

## THE EVOLUTION OF THE FINANCIAL STRATEGY AS THE FOUNDATION OF NESTLÉ VALUE CREATION<sup>1</sup>

### NESTLÉ FINANCE IN 2021

This is how Nestlé presented itself at the beginning of 2021 (see Annex 1) in a comment by François-Xavier Roger, CFO since 2015 at the annual CAGNY<sup>2</sup> (Consumer Analyst Group of New York) conference that took place last February 2021:

*“Nestlé is the world's largest food and beverage company with annual sales of CHF 84.3 billion. 2020 has demonstrated the agility of our business and the strength of our diversified portfolio across geographies, product categories and channels. By geography, the Americas accounted for 45% of total sales in 2020. By product category, Nestlé's portfolio is well diversified. We operate in attractive, high-growth categories within the food and beverage industry such as coffee and PetCare. We are less labor and capital intensive than in 2015, with almost 20% fewer employees and 62 fewer factories, with slightly lower sales. We are the largest R&D investor in our industry with an annual spend of around 1.6 billion Swiss francs”.*

And his presentation continued with a quick analysis of the financial results obtained in 2020 (see Annexes 2 and 3 for a detail of Nestlé's financial results), a year that had been strongly marked by the effects of the pandemic:

*“We deliver another year of solid financial results. Organic growth accelerated to 3.6%, reaching the highest level in the last five years. The underlying trading operating profit margin improved 20 basis points in constant currency. Our*

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<sup>1</sup> Case of the Research Division of San Telmo Business School, Spain. Prepared by Professor Antonio García de Castro and with the collaboration of D. Vincenzo Marino, for use in class, and not as an illustration of the proper or inadequate management of a given situation.  
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<sup>2</sup> <https://www.nestle.com/sites/default/files/2021-02/investors-cagny-2021-nestle-presentation-cfo.pdf>

*underlying EPS grew 3.5% in constant currency, in line with our expectations. The disposals of Nestlé Skin Health, US ice cream and Herta negatively impacted our underlying EPS growth by 3.5%. Return on invested capital improved to 14.7%, the sixth consecutive year of increase. It is now close to our 15% ambition. Free cash flow represented 12.1% of sales. In the future, free cash flow is expected to remain around this level. We returned 14.5 billion Swiss francs to our shareholders through dividends and share buybacks. We also proposed a 26th consecutive increase in our dividend to 2.75 Swiss francs”.*

In July 2021 Nestlé publicly presented the semi-annual financial results<sup>3</sup>.

This is how the CFO, Francois Xavier Roger, commented on the excellent results achieved:

*“In the first half of 2021 organic growth was 8.1%, the RIG (real internal growth) was 6.8% and pricing increased to 1.3%. Acquisitions, net of divestitures, reduced sales by 3.1%, largely related to the divestment of Nestlé Waters brands in North America, the Herta charcuterie business and Yinlu. The exchange rate reduced sales by 3.5%, reflecting the appreciation of the Swiss franc against most currencies. Sales for the first 6 months were 41.8 billion Swiss francs, an increase of 1.5% compared to last year. Overall, the strong organic growth in the first half of 2021 was driven by three key factors:*

- *Boost of retail sales and return to growth of out-of-home channels.*
- *Increase in the contribution of pricing, which reflects input cost inflation. To offset the impact of inflation, beyond prices, we are using other levers such as product mix, disciplined cost management, and the deployment of strategic revenue management tools. Lastly, we are benefiting from the increase in centralized procurement that allows for more efficient cost management.*
- *Higher market share gains in most categories. At the end of June, we were gaining or maintaining share in more than 60% of business cells.*

*During the first half of 2021, our operating profit margin was unchanged at 17.4%. As mentioned above, the impact of inflation will be significant, and prices will inevitably rise. The possible time lag between the two factors could put more pressure on our margins. In the second half, we will also absorb one-time items related to the acquisition of Bountiful Company's major brands with a consequent increase in inventory. This will have an impact of 10 basis points for the full year for the group and will fall heavily in the second half. This is reflected in our revised guidance and our mid-term outlook for moderate margin improvement remains unchanged. Our guidance is cautious given the ongoing macro volatility”.*

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<sup>3</sup> <https://www.nestle.com/sites/default/files/2021-07/2021-half-year-report-en.pdf>

## EVOLUTION OF THE RELATIONSHIP WITH FINANCIAL MARKETS

In 2021, Nestlé's relationship with investors was the fruit of a long evolution and transformation that had occurred throughout the company's history as a listed company. It was previously a family business founded by Henri Nestlé in 1867 and merged with its main competitor, owned by the Page brothers, in 1905. In the 1920s it had serious financial problems and was saved by three Swiss banks that had representation on the board of directors until the 1990s. The former CEO of Credit Suisse, Rainer Gut, was president from 2000 to 2005, although he no longer represented the financial institution.

Around 1950 Nestlé structured its capital into two types of shares: registered shares, reserved for individuals and Swiss entities (comprising two thirds of share capital) and bearer shares that could be bought by people of any nationality (representing one third of capital). The bearer share was more expensive than the registered share. With this type of structure, they wanted to ensure that the company would remain Swiss, as well as to create significant barriers for eventual acquisitions of foreign capital.

In 1988, in a context marked by an important process of internationalization of the company, it was decided to authorize foreign investors to acquire any type of share. This initiative was promoted by the then financial director, Mario Corti, who, according to Peter Brabeck-Letmathe, had to work hard to convince senior management. He was a very active CFO and, according to Laurent Freixe, CEO of Zona Americas, Nestlé S.A. defined the financial function as having the gunpowder prepared so that businessmen could use it.

Because of this decision, the price difference between the two shares was considerably reduced:

- The price of bearer shares decreased by 25%.
- The price of registered shares increased by around 35%.

Because registered shares represented around two-thirds of the market capitalization, Nestlé's total value increased substantially when it internationalized its ownership structure. Therefore, Nestlé's cost of capital decreased<sup>4</sup>.

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<sup>4</sup>Extract of the book "INTERNATIONALFINANCIALMANAGEMENT, 5th Edition", Cheol S.Eon, Bruce G. Resnick.