Understanding the sources of future Economic Profit for management focus and resources prioritization

**Value Consumption**
Seed businesses in need of investment for critical mass or activities with structural challenges that need to be tackled
Making choices and acting consistently with them

All Business Cells are clustered for one of 3 strategic actions:

- Accelerate
- Protect
- Fix
Investing incremental resources behind accretive growth opportunities

Examples

Nescafé Dolce
Gusto Globally

Premium Brands

Purina LatAm

Medical Nutrition
Nurturing strong business pillars to ensure sustained performance over time

Examples

- Soluble Coffee, Mexico
- Creamers, USA
- Baby Food, USA
- Maggi

Accelerate
Protect
Fix
Fix through reinvestment to revitalize the business

Frozen Food US:

- New products
- New formulations
- Repositioning
- Communication

Encouraging signals
- Volume momentum
- Share trend

https://www.youtube.com/watch?v=0RZkfZLJegk
Fix through premiumization and strong focus on capital allocation

Nestlé Waters: a successful turnaround

Before 2012
- Negative EP
- Low ROIC
- Volatile performance

Since 2012
- Positive and growing EP
- ROIC near group AVG
- Accretive growth

- Discontinue non profitable business lines
- Invest in international premium brands
- Manage our cost base
- Contain and focus capex
### Chilled Dairy Europe: alliance with Lactalis

#### Before 2006
- Under-scale
- Loss making
- Marginal Market Share

#### After 2006
- Competitive scale
- Positive contribution
- A relevant player in Europe
<table>
<thead>
<tr>
<th>Year</th>
<th>Annualised Sales</th>
<th>Key Divestments</th>
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<tbody>
<tr>
<td>2012</td>
<td>CHF 200mio</td>
<td>• Peter’s Ice Cream</td>
</tr>
<tr>
<td>2013</td>
<td>CHF 800mio</td>
<td>• Jenny Craig</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Mexico Chilled Dairy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• US Pet Insurance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Germany Chilled Culinary</td>
</tr>
<tr>
<td>2014</td>
<td>CHF 700mio</td>
<td>• US Joseph’s Pasta</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• France Homecare</td>
</tr>
<tr>
<td>2015</td>
<td>CHF 750mio</td>
<td>• Denmark Ice Cream</td>
</tr>
</tbody>
</table>

*CHF 2.5 bn sales

- Fix through disposal
- Accelerate
- Protect

*Pending deal completion
1. Portfolio Optimization
2. Resource Allocation
3. Capital Efficiency
Resource allocation covers many areas

- CAPEX
- Brand investments
- R&D priorities
- People & Talent
Digital: ~25% of total brand building effort

% of Brand Building spent in Digital Channels

- 2012: ~10%
- 2013: ~15%
- 2014: ~20%
- 2015: ~25%
ROIC is a Priority

Alcon Divestment impact

Capital Efficiency (CAPEX and WC) enabling progress in ROIC before GW

Wyeth, Galderma adding material GW amounts since 2012, plus DSD impairment impact in 2014
CAPEX: bending the curve

- Prioritization based on growth and return (ATLAS)
- Post Project Evaluation systematically performed

Going forward

4% to 5% of Sales
Sustained progress in Working Capital

Average Working Capital as % of Sales

- FY 11: -80 bps
- FY 12: -200 bps
- FY 13: -120 bps
- FY 14: 

• Sustainable progress since 2011
• Holistic action across all WC levers
• Further opportunities for upside
Consistent acceleration in Cash Conversion

Operational Cash Flow as a % of Operating Profit (source: Thomson Reuters)
Conclusion

We act on all levers to drive growth, value and returns, actively managing

• our P&L through superior growth and constant margin improvements

• our balance sheet through asset / CAPEX productivity

• our cash flow through working capital management and

• our portfolio by making choices