THIRD POINT

#NestléNOW

JULY 2018

Nestlé

NESTLÉ NOT LIVING UP TO ITS POTENTIAL

- Nestlé has been **too slow** to react to significant changes across the consumer products industry given structural issues around strategy, portfolio, and organization, and thus operates far below its potential
- CEO Mark Schneider has acknowledged the need for improvement, but **pace and magnitude of change seem insufficient** and reflect Nestlé's staid, sometimes sclerotic, culture and tendency toward incremental improvements
- Nestlé is **losing market share** across its categories to both smaller, more nimble competitors and larger, more focused competitors
- As a result, financial **performance has been weak** and shares have underperformed

THIRD POINT, ONE OF NESTLÉ'S LARGEST INVESTORS, OFFERS THIS ROADMAP TO ENSURE NESTLÉ MAINTAINS ITS COMPETITIVE POSITION AND ACHIEVES LONG-TERM SUCCESS

Source: Third Point LLC

TO REVERSE UNDERPERFORMANCE, NESTLÉ MUST ADOPT A #NestléNOW MINDSET

	Assessment	Recommendation
STRATEGY	Strategy vaguely defined and raises questions about focus and capital allocation	**BE SHARPER.** Clarify total company and category-specific strategies, improve transparency, add food & beverage expertise to Board
PORTFOLIO	Management not moving quickly enough to exit underperforming and non-strategic businesses	**BE BOLDER.** Divest as much as 15% of sales and financial stake in L'Oréal. Recycle proceeds into M&A / buybacks to better align portfolio around key categories
ORGANIZATION	Insular, complacent, and bureaucratic organization is overly complex, moves glacially, and misses too many trends	**BE FASTER.** Simplify organizational structure and split internally into three divisions (organized around categories) to improve focus, agility, and accountability

Note: Nestlé management highlighted coffee, pet, nutrition, and water as key categories. Source: Third Point LLC; Nestlé company materials

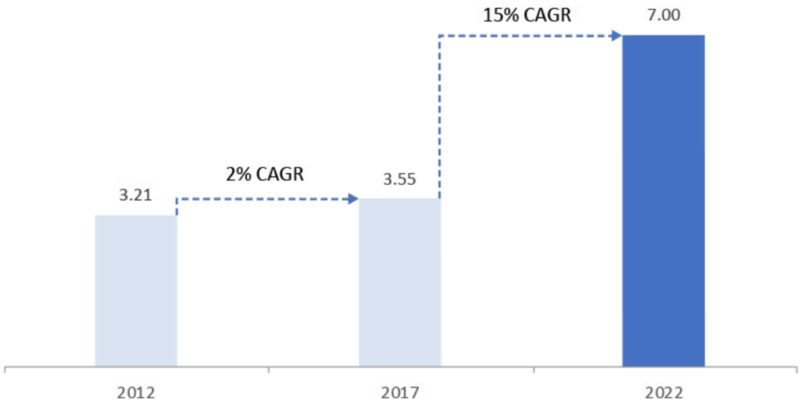
PROPOSED CHANGES CAN MATERIALLY IMPROVE THE LONG-TERM, OPERATING AND FINANCIAL TRAJECTORY OF THE BUSINESS

Stronger and more sustainable growth

- Faster and more responsive organization with more focused strategy
- Better organic sales growth from greater exposure to higher growth key categories
- Higher margins from announced productivity savings and improved category mix
- Proceeds from divestitures recycled into acquisitions and share repurchase

Potential to double EPS over the next 5 years

Nestlé earnings per share, CHF



Note: Historical financials updated for restatements where applicable. Source: Third Point LLC; Nestlé company materials

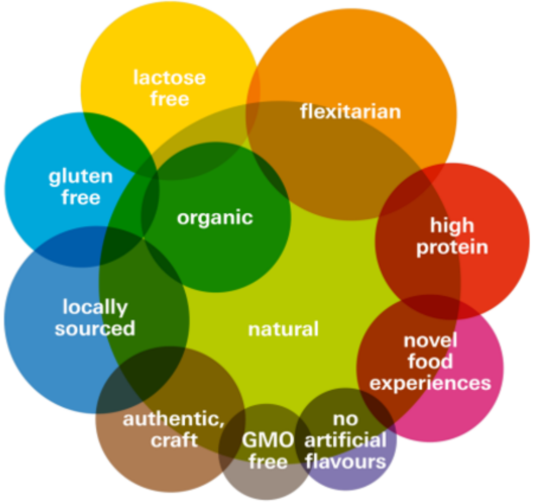
LARGEST GLOBAL FOOD & BEVERAGE COMPANY

- Focused on "nutrition, health and wellness"
- Nearly CHF 90 billion in sales with about half from growing categories like coffee, pet, nutrition, and water
- More than 30 brands generate over CHF 1 billion in sales
- Balanced geographic exposure with 43% of sales from higher growth emerging markets

Source: Third Point LLC; Nestlé company materials

CONSUMER PRODUCTS INDUSTRY HAS CHANGED

Consumers increasingly prefer variety of new product attributes



Shopping habits have also evolved

- Shift to eCommerce lowering barriers to entry and driving influx of new competition
- Rise of club stores and hard discounters accelerating shift to private label products

Source: Third Point LLC; Nestlé company materials; Google Images

NESTLÉ HAS BEEN LATE TO PARTICIPATE IN KEY TRENDS DRIVING GROWTH IN THE FOOD AND BEVERAGE INDUSTRY

- Missed large trends that drove growth across food & beverage, e.g. natural pet food, organic baby food, flavored sparkling water, etc.
- Slow to renovate legacy brands with more modern attributes
- Failed to leverage enormous R&D budget with successful innovation at scale
- Not enough acquisitions of fast-moving smaller brands to better participate in growth

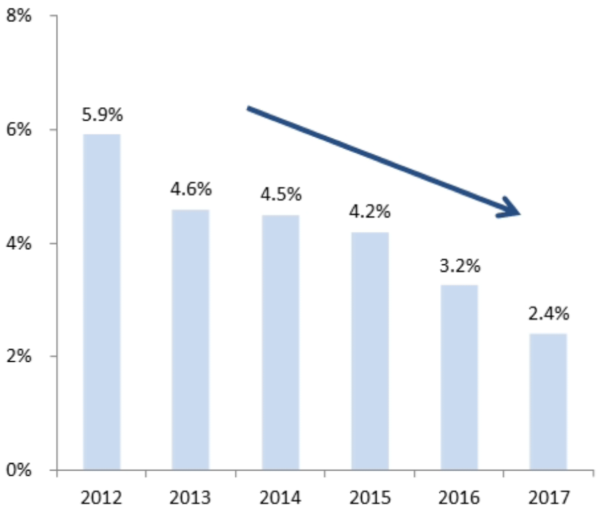
NEWER BRANDS TOOK SHARE, WHILE NESTLÉ HAS FALLEN BEHIND

Source: Third Point LLC; Google Images

SLOW RESPONSE TO INDUSTRY CHANGES HAS LED TO WEAK FINANCIAL PERFORMANCE

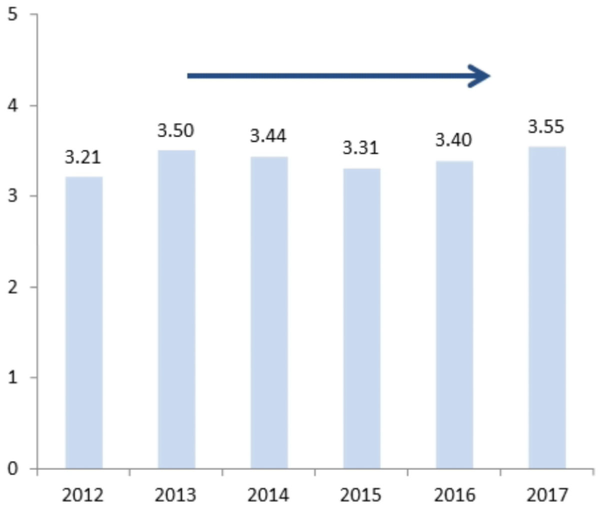
Organic sales growth has slowed

Nestlé organic sales, % growth



Earnings growth stalled

Nestlé earnings per share, CHF

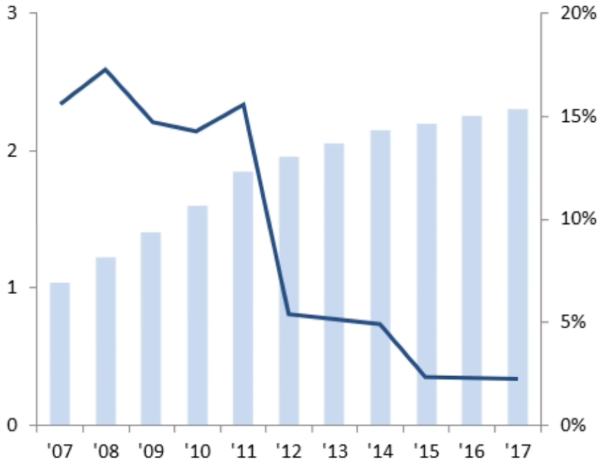


Note: Historical financials updated for restatements where applicable. Source: Third Point LLC; Nestlé company materials

DIVIDEND GROWTH HAS ALSO STALLED AND PAYOUT RATIO HAS MOVED HIGHER

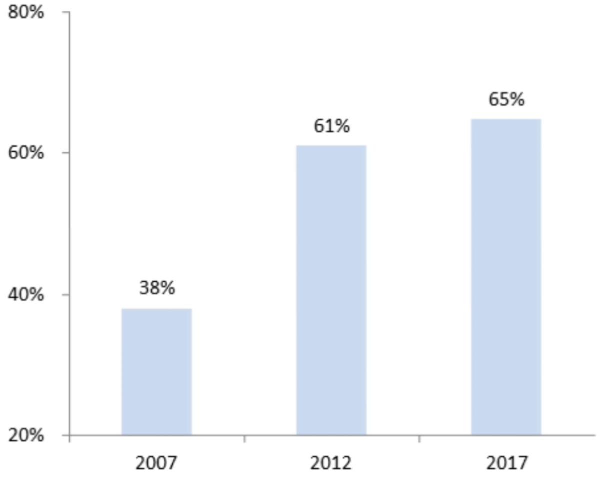
Dividend now only growing ~2%

Nestlé dividend per share and dividend growth



Dividend now nearly 2/3 of EPS

Nestlé dividend payout ratio, %

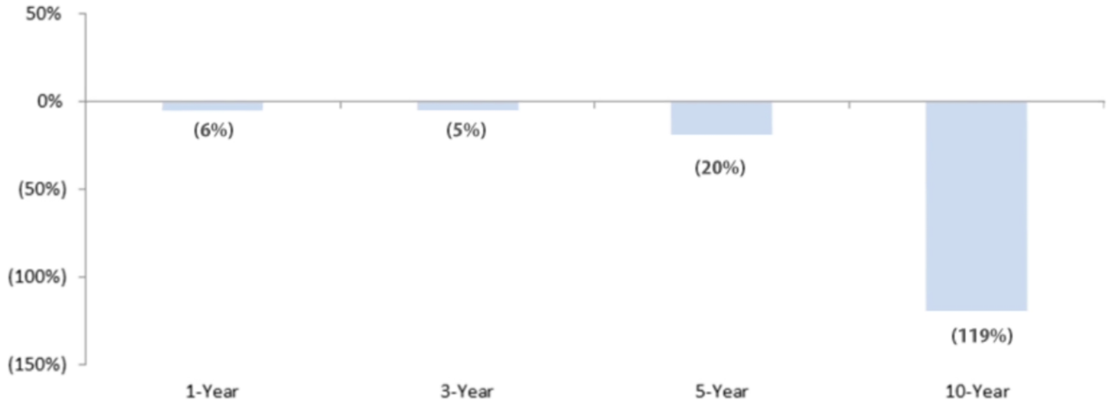


Note: Historical financials updated for restatements where applicable. Source: Third Point LLC; Nestlé company materials; Bloomberg

SHARES HAVE SIGNIFICANTLY UNDERPERFORMED EUROPEAN STAPLES PEERS

Nestlé Performance Gap vs. European Peer Average

Total Shareholder Return Gap, %



Note: Total Shareholder Return (measured in local currency) includes dividends; Nestlé TSR on a 1, 3, 5, and 10 year basis was -5%, +22%, +45% and +135% respectively; European Peer Index consists of SPDR MSCI European Consumer Staples Index members with market capitalization greater than $40 billion as of June 29, 2018; companies include Anheuser-Busch InBev, British Tobacco, Danone, Diageo, Heineken, Henkel, L'Oréal, Reckitt Benckiser, Pernod Ricard, Unilever. Source: Third Point LLC; Bloomberg

THIRD POINT OFFERED A PATH FORWARD FOR NESTLÉ IN JUNE 2017

SALES & MARGINS	**Re-accelerate sales growth and boost margins** ❖ Use (already announced) cost savings to invest in demand generation and improve margins ❖ Create formal margin target to reduce reinvestment risk
CAPITAL EFFICIENCY	**Optimize balance sheet efficiency and return capital to shareholders** ❖ Take leverage to 2.0x and hold it there ❖ Use balance sheet capacity to repurchase shares ahead of substantial inflection in earnings
PORTFOLIO MANAGEMENT	**Re-shape portfolio through acquisitions and divestitures** ❖ Make accretive bolt-on acquisitions in key growth categories ❖ Strategically reduce exposure to challenged businesses
L'ORÉAL STAKE	**Monetize non-core financial stake in L'Oréal** ❖ Stake can be monetized with limited tax consequences ❖ Use proceeds to invest in Nestlé's own business and repurchase shares

Note: Third Point letter available at https://www.thirdpointoffshore.com/portfolio-updates Source: Third Point LLC

MANAGEMENT RESPONDED BY ANNOUNCING A SERIES OF NEW TARGETS

FINANCIAL (2020)

- Reaccelerate organic sales growth to mid-single digits
- Achieve 17.5% to 18.5% EBIT margin
- CHF 20b buyback “spread evenly”
- Expects net debt to EBITDA ratio of 1.5x

PORTFOLIO

- Focus on four categories: coffee, pet, nutrition, water
- Portfolio adjustments worth up to 10% of sales
- No update on L'Oréal

FINANCIAL TIMES myFT

VISIT FT.COM FASTFT MARKETS DATA

Food & Beverage

Nestlé bows to investor and sector pressures with strategic shift

Swiss group sets first profit target, speeds up share buyback but no change on L’Oréal

Kitkat maker Nestlé will accelerate its share buyback programme, worth up to SFr20bn

Source: Third Point LLC; Nestlé company materials; Financial Times (September 2017)

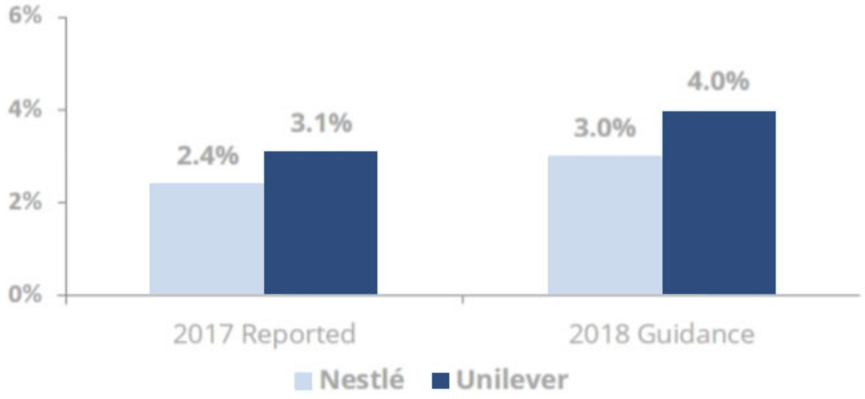
FINANCIAL TARGETS A HELPFUL START, THOUGH LESS AMBITIOUS THAN UNILEVER'S TARGETS

Unilever set bolder margin target and is making faster progress to achieve it…

	2016 Base	2017 Actual	2020 Target
Nestlé	16.0%	+50bps	**18.0%** (+200bps)
Unilever	16.4%	+110bps	**20.0%** (+360bps)

…while also delivering and targeting stronger organic sales growth than Nestlé

Organic sales, % growth



Note: Historical financials updated for restatements where applicable. Nestlé 2020 margin target based on midpoint of 17.5-18.5% range; 2018 organic sales based on midpoint of company guidance (Nestlé targeting 2-4%, Unilever targeting 3-5%). Source: Third Point LLC; Nestlé and Unilever company materials

FURTHERMORE, INTERNAL PROBLEMS HAVE YET TO BE SUFFICIENTLY ADDRESSED

STRATEGY

Strategy vaguely defined and raises questions about focus and capital allocation

PORTFOLIO

Management not moving quickly enough to exit underperforming and non-strategic businesses

ORGANIZATION

Insular, complacent, and bureaucratic organization is overly complex, moves glacially, and misses too many trends

Source: Third Point LLC

STRATEGY STILL VAGUELY DEFINED AND PLAGUED BY INCONSISTENCIES

- Nestlé describes itself as a company focused on "nutrition, health and wellness," but many categories and brands continue to fall beyond that definition
- Nestlé highlights coffee, pet, nutrition, and water as key categories, but nearly half of the portfolio sits outside those categories
- Making acquisitions across diverse range of new categories (e.g. vitamins & supplements, roast & ground coffee, meal kits)
- Lack of transparency and broad category definitions (in financial reporting) mask underperformance of various businesses
- Operates complicated series of joint ventures and partnerships
- Unable to articulate a compelling strategic rationale for continued ownership of L'Oréal

Source: Third Point LLC; Nestlé company materials

BOARD OF DIRECTORS RESPONSIBLE FOR STRATEGY

Swiss boards set corporate strategy

"The Board of Directors elected by the shareholders is responsible for the strategic direction and supervision of the company."

Swiss Code of Best Practice for Corporate Governance

Nestlé Board missing key perspectives

- Only 1 of 12 independent Nestlé directors (newly appointed Kasper Rorsted) has fast-moving consumer goods experience
- **Zero** directors have external food & beverage experience

Note: Swiss Code of Best Practice for Corporate Governance sets guidelines and recommendations for Swiss companies Source: Third Point LLC; Nestlé company materials; economiesuisse

STRATEGY – RECOMMENDATION:
BE SHARPER IN ARTICULATING STRATEGY

CLARIFY OVERALL CORPORATE STRATEGY

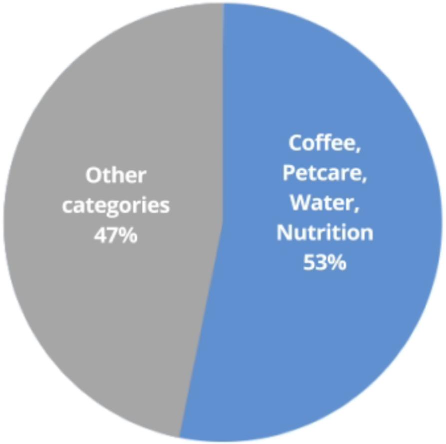
Clarify strategies within categories, e.g., coffee, consumer health	Add external food & beverage expertise to Nestlé Board	Change category financial reporting to improve transparency

Source: Third Point LLC

PORTFOLIO STILL SUBOPTIMAL

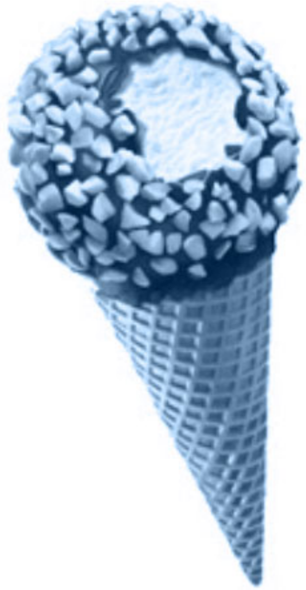
Too much exposure outside key categories

Nestlé sales mix, %



Other categories structurally disadvantaged

- Less aligned with "nutrition, health and wellness" strategy
- Typically slower growth and lower margin
- Fewer barriers to entry

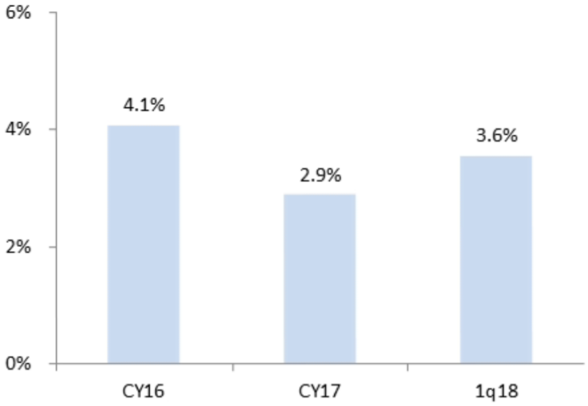


Note: Nestlé sales mix disclosed at 2017 Investor Seminar. Source: Third Point LLC; Nestlé company materials

LARGE EXPOSURE OUTSIDE KEY CATEGORIES WEIGHING ON GROWTH

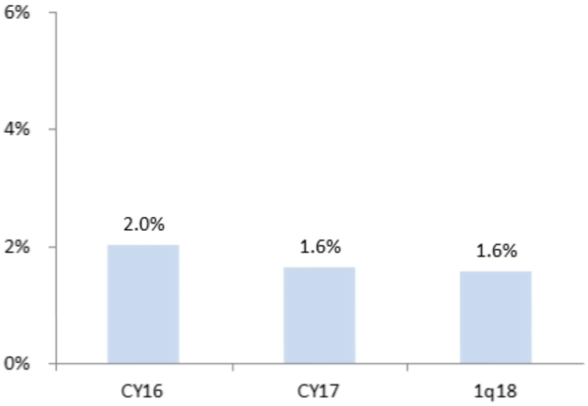
Key categories already growing 3-4%

Organic sales, % growth



Other categories barely growing 2%

Organic sales, % growth



CURRENT PORTFOLIO UNLIKELY TO SUSTAINABLY DELIVER MID-SINGLE DIGIT % ORGANIC SALES GROWTH

Note: Using category results for Powdered and Liquid Beverages, Pet Care, Nutrition and Health Science, and Water as proxy for key categories; Historical financials updated for restatements where applicable. Source: Third Point LLC; Nestlé company materials

DESPITE OWNING MANY UNDERPERFORMING AND NON-STRATEGIC BUSINESSES, NESTLÉ HAS BARELY MADE ANY SIZABLE DIVESTITURES

Completed and proposed disposals account for less than 2% sales

US Confectionary (~1% sales)

Gerber Life Insurance (~1% sales)

Gerber Life Insurance Company

ELEVATED MULTIPLES AND STRONG STRATEGIC DEMAND MAKE NOW A GOOD TIME TO SELL ASSETS

Note: US Confectionary sold to Ferrero in March 2018; strategic review underway for Gerber Life Insurance. Source: Third Point LLC; Nestlé company materials; Google Images

PORTFOLIO – RECOMMENDATION:
BE BOLDER IN RE-SHAPING THE PORTFOLIO

Divest as much as 15% of sales

to better align portfolio around key categories

Segment portfolio into three buckets: focus, develop, divest

Monetize non-core financial stake in L'Oréal

Use proceeds from divestitures for acquisitions and share repurchases

Source: Third Point LLC

SEGMENT PORTFOLIO INTO THREE BUCKETS: FOCUS, DEVELOP, DIVEST

FOCUS	**Focus on key categories with high barriers to entry where Nestlé has competitive strengths** ❖ Advantages driven by consumer trust, technical expertise, and brand strength ❖ Key categories include coffee, pet, nutrition (infant and medical), water
DEVELOP	**Develop other categories to create scale and competitive competency** ❖ Opportunities in chocolate, creamers, and dairy ❖ Employ "up or out" strategy for developmental brands
DIVEST	**Divest inherently weak and non-strategic categories through sales, spin-offs, or other methods** ❖ Target categories with limited brand strength and vulnerability to changing preferences ❖ Opportunities include frozen food, ice cream, packaged meats, pasta, peanut milk products, skin health, and others

Source: Third Point LLC

DIVEST AND ACQUIRE BUSINESSES TO BUILD A MORE ATTRACTIVE PORTFOLIO WITH GREATER EXPOSURE TO KEY CATEGORIES

Illustrative

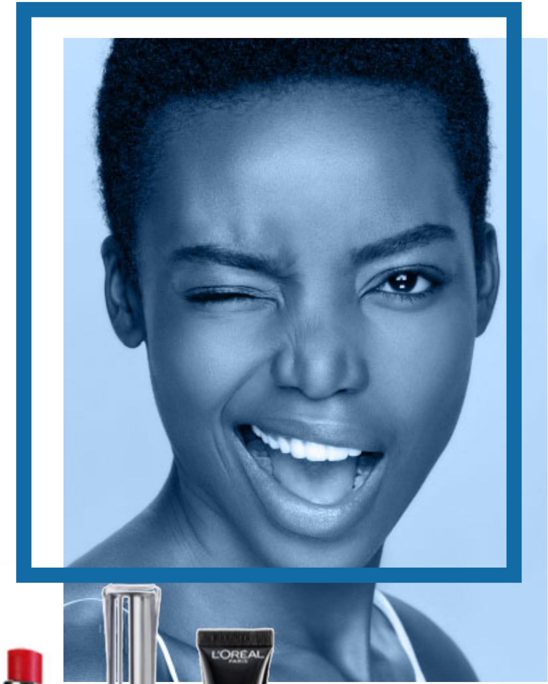
Divest

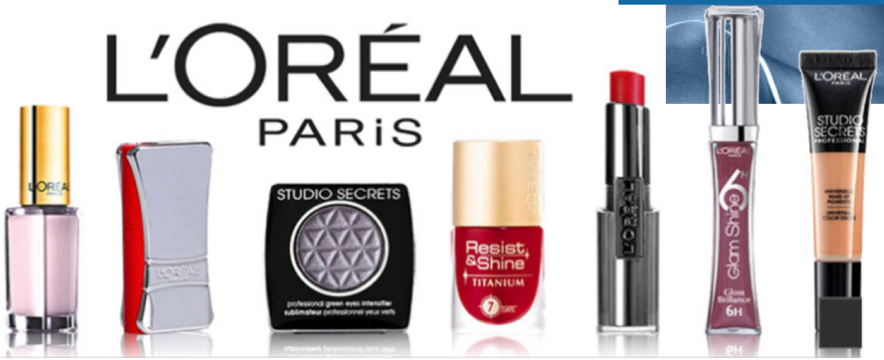
Acquire

Source: Third Point LLC; Nestlé company materials; Google Images

TIME TO MONETIZE L'ORÉAL

- Stake is financial, not strategic
- Shareholder agreement with Bettencourt family expired in March 2018
- L'Oréal CEO (breaking with tradition) publicly expressed willingness to buy Nestlé's entire stake, signaling nature of relationship between the companies has changed

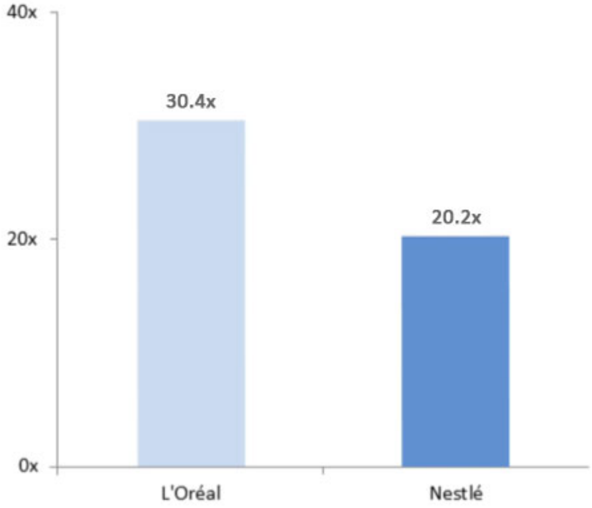




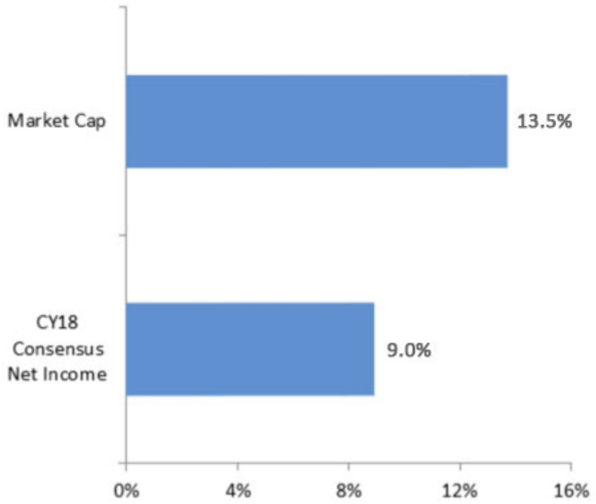
Note: L'Oréal CEO comments from February 2018 public interview. Source: Third Point LLC; Google Images

OPPORTUNITY TO TAKE ADVANTAGE OF SIGNIFICANT VALUATION DISPARITY BETWEEN NESTLÉ AND L'ORÉAL

L'Oréal now trades at significant premium



Monetizing stake could unlock value and drive mid-single digit % EPS accretion



Note: Multiples as of June 29, 2018; Nestlé owns 23.12% of L'Oréal; EPS accretion math assumes L'Oréal stake sold and Nestlé shares repurchased at market prices as of June 29, 2018. Source: Third Point LLC; Bloomberg

NESTLÉ CAN USE PROCEEDS FROM ASSET SALES FOR ACQUISITIONS AND SHARE REPURCHASES

Acquisitions

- Strategically increase exposure to key categories with better long-term prospects
- Leverage global scale and take smaller brands into new geographies
- Drive earnings accretion

Share repurchases

- Opportunistic time to repurchase shares ahead of inflection in sales and margins
- Share repurchases are lower risk than acquisitions and less dilutive to return on invested capital
- Drive earnings accretion

OPPORTUNITY TO CREATE HIGHER QUALITY PORTFOLIO WITHOUT EARNINGS DILUTION

Source: Third Point LLC

ORGANIZATION STILL TOO INSULAR

- **Board led by prior CEO Paul Bulcke**
  - Bulcke presided over long period of underperformance, seems too comfortable with the status quo, and may be holding up the pace and magnitude of change
- **Limited changes to Executive Board since appointment of new CEO**
  - Current Executive Board also oversaw period of underperformance and lacks fresh perspectives
- **Most notable executive change under Schneider has been internal promotion in key US market**
  - After years of disappointing performance, Nestlé (rather than hiring an outsider) promoted US CFO Steve Presley to CEO and US CEO Paul Grimwood to Non-Executive Chairman

ORGANIZATION WOULD BENEFIT FROM MORE OUTSIDER PERSPECTIVES

Source: Third Point LLC

ORGANIZATION DESIGN STILL TOO COMPLEX AND BUREAUCRATIC

Nestlé structure

Current design suboptimal

- Company managed through confusing mix of geographic zones and categories
- Too many layers of management
- Complex decision-making process
- Unclear lines of responsibility

Source: Third Point LLC; Nestlé company materials

ORGANIZATION – RECOMMENDATION:
BE FASTER IN OVERHAULING THE ORGANIZATION

Simplify organization to improve focus, agility, and accountability

Separate business into three divisions

Create more clear lines of responsibility

Reduce layers of bureaucracy

Source: Third Point LLC

REINVIGORATE NESTLÉ STRUCTURE
BY SEPARATING BUSINESS INTO THREE DIVISIONS

- **Separate business along category lines into Beverages, Nutrition, Grocery divisions**
  - Each group of categories has a different outlook and set of opportunities for sales growth and profitability
- **Each division would benefit from having separate management teams**
  - Distinct strategies, dedicated sales forces, and greater accountability would drive stronger operating performance
- **Businesses within Grocery in particular would benefit from a different approach**
  - Lower growth businesses require management with different skill set and attitude
- **Separation would allow Nestlé CEO to focus more on overall corporate strategy and capital allocation**

NEW ORGANIZATIONAL STRUCTURE WILL IMPROVE FOCUS AND SPEED TO MARKET FOR EACH CATEGORY (A KEY OBJECTIVE OF CEO MARK SCHNEIDER)

Source: Third Point LLC

EACH DIVISION SHOULD HAVE ITS OWN CEO, REGIONAL STRUCTURE, AND CATEGORY MARKETING HEADS

Illustrative

Nestlé pro-forma organizational chart

Nestlé

BEVERAGES

- Coffee
- Water

NUTRITION

- Pet
- Infant Formula
- Medical Nutrition
- Milk Products
- Consumer Health

GROCERY

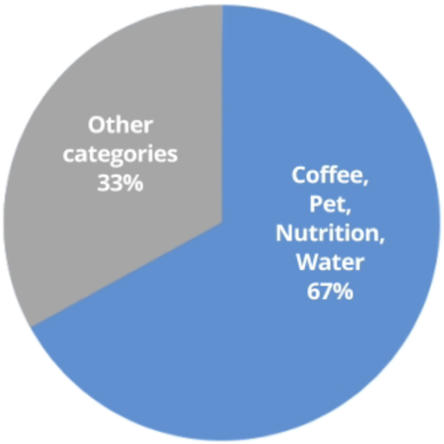
- Confectionary
- Prepared Meals
- Ice Cream
- Other

Source: Third Point LLC

ADOPTING A #NestléNOW MINDSET WILL ALLOW NESTLÉ TO BECOME SHARPER, BOLDER, AND FASTER

Portfolio will have greater exposure to key categories

Nestlé sales mix, %



Organization will be better suited to compete in rapidly evolving industry

- More clear total company and category-specific strategies
- Better focused portfolio with structurally and sustainably higher growth and margins
- Faster and more responsive organization with greater innovation and quicker speed to market

Source: Third Point LLC; Nestlé company materials

THIRD POINT RECOMMENDATIONS WILL MATERIALLY IMPROVE THE LONG-TERM TRAJECTORY OF THE BUSINESS

	2017	→	2022	CAGR
Sales	90		110	*4.2%*
EBIT	14.8		22.1	*8.3%*
Margin	16.5%		20.0%	-
EPS	3.55		7.00	*14.5%*
Leverage	1.1x		1.5x	-

- Sales reaccelerate and then sustainably grow at mid-single digit % rate given improved portfolio mix and organizational changes
- 20% margin achievable from improved category mix and in-flight productivity initiatives
- Includes tax benefits from US corporate tax reform and in-flight tax savings initiatives (shared service centers, etc.)
- Proceeds from asset sales (L'Oréal, divestitures) used for accretive acquisitions and share repurchases

MIX OF OPERATIONAL IMPROVEMENT, PORTFOLIO MGMT, AND BALANCE SHEET OPTIMIZATION PROVIDE MULTIPLE PATHS TO DOUBLE EPS BY 2022 AND CREATE SUSTAINABLY BETTER PERFORMANCE OVER TIME

Note: Historical financials updated for restatements where applicable. Source: Third Point LLC; Nestlé company materials

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