



FOR USE BY INSTITUTIONAL INVESTORS ONLY. NOT FOR USE WITH THE GENERAL PUBLIC.

ON THE ROAD IN SPAIN

Nestlé Investor Seminar

FIRST PUBLISHED FEBRUARY 2023



Companies across sectors and geographies face tough economic conditions but things are arguably most challenging for those in the consumer sector. From an investment standpoint, a difficult environment isn't all bad news, indeed it can separate the leaders from the laggards. Not only can true corporate leaders cope with uncertainty in the short term, but they can also maintain investment to secure long-term growth. Through our analysis we seek to identify those leaders. To do so, we spend time looking back at how a company has performed over time through all sorts of difficult junctures, as well as looking forward assessing how a company might develop and grow over time. Two days spent with Nestlé towards the end of last year added to our confidence in the company over the short and long term.



PAUL LOUDON
Investment Manager

In November, Investment Manager Paul Loudon travelled to Spain for Nestlé's 2022 Investment Seminar which took place over two days in Barcelona. Just as Walter Scott has successfully contended with challenging periods in equity markets over its near 40-year history so Nestlé has navigated tremendous change since it was founded in 1866. And just as Walter Scott's investment philosophy is rooted in the compounding of returns over time, so one of the key messages from CEO Mark Schneider in Barcelona was of management's focus on compounding.

“Nestlé has navigated tremendous change since it was founded in 1866”

Over recent years, Nestlé has commendably dealt with the many of challenges stemming from Covid-19 as well as the enduring supply chain issues and more recent inflationary pressures. In Mr Schneider's words, they did what they needed to do over the short term to uphold their financial model. That sharpened focus has not only dealt with those immediate pressures but should stand the company in good stead for the future. In recent years 20% of the portfolio has been rotated and growth has accelerated across Coffee, Petcare and Nestlé Health Science (NHS).

Premiumisation in both coffee and pet food are now entrenched trends that continue apace whilst the company's NHS division will continue to benefit from various secular tailwinds including ageing demographics, health & wellness, preventative vs curative medicine as well as increasing chronic disease and allergy incidence. Nestlé's ability to capitalise on these trends is being enhanced by faster product development and innovation cycles whilst the company also makes better use of its unmatched scale to leverage powerful digital tools.

Walter Scott's consistently applied research framework is structured to identify long-term growth drivers as well as financial and strategic resilience. Day-to-day the team cross reference news and events against the agreed investment thesis to ensure that a company remains on track to meet and fulfil that growth potential. Again, Mr Schneider's words echoed our approach. He outlined his belief that Nestlé is well-positioned to capture growth grounded in fundamental, long-term trends but he also stressed that execution and speed will be more important than ever over the course of the 2020s. In his words, however wonderful the strategy, it is irrelevant if you don't execute on time.

“Time to market has shortened by an impressive 60% since 2016”

That focus on execution was expanded upon in a presentation by the company's CTO, Stefan Palzer who heads up Innovation, Technology and R&D. He recapped on steps taken over the past five years to both shorten time to market and differentiate offerings, whilst keeping costs flat. Time to market has shortened by an impressive 60% since 2016 with the average project duration down more than half. Despite the pandemic, new launches have continued to grow, patents have increased 90% since 2019 and 30% of growth is coming from products launched in the last three years.

Technology has not only played an important role in execution and cost control, it is also a critical part of investment in future growth. AI and data-processing tools are enabling scientific discoveries whilst also helping to manage complexities. Products need to taste great, be effective but they also need to be sustainable, affordable and safe.

Alternative proteins, coffee and systems, early life and medical nutrition and science-based pet nutrition were all listed as target growth areas and technological advancement is key across these areas. Proprietary ingredients were one cited area of advancement with one example being porridges based on spent grain that offers nutritional benefits alongside 20% lower costs. There have also been breakthrough technologies in sugar reduction where through fermentation, intrinsic sugars can be transformed into prebiotic fibres altering the sugar and the health profile with calories down 25% and very little impact on taste. Plant-based innovation also remains an area of focus with the launch of 100 plant-based innovations over the past two years across a wide range of brands, formats and geographies.

“Nestlé's 31 billionaire brands must continue to be rejuvenated”

The company's Global CMO, Aude Gandon reminded us that, like so many other industries, food and beverage is increasingly one that centres on technology and data; social media-prompted consumption, pervasive online shopping alongside ever-increasing demands for convenience and elevated experience. The food and beverage industry will rely on new business models such as social commerce and new monetisation models as retailers commercialise their online real estate. The world has moved from omni-channel retail to channel-less retail, an ecosystem within which consumers can switch effortlessly between channels. Nestlé must build its own ecosystem to capture data, use that data and access growth across all channels. With expectation that somewhere in the region of 25% of sales will be online and 75% of marketing spend will be online, Nestlé's 31 billionaire brands must

continue to be rejuvenated and aligned with vast quantities of consumer data.

Whilst some might question the value of investor and capital markets days, to us, the chance to hear from a CEO, down through the executive ranks, to brand and regional heads, to factory general managers and local sales leaders provides important insight; evidence of a stated strategy being applied and of culture. Similarly, the event could have been viewed online but just as important as the presentations were the

less formal breaks. Conversations with the Head of Purina in Europe, Spain's Head of Confectionary, the global head of the Coffee division, Nespresso's CEO and the Global Head of IT amongst many others were an important part of the two days.

LOOKING FORWARD

In his address in Barcelona, Nestlé's CEO Mark Schneider shared his view that this will be a decade of higher highs and lower lows; the best and worst of times. In his view, such an

environment demands both resilience and agility. From our perspective, it also requires both the financial strength, strategic vision and leadership to maintain innovation and investment.

If you are reading this note over a cup of coffee, reflect on the statistic that one in five cups of coffee drunk globally is a Nestlé coffee. That data point rests upon a culture of leadership, investment and innovation since 1886, one that, we believe, continues today.

IMPORTANT INFORMATION

This article is provided for general information only and should not be construed as investment advice or a recommendation. This information does not represent and must not be construed as an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products. This document may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such an offer or solicitation is unlawful or not authorised.

STOCK EXAMPLES

The information provided in this article relating to stock examples should not be considered a recommendation to buy or sell any particular security. Any examples discussed are given in the context of the theme being explored.