

# Welcome to the Full-Year 2016 Conference



# 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.



# Full-Year 2016 Results

Mark Schneider, Nestlé CEO



# Key messages



## 2016

- Organic Growth at higher end of industry, at lower end of our expectations
- Solid operating margin improvement

## 2017 and mid-term

- Continuity and change
- Organic Growth remains key to long-term value creation
- Continued focus on operating efficiency

# 2016 performance highlights



Sales

CHF  
**89.5 bn**

Organic  
Growth

**+3.2%**

Real Internal  
Growth

**+2.4%**

TOP  
Margin

**+30 bps**  
in constant currency

# Continuity and change



- Nutrition, Health and Wellness strategy
- Commitment to long-term value creation
- Prudent approach to M&A
- Focus on people and leadership
- Transparency with all stakeholders
- Making choices, fast execution

# Organic Growth key to long-term value creation



## **Expect mid-single digit Organic Growth by 2020**

- Invest selectively to support fast-growing categories and regions
- Address low-growth businesses
- Product and business model innovation
- Embrace digital opportunities
- Portfolio management

# Continued focus on operating efficiency



- Leverage existing efficiency culture
- Expect increasing restructuring cost
- At least 200 basis points structural cost savings\* target by 2020 - partial reinvestment to drive Organic Growth
- Focus areas:
  - Non-customer facing structural costs
  - Capacity utilisation

\*Operations, Procurement, G&A



# Outlook 2017



- Organic Growth of 2 to 4%
- Increased restructuring cost of CHF ~500 mio to drive future profitability
- As a result, stable Trading Operating Profit margin\* in 2017
- Underlying EPS\* growth and improved capital efficiency

\*In constant currency

# Full-Year 2016 Results

François-Xavier Roger, Nestlé CFO



# Increasing RIG, margin expansion, strong cash flow



## Growth

**OG +3.2%**  
**RIG +2.4%**

## TOP Margin\*

**+30 bps**  
+20 bps reported

## Free Cash Flow

CHF  
**10.1 bn**  
11.3% of sales

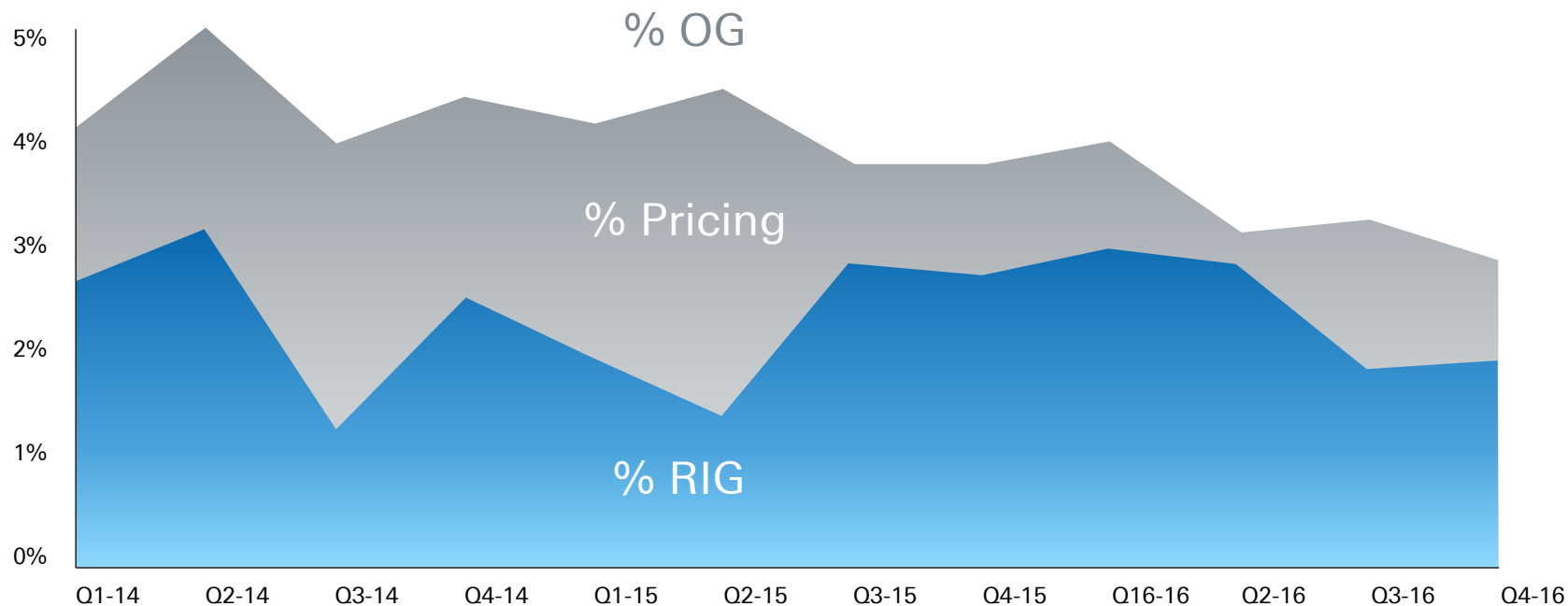
## Underlying EPS\*

**+3.4%**  
+2.7% reported

\*In constant currency

# Quality growth

Organic Growth driven by Real Internal Growth

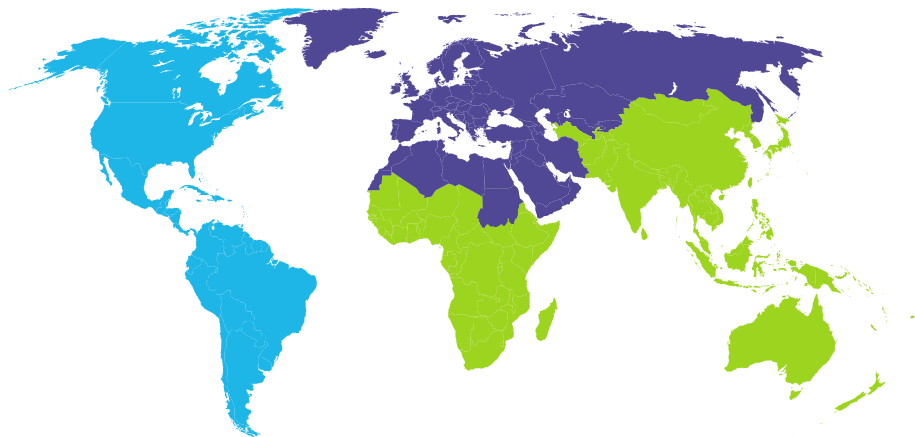


# Quality growth

Broad-based RIG and OG across geographies



	AMS	EMENA	AOA
<b>Sales</b> (in CHF)	<b>40.2 bn</b>	<b>26.8 bn</b>	<b>22.5 bn</b>
<b>RIG</b>	<b>+2.0%</b>	<b>+2.4%</b>	<b>+3.0%</b>
<b>OG</b>	<b>+4.5%</b>	<b>+1.9%</b>	<b>+2.8%</b>



Each geography includes Zones, Nestlé Waters, Nestlé Nutrition, Nestlé Professional, Nespresso, Nestlé Health Science and Nestlé Skin Health

# Quality growth

Growth in Developed and Emerging markets



**Sales** (in CHF)  
% of group sales

**RIG**  
FY15

**OG**  
FY15

**Developed**

**52.1 bn**  
58%

**2.3%**  
2.2%

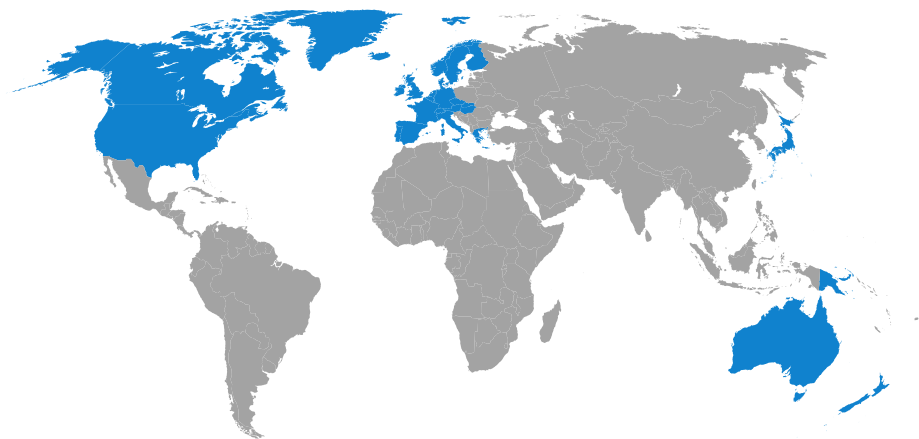
**1.7%**  
1.9%

**Emerging**

**37.4 bn**  
42%

**2.4%**  
2.2%

**5.3%**  
7.0%





# Quality growth

30% of sales come from products innovated or renovated in the last 3 years



## Premiumisation



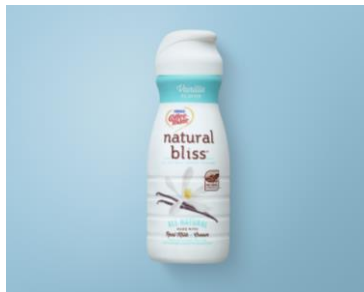
Les Recettes de l'Atelier



Nescafé Gold Barista



Nespresso Vertuoline



Coffee-mate Natural Bliss

## Nutrition and Added-value Science



Nido FortiGrow



ProNourish



Milo ready-to-drink



Wyeth Illuma

# Quality growth

## Leading in eCommerce



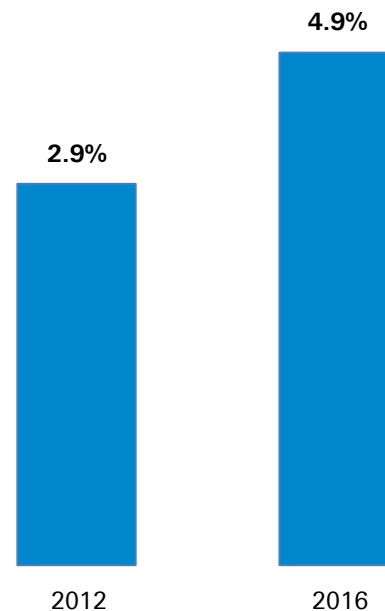
### eCommerce Sales

(FY15 vs FY16)

Group +18%

Group (Excluding Nespresso) +34%

● eCommerce as a % of Group Sales



# Zone AMS



Sales	<b>CHF 26.4 bn</b>
Organic growth	<b>4.2%</b>
Real internal growth	<b>1.3%</b>
Trading operating profit margin (vs LY)	<b>19.3%</b> (-10 bps)

- Positive organic growth in nearly all markets
- Growth in North America accelerated, driven by RIG
- Latin America delivered high single-digit OG, supported by pricing
- Margin: increased restructuring in the Zone and high cost inflation in Latin America



# Zone EMENA



Sales	<b>CHF 16.2 bn</b>
Organic growth	<b>2.0%</b>
Real internal growth	<b>2.7%</b>
Trading operating profit margin (vs LY)	<b>16.7%</b> <b>(+100 bps)</b>

- Good RIG momentum and market share gains across the Zone
- Western Europe faced negative pricing in a deflationary environment
- Central & Eastern Europe delivered both positive RIG and pricing
- Middle East and North Africa was resilient with positive organic growth
- Margin: positive effects from mix, portfolio management, and efficiency savings



# Zone AOA



Sales	<b>CHF 14.5 bn</b>
Organic growth	<b>3.2%</b>
Real internal growth	<b>2.9%</b>
Trading operating profit margin (vs LY)	<b>19.0%</b> <b>(+60 bps)</b>

- Improving RIG momentum in Zone
- China was supported by *Nescafé* and confectionery, while *Yinlu* was still dilutive
- ASEAN sustained high single-digit growth through the year
- In Sub-Saharan Africa, culinary and dairy drove growth
- Japan kept strong momentum
- Margin: favourable input costs, improved volume/mix, and lower one-off costs (Maggi)



Sales	<b>CHF 7.9 bn</b>
Organic growth	<b>4.5%</b>
Real internal growth	<b>4.5%</b>
Trading operating profit margin (vs LY)	<b>11.9%</b> <b>(+110 bps)</b>

- Broad-based volume growth in developed and emerging markets
- *Perrier* and *S.Pellegrino* grew twice as fast as mainstream brands
- Local brands *Poland Spring*, *Ice Mountain*, *Erikli*, and *Levissima* did well
- Margin: positive volume and mix, favourable input costs, and operational efficiency





# Nestlé Nutrition



Sales	<b>CHF 10.3 bn</b>
Organic growth	<b>1.5%</b>
Real internal growth	<b>0.9%</b>
Trading operating profit margin (vs LY)	<b>22.7%</b> <b>(+10 bps)</b>

- Category affected by soft demand and limited pricing
- Strong momentum in many emerging markets across Latin America and South East Asia
- China soft due to inventory adjustments ahead of new regulation
- Margin: premiumisation and low dairy prices, offsetting increased marketing



# Other Businesses

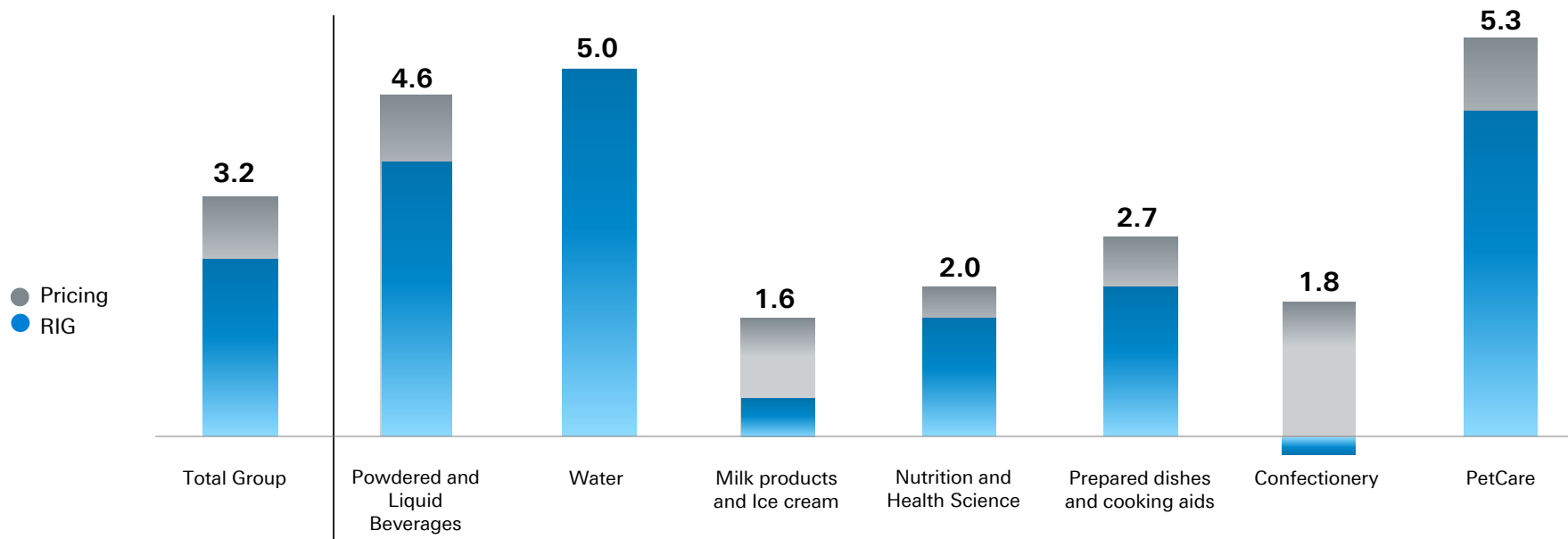


Sales	<b>CHF 14.1 bn</b>
Organic growth	<b>3.7%</b>
Real internal growth	<b>3.4%</b>
Trading operating profit margin (vs LY)	<b>15.2%</b> <b>(-50 bps)</b>

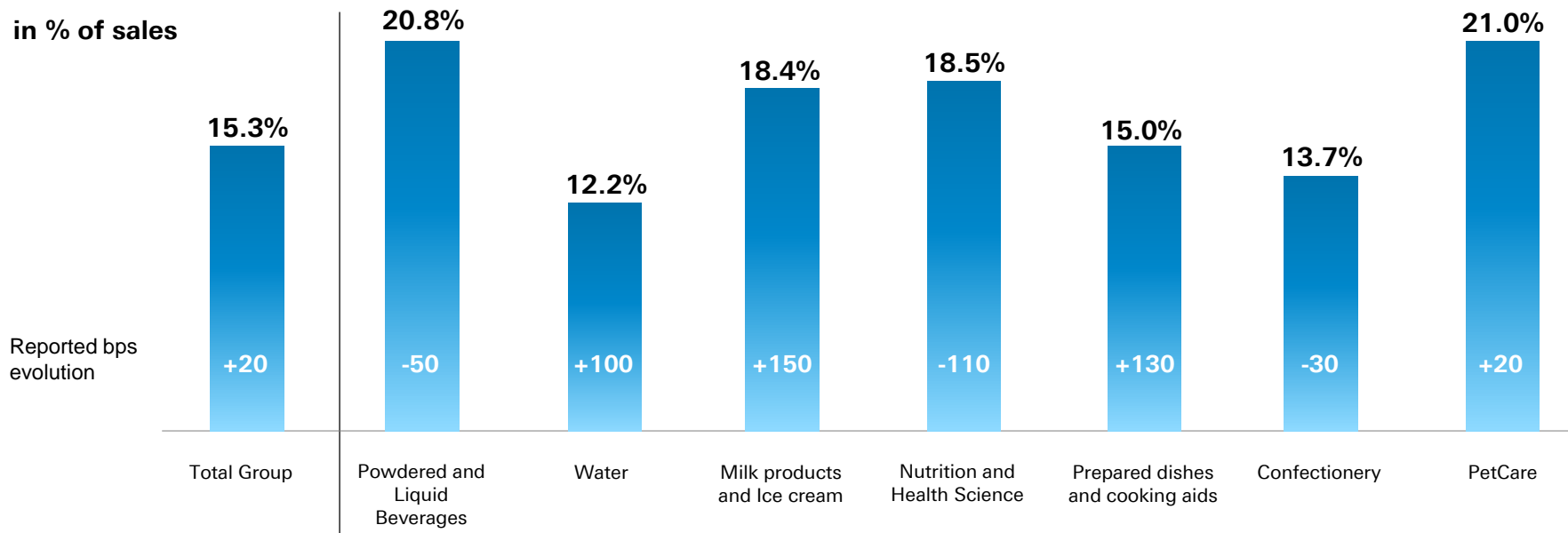
- Nespresso: Good broad-based growth; *VertuoLine* system continued to do well
- Nestlé Professional: Growth was driven by emerging markets and solid US
- Nestlé Health Science: Consumer Care maintained solid growth
- Nestlé Skin Health: Year end impacted by inventory adjustments and pressures on RX business
- Margin: Headwinds in Skin Health offset improvements in Nespresso and Professional



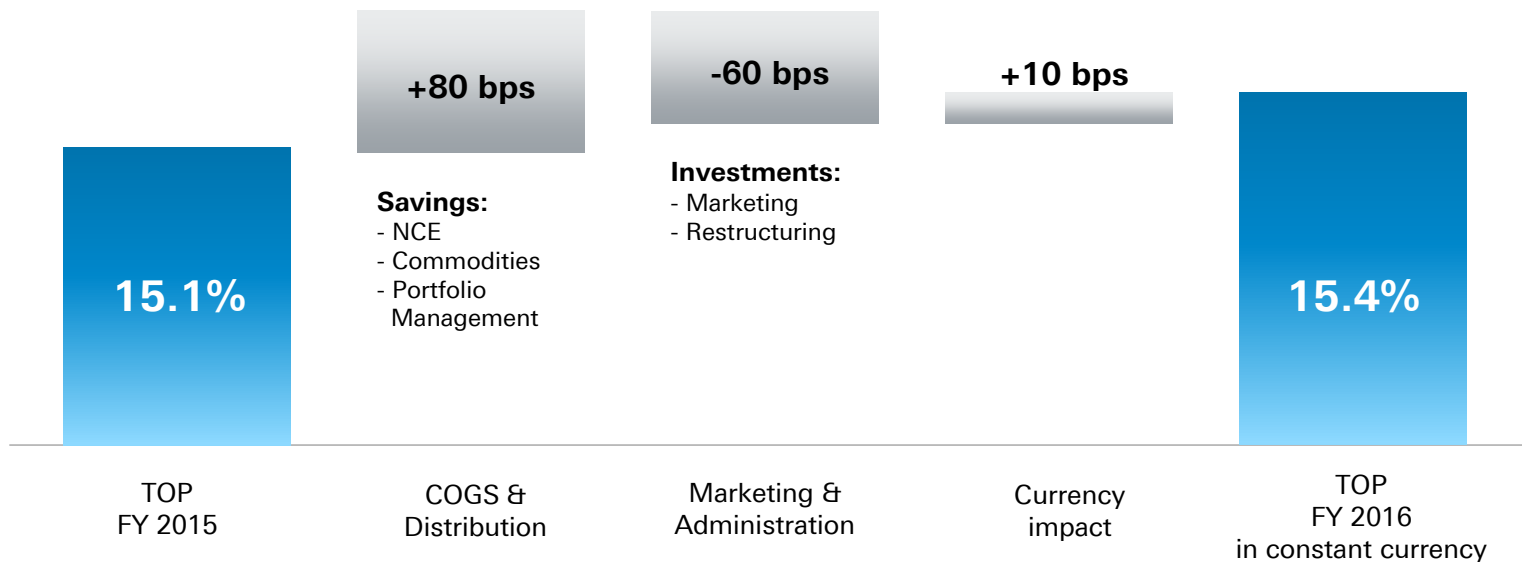
# Broad-based growth across product groups



# Trading operating profit across product groups



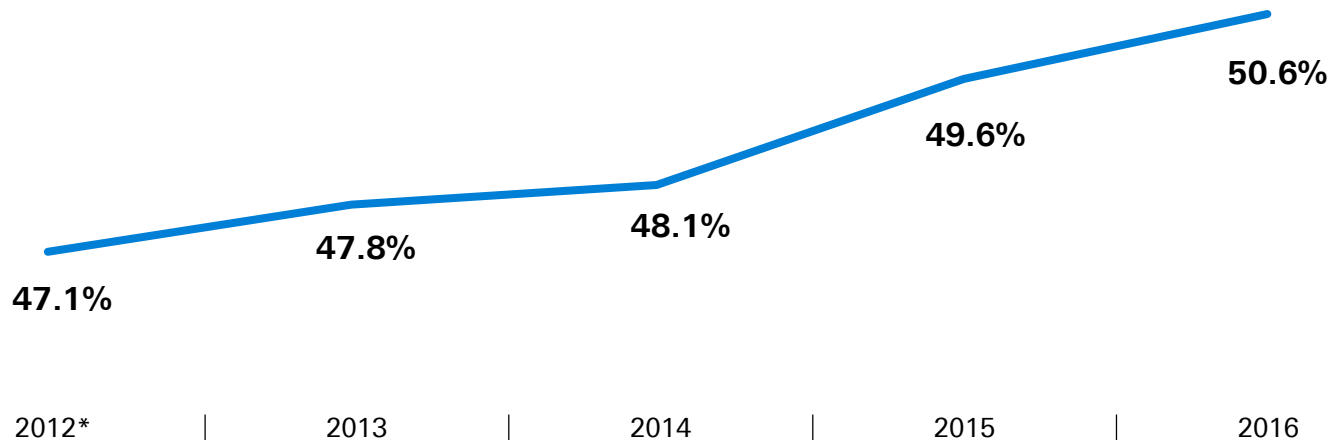
# Trading Operating Profit +30 bps in constant currency



# Cost efficiencies and portfolio management driving gross margin evolution



Gross margin as a % of sales



\*Re-stated



# Underlying EPS



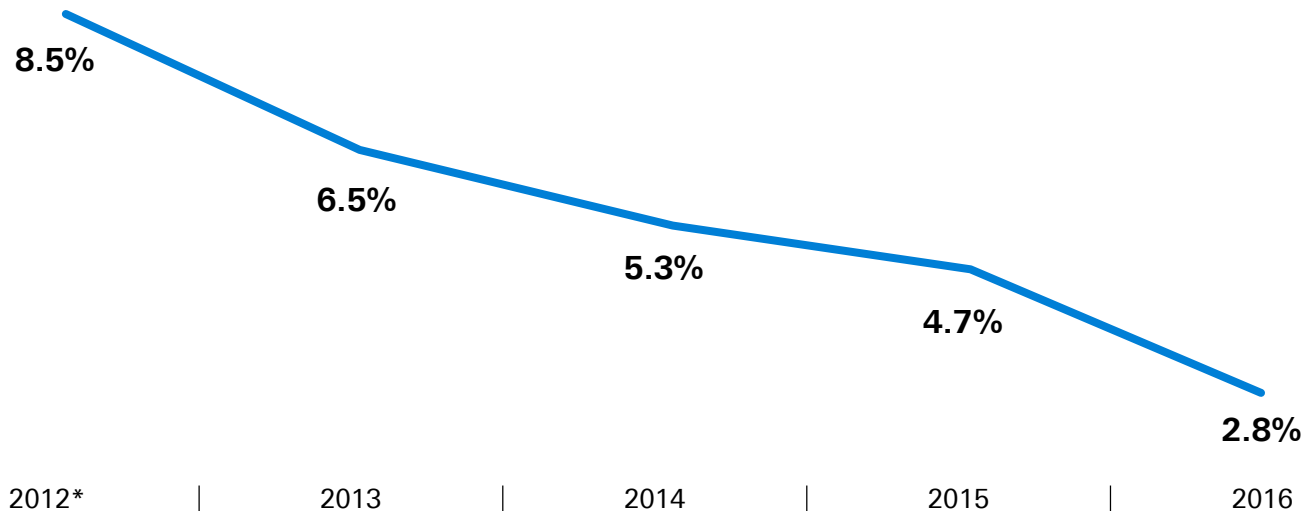
**Underlying  
EPS**

**+3.4%**  
in constant currency

# Continued focus on working capital



Working capital as a % of sales, calculated on a 5-quarter average

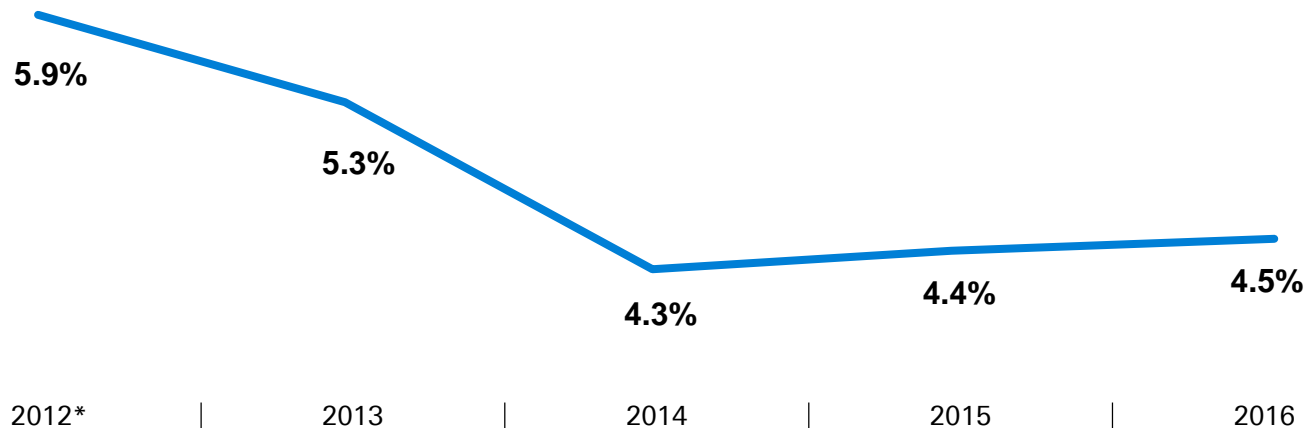


\*Re-stated

# CAPEX discipline in line with growth ambitions



CAPEX as a % of sales

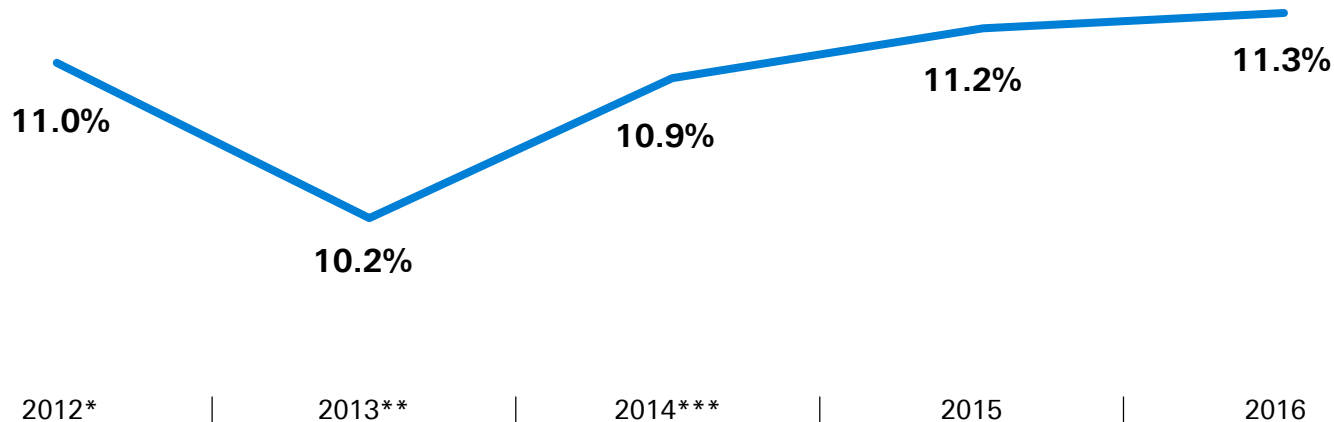


\*Re-stated

# Consistent industry-leading free cash flow generation



Free cash flow as a % of sales

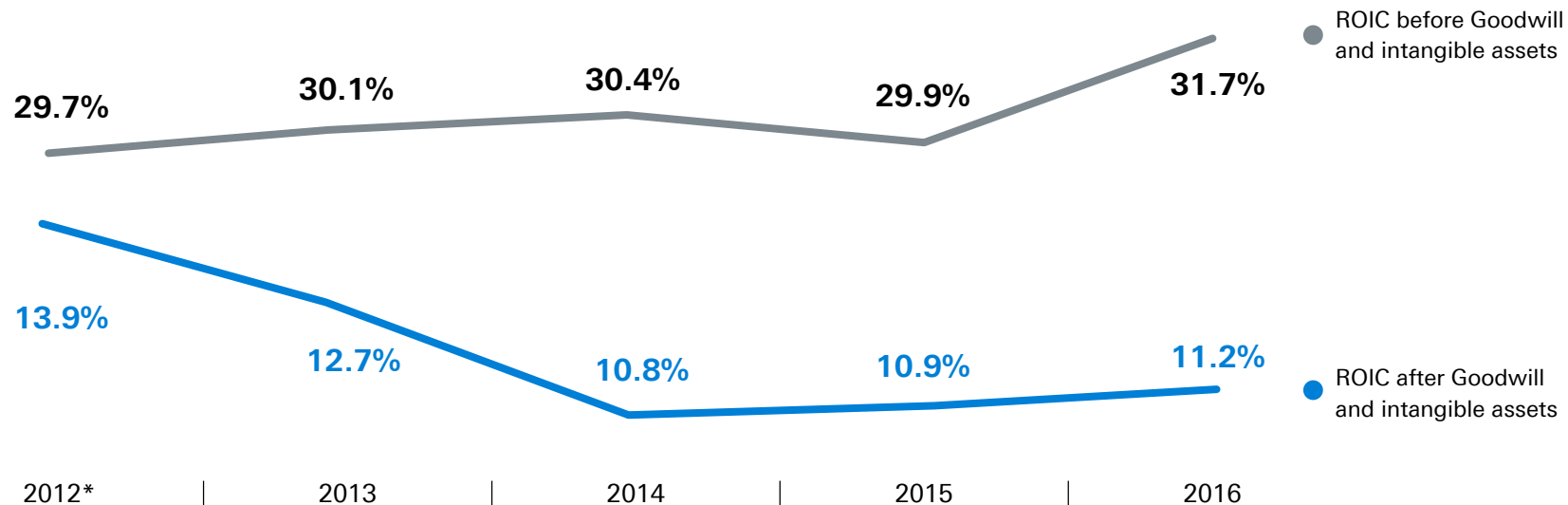


\*Re-stated

\*\* Adjusted for exceptional income due to Givaudan disposal (CHF 1.1 bn)

\*\*\* Adjusted for exceptional income due to L'Oréal transaction (CHF 4.1 bn)

# Improving ROIC

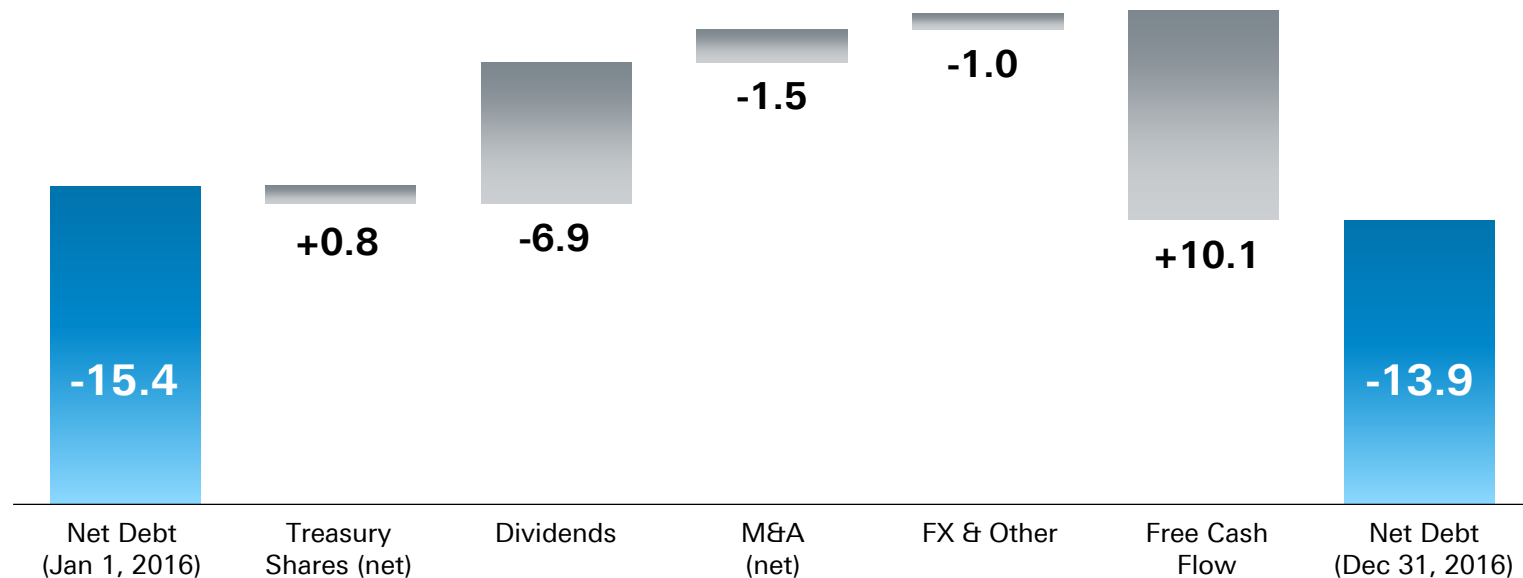


\*Re-stated

# Net debt in line with AA credit rating



In CHF bn





# 2017 focus



## 2017 Priorities

- Maintain volume growth
- Secure pricing
- Cost discipline
- Capital efficiency

## 2017 Guidance

- Organic Growth of 2 to 4%
- Increased restructuring costs to drive future profitability
- As a result, stable Trading Operating Profit margin\* in 2017
- Underlying EPS growth\*, and improved capital efficiency

\*In constant currency

# Full-Year 2016 Results

## Discussion



# Full-Year 2016 Results

## Supporting slides



# FY16 Results Summary, by operating segment



## Sales

	Sales (CHF bn*)	RIG %	Price %	OG %
Zone AMS	<b>26.4</b>	<b>1.3</b>	<b>2.9</b>	<b>4.2</b>
Zone EMENA	<b>16.2</b>	<b>2.7</b>	<b>-0.7</b>	<b>2.0</b>
Zone AOA	<b>14.5</b>	<b>2.9</b>	<b>0.3</b>	<b>3.2</b>
Nestlé Waters	<b>7.9</b>	<b>4.5</b>	<b>0.0</b>	<b>4.5</b>
Nestlé Nutrition	<b>10.3</b>	<b>0.9</b>	<b>0.6</b>	<b>1.5</b>
Other Businesses	<b>14.1</b>	<b>3.4</b>	<b>0.3</b>	<b>3.7</b>
Unallocated Items	-	-	-	-
<b>Total Group</b>	<b>89.5</b>	<b>2.4</b>	<b>0.8</b>	<b>3.2</b>

## Trading Operating Profit (TOP)

TOP (CHF bn*)	TOP %	TOP (bps)
<b>5.1</b>	<b>19.3</b>	<b>-10</b>
<b>2.7</b>	<b>16.7</b>	<b>+100</b>
<b>2.8</b>	<b>19.0</b>	<b>+60</b>
<b>0.9</b>	<b>11.9</b>	<b>+110</b>
<b>2.3</b>	<b>22.7</b>	<b>+10</b>
<b>2.1</b>	<b>15.2</b>	<b>-50</b>
<b>(2.3)</b>	-	-
<b>13.7</b>	<b>15.3</b>	<b>+20</b>

\*CHF figures rounded to the nearest billion

# FY16 Results Summary, by product group



## Sales

	Sales (CHF bn*)	RIG %	Price %	OG %
Powdered and Liquid Beverages	19.8	3.7	0.9	4.6
Water	7.4	5.0	0.0	5.0
Milk Products and Ice cream	14.3	0.5	1.1	1.6
Nutrition and Health Science	15.0	1.6	0.4	2.0
Prepared Dishes and cooking aids	12.1	2.0	0.7	2.7
Confectionery	8.7	-0.5	2.3	1.8
Petcare	12.1	4.4	0.9	5.3

## Trading Operating Profit (TOP)

TOP (CHF bn*)	TOP %	TOP (bps)
4.1	20.8	-50
0.9	12.2	+100
2.6	18.4	+150
2.8	18.5	-110
1.8	15.0	+130
1.2	13.7	-30
2.5	21.0	+20

\*CHF figures rounded to the nearest billion

# Quarterly Summary – by operating segment



	Fourth Quarter 2016		
	Sales (CHF bn)	RIG %	OG %
Zone AMS	7.6	0.6	3.5
Zone EMENA	4.1	2.5	1.4
Zone AOA	3.9	3.4	4.2
Nestlé Waters	1.8	4.8	5.9
Nestlé Nutrition	2.6	1.1	1.8
Other Businesses	4.0	1.9	1.5
<b>Total Group</b>	<b>24.0</b>	<b>2.0</b>	<b>2.9</b>

# Quarterly Summary – historical 10 quarters



Period	RIG %	Price %	OG %
Q3 2014	1.2	2.9	4.1
Q4 2014	2.4	2.1	4.5
Q1 2015	1.9	2.5	4.4
Q2 2015	1.4	3.2	4.6
Q3 2015	2.7	1.0	3.7
Q4 2015	2.7	1.2	3.9
Q1 2016	3.0	0.9	3.9
Q2 2016	2.7	0.4	3.1
Q3 2016	1.9	1.3	3.2
Q4 2016	2.0	0.9	2.9

# Currency overview



			Weighted average rate		
			2015	2016	Variation in %
US Dollar	1	USD	0.96	0.99	+2.3
Euro	1	EUR	1.07	1.09	+2.1
Chinese Yuan Renminbi	100	CNY	15.32	14.84	-3.2
Brazilian Reals	100	BRL	29.00	28.58	-1.4
UK Pound Sterling	1	GBP	1.47	1.33	-9.7
Mexican Pesos	100	MXN	6.07	5.28	-13.1
Philippine Pesos	100	PHP	2.11	2.08	-1.9
Canadian Dollar	1	CAD	0.75	0.75	-1.0
Russian Ruble	100	RUB	1.58	1.49	-6.0
Australian Dollar	1	AUD	0.72	0.73	+1.4
Japanese Yen	100	JPY	0.80	0.91	+13.6



# FX Impact



	FX Impact
	2016
Zone AMS	-2.5%
Zone EMENA	-1.4%
Zone AOA	-1.8%
Nestlé Waters	-0.1%
Nestlé Nutrition	-2.6%
Other Businesses	-0.3%
<b>Total</b>	<b>-1.6%</b>

# Detailed income statement



In CHF mio

	2016	2015
<b>Sales</b>	89'469	88'785
Other revenue	317	298
Cost of goods sold	(44'199)	(44'730)
Distribution expenses	(8'059)	(7'899)
Marketing and administration expenses	(21'485)	(20'744)
Research and development costs	(1'736)	(1'678)
Other trading income	99	78
Other trading expenses	(713)	(728)
<b>Trading operating profit</b>	13'693	13'382
Other operating income	354	126
Other operating expenses	(884)	(1'100)
<b>Operating profit</b>	13'163	12'408
Financial income	121	101
Financial expense	(758)	(725)
<b>Profit before taxes, associates and joint ventures</b>	12'526	11'784
Taxes	(4'413)	(3'305)
Income from associates and joint ventures	770	988
<b>Profit for the year</b>	8'883	9'467
of which attributable to non-controlling interests	352	401
of which attributable to shareholders of the parent (Net profit)	8'531	9'066

# EPS Reconciliation (1 of 2)



	From net profit to underlying profit	
	2015	2016
<b>Net Profit</b>	<b>9'066</b>	<b>8'531</b>
Restructuring costs	165	300
Impairments of property, plant & equipment, goodwill and int. assets	576	640
Net result on disposal of businesses	422	-
Other adjustment in Net other income/(expense)	461	204
Adjustment for income from associates and joint ventures	62	241
Tax effect on above items & adjustment of one-off tax items	-399	610
Adjustment in non-controlling interests	-	-27
<b>Underlying Net Profit</b>	<b>10'353</b>	<b>10'499</b>
Weighted Average number of shares outstanding (in millions)	3'129	3'091
<b>Underlying EPS</b>	<b>3.31</b>	<b>3.40</b>

Underlying EPS is calculated based on: Net profit before results on disposals, restructuring costs, impairment of property, plant & equipment, impairment of goodwill and other items included in net other income/(expense) and material one off tax items.

The tax charge used for this calculation is adjusted for the tax effect of the excluded items (underlying tax charge).

# EPS Reconciliation (2 of 2)



	From operating profit to underlying net profit	
	2015	2016
<b>Operating profit adjusted</b>	<b>14'032</b>	<b>14'307</b>
Net financial income / (expense)	-624	-637
Adjusted taxes	-3'704	-3'803
Adjusted income from associates and joint ventures	1'050	1'011
Adjusted non-controlling interests	-401	-379
<b>Underlying Net Profit</b>	<b>10'353</b>	<b>10'499</b>
Weighted Average number of shares outstanding (in millions)	3'129	3'091
<b>Underlying EPS</b>	<b>3.31</b>	<b>3.40</b>

Underlying EPS is calculated based on: Net profit before results on disposals, restructuring costs, impairment of property, plant & equipment, impairment of goodwill and other items included in net other income/(expense) and material one off tax items.

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# Abbreviations



<b>OG</b>	Organic Growth
<b>RIG</b>	Real Internal Growth
<b>TOP</b>	Trading Operating Profit
<b>FCF</b>	Free Cash Flow
<b>COGS</b>	Cost of Goods Sold
<b>AMS</b>	Zone Americas
<b>EMENA</b>	Zone Europe, Middle East, and North Africa
<b>AOA</b>	Zone Asia, Oceania, and sub-Saharan Africa
<b>EPS</b>	Earnings per Share