Nestlé reports half-year results for 2018

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BY NESTLÉ

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- Continued progress with the Nestlé value creation model and on track to meet our full-year guidance, supported by increased momentum in the United States and China, as well as in infant nutrition.

- Organic growth of 2.8%, with 2.5% real internal growth (RIG) and pricing of 0.3%.

- Total sales increased by 2.3% to CHF 43.9 billion (6M-2017: CHF 42.9 billion). Acquisitions and divestments netted to zero. Foreign exchange reduced sales by 0.5%.

- Underlying trading operating profit margin was 16.1%, an increase of 20 basis points in constant currency and on a reported basis.

- Trading operating profit margin was 14.6%, a decrease of 50 basis points on a reported basis due to higher restructuring costs and net other trading items.

- Earnings per share increased by 21.4% to CHF 1.92 on a reported basis. Underlying earnings per share increased by 9.2% in constant currency and by 10.4% to CHF 1.86 on a reported basis.

- Free cash flow increased by 52%, from CHF 1.9 billion to CHF 2.9 billion.

- Full-year guidance for 2018 confirmed, with organic sales growth expectation narrowed to around 3%; underlying trading operating profit margin improvement in line with our 2020 target. Restructuring costs1 are expected at around CHF 700 million. Underlying earnings per share in constant currency and capital efficiency are expected to increase.

Mark Schneider, Nestlé CEO said:"Our first half results confirmed that our strategic initiatives and rigorous execution are clearly paying off. Nestlé has maintained the encouraging organic revenue growth momentum we saw at the beginning of the year. In particular, the United States and China markets showed a meaningful improvement. We were also pleased by the enhanced organic growth in our core infant nutrition category.

Our margin development is fully consistent with our 2020 target. We are creating value by pursuing growth and profitability in a balanced manner. In line with this approach, we have accelerated our product innovation efforts to drive future growth and initiated significant cost reduction efforts, in particular in Zone EMENA and at our Corporate Center.

As we look towards the second half of 2018, we expect further improvement in our organic revenue growth. Margin improvement is expected to accelerate with further benefits from our efficiency programs and more favorable commodity pricing."

Total Group Zone AMS Zone EMENA Zone AOA Nestlé Waters Other Businesses Sales 6M-2018 (CHF m) 43'920 14'153 9'303 10'634 3'967 5'863 Sales 6M-2017 (CHF m)* 42'926 14'689 8'741 10'273 3'988 5'235 Real internal growth (RIG) 2.5% 1.0% 3.1% 3.7% -0.7% 5.4% Pricing 0.3% 0.0% -0.6% 0.7% 1.7% 0.3% Organic growth 2.8% 1.0% 2.5% 4.4% 1.0% 5.7% Net M&A 0.0% -1.0% -0.2% -0.1% -0.8% 4.9% Foreign exchange -0.5% -3.6% 4.1% -0.8% -0.7% 1.4% Reported sales growth 2.3% -3.6% 6.4% 3.5% -0.5% 12.0% 6M-2018 Underlying TOP Margin 16.1% 18.9% 22.9% 10.0% 16.4% 6M-2017 Underlying TOP Margin 15.9% 18.6% 18.2% 23.1% 12.7% 14.8%

*2017 figures have been restated to reflect:

- the implementation of IFRS 15 - Revenue from contract with customers, IFRS 16 - Leases and IFRIC 23 - Uncertainty over income tax treatments as well as other accounting policies and presentation changes; and

- the change in organization of infant nutrition business. Effective January 1, 2018 Nestlé Nutrition is reported in the Zones as a regionally managed business, with Gerber Life Insurance business reported in Other Businesses.

Organic growth of 2.8% in the first half was in line with our expectations and within our guidance for 2018. RIG was 2.5% and remained at the high end of the food and beverage industry. Pricing contributed 0.3%, reflecting the challenging environment in Europe and lower inflation in some emerging markets. Organic growth in the first half improved materially in North America and China. All categories reported positive growth, led by coffee, petcare, and Nestlé Health Science. Infant nutrition sales growth accelerated, with a broad-based improvement across all geographies, helped by recent product launches, including HMOs (Human Milk Oligosaccharides) infant formula.

Acquisitions and divestments had a net neutral impact on reported sales, with the acquisition of Atrium Innovations and other deals being offset by divestments, mainly U.S. confectionery. Foreign exchange had a negative impact of 0.5%. Total sales increased by 2.3% on a reported basis to CHF 43.9 billion.

Underlying Trading Operating Profit

Underlying trading operating profit increased by 3.5% to CHF 7.1 billion. The underlying trading operating profit margin increased by 20 basis points in constant currency, and by 20 basis points on a reported basis to 16.1%.

Margin expansion was supported by operational efficiencies and successful execution of ongoing restructuring initiatives. These cost savings were partially offset by higher commodity and packaging costs of CHF 90 million, amounting to a 20 basis point headwind. Distribution costs also increased.

The underlying trading operating profit margin is expected to improve further in the second half of the year, driven by further benefits from efficiency programs and more favorable commodity prices.

Restructuring expenditure and net other trading items increased by CHF 323 million to CHF 672 million. As a consequence, trading operating profit decreased by 1.3% to CHF 6.4 billion and the trading operating profit margin decreased by 50 basis points on a reported basis to 14.6%.

Net Profit and Earnings Per Share

Net profit increased by 19.0% to CHF 5.8 billion and earnings per share increased by 21.4% to CHF 1.92. The increase was mainly the result of income from the disposal of businesses, lower taxes and improved operating performance.

Underlying earnings per share increased by 9.2% in constant currency and by 10.4% on a reported basis to CHF 1.86. Nestlé's share buyback program contributed 1.5% to the underlying earnings per share increase, net of finance costs.

Free cash flow increased by 52%, from CHF 1.9 billion to CHF 2.9 billion. This was mainly driven by an improvement in working capital, lower taxes and increased operating profit.

Nestlé has made further progress to actively evolve the portfolio towards high-growth, high-margin categories and brands.

On May 7, 2018, an agreement was announced granting Nestlé the perpetual rights to market Starbucks consumer and foodservice products globally, outside of Starbucks coffee shops. As part of this transaction, Starbucks will receive an up-front cash payment of USD 7.15 billion for a business which generated annual sales of USD 2 billion. The agreement is now expected to close at the end of August 2018.

The process of exploring strategic options for the Gerber Life Insurance business is on track with completion expected in 2018.

- 1.0% organic growth: 1.0% RIG; 0.0% pricing.

- North America saw positive organic growth in the first half, with increased momentum in the United States. Both RIG and pricing were positive.

- Latin America reported positive RIG and organic growth. Pricing was negative but increased significantly in the second quarter.

- The underlying trading operating profit margin increased by 30 basis points to 18.9%.

Sales 6M-2018 Sales 6M-2017 RIG Pricing Organic growth UTOP 6M-2018 UTOP 6M-2017 Margin 6M-2018 Margin 6M-2017 Zone AMS CHF 14.2 bn CHF 14.7 bn 1.0% 0.0% 1.0% CHF 2.7 bn 18.9% 18.6%

Organic growth was 1.0%, driven entirely by RIG with flat pricing. Net divestments reduced sales by 1.0%, largely related to the divestment of the U.S. confectionery business. Foreign exchange had a negative impact on sales of 3.6%. Reported sales in Zone AMS decreased by 3.6% to CHF 14.2 billion.

North America saw positive organic growth and pricing in the first half. RIG improved materially in the United States and Canada versus last year. There was solid growth in Purina petcare, Coffee-mate creamers and coffee, particularly in e-commerce. Hot Pockets and pizza, particularly DiGiorno, also made positive contributions.

Latin America delivered positive organic growth, but slowed compared to the prior year. In Brazil a nationwide strike by truckers in May disrupted operations and distribution and reduced Zone growth by around 80 basis points in the second quarter. Mexico maintained mid single-digit organic growth, with strong support by Nescafé. There was also good momentum in other parts of Latin America.

The Zone's underlying trading operating profit margin improved by 30 basis points, as ongoing restructuring projects reduced structural costs. Operational efficiency savings more than offset cost increases from commodity and freight inflation, as well as foreign exchange.

Zone Europe, Middle-East and North Africa (EMENA)

- 2.5% organic growth: 3.1% RIG, -0.6% pricing.

- Western Europe returned to positive organic growth in the second quarter. RIG accelerated, offsetting negative pricing.

- Central and Eastern Europe posted mid single-digit growth, with strong RIG. Pricing was negative.

- Middle East and North Africa saw mid single-digit organic growth, both RIG and pricing were positive.

- The underlying trading operating profit margin grew by 70 basis points to 18.9%.

Sales 6M-2018 Sales 6M-2017 RIG Pricing Organic growth UTOP 6M-2018 UTOP 6M-2017 Margin 6M-2018 Margin 6M-2017 Zone EMENA CHF 9.3 bn CHF 8.7 bn 3.1% -0.6% 2.5% CHF 1.8 bn CHF 1.6 bn

18.9% 18.2%

Organic growth increased to 2.5%. RIG was strong at 3.1% following an acceleration in the second quarter. This more than offset negative pricing. Net divestments reduced sales by 0.2%. Foreign exchange had a positive impact of 4.1%. Reported sales increased by 6.4% to CHF 9.3 billion.

Zone EMENA saw positive growth across most geographies and categories. Petcare, coffee and nutrition were the main contributors. Petcare maintained strong momentum, based on the success of Felix in Russia. Coffee also saw good growth with stronger RIG, supported by the relaunch of Nescafé Gold. Nutrition and dairy performed well in Central and Eastern Europe, and the Middle East and North Africa. Confectionery saw improved growth, particularly in the United Kingdom. New product launches included KitKat Ruby and MilkyBar Wowsomes, a new chocolate bar with 30% less sugar based on Nestlé's breakthrough natural structured sugar.

The Zone's underlying trading operating profit margin increased by 70 basis points, supported by operational efficiencies, structural cost savings and lower commodity costs. Strong RIG also led to better capacity utilization and operating leverage.

Zone Asia, Oceania and sub-Saharan Africa (AOA)

- 4.4% organic growth: 3.7% RIG; 0.7% pricing.

- China saw mid single-digit growth, improving versus last year. RIG and pricing were both positive.

- South-East Asia posted mid single-digit growth with a balanced contribution from RIG and pricing.

- South Asia saw mid single-digit organic growth, with good RIG and flat pricing.

- Sub-Saharan Africa posted high single-digit growth, with solid RIG and positive pricing.

- Japan and Oceania markets were flat, with robust RIG offset by negative pricing.

- The underlying trading operating profit margin decreased by 20 basis points to 22.9%.

Sales 6M-2018 Sales 6M-2017 RIG Pricing Organic growth UTOP 6M-2018 UTOP 6M-2017 Margin 6M-2018 Margin 6M-2017 Zone AOA CHF 10.6 bn CHF 10.3 bn 3.7% 0.7% 4.4% CHF 2.4 bn 22.9% 23.1%

Organic growth was 4.4%, with RIG of 3.7% and pricing of 0.7%. Net divestments and foreign exchange reduced sales by 0.1% and 0.8%, respectively. Reported sales increased by 3.5% to CHF 10.6 billion.

Zone AOA delivered mid single-digit growth, with positive contributions from most geographies and categories. First-half organic growth in China accelerated, with strong momentum in coffee, culinary, and in e-commerce. South-East Asia delivered solid results with strong contributions from Vietnam and Indonesia, especially Milo. Mid single-digit growth in South Asia was supported by innovation and renovation, particularly for Maggi, KitKat and Nescafé. Sub-Saharan Africa saw high single-digit growth, even as inflation-driven pricing slowed versus last year. Japan and Oceania were flat, with positive RIG offset by negative pricing in a deflationary environment. Nutrition saw improved sales momentum in most markets.

The Zone’s underlying trading operating profit margin remained strong and highly accretive to the group. The decrease of 20 basis points was due to the phasing of certain cost items.

- 1.0% organic growth: -0.7% RIG; 1.7% pricing.

- North America saw positive growth. Pricing increased and RIG improved in the second quarter, driven by the launch of the sparkling range.

- Europe had slightly negative growth, reflecting weak RIG and slightly positive pricing.

- Emerging markets were flat, impacted by negative organic sales development in China and Brazil.

- The underlying trading operating profit margin decreased by 270 basis points to 10.0% following higher commodity and distribution costs.

Sales 6M-2018 Sales 6M-2017 RIG Pricing Organic growth UTOP 6M-

2018 UTOP 6M-2017 Margin 6M-2018 Margin 6M-2017 Nestlé Waters CHF 4.0 bn -0.7% 1.7% 1.0% CHF 0.4 bn CHF 0.5 bn 10.0% 12.7%

Organic growth for the first half was 1.0% following a sequential improvement in the second quarter, driven largely by North America. RIG declined by 0.7%, mainly due to Europe and some emerging markets. Pricing increased to 1.7%. Net divestments and foreign exchange reduced reported sales by 0.8% and 0.7%, respectively. Reported sales in Nestlé Waters decreased by 0.5% to CHF 4.0 billion.

In the United States, price increases were implemented in June to reflect significant inflation in packaging and distribution costs. The launch of the sparkling range under our regional spring water brands (Poland Spring, Deer Park, Zephyrhills, Ozarka, Ice Mountain and Arrowhead) made a positive contribution to our growth. Europe saw slightly negative organic growth, reflecting difficult comparables. Emerging markets were flat, impacted by negative sales development in China and the pending divestment of the business in Brazil. The international premium brands, S.Pellegrino and Perrier, continued to deliver good growth.

The underlying trading operating profit margin decreased by 270 basis points as higher costs related to PET packaging and distribution were not yet compensated by price increases.

- 5.7% organic growth: 5.4% RIG; 0.3% pricing.

- Nespresso maintained mid single-digit organic growth, with strong momentum in North America and Asia.

- Nestlé Health Science delivered mid single-digit organic growth, with strong RIG.

- Nestlé Skin Health saw mid single-digit growth, with positive RIG but negative pricing.

- The underlying trading operating profit margin increased by 160 basis points to 16.4%.

Sales 6M-2018 Sales 6M-2017 RIG Pricing Organic growth UTOP 6M-2018 UTOP 6M-2017 Margin 6M-2018 Margin 6M-2017 Other Businesses CHF 5.9 bn CHF 5.2 bn 5.4% 0.3% 5.7% CHF 1.0 bn CHF

0.8 bn 16.4% 14.8%

Organic growth of 5.7% was based on strong RIG of 5.4% and pricing of 0.3%. Net acquisitions increased reported sales by 4.9%, mainly due to the consolidation of Atrium Innovations into Nestlé Health Science from March 2018. Foreign exchange also had a positive 1.4% impact. Reported sales in Other Businesses increased by 12.0% to CHF 5.9 billion.

Nespresso maintained mid single-digit growth. The Americas and Asia saw strong growth and Western Europe was resilient in a context of increasing competitive pressure. Growth was supported by the continued progress of the Vertuo system roll-out and boutique expansion. Nestlé Health Science saw mid single-digit growth, with good growth in Medical Nutrition. The acquisition of Atrium Innovations provided additional momentum in the second quarter, with strong demand for its non-GMO, organic and natural product offerings. Nestlé Skin Health had mid single-digit growth but pricing was negative.

The underlying trading operating profit margin increased by 160 basis points. This was mainly driven by an improvement in Nestlé Skin Health and Nespresso.

Full-year guidance for 2018 confirmed, with organic sales growth expectation narrowed to around 3%; underlying trading operating profit margin improvement in line with our 2020 target. Restructuring costs1 are expected at around CHF 700 million. Underlying earnings per share in constant currency and capital efficiency are expected to increase.

1Not including impairment of fixed assets, litigation and onerous contracts

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- the change in organization of infant nutrition business. Effective January 1, 2018 Nestlé Nutrition is reported in the Zones as a regionally managed business, with Gerber Life Insurance business reported in Other Businesses.

Half-year sales and underlying trading operating profit (UTOP) overview by operating segment

Total Group Zone AMS Zone EMENA Zone AOA Nestlé Waters Other Businesses Sales 6M-2018 (CHF m) 43'920 14'153 9'303 10'634 3'967 5'863 Sales 6M-2017 (CHF m)* 42'926 14'689 8'741 10'273 3'988 5'235 RIG 2.5% 1.0% 3.1% 3.7% -0.7% 5.4% Pricing 0.3% 0.0% -0.6% 0.7% 1.7% 0.3% Organic growth 2.8% 1.0% 2.5% 4.4% 1.0% 5.7% Net M&A 0.0% -1.0% -0.2% -0.1% -0.8% 4.9% Foreign exchange -0.5% -3.6% 4.1% -0.8% -0.7% 1.4% Reported sales growth 2.3% -3.6% 6.4% 3.5% -0.5% 12.0% 6M-2018 Underlying TOP (CHF m) 7'063 2'680 1'758 2'435 398 960 6M-2017 Underlying TOP (CHF m)* 6'821 2'734 1'593 2'377 505 777 6M-2018 Underlying TOP Margin 16.1% 18.9% 22.9% 10.0% 16.4% 6M-2017 Underlying TOP Margin* 15.9% 18.6% 18.2% 23.1% 12.7% 14.8%

Half-year sales and underlying trading operating profit (UTOP) overview by product

Total Group Powdered & liquid beverages Water Milk products & ice cream Nutrition & Health Science Prepared dishes & cooking aids Confection-ery Petcare Sales 6M-2018 (CHF m) 43'920 10'265 3'729 6'385 7'912 5'819 3'634 6'176 Sales 6M-2017 (CHF m)* 42'926 9'805 3'734 6'492 7'471 5'724 3'700 6'000 RIG 2.5% 2.8% -0.4% 0.8% 4.5% 1.4% 4.1% 3.2% Pricing 0.3% 0.6% 1.7% 0.2% -0.4% 0.1% -1.3% 0.6% Organic growth 2.8% 3.4% 1.3% 1.0% 4.1% 1.5% 2.8% 3.8% 6M-2018 Underlying TOP (CHF m) 7'063 2'394 352 1'128 1'603 1'010 449 1'295 6M-2017 Underlying TOP (CHF m)* 6'821 2'256 486 1'172 1'477 959 388 1'248 6M-2018 Underlying TOP Margin 16.1% 23.3% 9.4% 17.7% 20.3% 17.4% 12.4% 21.0% 6M-2017 Underlying TOP Margin* 15.9% 23.0% 13.0% 18.1% 19.8% 16.8% 10.5% 20.8%

Media: Christoph Meier Tel.: +41 21 924 22 00

Investors: Luca Borlini Tel.: +41 21 924 38 20

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