NESTLÉ S.A.

2023 FULL YEAR RESULTS CONFERENCE CALL TRANSCRIPT

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Speakers:

Mark Schneider, Chief Executive Officer, Nestlé S.A.
François-Xavier Roger, Chief Financial Officer, Nestlé S.A.
Luca Borlini, Head of Investor Relations, Nestlé S.A.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Slide: Title slide

Good afternoon, and good morning to everyone. A warm welcome to the Nestlé Full Year 2022 results webcast and thanks for joining. I'm Luca Borlini, Head of Nestlé Investor Relations. Today, I'm joined by our CEO, Mark Schneider and our CFO, François Roger. Mark will begin as usual with an overview of 2023 and discuss the 2024 guidance. François will follow with a review of the full year 2023 sales and profit figures. We will then open up the lines for your questions.

Slide: Disclaimer

Before we begin, please take note of our disclaimer. And now I hand over to Mark.

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

Slide: Title slide

Luca, thank you, and a warm welcome to our conference call participants today. As always, we do appreciate your interest in our company, and we look forward to answering your questions.

Slide: Key messages

Let me move straight to the key messages for the year. I believe that in the context of soft consumer demand in the food industry, we have demonstrated resilient performance. I think in this environment, we did come in within our guided range both on organic growth and profitability. We did show, as we had indicated before, positive real internal growth in Q4, and as a result of the improvement in Q4 also in the second half, we did show a significant improvement in free cash flow from '22 to '23. And I think we've also seen a marked improvement in our return on invested capital.

Our underlying earnings per share also came in within the mid-term expected range. We clocked 8.4%, and that's slightly above the midpoint of the 6% to 10% range in constant currency that we had given out to you.

What's important to me is that all of these financial results did not stand in contradiction to putting in the needed investment to ensure growth acceleration and sustainable growth in the future and, of course, consistent value creation for the long term. So we have put in considerable resources when it comes to meaningful innovation but also constant renovation of our products. We have stepped up our marketing investments to the tune of 80 basis points last year over '22. We will continue to do that now. We will continue to increase our marketing investments in year '24.

And I think you've also seen continued investments and continued progress in our sustainability agenda, whether it's around the theme of Good For You, which is for the nutritional value of our products; or for the Good for the Planet agenda as part of sustainability.

Based on these solid results, our Board proposes a dividend per share of CHF 3, which is an increase of 5 centimes, and it marks the 29th consecutive year of dividend increases of our company.

Slide: Historically high-level of food price inflation

As we move to the next slide, let's take a quick look at the historic food price inflation over the last 50 years. And I think it explains a lot about the softness that we've all seen, especially in the second half of 2023, when it comes to the food sector. Because we're literally seeing a 50-year event when it comes to the spiking of food price inflation, not only when it comes to the sheer size of the amplitude but also the steepness and unexpectedness that we've seen in '22 and then continuing in '23. I think against that backdrop, it was not surprising that you've seen a volume reaction with quite a few companies in our sector and Nestlé, of course, as the world's leading food and beverage company, was no exception.

It's important that not all of the lower volume and real internal growth is related to this. It's also an important reminder, we did put in place policies in '22 and '23 that focus on the targeted exit from unprofitable SKUs. We have walked away, since the summer of '22 to now, from about CHF 700 million of annualized revenue, and this is SKUs that are discontinued that clearly were providing little growth and that were providing also no profitability, and this has helped to increase our service levels significantly. The net benefit of that is definitely starting to shine through. It's very hard to quantify. But clearly, going forward, the fact that we don't have this long tail end of low-growth, unprofitable SKUs will be a significant boost. And I think starting from later this year, as the situation normalizes and we are through some of the difficult and challenging year-over-year comparisons, you will see the strength of the growth engine in Nestlé come through.

In this very challenging context, it's also very important to me to thank our associates around the world. I think Nestlé prides itself in strong entrepreneurial commitment and execution from the bottom up in all the locations and communities we serve. In the 187 countries around the world we’re present, I think you've seen enormous commitment, enormous efforts to keep the company growing in an environment that was challenging and that also had seen hyperinflation in a number of markets. So very thankful for that strong commitment and also counting on that commitment going forward to prepare the company in '24 and beyond.

Slide: 2023 Highlights Nestlé's ability to generate growth catalysts

Moving to the next slide. I would like to highlight a number of strong growth catalysts that also give us hope and aspirations for the future for continued real internal growth and organic growth.

What you're seeing here is five growth platforms that we have been consistently feeding with investments and growing over time and showing positive RIG even in a challenging year like 2023 and poised for continued future growth.

Alongside our usual growth locomotives of PetCare and Nespresso, you are also seeing KitKat with stellar sales and also a renewed growth dynamic in our Confectionery segment. You see the significant success of HMO products in Infant Nutrition and also the resurgence of Nestlé Professional, which I think completely reinvented itself during the COVID years and now is enjoying very good growth and benefiting from renewed out-of-home trends.

So when you look at these five growth platforms alone, they stand for about 1/3 of the company's revenue If, in fact, you're not just counting Nespresso but the wider coffee category which, of course, saw some of the same growth dynamics, then you're talking close to 50% of the company's revenue. So I think very strong growth platforms that we intend to build on going forward.

Slide: 2024 operational priorities

When it comes to 2024, clearly, we expect a continued demanding environment, and this calls for a number of priorities. And we highlight a few for you here. Execution excellence, I think, is going to be front, left and center. This applies to our supply chain. It applies to in-store execution, our cost position and also order fill rates. I think I'm seeing very good progress on many of these dimensions, and we will continue to focus on them going forward. We definitely intend to make the basics in this company shine and help us with continued growth.

When it comes to marketing and growth investments, as I mentioned, we've already started to ramp up significantly in the year 2023, and you can expect continued focus on those going forward. It's not only about spending more on brand support. It's also on focusing, in particular, on our best performers, and I think many of these are among our fast-growing Billionaire

Brands. And so the focus and the additional investment will certainly help us to ensure future growth.

We will focus on growth that is real internal growth led. So clearly, with the inflation spike now coming down, the volume and mix components of our growth have to take the lead. This, as you know, is the healthier side of growth and the one that's more sustainable. It's the one that's more related to operational efficiencies over time as you gain in scale. And it's also the one that is more closely related to market share gains. And this is what we're focusing on, and we will hopefully lay out in this call and when we answer your questions the agenda for how we make that happen going forward.

I also wanted to confirm that regarding the restoration of our gross margin and continued increase in free cash flow. We will stay fully committed to those. On free cash flow, you've already seen significant progress in '23. Expect more to come in '24 and beyond. And on gross margin, you've seen now a promising turnaround after the inflation spike has hit us. And here again, we're working patiently to bring back the gross margin to historic levels.

Slide: Nestlé Health Science: overcoming operational hurdles to capture full strategic potential

Now let's spend a bit of time on the next slide and Nestlé Health Science. Let me give you right upfront my regrets for the negative surprise in the second half when it comes to our Q3 and Q4 performance. We are fully aware that we were disappointing you. We had high expectations for this business in '23. It's all the more regrettable that the market has come back pretty much exactly as we had expected. We had told you that until about midyear, there were going to be some negative year-over-year effects coming from the post-COVID era, and that from then on you would have every reason to expect high single-digit growth.

We've seen the good growth in many areas outside of the vitamins, minerals and supplements area, and in fact, the market in vitamins, minerals and supplements came back very nicely. But we were not able to benefit from it as a result of the integration issues that we had laid out to you as part of the Q3 call. Those integration issues, when we look at them more closely, they took us more effort and they were more fundamental than initially we have estimated. You will have seen; we did go through quite a number of leadership changes in this business. We significantly boosted the executive ranks and especially the operational capabilities in this business. As a result of that, we saw additional needs for more thorough and better integration to capture synergies going forward and address all the underlying problems. We believe once these plans are put in place, we will be in a much better position to take advantage of the future growth opportunity. But short term, it does take this extra effort to position the business for success.

What I would like to reassure you about is the attractive long-term trends both in Consumer Care and Medical Nutrition, which are the two main growth pillars in this business. In Medical Nutrition, which had not been affected by the integration issues, you have seen double-digit growth in '23. And in Consumer Care, you have seen some very strong examples of either very solid single-digit or even double-digit growth in areas that were not affected by the integration issues.

So I would like to highlight Orgain, which is part of our Active Nutrition segment in Consumer Care which has performed very nicely in double digits. And I would also -- even in the VMS space, I would like to point out Pure Encapsulations. That was the only major VMS brand that was not part of these integration plans, and there also, we continued with double-digit growth. So once we have the integration issues behind us, we expect continued mid-term high single-digit organic growth opportunities here for Nestlé Health Science. And we believe we have the portfolio, we have the technologies to make that happen.

To give you a sense on what it cost us in Q4, we believe that the penalty to the group of those issues in Q4 was greater than 50 basis points to RIG or OG. And because the problem has now taken us slightly longer and we have to refill the pipeline, we believe that we're still looking at a negative Q1 when it comes to RIG and OG. We will then turn the corner at some point during Q2, and then we're looking at double-digit organic growth in the second half. All in all for the full year '24, it should add up to mid-single-digit growth.

One question that has come up repeatedly this morning is about why Q4 was worse than Q3 when, in fact, we were expecting to be on the mend. The simple answer is that in Q3, we're still benefiting from some of the stocks we had on hand. Now we've depleted that, we have to refill the pipeline. But I can tell you, we are making very good progress on this issue. So one more time, I can only express my regrets. If you're sensing a certain amount of frustration over this issue, yes, there is frustration. But I do believe that we have the problem now under control and it's on the mend.

Another question that has come up several times is why such a basic IT integration issue could create such a headache for the company. Clearly, IT integration when it comes to our standard Zones and markets is not something that's usually giving us trouble. I think it is something where we have a well-honed machine.

It is important to keep in mind the very special organizational setup of Nestlé Health Science as what we call a globally managed business, so a fairly freestanding unit. That unit was very much targeted on strong growth. As you can imagine, and many of you followed this business over the years, from less than CHF 2 billion of revenue in 2016, we were scaling it up to north of CHF 6 billion of revenue now. As part of that growth mandate and growth focus, what we had to realize now is that some of the integration matters and some of the integration priorities did not get the attention that they should have gotten. This is the learning we had from it. We will definitely now make sure that all the integration steps are in place before we target further growth.

But on the segment, itself, it is important to me, and you will see later in the presentation there are continued growth opportunities. They are clearly around the themes of healthy aging, around the themes of weight management and so clearly, I think we are on to the right thing here, and we will intend to make more of it.

Slide: Premiumization is core to our growth strategy

On the next three slides, I would like to address three strategic topics when it comes to our overall strategy and group direction. The first one is around premium products. I know this has been a theme on many of our Investor Days and quarterly updates. It's good now on a 10-year time horizon to take stock. And you see here on that 10-year basis the significant contributions to our organic growth and also to the margin development that are coming from premium products. You see that over that decade, we have been increasing the contribution to sales by a factor of more than 3 from 11% to 36%.

Mind you, when we talk premium products, we're not talking luxury. As you see in the footnote, we're talking of a price premium of 20% or more over the mainstream offerings in a category. At the bottom of the slide, you see some specific examples across the categories. I think without going into any of these specifically, what it should give you confidence about is that this is not just focused on one or two categories, but rather something that we can very broadly apply across our categories and geographies.

Let me also assure you that the other end of the spectrum, and that is affordable products and extremely affordable products, especially in emerging markets where we know that we do play an important social role, that these continue to get our full attention. We know that we have a very important public role with those. I can also assure you that, that end of the spectrum as well is overall delivering very good growth profiles and also good contributions to our margin and financial success.

Slide: Growing healthy aging solutions

As part of adding value to our consumers and very often hand-in-hand with the premiumization, I would like to talk to you about what I consider to be a major trend going forward, and that is healthy aging solutions.

When you think about the nutritional solutions that Nestlé offers, obviously, we are focused on all stages in life from early life to the aging population. We have been founded, as you know, with infant formula products. So clearly, at a time in the 1860s, when there were very high birth rates but also very high child mortality, we were offering a solution, nutrition-based, to address those problems at those times.

I think these days, while we stay fully committed to the beginning of life and the importance of the first 1,000 days, from a demographics point of view, the great opportunity in many large economies is about the aging population. And this is where nutrition is also playing a key role in avoiding non-communicable diseases and making sure that we have longer and more active years.

You see a number of examples here. And you see in each of the four boxes products from Nestlé Health Science that clearly does take a leading role in this area. But it's also important to note that our Dairy and Food segments have very important contributions to make. And I think over time, as we apply this lens of healthy aging across a number of categories, you will see others come in. So I think there's quite a few categories within Nestlé that can contribute to serving this growing need. I also believe it's one where our R&D capabilities and the sheer nutritional knowledge inside the company positions us well to make a very credible, very important contribution.

When it comes to the content of healthy aging themes, I would like to highlight four -- there's probably quite a few of them in addition, but I think those are the big four that we're focusing on.

The first and most important one that I'll focus on in a minute is achieving and maintaining appropriate weight. The next one as you age that's very important, is preserving lean muscle mass. Then of course, the proper amount of micronutrients is important and addressing any micronutrient deficiencies is an important contributor to fighting aging. And then another important one is to avoid unnecessary sugar spiking. That can happen either by reducing the sugar content in our products, or making that sugar something that is slower acting, so hence, it avoids the spiking in your system, the stress on the cardiovascular system and some of the systemic inflammation. So those are key themes that we're focusing on. And clearly, out of those weight management, maintaining target weight does have a major importance.

Slide: Helping consumers on their weight-loss journey

Obviously that item, as we move to the next slide, has received a lot of attention, especially in the last year with the large public success of GLP-1 drugs and their importance for many consumers to initiate significant weight loss. At the moment, as you know, this opportunity is very much focused on the United States. There's a growing popularity of these drugs now in Western Europe. But we can imagine that, over time, this will be an important treatment option around the world.

I think it's also fair to assume that for this important treatment option, prices will come down, and that in addition to subcutaneous application, there will also be oral solutions over the next few years. So it is an important new trend. And over and above, the inner core of GLP-1 drugs, I think it has brought the whole topic of dieting and weight loss back to the top of the agenda. To put it in slightly flippant terms, diets are cool again. It's something that people used to do quietly on the side, uncertain about their outcomes. I think now with a much greater chance of success and strong scientific underpinnings, there's a renewed interest in the topic and it's something that gets discussed more and more openly and where of course, there's a number of ways to achieve weight loss, but GLP-1 at the moment getting most of the attention.

On GLP-1, we had told you that we have a number of companion products that might be a good fit to those consumers on these diets. You see here three key areas: muscle mass preservation, micronutrient deficiencies and gastrointestinal health. At the moment, when you look at the perimeter that we outlined, this is a sales volume of about CHF 1.5 billion. In addition to what we have on offer today we're of course working very hard inside our R&D area to come up with new and even more helpful companion products. that will be important for GLP-1 patients during and after their treatment.

As I mentioned, in addition to GLP-1 alone, there's other ways to achieve weight loss, and it's important that we also have a competitive offering in those areas. You see a number of them at the bottom of the slide. And I think those are seeing renewed attention as well.

So all in all, we are approaching this in a very proactive manner. We're trying to get prepared for this lower-calorie, higher-nutrient future. And I think that we have a competitive offering there. And hence, looking at the GLP-1 situation, it's important not just to see it as a potential negative to certain products that might be demanded less. It's important to also see those growth opportunities and then we will see over time what the balance is. But to us, it's a change in consumer needs and consumer preferences, like many changes in consumer needs and preferences in the past. And it's just simply our job to adjust to that and also take a leading role in offering nutritional products that are in demand with these consumers and patients.

Slide: Good for You: helping people enjoy a tasty, balanced diet

Moving on to the next two slides, I'd like to briefly touch upon our Good for You, Good for the Planet agenda. You will see more detail in our Creating Shared Value report that also became available for the year '23 online today.

The first one I would like to talk about is some of the nutritional initiatives that we kicked off last year. As you know, we were the first company that rated its entire global portfolio on the Health Star rating, and we published those numbers last March. Glad to report now that as part of our growth agenda, we have increased the share of more nutritious products that are rated 3.5 or higher from 57% to 59% in the year '23. So I think a nice trend here when it comes to growing that. And as you know, during the year, we had also given out a target towards the year 2030 that we intend to grow sales in this area of 3.5 and higher to the tune of CHF 25 million to CHF 30 billion.[1]

For the categories that are more enjoyment-related and where it's more important to support responsible marketing and responsible consumption, we've also had some key initiatives and commitments. The key one is to apply over the next two to three years calorie caps for children's confection and ice cream products and limit those to 110 kilocalories or less, and then also transparency efforts, whether it's front of pack or whether it's through digital tools to help consumers make informed choices. So all of this are progressing very nicely. And I hope you appreciate the full transparency on what is an outside of the company, neutral rating system, the Health Star rating system, and also the progress that you've seen from last year to this year.

Slide: Good for the Planet: advancing towards Net Zero

Moving to the Good for the Planet agenda and sustainability. Here also, I hope you do appreciate the full transparency. We're reporting our greenhouse gas emission reductions year after year. As you know, in 2019, we signed on to the Science-based Targets Initiative. We published a net zero road map in 2020. The first major milestone, which calls for a 20% reduction in 2025 is coming due very shortly. With the 13.5% we achieved now; we are on

[1] Good for You target is to grow the sales of more nutritious products by CHF 20-25 billion by 2030.

track towards that and feel very confident. When you look at the 2018 baseline and when you look at the continued growth of the company since and then the 13.5% net reduction, it's very clear that we have successfully decoupled the growth of the company from the growth of our greenhouse gas emissions. And I think that is very reassuring to see.

We have also provided more details on other greenhouse gases and CO_2. So methane, of course, in our industry is an important one as a result of our large use of dairy products. And very, very happy to report here that against the same baseline in 2018, we've now seen a 15.3% reduction. So very good, very patient work that dates back actually a long time in the dairy supply chain that allowed us to achieve net reduction.

So overall, very comfortable with it. And in our opinion, this whole notion of, on the one hand, having full transparency in annual disclosures of these greenhouse gas emissions and then also being firmly able to say that peak carbon is behind us and that we are on our way down that, to me, in our industry is an important statement to make.

Slide: 2024 guidance 2025 mid-term targets fully confirmed

Before I hand it over to François, let me talk about our guidance for the year 2024 and then also remind you and fully confirm our 2025 midterm targets.

So for the year 2024, we're guiding for organic sales growth around 4%. I would also like to point out that around 4% is not a backdoor 3% to 5% guidance. So around 4% centers around 4%, and this is where we have the confidence. At the same time, given some of the difficult year-over-year comparisons that we're facing especially for the first quarter and the second quarter, we felt it was not right at this point to guide towards mid-single digit. So I hope you appreciate that conservative approach, and at the same time, I hope you also see some of the underlying optimism at a time when the nature of growth is shifting very significantly from something that was pricing led for the most part of last year and then, of course, needs to be a real internal growth led for this year.

We also point to and expect a moderate increase in the underlying trading operating profit margin. I think this is very much in line with what you've seen in the past from our statements and the old Nestlé model. And we believe that the two features here will help us to again reach an underlying earnings per share growth in constant currency between 6% and 10%.

For the year 2025 and beyond, we do expect that return to mid-single-digit organic sales growth, and this is a key point for me to make. When we started to call out for you that we have a portfolio that can consistently deliver mid-single-digit organic growth several years ago, we meant it. So clearly, we confirm that for the year '25 and beyond. And for this year, again, the more cautious approach after three consecutive years of being significantly above the mid-single-digit corridor, I think, should be understandable given that we're working our way down from this historic inflation spike.

Going forward, I also wanted to underline to our shareholders that were fully committed to creating value for our investors, and we intend to do this with a convincing strong underlying operational performance and, of course, analyzing every strategic opportunity to create value with an open mind as long as it creates lasting value.

With that, let me hand it over to François, and then I look forward to coming back and answering your questions.

François Xavier Roger, Nestlé S.A., Chief Financial Officer:

Slide: Title Slide

Thank you, Mark, and good morning or good afternoon to all. Let me start with some of the key highlights for 2023.

Slide: Resilient financial performance in 2023

We delivered a resilient financial performance in a context of soft consumer demand.

As you can see from the chart, organic growth was strong at 7.2%.

Our underlying trading operating profit margin was up 40 basis points in constant currency versus the prior year.

Underlying earnings per share growth was robust, increasing by 8.4% in constant currency.

Free cash flow increased by CHF 3.8 billion to CHF 10.4 billion.

Slide: Full-year sales growth

Organic growth was driven by pricing of 7.5%, reflecting the impact of cost inflation over the last two years.

RIG was -0.3%, impacted by soft consumer demand, capacity constraints and in the second half a temporary supply disruption for vitamins, minerals and supplements.

Net divestitures reduced sales by 0.9%.

Foreign exchange had an exceptionally negative impact of 7.8% on net sales, following the significant and broad-based appreciation of the Swiss franc versus our basket of currencies. On average, over the last ten years, foreign exchange has had a negative impact of about 3.5 percent per annum on our reported sales. In 2023, this impact was twice as large.

Total reported sales decreased by 1.5% to CHF 93.0 billion.

Slide: Strong growth across developed and emerging markets

Turning to the distribution of growth between developed and emerging markets.

Organic growth in developed markets was 6.4%, based on pricing. RIG was negative, although improving in the second half of the year.

Growth in emerging markets was robust at 8.4%, driven by pricing with positive RIG. Growth was driven by Latin America, Africa and South Asia, with continued momentum for affordable offerings.

Slide: Strong mix reflects value-added strategy

Here, we can see the evolution of our organic sales growth factors over the last six years, including the breakdown of RIG into volume and mix. As a reminder, we have always excluded Water and Health Science from this analysis.

The negative evolution of volume growth in 2023 largely reflects soft consumer demand and capacity constraints. The at-home Food & Beverage industry has seen low single-digit volume declines consistently since the start of 2023. This trend should be seen in the context of the historically high levels of inflation that have accumulated over the last two years. Our volume growth has improved over the course of 2023 and was only slightly negative in the fourth quarter, supported by the moderation of pricing, portfolio optimization, and marketing investments.

At the same time, our mix increased to 2.6% in 2023, reaching the highest level over the last six years. The strength of mix illustrates our capacity to innovate and premiumize even in volatile macroeconomic circumstances. It also reflects our conscious decision in 2023 to favor mix over volume to ensure profitable growth. Premium products grew at a high single-digit rate with slightly positive RIG. These products account for 36% of sales, three times higher than ten years ago.

Slide: RIG back to positive territory

When looking at the quarterly evolution of RIG for the total group and adjusting for the number of trading days, we have seen a material and steady improvement in RIG across the year.

RIG reached 0.4% in the fourth quarter and was slightly positive in the second half, as expected. This positive trend was supported by the moderation of pricing, positive benefits from portfolio optimization, and higher marketing investments.

That said, the pace of this RIG recovery has been more muted than expected, reflecting a soft consumer environment and the temporary supply disruption in vitamins, minerals and supplements in the second half.

Slide: Returning to RIG-led growth

After several years of progress on RIG until 2020, we went through a period of heavy turbulence, beginning with the pandemic and followed by a period of unprecedented inflation. These factors created significant volatility and disrupted the components of our organic sales growth. During 2023, we have seen clear signs of normalization, with a lower contribution from pricing and a higher contribution from RIG. We expect this trend to continue in the coming quarters.

We are confident in our ability to return to positive RIG and expect RIG to trend back towards pre-COVID levels over the course of 2024.

The phasing of RIG is not expected to be linear and should be more weighted to the second half of 2024. In the first quarter, RIG could be below the fourth quarter of 2023, given muted consumer demand and the residual impact of supply issues in our U.S. VMS business. Just as a reminder, the first quarter has one less trading day.

Slide: Zone North America

Let's now turn to the results of our seven operating segments, beginning with Zone North America, where we saw 7.3% organic growth, driven by pricing of 7.6%. RIG was -0.3%, reflecting soft consumer demand, capacity constraints and the winding down of the frozen meals and pizza business in Canada.

The Zone's underlying trading operating profit margin increased by 120 basis points, mainly as a result of the divestment of a majority stake in Freshly and portfolio optimization actions.

Pricing and mix also helped to offset both cost inflation and a significant increase in advertising and marketing spend.

Slide: Zone Europe

Next is Zone Europe**.** Organic growth was 8.2%, driven by pricing. As you know, pricing in Europe can only be negotiated during specific windows. The passing through of pricing therefore takes longer in many European markets than in other geographies. RIG was -2.4%, following demand elasticity and capacity constraints for Water and Petfood.

The Zone's underlying trading operating profit margin was unchanged, as significant cost inflation and higher advertising and marketing expenses offset pricing and portfolio optimization actions.

Slide: Zone Asia, Oceania and Africa

Moving to Zone AOA. The Zone reported high single-digit organic growth, with 0.3% RIG. Pricing increased to 8.0%, with broad-based contributions from all geographies and categories.

By geography, all regions posted positive growth, with particular strength in South Asia, Africa as well as Oceania. India continued to see strong growth across all categories, becoming the largest market worldwide for Maggi and the second-largest market for KitKat. As some of our peers have mentioned, the conflict in the Middle East has led to some pressure on global consumer brands. Some of our product offerings have been impacted in a few markets in the fourth quarter.

The Zone's underlying trading operating profit margin increased by 60 basis points. Pricing, disciplined cost control and portfolio optimization more than offset the impact of input cost inflation and higher advertising and marketing expenses.

Slide: Zone Latin America

Next is Zone Latin America, which reported high single-digit organic growth, led by pricing of 8.9%. RIG was resilient at 0.3%, turning positive in the second half.

By geography, Brazil reported strong double-digit growth. Sales in Mexico grew at a high single-digit rate.

The Zone's underlying trading operating profit margin decreased by 50 basis points as one-off items in the prior year, cost inflation and higher advertising and marketing expenses more than offset pricing and cost efficiencies.

Slide: Zone Greater China

Turning to Zone Greater China. Organic growth was 4.2%, with pricing of 1.7%. RIG was 2.5%, despite the unfavorable timing of Chinese New Year.

The Zone's underlying trading operating profit margin increased by 40 basis points driven by favorable mix and disciplined cost control.

Slide: Nestlé Health Science

Next is Nestlé Health Science. The business posted low-single-digit growth, with pricing of 4.8%. RIG was -3.2%, impacted by supply constraints for vitamins, minerals and supplements in the second half of 2023.

Vitamins, minerals and supplements saw negative growth. Sales in the second half decreased following an IT integration issue when implementing highly automated systems during the consolidation of U.S. packaging sites. The recovery is taking longer than expected as the extent of the issue was deeper and more complex than we initially thought. We are mobilizing the Group's full resources, and the supply constraints are expected to be fully resolved by the end of the first half of 2024.

Active Nutrition saw mid single-digit growth, with robust sales developments for Orgain and Vital Proteins.

Medical Nutrition recorded double-digit growth, with strong sales developments for adult medical care as well as pediatric and allergy products.

By geography, sales in North America decreased. Europe reported mid single-digit growth, while other regions combined posted high single-digit growth.

The underlying trading operating profit margin of Nestlé Health Science decreased by 160 basis points as a result of temporary supply constraints.

Slide: Nespresso

Finally, Nespresso reported mid single-digit organic growth, driven by both pricing and RIG.

Growth was led by broad-based momentum for the Vertuo system, continued expansion of the Momento system in out-of-home channels and innovation.

By geography, North America posted double-digit growth with continued market share gains. Europe reported low single-digit growth. Other regions combined saw mid single-digit growth.

Nespresso's underlying trading operating profit margin decreased by 120 basis points. Significant cost inflation and the appreciation of the Swiss franc more than offset pricing actions and cost efficiencies. The business continued to invest in the rollout of the Vertuo system as well as in brand advertising.

Slide: Broad-based growth across categories

Let's now look at product categories. Organic growth was broad-based, supported by pricing across all categories.

We continue to see a normalization of channel trends across categories, with growth supported by momentum in out-of-home and e-commerce, particularly for PetCare, Coffee and Nestlé Health Science. Overall, e-commerce grew by 13.4% in 2023 and accounts for 17.1% of total Group sales, up from 15.8% in 2022. We are now implementing a number of innovative internal and external e-b2b platforms that will help us to accelerate our e-commerce growth. E-commerce remains growth accretive, and our priority is to meet consumer demand across channels and points-of-sales, either online or offline.

Within Powdered and Liquid beverages, coffee sales grew at a high single-digit rate. Growth was broad-based across segments, brands and geographies, with continued momentum for the out-of-home business, which grew at a strong double-digit rate. Cocoa and malt beverages reported low single-digit growth, based on a strong contribution from Milo and Nesquik.

PetCare posted strong double-digit growth for the fourth consecutive year. Science-based, premium and veterinary products saw strong sales developments. Sales of Purina Pro Plan reached almost CHF 3 billion. Growth was also supported by continued e-commerce momentum and innovation, particularly for functional products.

Nutrition and Health Science posted 5.4% growth. Infant nutrition reported 8.5% organic growth, with market share gains and broad-based contributions across geographies, segments and key brands. Sales of human milk oligosaccharide products grew at a strong double-digit rate, reaching CHF 1.4 billion. We have already discussed Nestlé Health Science.

Prepared dishes and cooking aids saw 4.9% growth, driven by Maggi, which reported double-digit growth. Plant-based food posted flat growth, impacted by portfolio optimization.

Milk products and Ice cream recorded 6.1% growth. The key contributors to growth were fortified milks, coffee creamers and home-baking products. Sales of ice cream grew at a mid single-digit rate.

Growth in Confectionery was 8.5%, reflecting continued strong broad-based demand for KitKat, which continues to gain share across all geographies. Confectionery also saw positive sales developments for key local brands, including Garoto in Brazil, Munch in South Asia and Shark Wafer in China.

Sales in Water grew by 4.9% despite temporary capacity constraints for Perrier and a high base of comparison in 2022. S. Pellegrino and Acqua Panna saw double-digit growth. The modernization of our Perrier site has been completed during the fourth quarter, with supply normalizing from the first quarter of 2024 onwards.

Slide: Underlying trading operation profit margin by category

Moving now to underlying trading operating profit margin by product category.

Margins within the Powdered and Liquid beverages category decreased by 150 basis points mainly due to significant cost inflation in coffee beans and increased advertising and marketing expenses.

PetCare margins increased by 20 basis points, supported by growth leverage and improved mix, which more than offset a significant increase in advertising and marketing expenses.

Nutrition and Health Science margins decreased by 60 basis points due to a margin decline for Nestlé Health Science, which we have already covered. Infant nutrition saw a margin increase of 30 basis points as a result of pricing and cost efficiencies.

Margin increases in Prepared dishes and cooking aids as well as Milk products and Ice cream were supported by pricing, portfolio optimization and cost efficiencies.

Margin in Confectionery was unchanged, as growth leverage and pricing were offset by cost inflation for cocoa and increased advertising and marketing expenses.

Water posted a significant margin increase of 280 basis points, supported by pricing, mix and cost efficiencies. Mix benefitted from a continued focus on premiumization.

It is worth noting that the benefits of our portfolio management actions last year are clearly visible in categories like Dairy, which was the most profitable category for the Group in 2023.

Slide: Gross margin recovery and increased marketing investment

Next is underlying trading operating profit, which increased as a percentage of sales by 40 basis points in constant currency. The increase was driven by higher gross margin and lower distribution costs, which more than offset increased investments in marketing and one-offs in 2022. We are on track to deliver our 2025 target of 17.5% to 18.5% for UTOP margin.

Slide: Progress on gross margin restoration

Going into greater detail on the evolution of gross margin.

In 2023, we made solid progress in restoring our gross margin, with a year-on-year increase of 160 basis points to 46.1% in the second half. This improvement reflects the positive effect of responsible pricing, cost efficiencies and portfolio optimization actions, which more than offset cost inflation. While easing, the impact of cost inflation in 2023 on our cost of goods sold was still significant at a mid single-digit level, mainly impacting the first half.

In 2024 and beyond, we expect our gross margin to increase further. Although the environment is still very volatile, we expect input cost inflation in 2024 to be relatively flat based on what we know today. We see different trends by commodity, with costs decreasing versus the peak for some items, while other items, such as sugar, cocoa, and Robusta, continue to see increases.

Slide: Investing behind our brands to drive growth

Turning to the evolution of advertising and marketing expenses by semester.

In 2022, we temporarily reduced our investment levels as we limited advertising and marketing activities in the context of supply chain constraints.

As the slide shows, during 2023, we materially stepped up our advertising and marketing investments. The increase was 160 basis points in the second half of 2023 to reach 8.2% of sales, with the spend particularly focused on our largest Billionaire Brands. It is worth noting that Billionaire Brands account for more than 70% of our sales and saw organic growth of 10%. They are gaining or holding share in 52% of business cells.

Digital media represented 68% of our paid media spend in 2023, up from 55% in 2022.

In 2024, we expect to further increase our investments in advertising and marketing as we focus on delivering RIG-led growth.

Slide: Increase in underlying EPS driven by operating performance

Moving to underlying earnings per share, which increased by 8.4% in constant currency and by 0.1% on a reported basis to CHF 4.80.

The improvement was driven by strong organic growth and an increase in the underlying trading profit margin. Nestlé's share buyback program also contributed 1.2 percent of the increase, net of finance costs.

These increases were partly offset by the negative effect of exchange rates and higher financing costs as well as a slight increase in our underlying tax rate from 20.9% in 2022 to 21.2% in 2023.

Slide: Free cash flow above CHF 10 billion

Free cash flow increased from CHF 6.6 billion to CHF 10.4 billion.

The main factor behind the increase was working capital, which decreased by CHF 4.3 billion, largely related to lower inventory levels.

Expenditure on CAPEX and intangible assets increased by around CHF 800 million to CHF 6.2 billion, largely reflecting ongoing investments in PetCare and Coffee. We expect our CAPEX level to normalize at around 5% by 2025.

Slide: Free cash flow returning to historical levels, on track for 2025 target

Our cash generated from operations before changes in working capital and CAPEX remained solid and dependable at around 20% over the last five years.

As expected, Free cash flow as a percentage of sales increased to 11.2%, reflecting our actions to reduce inventory levels. As a reminder, the decision in 2022 to increase inventories was taken in the context of supply constraints and the energy crisis in Europe. At the same time, we have continued to invest in capital expenditure above historical levels to support the expansion of capacity in PetCare and Coffee.

Working capital and CAPEX are normalizing, and we are seeing a corresponding increase in free cash flow trending back toward 12% of sales by 2025, in line with our mid-term financial targets.

Slide: Inventory levels normalizing

As flagged on our half-year 2023 results call, we have been actively working to reduce inventory levels.

We expect our inventory levels to decrease to pre-pandemic levels in 2024.

The progress shown in this chart reinforces our confidence that we have the levers to return working capital back to zero or below in the short to medium term.

Slide: Return on invested capital

The Group's Return on invested capital after goodwill and intangibles was 13.9%, an increase of 170 basis points over the prior year.

The Group's ROIC is trending back to our 2025 target of 15%. This is a level two times higher than our WACC and comes even as we have made significant acquisitions.

Slide: Stable net debt

Net debt increased by CHF 1.4 billion to reach CHF 49.6 billion as at December 31, 2023. The increase largely reflected the dividend payment of CHF 7.8 billion and share buybacks of CHF 5.1 billion.

At the same time, this was largely offset by a significant increase in free cash flow.

Our Net debt to EBITDA ratio remained stable during the year at around 2.5 times.

We are committed to maintaining our practice of increasing the dividend every year in Swiss francs. At the next Annual General Meeting, the Board of Directors will propose a dividend of CHF 3.00 per share. If approved, this will be the company's 29th consecutive annual dividend increase, in line with our practice of increasing our dividend in Swiss francs. The company has maintained or increased its dividend in Swiss francs over the last 64 years. The dividend in Swiss francs has more than tripled over the last eighteen years, representing a compound annual growth rate of close to 7%.

This concludes my remarks. I now hand over to Luca to open the Q&A session.

Q & A Session

This concludes my remarks. I now hand over to Luca to open the Q&A session.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Thank you, François. With that, we move to the Q&A session. We open the lines for questions from financial analysts. (Operator Instructions)

The first question comes from Warren Ackerman, Barclays

Questions on:	SNAP and Trends in PetCare in US Guidance on organic growth

Warren Ackerman, Barclays:
First question is around the health of the U.S. consumer, Mark, 35% of your global sales. How much impact does SNAP had on your categories? And how big a benefit do you think you'll get as you lap that in April? And then what trends are you seeing in the -- especially U.S. Pet food as that's 40% of the U.S. And your expectation for U.S. Pet food in 2024, I guess, the extra capacity gives you a big RIG opportunity. So if you can just address the SNAP and maybe specifically U.S. Pet food on the first one.

And the second one is just back on the 4% guidance on organic growth. Can you maybe talk a little bit about the puts and the takes and the sensitivities around that, Mark? Is that assuming double-digit recovery in Health Sciences in the back half? How confident, for example, are you on that particular point? And what other puts and takes should we be thinking about? I assume it's going to be more volume recovery rather than sort of mix acceleration. But any color on that would be helpful.

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

Warren, thank you. And good thing that you're pointing out the SNAP situation in the U.S. consumer. As you can imagine, given the size of the U.S. market, we spent a lot of time trying to understand exactly what has been going on there, in particular in the second half of the year. And here is my best thinking on it. And that is that in hindsight, all of us, the entire industry kind of underestimated the importance of some of these SNAP support payments running out as from the second quarter last year. It clearly led to the slow food industry growth in the second half in the U.S. And I think what you saw is all of the elements of what was discussed in other conference calls in the industry as the bifurcated consumer.

So clearly, at the premium end, things were going quite well, but at the lower end of the buy spectrum and at the low end of the socioeconomic spectrum, you did see quite some significant stress on U.S. consumers. And with these support payments running out, I clearly think that led to some down trading in food, either from more expensive brands to more affordable one or from branded products to private label or, for example, from prepared foods to some of the components and then scratch cooking. But clearly there was some issue. And if you try to square that with overall the pretty healthy holiday season, here is my best interpretation. Everything that's somewhat durable, everything that you can pay for in installments went reasonably well. But when you really have to either pay cash or when you have to pay it on your existing credit card limits and debit cards, then those things were under quite some stress. And food, of course, is one of those. And hence, at the lower end of the spectrum, I think there is some continued weakness. I think until the lapping now of some of the SNAP payments slowdowns in the second quarter, it will continue. And this is part of our assumption here that the situation then at least will normalize to the extent that some of the other underlying growth trends will shine through to a stronger extent.

And then regarding the guidance overall. Obviously, this is a guidance that is given with our usual prudence and caution. I did point out that even in a year like 2023 that saw some negative surprises and disappointments, it was important to us that we came in within our guided range. So when we do give guidance, we try to be very thoughtful about it. So we're not taking only the sunny day outlook, but rather really trying to put in some checks and balances here and a balanced view that incorporates upsides and downsides. That relates to Nestlé Health Science, but it also relates to some of our other businesses and regions we're doing business in.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Next question is from Bruno Monteyne at Bernstein.

Questions on:	**Marketing Spend** **Sustainability program and cost**

Bruno Monteyne, Bernstein:

You finished the year on 8.3% marketing spend. Now how did that compare with the level of marketing spend pre-COVID? Are you back at that level is my first question?

The second one is back to the sustainability program. The income accelerator was a big step forward. Can you update us what percentage of your farmers are benefiting from the income accelerator today? And by what date will all of them benefit from that? Linked to that, a few years ago, François made it clear that the cost of sustainability would weigh on future margin expansion as you're making big investment in the net zero. In the last few years, do you think the cost of sustainability has increased, i.e., do you think the margin headwinds from that transition are bigger than they were a few years ago? And should we be concerned about it for future years?

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

Thank you, Bruno. Let me take a stab at both of them, and I also invite François to weigh in on the marketing spend part. So clearly, with the levels we're seeing now, we're still a little bit below the pre-COVID levels. We're not miles away but a little bit below. It's important to incorporate that in those years since 2019, there have been some changes in everyone's marketing mix. Of course, there's a much, much larger share of digital now where, I think, it's fair to assume that there is a higher degree of productivity. As a result of that, while we still continue to see some improvements now in 2024, I don't think it will be entirely necessary to go Swiss-franc-for-Swiss-franc to the levels that we have seen in pre-COVID levels. It's simply that the nature of brand support and marketing has changed, and I think there has been some progress here on productivity.

Regarding the cost of sustainability, we still believe very much in this mantra that this is not something that should come out of our investors' pockets alone. So clearly, this whole notion of working on continued productivity improvements and then channeling that into forward-looking spend, whether it's product development, whether it's sustainability or whether it's brand support, that whole notion which we call the virtuous circle, that's still fully alive and kicking. On the sustainability cost, I think you've seen quite a large spread of potential outcomes. There are some regions where, for example, recycled plastics was getting all of a sudden more expensive. On the other hand, you see others where the cost per ton has come down. So it's very hard to show a distinctive direction here. But I do believe that overall, when it comes to the affordability of it, it doesn't go against what we told you earlier. And that is we try to pay for this out of our ongoing productivity improvements.

Regarding the farmers benefiting in particular from our income accelerator in the cocoa space. So we're talking at the present time around 10,000 families, and we intend to scale that up further over the next year. François, maybe you want to add?

François Xavier Roger, Nestlé S.A., Chief Financial Officer:

Maybe very briefly. On the marketing support, so in addition to what Mark said, what makes the difference as well is the fact that we are now focusing essentially on our Billionaire Brands that account for 70% of our sales. And we do expect to extract much more efficiency out of it in terms of growth and market share.

On sustainability, just to give you an idea, over the last two years, the additional cost on our margin was about 20 basis points additional year-on-year, which obviously doesn't come at the expense of our margin at the bottom line. We have developed, I would say, good tools over the last couple of years in order to be more efficient. And as you can see, we are driving in the right direction in order to meet our commitments while probably we will spend less than what we thought initially given that we can make arbitrage between geographies and categories. We don't necessarily need to do everything now. Technology and science can be available for some needs today while it is not for other needs. And then as a consequence of that, we can focus and be more efficient by making choices on the sustainability investments.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Next question is from Guillaume Delmas at UBS.

Questions on:	**Succession of issues** **Contribution of mix**

Guillaume Delmas, UBS:

So two questions for me, please. The first one is on this succession of issues Nestlé has been facing over the last couple of years, be it Buitoni in France, Nestlé Health Science and now Water in France again. So from the outside, it seems that Nestlé is a little bit more accident prone than it was, say, five or six years ago. So my question is, Mark, as you look at this, do you think some tweaks have to be made to Nestlé's culture, processes, maybe a way of doing business? And related to that, despite their strong benefits, you maybe saying that some of the efficiency initiatives that have been put in place over the past few years may have gone, in some instances, too far, maybe putting too much stress on the organization?

Then my second question is going back to the strong contribution from mix to your organic sales growth we saw in 2023. As you keep on increasing your advertising spend behind fewer, bigger brands and innovations, should we view this 2% to 3% mix benefit to your top line growth as sustainable? And so therefore, like your multiyear financial objective of 4% to 6% organic sales growth, should be, on average, made of 2% to 3% mix and then volume and pricing each adding on average 1 percentage point. So any color on that would be great.

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

Let me try and address the issues and then hand it to François for the mix question. So look, on these issues you cited, I can only offer my regrets. I do understand that in a short order of time, we had quite a few of them. To the best of my knowledge, I do feel that the underlying reasons for those and the specific circumstances are actually quite different. Of course, I'm also having a very fine antenna for what might be systemic issues, but I don't see a systemic connection here. And so I do see it at this point as a very unfortunate piling up of a few things in a short order of time, again with very, very different timelines in which they developed, underlying reasons and situations.

What I think I can firmly say is there is no nexus with the efficacy programs that we had underway over the years. I think we've been generally very, very thoughtful in how we went about this. And as you know, we've never resorted to massive restructuring programs where people drop everything they're doing and then only focus on the new structure, but rather always try to find the right balance between diligently doing what we're doing and, at the same time, then putting some of these efficiency improvements in place, most notably in those areas where we also have increasing volumes so that we have the virtuous circle at work.

So again, I express my regrets. I hope you also appreciate the full transparency around these issues. And then definitely, all I can ask you for is some patience and bear with us as we manage through those and then give you that very steadfast operational performance that I was trying to point out as a key goal for '24 and beyond.

François Xavier Roger, Nestlé S.A., Chief Financial Officer:

Let me try to help you on the mix thing. I cannot guide really on mix because we don't even guide on RIG but let me help you. If you look at it historically, you could see that we had a positive volume pre-COVID, 1% to 1.5%. This is where we should go back, and we are really working on it as we speak. And the fact that we were slightly negative in Q4 is a good indication that we are moving in the right direction. Mix should be the largest contributor to OG, as it was the case pre-COVID as well.

And I don't want to guide on the 2% to 3%, but obviously mix is the most interesting part with volume of our growth because it illustrates our capacity to innovate, this is the outcome of our R&D, and our capacity to premiumize as well. And what Mark shared earlier, the fact that we have increased the share of premium product from 11% to 36% of our net sales is certainly a good illustration of it. So mix should continue to be the largest driver of our growth going forward as it has been the case. And it has been the case, by the way, during the inflationary time, outside of pricing obviously, and during COVID as well.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Next question is from Jeremy Fialko at HSBC.

Question on:	**EPS expectations** **RIG in Europe**

Jeremy Fialko, HSBC:

So the first one is just on the EPS guidance range that you've given. So you kept the 6% to 10%, albeit the top line growth is a little bit below the typical mid-single-digit range. So clearly, there's a greater role of margins in play. So I guess, is that just a logical inference and you're not saying, well, the EPS growth is likely to be at the lower end of the range, the whole range is there. And if you're at the upper end, that would imply just a good margin performance for the year.

And then the second question is on Europe and the RIG in Q4. So that was quite weak, when actually across the rest of the business the RIG was pretty good. So can you talk about the RIG in Europe. Clearly, Europe was a bit later in terms of when the prices went up, and so you're seeing some of the reaction later. But maybe you could talk about some of the categories where it was weaker and whether there are any areas you feel you might have overpriced and are now needing to roll those back or put in extra promotions to stimulate the volumes.

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

Let me take a crack at the EPS -- underlying EPS expectations and then hand over to François for Europe. So clearly, you've seen us quite consistently perform in the range that we had outlined a number of years ago, and I don't see a change for that for '24, '25. When we put this together, obviously we're not targeting the very low end of things. It's a 6% to 10% range. and you saw us come in, in the upper half even in a challenging year like '23. So being now in mid-single digits, more towards the low end with around 4% on organic sales growth, even just assuming normal margin progression does not put at peril the expectation of underlying EPS growth in constant currency at the 6% to 10%. So we feel very confident there.

François Xavier Roger, Nestlé S.A., Chief Financial Officer:

On the European RIG, indeed, you said it. Pricing has certainly contributed to it. Pricing is coming always with a certain time delay in Europe given that we have limited windows to increase prices. As a consequence of that, at the beginning of '23 we did a level of pricing that was exceptionally high double digit, which had some impact for a few months on RIG. In addition to that, you touched on it as well, we had some specific issues and mainly with the water supply constraint that we had. Without the water supply constraint, our RIG would have been basically flat last year in Europe.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Next question is from Patrik Schwendimann at Zürcher Kantonalbank.

Questions on:	Restoring gross margin Pricing and RIG

Patrik Schwendimann, Zürcher Kantonalbank:

Firstly, regarding your target to restore gross margin back to historic levels. Last year, we have seen 45.9%, which is still far away from the year 2019, where you had 49.6%. As a best guess, would you expect a stronger gross margin increase in '24 versus the 70 basis points we have just reached in '23? That's my first question.

And second question regarding the pricing and RIG effect. First, regarding the RIG, you just have mentioned that RIG in quarter one could be below the RIG we have seen in the fourth quarter. You've mentioned that you'll see one trading day less. But on the other hand, you will have the benefit of the leap year. You will have the benefit of earlier Easter and later Chinese New Year. Can -- what you're thinking about that one? And then regarding pricing, I was still surprised to see a price effect of 5.2% in the fourth quarter. But it seems that with this 4% growth guidance for '24, it seems that you're expecting just maybe a price effect of 2%.

François Xavier Roger, Nestlé S.A., Chief Financial Officer:

On the gross margin, so we saw significant increase in H2 '23 over the same period of '22. and it will continue. We don't want to stay there obviously. We ambition to get our gross margin back to where it was between 49% and 50% over time. We don't want to give a precise time frame for it because the speed of recovery will be also impacted obviously by what we can do in terms of premiumization, in terms of pricing and efficiencies and so forth. But it can be impacted as well by the commodity cycle, in the same way as we have suffered a lot over the last two years from the -- an unfavorable commodity cycle and we could not catch up as quickly as what we receive. Wherever the commodity cycle goes in the next couple of years could impact the speed of recovery of our gross margin. But clearly, the direction of travel is there.

Pricing and RIG, so in Q1 2024, we don't want to be too technical. But there is one less trading day, which looks a little bit counterintuitive because it's a leap year. But the fact that Easter is significantly earlier, we are actually losing two trading days in the first quarter of 2024. And the pricing in Q4 was 5.4%. It will continue to go down, obviously. We do expect to have probably a little bit of pricing obviously in 2024, far less than in 2023. But there are less needs for pricing, obviously, but there will be some background pricing anyway coming from emerging market currency depreciation as we had in the past in the pre-pandemic period. For example, we have seen significant depreciation of currencies in countries like Argentina, like Nigeria, Egypt and so forth. Even if we cap the impact of this pricing for hyperinflationary countries, there will be still a little bit of it.

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

Patrik, let me just quickly build on that. So fully supportive of the points that François made. Those are very valuable. And on the first quarter, let's also keep in mind what we discussed a few minutes ago in response to Warren's question, let's not underestimate. This is one of those quarters where the SNAP effect in the U.S. would still apply before we fully start then to lap this in Q2 and Q3. And here again, I think this is a lesson learned from last year not to underestimate the importance of that on the U.S. consumer at the low end. And I think all of the food companies had to see this, and with our strong U.S. presence, we were no exception. And hence, that is also just one to keep on the list for Q1. But it was important for us to point out to you the soft expectations for Q1, but then I hope you also see that coupled with some pretty firm expectations for a recovery throughout the year then and especially towards the second half.

Luca Borlini, Nestlé S.A, Head of Investor Relations:
Next question is from Jon Cox at Kepler.

Questions on:	**Restructuring** **Margin expectations** **EU deforestation regulations**

Jon Cox, Kepler Cheuvreux:

Just a couple of questions on my side. There was a report that potentially you would come out with a big restructuring program ahead of these numbers. And I see, Mark, you keep talking about ensuring execution excellence and I think about continuous improvement. Should we expect maybe a step up in some of those below-the-line cost this year if you do start to maybe do a bit more in terms of restructuring? As part of that question, you have this goal for 17.5% to 18.5% margin in 2025. Just with moderate margin improvement, say, this year, it is quite a big step up to get to that halfway range in 2025. Just wondering if you have any thoughts on that.

And just the last question really on deforestation EU regulations to become effective at the end of this year. How confident are you that all of your cocoa and coffee and anything else will be -- you'll be able to show it is deforestation-free and thus avoid any fines from the EU effective the start of next year?

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

Jon, thank you. And let me share these responses with François, maybe take a first crack at some of them. So on the EU requirements, feeling very confident there and see ourselves pretty much at or near the head of our industry when it comes to progress here on insuring deforestation-free supply chain. So very confident there.

On the restructuring, I've seen those rumors a few weeks as well. And while we usually don't comment on rumors, I think we were very clear that there is no massive restructuring in the cards. I don't know where this came from. You know that this is not our style from the past. What we have stressed for many years, and we're not stepping away from that, is this steady improvement in our operations, lots of individual circumstances we're addressing, taking advantage of scale. We're not moving away from that. And as you saw from my prepared comments and some of the previous answers, we do give a lot of emphasis on operational excellence. And typically, that doesn't square so well with massive restructuring steps.

So obviously, you see that, and François can give you some more data, that the sum of these small steps then I think is slowly ramping up again and achieving pre-COVID levels, which bodes well for the future efficiency and margin development. And then also, we talked in previous quarters about a very important project that has delivered very nicely for us called Project Tasty, where we're trying to take benefit of any harmonization that we have in our recipes and achieving economies of scale which, of course, in a vast decentralized organization, you always have good opportunities there. But let me hand it to François to give you some more detail and also comment on your question regarding the margin expectation.

François Xavier Roger, Nestlé S.A., Chief Financial Officer:

Jon, if you look at the restructuring cost, we had about CHF 700 million per annum pre-COVID. We did freeze most of this program in the context of the pandemic, obviously. And if you look again in 2023, we were back to CHF 700 million. We need to adjust obviously our industrial base and our organization as well to the consumer needs, and so there is a permanent need for some restructuring but there is no big plan. There is just a sum of individual projects in order to adjust our organization to the needs of consumers.

You talked about the margin, the 17.5% to 18.5% by 2025. We are absolutely confident of getting there. We are, anyway, very close to the bottom end already. We cannot comment at this stage for '25 where we will be within the range. It will be impacted, as I said earlier, for example, at gross margin level by some external factors as well such as the commodity cycle. So obviously, if we are in a very favorable timing in terms of commodity cycle, we could get easily at a higher level. But if things turn the other way around, it could be different.

I mean, look at what has happened over the last 2 years. We had a massive input cost inflation which had an impact on our margin. So -- but beyond that, obviously, there are a lot of levers that we have, such as what we are mentioning, restructuring, premiumization mix, growth, market share and so forth. So we will use all levers available.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Next question is from Pascal Boll at Stifel.

Questions on:	**Resilience and competitiveness of Nestlé** **Nespresso margin**

Pascal Boll, Stifel

I'm a little bit surprised that you seem more cautious than some of your competitors. Also, you talk a lot about the low end in terms of price to consumer while we talked more about the premium side so far. Did it turn out that Nestlé is less resilient than actually expected? And maybe here also looking at your Slide 19, here one could argue that over the last two years you almost lost all the volumes that you grew during the pandemic. So that also, in my view, questions a little bit the competitiveness maybe also against the backdrop that you increased marketing spend considerably over the last 12 months. This would be my first question.

And then secondly, on coffee. Margin is down from Nespresso 120 basis points year-over-year, though it's an improvement from -- in H2 versus H2. Is this just a phasing issue? Or should we expect the margin being under pressure for longer as you spend more on the A&P.

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

Pascal, let me take a crack at the first one and then hand it to François for the Coffee question. So look, I think it's important when you look at our peers to also adjust for the different product profiles and geographic profiles. And so clearly, for example, what we've seen in this post-COVID and post inflation spike world, anyone who has exposure to personal care goods and household goods has seen a quicker recovery in the gross margin because inflation came down faster in bulk chemicals than it did in some of the basic food input commodities. Anyone who's been very exposed to the United States clearly saw that consumer hesitation in the food space in the second half, and I think there was little escaping from that.

The fact that we did quite well at the premium end of things is no contradiction to this because we also have, as you know, quite a few mainstream offerings. So I think specifically with our geographic profile, which of course does have a major footprint in the U.S. and with our exclusive focus on Food and Beverage, I do believe that our volume and RIG development overall, in light of this historic inflation spike, has been quite competitive.

On the marketing spend, it's pointing up now. As you know, with all of these forward-looking spend items, there is latency. So you put it in, and it doesn't mean the next day that organic sales grow ramps. But rather, this is something that needs to build up momentum. And hence, here again the continued increases and the focus that François pointed out on our Billionaire Brands in '23 and '24, I think, bodes well for the future growth development.

François Xavier Roger, Nestlé S.A., Chief Financial Officer:

On the Nespresso, we are, first of all, very pleased to see that Nespresso is back to a level of mid-single-digit growth in terms of organic growth. The margin was down, first of all, because this is one of the few categories where we have seen a further increase, which is material, on the commodity side with coffee bean prices continuing to increase for Robusta. Second, Nespresso is a business which has a strong cost base in Switzerland. As you could see, we had a very large appreciation of the Swiss francs last year, 7.8%. I mentioned in my opening remarks that it is more than 2x what we have experienced over the last couple of years. So during these years, with a strong appreciation of the Swiss franc, it does impact the margin at Nespresso. And third, we continue to invest for the development of Vertuo, which is doing very well, given that we still have a full patent protection. So it makes a lot of sense to do these investments now.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Next question is from Jeff Stent, Exane.

Question on:	**Why the change of CFO position**

Jeff Stent, Exane:

So one comment and one question both for François. The comment is, I'm not one usually to give compliments, François, as you know. But I think you've done a pretty phenomenal job as CFO of Nestlé. So I just like to say on behalf of everyone, thank you for that over the last, well, many years, I guess. And the question for you is, why is being CFO of Sanofi more attractive than being CFO of Nestlé?

François Xavier Roger, Nestlé S.A., Chief Financial Officer:

Thank you, Jeff, for your comment. I do appreciate. First of all, you need to understand my decision is not a negative decision towards Nestlé. I've been CFO for almost nine years, which is a relatively long tenure. I have a chance to do one last lap, I would say, in my career. And I want to embark in a new value creation project in a company that goes through a significant transformation, probably similar to what we have experienced over the last couple of years at Nestlé. So it's not a negative vision of Nestlé. It's more something different that I want to do after nine years at Nestlé. It's a personal choice as well.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Next question is from Victoria Petrova at Bank of America.

Questions on:	**Headwinds from VMS situation and Tail winds from SKU rationalization and easing capacity constraint** **Quarterly dividends**

Victoria Petrova, Bank of America:

My first question is on the very helpful quantification you provided on VMS disruption having a 0.5% impact on, if I remember correctly, 0.3 on RIG, 0.2 on pricing in Q3 and above 0.5% in Q4, If you could quantify it and also maybe quantify the headwind for the first half of 2024 on the Group, like-for-like. And if it's correct to think about it as a tailwind of around 0.5%, maybe

0.6% in the second half of the year for the Group. And if there was a chance to similarly think about SKU rationalization, is it a 1% like-for-like potential impact in 2023, kind of contributing to 9 months of 2024. And again thinking about capacity constraints in this context of tailwinds versus headwinds for the Group.

And my second question is very technical. It's a client ask. If you are considering to move to quarterly dividends similar to basically the rest of staples companies and Swiss companies?

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

So regarding the second question, we do for the moment intend to stick with annual dividends. But of course, we're watching the situation and patterns in other companies and countries very closely. Regarding the Nestlé Health Science business and vitamin, minerals and supplements, again, wanted to confirm the drag on the Group overall on real internal growth in OG of more than 0.5%. So pretty significant. And we are not in a position at this moment for the first quarter to provide a specific forecast. Again, we try to resolve the situation as quickly as possible. But in the spirit of now informing you of the full situation, it was important for us to caution you on the first quarter that this is still one that's impacted. And that, of course, compared to a first quarter last year that didn't see any such impacts. And then as from the second quarter, I think we will approach a turning point, and then we're expecting double-digit organic growth for Nestlé Health Science in the second half.

Regarding the discontinued SKUs, again on an annualized basis, and this is building on an earlier conference call, I believe it was Q3, we're talking about CHF 700 million of discontinued business that was essentially zero growth, zero profitability. And it's always very, very difficult. We discontinued this basically since the summer of '22. It's very difficult to net out any benefits here. But maybe one helpful indication is that our service levels, Group-wide, in '23 increased by 600 basis points. And so even if some of that would have occurred anyways because there was some sort easing in the supply chains, it shows you that taking off the distraction that came from this long tail of SKUs with little or no profitability, no growth, I think was helpful to boost the service levels in the business. And that, of course, will also benefit then as growth takes off and will be having lasting impacts on growth and profitability.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Next question is from David Hayes at Jefferies.

Questions on:	**VMS Integration issue and cost of recovery** **Water review**

David Hayes, Jefferies:

So two areas for me. One on the IT integration again and one on the Waters review. So on IT integration, sorry to come back to it again, but was there a risk at exco level that this change did have a big potential risk if it didn't wasn't done so well? And I guess, auditing or reviewing the process, was it done in a too rushed or poorly planned way, was that kind of the conclusion in retrospect? And I guess, very simplistically, I apologize because I'm sure it's much more complicated, but what we get asked a lot is why could you just not go back to the old system, correct the process of change and then go again effectively? Can you just be a little bit more detail as to why this is taking longer and deeper than you expected? And I guess finally, on the second half, will it be an additional cost to try and get yourself back on shelf and to recover market share loss that you might have suffered through the last 6 to 12 months by that stage?

And then on the Water review in terms of the compliance review that you talked about in the release, what's the sort of outcome of that potentially? And I guess in worst case terms, is it that you might have to close some plants to be like you did with Perrier with the modernization? Is it plant closures that could have to happen to kind of change some of the processes and approach to be more compliant?

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

So let me elaborate a bit more on the IT situation at Nestlé Health Science. And what you have to keep in mind, we have bought over the years a number of VMS companies from private equity ownership or founder-based ownership situations. It was always the plan to put this together to have more scale and to benefit from synergies and also simply to upgrade from what we perceived to be very outdated systems. What happened here is we, in hindsight, left it in the hands of a decentralized team that is not part of the mainstream Nestlé IT team that did not fully envisage the complexity of this. Do keep in mind that the Nestlé Health Science VMS business tends to have a larger number of SKUs than you would have in your mainstay Food and Beverage business. One of the features of the VMS business is that you do have a fairly large number of SKUs. Just look at the vitamin shelf at your local drugstore and you see what I'm talking about. So what happened is that some of these old systems clearly got dismantled in the hope that the new system would work, and then it turned out from the third quarter that it was not up to snuff. So again, very regrettable. I think we have now turned it into very capable hands, have given a lot more operational focus. And hence, I think we have a much better visibility on the full extent of the issues but also the integration opportunities and the synergies that come from it going forward.

When it comes to getting back on shelf, I don't see it so much as a significant cost but something that also doesn't happen at the snap of your fingers. So clearly with retailers, you now have to work patiently to gain back that space. And that calls out then for a bit of a recovery period. But I'm confident due to the strength of these brand names, and I think this is where -- what comes into the picture is the fact that we do have industry-leading brands in VMS. I do believe that essentially, we'll be able to recover that.

Regarding Waters, it was important for us to flag this issue to all of our investors. It's still very early days so I can't give you more complete estimate here. We noticed that a lot of the coverage over the last few weeks was focused on France and Switzerland, and we felt as part of good transparency practice that we flag it to you early. Our primary responsibility is to talk now to regulators and relevant authorities in some of the markets concerned, and we'll update you as we go through that process. So too early to tell right now.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

Next question is from Tom Sykes at Deutsche Bank.

Questions on:	**Trade Spend** **U.S. PetCare**

Tom Sykes, Deutsche Bank:

Firstly, you've given the marketing spend as a percentage of sales. Could you maybe talk about what's happened to trade spend in relation to that, and also obviously, spend through sort of retailer websites and just whether that is a benefit or not to the gross margin in H2 year-on-year? And then I suppose, given that you've got a mix benefit to the gross margin as well, are you actually at the moment yet seeing a gross margin benefit from price realizations over costs?

And then just you didn't necessarily give much detail on the earlier question of U.S. PetCare. And maybe you could just talk about any headwinds you had to the margin in H2. Is that just A&P or capacity? And maybe just make any comments on the Purina TikTok issue, whether that's impacted demand at all, please?

François-Xavier Roger, Nestlé S.A., Chief Financial Officer:

I'll take the first question. On the marketing spend, so we covered that already, we increased it. And I can confirm as well that we did increase in 2023 our trade spend both in absolute value and as a percentage of sales. It has been the case a year before as well. In 2023, contrary to the previous year, we had more pricing than input cost inflation. But we were catching up to a certain extent, And it is largely related to what I said about Europe earlier, where pricing came with a certain time delay, more specifically in Europe, but it came as well in other geographies because we received so much cost in '22 and at the beginning of 2023 that we could not necessarily catch up as quickly as whatever we received.

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

You're absolutely right in calling out PetCare. You're right, Warren had raised that question earlier and I had not deliberately avoided it. It's just that we were so focused on the SNAP debate. And since your usual SNAP consumer doesn't consume a lot of Pet food, I somehow didn't get into it.

So clearly on PetCare, it is interesting that when I talked about that weakness in the second half, it was not impacted by the SNAP situation because when households can afford to keep pets, then obviously, quite often, that index is less than with being a SNAP household. And so we saw continued strong performance in the second half. We also entered the year very strongly. As we told you in the past, we're not giving assurances going forward that this will continue to be a double-digit grower. I think this would be overdone. But it will definitely continue to be one of our high-growth categories, and we see no change to that.

Regarding the TikTok situation in January, there was a very short-lived spiking up and it came down. And so we have not seen any material impact from that. I think we made it very clear that some of these allegations there were completely groundless, and I think we very staunchly addressed that. But I think this is one of these situations where, in this new social media world, you just have to live with that. Occasionally, situations like that do spike up. All the more, it's important to say clearly what the facts are, which I think Purina did, and the situation has already calmed down.

Luca Borlini, Nestlé S.A, Head of Investor Relations:

We thank you very much for the interest in Nestlé. And clearly, Mark here is going to do some concluding remarks as well. Please go ahead, Mark.

End of Q&A session

Closing remarks

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

Yes. Thank you, Luca. So I wanted to build upon the comment that Jeff made earlier, and I wanted to thank François very warmly the almost nine years of very strong financial leadership and financial stewardship as CFO of the company. I know I had commented on this earlier in other conference calls but wanted to reiterate it here.

We will have the handover from François to Anna Manz effective March 1st. I wanted to thank François profoundly for his flexibility in this transition period. That took a little longer than originally estimated because this was now the first date that Anna is available. So she will join March 1. And I very much appreciated François' service during this transition time and really wanted to thank him from the bottom of my heart, all the very best for that new role at Sanofi. So I wanted to mention that.

In terms of closing the call, as you saw there's also, in addition to some of the areas where we understand your hesitation and concerns, there's lots of positive developments underway, and I hope you're not losing sight of that. We're clearly committed to putting the execution aspect and operational efficiency aspect front, left and center and delivering a '24 that makes us see past some of the current issues that slowed us down in '23. I hope you're with us and you give us the benefit of the doubt as we put those in place and then realize the significant strategic opportunity that we see for the company ahead.

So bear with us, and then we look forward to updating you next quarter.

End of Transcript