

NESTLÉ S.A.

2024 HALF YEAR RESULTS PREPARED REMARKS TRANSCRIPT

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Luca Borlini, Nestlé S.A, Head of Investor Relations:**Slide: Title slide**

Good morning to everyone. This is Luca Borlini, Head of Nestlé Investor Relations. Thank you for listening to Nestlé's half-year 2024 results prepared remarks. Joining me today are Nestlé CEO Mark Schneider and CFO Anna Manz.

In keeping with our new practice, we have made management's prepared remarks and the investor presentation available at the same time as our press release. Later today, at 2 pm Central European Time, we will hold a live question-and-answer session, which you will be able to follow via webcast on our Investor Relations website.

Slide: Disclaimer

Before we begin, I would ask that you please take careful note of the disclaimer on page two of our presentation. And with that, I turn to Mark.

Mark Schneider, Nestlé S.A. Chief Executive Officer:**Slide: Title slide**

Thank you, Luca.

And a warm welcome to all of you. As always, we appreciate your interest in our company.

Slide: Key Messages

Let me start by putting our results in context.

In line with what we said on the first quarter call, the business returned to RIG-led growth in the second quarter. This rebound was broad-based across Zones and categories, as we prioritized driving volume, mix and market share.

Growth was driven by coffee and PetCare. In addition, the swing in RIG from the first to the second quarter reflected our delivering on the areas that we had highlighted for turnaround. These include North America in general, frozen food in particular and Nestlé Health Science.

Gross profit margins in the first half were up, providing fuel to invest in our return to volume and mix-led growth.

At the same time, we continued to make progress on market shares, which have improved since the start of the year, with significant gains in fast-growing untracked channels such as e-commerce and specialty stores.

Looking ahead, as the pricing environment is more challenging, we have decided to take a more cautious view and amend our guidance for the full year 2024. I will come back to these later in our prepared remarks.

Slide: RIG momentum re-ignited

Every Zone and category delivered a solid RIG rebound in the second quarter. The quarter-on-quarter step up in RIG illustrates the strength of our execution.

Execution excellence is key to getting back to consistent growth delivery. The improvement was broad-based and driven by a combination of accelerated innovation and renovation, as well as focused growth investments.

These are the levers we directly control, even in a challenging environment.

Slide: Driving growth through Billionaire brands

As mentioned in the first quarter call, we continue to focus investment behind our billionaire brands, which account for 70% of sales.

We substantially increased marketing investment for billionaire brands versus the first half of 2023, ahead of the Group overall. Billionaire brands delivered organic growth of 3.2% for the first half, 110 basis points ahead of the Group.

In terms of percentage of business cells where we are gaining or holding share, we are seeing clear progress. We have seen an improvement of around 400 basis points in this metric since the end of 2023, moving us further into the mid-50s.

We are confident that these brands provide the fastest route to growth, and we have a full pipeline of product launches planned for the second half of the year.

I am pleased to say that our executorial focus means that we are also seeing market share improvement across the rest of the portfolio.

Slide: Stepping up new product launch intensity

In the first half of 2024, we significantly increased our product launch intensity. We have deep innovation pipelines across all categories and segments and our innovation engine is returning to center-stage in supporting our pivot back to RIG-led growth.

Some of that innovation roster has already started to hit the shelves in the first half, such as Maison Perrier and cold-concentrate coffee for Nescafé. These launches reinforce brand and product differentiation, drive incremental sales for the Group, and offer retail partners broader consumer value propositions. So far this year, we have completed around 15% more innovation and renovation launches than in 2023, with a total planned increase to 20% by year-end.

Our approach to product launches is not just about quantity but about precision and focus. We are clear on what we can scale, which segments and brands to build up, and where we seed new growth opportunities to maximize impact. Innovation fuels mix growth and premiumization.

Each of our categories defines priority launches; the products you can see at the bottom of this slide are examples. We track these launches closely to optimize support and have a good view of what is gaining traction with the consumer. Take Maison Perrier or Nescafé Ice Roast Coffee, for example; since the start of this year, these multi-market launches have already started to generate significant sales momentum.

Slide: Nestlé Health Science: VMS Recovery

I told you that we are focused on execution excellence, and this is the message that is resonating across the business. Nowhere is this clearer than with Nestlé Health Science.

The team made an enormous leap forward to put our vitamins, minerals and supplements business back on track. They are now at a stage of moving from supply recovery to demand-generation and winning back consumers.

As you can see in the slide, the second quarter marks a step change in our vitamins, minerals and supplements sales. To put that increase in context, sales are almost back to pre-supply constraint levels, and we are starting to retake market share, particularly in e-

commerce channels. At the same time, category growth in all channels – tracked and untracked - is now moving at a high single-digit pace.

Our ambition is for Nestlé Health Science to continue to be a core growth platform for the Group. With consumers increasingly aware of the role that nutrition and food plays in living healthier, higher-quality lives, demand for products that offer simple and convenient ways to supplement nutritional intake continues to grow.

Vitamins, minerals and supplements is also expected to become increasingly relevant as the use of GLP-1 drugs expands. Our Health Science business offers us a platform, built through science-based brands, to address the full range of consumer nutritional needs while leveraging synergies within Nestlé.

There is a lot of work still to be done, but we are delivering what we promised and are confident about the long term. We look forward to laying out our Nestlé Health Science strategy during the Capital Markets Day in November.

Slide: Title slide

Let me now hand over to Anna.

Anna Manz, Nestlé S.A. Chief Financial Officer:

Slide: Half-years sales growth

Thank you Mark, and hello everyone.

Let me begin with the highlights for our first half sales. We delivered 2.1% organic growth with 0.1% RIG and 2.0% pricing. Net divestitures reduced sales by 0.4%, largely related to the joint venture for Nestlé's frozen pizza business in Europe. Foreign exchange impacted sales by 4.4%, reflecting the strength of the Swiss Franc.

Factoring all these elements together, total reported sales for the half-year were 45 billion Swiss francs.

Slide: Rig accelerating, price decelerating

This slide demonstrates the cross-over from price- to RIG-led growth.

Now, Mark has already talked about the acceleration in RIG, so let me focus on the deceleration of pricing. There are three reasons for this:

First, the high base of comparison in the prior year, which everyone is aware of.

Second, in a busy promotional environment, we selectively dialed up promotional intensity in a number of categories, including our coffee creamers business.

And thirdly, in the second quarter, we made some specific investments including innovation listing fees in the U.S. and investments in Nestlé Health Science as we return to shelf.

Slide: Zone North America

We said North America would see a RIG improvement in the second quarter, and the Zone delivered that.

The RIG swing from negative 5.8% in the first quarter to positive 2.8% in the second quarter was significant.

The second quarter RIG benefitted from larger-than-usual orders from some retailers ahead of key July promotional campaigns. This phasing impact means that the Zone's continued RIG improvement won't be linear in the second half.

Growth was driven by PetCare and coffee. Purina PetCare continues to be the largest growth contributor, gaining RIG momentum and market share despite ongoing category normalization post-COVID and the recent inflation spikes.

In addition, Zone North America progressed on the turnaround of frozen food, which swung from negative growth in first quarter to positive in second quarter. New product launches in this business included expanded offerings for DiGiorno's Ultra-Thin Crust pizzas and Stouffers Classic Single Serve. These innovations are aimed at catching those consumers who are seeking more affordable price points.

Overall in Zone North America, we are seeing improving market share trends, largely driven by high-growth channels that are not widely tracked by third-party providers.

I want to take a minute on this point as I know it is an area of focus for some of you and is a dynamic which will increase in significance.

80% of the Zone's sales growth in the second quarter was driven through e-commerce, club and pet specialty stores. These channels are not tracked. And across these channels our growth was double digits in the quarter.

Slide: Zone Europe

Zone Europe has delivered the highest organic growth for the Group. The growth was broad based, with positive contribution and improving market share trends from almost all categories, geographies and brands. That improvement also reflects focused mix management with the contribution from premium products increasing.

Nestlé's growth engines, PetCare and coffee continue to deliver. An important feature of their growth is the strength of the brand and product portfolio, which cover multiple price points and provides us with a durable platform to sustain growth.

Our confectionery business is also performing strongly, growing high single-digits, with KitKat posting double-digit growth.

Slide: Zone AOA

In Zone AOA, we achieved resilient growth in the first half against the backdrop of two significant headwinds.

The first challenge was substantial currency devaluations in a number of markets, which triggered corresponding inflation. This required responsible pricing actions in those markets, taking into account local competitive conditions.

The second challenge was ongoing pressure on global consumer brands in some markets linked to geopolitical tensions.

Despite these challenges, Zone AOA delivered solid organic sales growth, with strong contributions from e-commerce and out-of-home channels, as well as continued momentum in affordable offerings, which grew at a high single-digit rate.

Slide: Zone LATAM

Zone Latin America continues to face a post-pandemic environment with high cumulative inflation. While Brazil, Mexico, and Central America have more favorable growth environments, markets like Argentina, Colombia, and Bolivia face tougher economic conditions. Our focus is to offer products that appeal to consumers on all dimensions, including taste, packaging and price.

Our confectionery business continues to grow from strength to strength, driven not only by KitKat but also local jewels like Garoto, which is growing in double-digits.

And I want to highlight the success of our Nestlé Professional out-of-home business in the Zone, where sales have continued to grow in double-digits and are now 50% higher than they were in 2019. This growth reflects our consistent focus on execution excellence supported by investments behind the rollout of new coffee systems.

Slide: Zone Greater China

While AOA and Latin America are experiencing high inflation, Zone Greater China saw deflation, in particular in the second quarter.

In this environment we are also seeing demand weaken and intensifying competition creating pricing pressure across much of the food and beverage industry.

Against this backdrop, Zone Greater China delivered low single-digit RIG. This growth was driven by most of the Zone's main categories, supported by new product launches and increased marketing investment, and with solid growth for out-of-home and e-commerce channels.

Coffee was one of the key growth drivers in the first half. It achieved high single-digit growth, driven by new offerings in our ready-to-drink range delivering convenience to younger consumers, and expanded distribution at the core.

Slide: Nestlé Health Science

Turning next to Nestlé Health Science, we saw growth move into positive territory during the second quarter, with increased sales momentum in most segments.

The performance of the VMS business reflects the supply issues we have talked about previously. The business has continued to make excellent progress in its recovery plan. And

our factories are back to producing at the same level as before the supply challenges, and as Mark said, we are starting to retake market share.

We are now focused on demand generation and winning back shelf space and see the business as well set to deliver double-digit growth in the second half.

Our active nutrition business also saw improved growth trends, with Orgain generating strong sales momentum.

And finally to medical nutrition, which delivered high single-digit growth for the half. This is a business that goes from strength to strength and continues to gain market share across most geographies.

In terms of profit, we have seen solid progress in rebuilding margins due to portfolio optimization and cost efficiencies, and there is more to come going forward.

Slide: Nespresso

Nespresso delivered positive growth for the half, with a significant RIG improvement in the second quarter.

Vertuo continues to be the key growth driver.

Vertuo is attracting new consumers to the segment and retaining them, and we are doing this through cold formats, which resonate well with younger consumers, as well as limited editions and exciting collaborations such as our recent one with Pantone. Once consumers enter the franchise it is the range and new news, which keep them engaged.

Slide: Category growth

Next, let me turn to our growth by category:

Starting with powdered and liquid beverages. Coffee sales grew by 3.7%, which illustrates how attractive the category is and the strength of our brand portfolio. Across most segments we have seen a clear improvement in market share trends.

PetCare saw mid single-digit growth, driven by continued momentum for science-based premium brands. The category is seeing some deceleration after exceptional growth over the last four years. This is driven by slowing contribution from pricing and some softening of

category volume growth as consumers spend less time at home. We see this as a transitory phase.

Overall, pet populations are still growing, the pet-human bond continues to strengthen, and therefore the category fundamentals are strong. We continue to outperform the category with market share gains.

Nutrition and Health Science delivered positive growth. We have already covered Health Science and our infant nutrition business reported growth of 1.3%. This growth was supported by continued momentum for NAN and human milk oligosaccharide products.

Prepared dishes and cooking aids reported negative growth. Within the category, we saw robust growth for Maggi, which was more than offset by the first-half sales decline for frozen food in North America, which I covered earlier.

Milk products and ice cream delivered close to flat growth, as a robust performance for dairy culinary solutions was offset by a sales decline in coffee creamers and ambient dairy.

Growth in Confectionery was high single-digit with sustained broad-based growth for KitKat and key local brands.

And finally, sales in Water delivered mid single-digit growth, underpinned by continued momentum for S. Pellegrino and a rebound in Perrier helped by the rollout of Maison Perrier.

Slide: Category margins

Moving now to profit margin by product category. I will talk to the categories with the most relevant movements.

Margins within the powdered & liquid beverages and confectionery categories were slightly lower due to increased advertising and marketing investments and cost inflation in coffee and cocoa.

PetCare margins increased by 120 basis points, driven by improved gross margin, which helped to fund increased advertising and marketing investment and new product launches.

The margin increase in prepared dishes and cooking aids was supported by improved gross margins and portfolio optimization, again with increased advertising and marketing investments.

Our water business saw lower margin as we prioritized increased brand-building investment and new product launches.

Slide: Margin improvement driven by increased gross profit margin

Turning to the Group's underlying trading operating profit margin, which reached 17.4% for the first half.

As you can see on the slide, the year-on-year change translates to an increase of 30 basis points on a reported basis and 40 basis points in constant currency.

A key driver of the improvement was gross profit margin, which increased by 160 basis points. This higher margin gives us room to fund growth initiatives as we switch gears from price to RIG-led growth.

I will discuss gross margin and marketing in the following slides.

The increase in administrative expenses does not reflect a change in our underlying cost base and is largely related to the appreciation of the Swiss Franc and one-off items.

Our R&D expenses reflect increased investments to support product innovation.

Slide: Continued progress on gross profit margin restoration

The year-on-year increase of 160 basis points represents solid progress on gross profit margin restoration.

That progress comes from a combination of pricing, lower input costs and portfolio optimization.

In the first half, the environment improved for most of our commodity basket; however coffee and cocoa prices continued to rise significantly.

Favorable hedging cover meant we benefited from lower input cost pressure overall.

For the second half, we see a less favorable impact from hedging and expect increased input cost inflation for coffee and cocoa.

Overall, gross margin is expected to improve for the full year against 2023.

Slide: Stepping up investments in advertising and marketing

The underlying trading operating profit margin bridge showed a considerable step up in advertising and marketing expenses, which increased by 100 basis points to 8.1% of Group sales.

Growth investment is a key focus for each of our Zones, as we have been stepping up support for brand building and new product launches for a number of quarters now.

As you can see on the slide, there was a big increase in the second half of 2023, largely related to the easing of supply constraints, particularly for PetCare. In practical terms, that means we won't see the same level of increase in the second half of the year that we saw in the first half.

Slide: Net profit

We have already discussed our underlying trading operating profit margin.

Trading operating profit saw an increase of 50 bps to 16.4%. This increase was largely driven by the timing of restructuring expenses. For the full year 2024 we expect restructuring costs of around CHF 700 million in line with the previous year.

In terms of net profit, we saw an increase of 30 basis points, reflecting changes in reported taxes and net financing costs.

In the first half of 2024, our underlying tax rate increased by 150 basis points to 22.1%, mainly due to higher tax rates in some geographies related to the implementation of OECD pillar two. For the full year, we expect our underlying tax rate to remain at a similar level. This continues to be an area of focus going forward.

Net financial expenses increased by 10 basis points. In Swiss franc terms, the increase was CHF 47 million taking our net finance expenses to CHF 744 million due to a higher level of average net debt. For the full year, we expect net financial expenses to be at least CHF 1.6 billion.

Slide: Free cash flow

Free cash flow increased to 4 billion Swiss francs from 3.4 billion.

In the first half of 2023, we benefited from the 600 million disposal of the Prometheus Biosciences stake. Excluding this, the increase in free cash flow in the half was CHF 1.2 billion. This improvement was driven by working capital movements.

We are making good progress on improving working capital.

That progress started in the second half of last year, so you will see a less marked working capital benefit in the second half of 2024.

Slide: UEPS

In constant currency, underlying earnings per share increased by 3.3% to 2 Swiss Francs and 51 centimes.

The increase was mainly the result of positive organic growth and improved underlying trading operating profit margin.

On a reported basis, underlying earnings per share decreased by 1.0% to 2 Swiss francs and 40 centimes, largely due to the impact of exchange rates.

Nestlé's share buyback program contributed 1.0% to the underlying earnings per share increase, net of finance costs.

Slide: Key financial takeaways

So, let me recap some of the key financial results.

As we said we would, we accelerated our RIG across Zones and categories in the second quarter.

Pricing decelerated following a high base of comparison and increased growth investments.

At the same time, the benefit from gross profit margin improvement enabled us to increase investment behind growth initiatives and increase our underlying trading operating profit margin.

Underlying earnings per share and free cash flow increased.

So, all in all, a solid financial performance for the first half.

And with that, back to Mark.

Mark Schneider, Nestlé S.A. Chief Executive Officer:

Slide: Evolving growth dynamics

Thanks Anna.

As we enter the second half of the year, we remain confident of our RIG momentum, but the pricing environment has become more challenging.

The general context is that consumers are under pressure, driving higher price elasticity, particularly in the U.S. market. Increasingly, this has contributed to pressure on pricing as consumers seek value.

The swing factor lately is increasing competitive intensity to address this environment. Retailers are competing for their share of a tighter consumer budget. Food and beverage companies, in turn, are responding to a whole new level of promotional intensity across categories.

We have seen pricing coming down faster and are now reflecting it in our outlook.

Slide: Guidance

Given how the environment has unfolded, we consider it prudent to amend our guidance for the full year.

We now expect:

Organic sales growth of at least 3%.

And the underlying earnings per share in constant currency to increase at a mid single-digit rate, in line with consensus.

We are keeping our underlying trading operating profit margin guidance unchanged, with a moderate increase expected.

Slide: Managing the short-term, building for the long term

We always said that 2024 was the transition back to RIG-led growth, and that is exactly what is happening.

We have one of the most attractive portfolios in the global food and beverage industry. It is positioned to perform in any environment. Our RIG-led growth strategy continues to be the right one for these times. And it is working.

In the second quarter, we delivered what we said we would. We returned to RIG-led growth across nearly all parts of the business. We fixed the businesses in need of a turnaround. We improved market shares across our portfolio, particularly in billionaire brands.

We generated the strong gross margins that are fueling increased brand support and a robust pipeline of innovations that are continuing to flow into the market in the second half. And our Nestlé Health Science business is primed to play its role as a platform for future growth.

We expect consistent positive RIG performance to continue in the second half and beyond. This is the Nestlé way. Manage the short-term while building the long-term to secure sustainable and profitable growth.

This brings our prepared remarks to a close.

We thank you for your time and look forward to talking with you in our Q&A session later today.

End of transcript.