



YEAR TO DECEMBER (CHF M)	2014	2015	2016	2017E	2018E	2019E
VALUATION						
P/E (rep.)	14.7	23.9	25.5	26.1	22.8	19.8
P/E (adj.)	19.6	20.7	20.6	22.7	20.3	18.9
Price/NAV	3.02	3.44	3.34	3.87	3.93	4.06
EV/Sales	2.31	2.43	2.33	2.65	2.58	2.43
EV/EBITDA (adj.)	12.4	13.0	11.9	14.3	13.5	11.8
EV/EBIT (adj.)	15.1	16.1	15.2	17.8	16.5	14.2
Oper. FCF yield ((FCF - net int. taxed) / EV)	5.1%	4.8%	5.4%	4.2%	4.3%	4.8%
FCF yield (FCF / Market cap)	4.8%	4.7%	5.0%	3.9%	4.1%	4.6%
Dividend yield	3.3%	3.3%	3.3%	2.9%	3.4%	3.9%

PER-SHARE DATA (CHF)						
EPS (rep.)	4.53	2.87	2.74	3.15	3.61	4.15
EPS (adj.)	3.40	3.31	3.40	3.63	4.06	4.36
EPS (Cons.)	3.40	3.31	3.40	3.48	3.82	4.22
NAV per share	22.0	19.9	20.9	21.3	21.0	20.3
FCF per share	3.22	3.20	3.52	3.22	3.39	3.82
EVA per share	4.49	1.10	0.86	1.24	1.59	2.04
DPS (CHF)	2.20	2.25	2.30	2.37	2.78	3.20

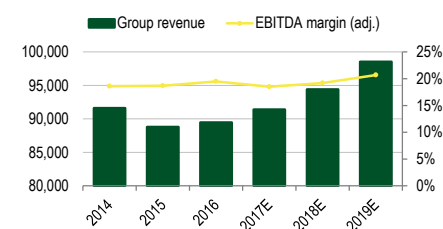
KEY FIGURES (CHF m)						
Group revenue	91,612	88,785	89,469	91,394	94,410	98,529
EBITDA (adj.)	17,077	16,560	17,465	16,939	18,084	20,364
EBIT (adj.)	14,019	13,382	13,693	13,633	14,743	16,838
Net result group (adj.)	13,830	13,159	13,408	13,550	14,539	16,362
Free CF	10,277	10,008	10,890	9,850	10,023	10,895

Growth Rates, Margins, Returns, Ratios, EV

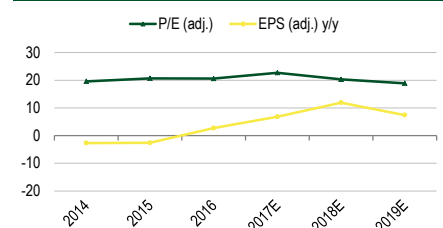
GROWTH RATES, MARGINS, RETURNS, RATIOS, EV							
Growth rates	Group revenue	-0.6%	-3.1%	0.8%	2.2%	3.3%	4.4%
	EBITDA (adj.)	-0.8%	-3.0%	5.5%	-3.0%	6.8%	12.6%
	EBIT (adj.)	-0.2%	-4.5%	2.3%	-0.4%	8.1%	14.2%
	Net result sh. (adj.)	-3.1%	-4.4%	1.4%	5.7%	8.0%	3.7%
	EPS (adj.)	-2.7%	-2.6%	2.7%	6.8%	11.9%	7.4%
Margins	EBITDA (adj.)	18.6%	18.7%	19.5%	18.5%	19.2%	20.7%
	EBIT (adj.)	15.3%	15.1%	15.3%	14.9%	15.6%	17.1%
	Net results margin	15.1%	14.8%	15.0%	14.8%	15.4%	16.6%
Returns	RoE (Net)	15.4%	16.6%	16.3%	17.0%	19.4%	21.5%
	RoCE (EBIT)	14.2%	14.3%	14.3%	14.3%	14.9%	17.0%
	RoIC (EBIT)	13.9%	14.4%	14.0%	13.9%	14.8%	16.7%
Ratios	Net debt/EBITDA	0.72	0.93	0.80	0.76	1.06	1.15
	Net gearing	0.17	0.24	0.21	0.19	0.30	0.40
	Interest cover	26.8	26.5	27.4	29.4	28.0	23.6
	EV / Capital employed	2.13	2.30	2.17	2.55	2.47	2.42
Enterprise Value	Market cap (CHF bn)	212.0	214.7	215.9	252.2	243.3	234.8
	Net debt (cash)	12,325	15,425	13,913	12,801	19,259	23,478
	Pension provisions	8,081	7,691	8,420	8,420	8,420	8,420
	Other items	(22,801)	(23,457)	(31,477)	(32,423)	(28,523)	(28,523)
	Enterprise value (CHF bn)	211.4	216.0	208.1	242.3	243.9	239.6

Per-Share Data (CHF)

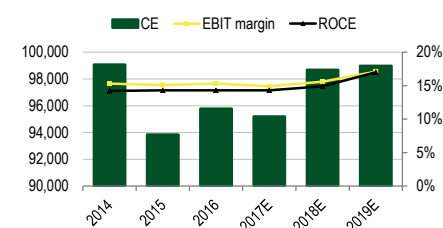
Group Revenue & EBITDA Margin



P/E vs. EPS Growth



Capital Employed, ROCE



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Profit & Loss Account

Figure 1: Profit & Loss Account

In CHF m	FY to Dec. 31	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Revenues (net)	=	92,158	91,612	88,785	89,469	91,394	94,410	98,529	103,320	108,785
Other revenues		215	253	298	317	300	215	253	298	317
Production value (PV)	=	92,373	91,865	89,083	89,786	91,694	94,625	98,782	103,618	109,102
Cost of goods sold		-48,111	-47,553	-44,730	-44,199	-44,235	-44,939	-46,210	-48,250	-50,694
Gross profit	=	44,262	44,312	44,353	45,587	47,459	49,686	52,572	55,368	58,408
Total operating expenses		-30,215	-30,293	-30,971	-31,894	-33,827	-34,942	-35,734	-37,425	-39,355
EBITDA	=	17,212	17,077	16,560	17,465	16,939	18,084	20,364	21,450	22,749
Depreciation		-3,165	-3,058	-3,178	-3,772	-3,306	-3,341	-3,527	-3,507	-3,696
EBIT (before net other trading items)	=	15,012	14,926	14,110	13,993	14,283	15,784	17,897	19,022	20,155
Other trading items		-965	-907	-728	-713	-1,312	-1,041	-1,059	-1,079	-1,103
Trading operating profit	=	14,047	14,019	13,382	13,693	13,633	14,743	16,838	17,942	19,053
Amortization		-979	-3,114	-974	-530	-520	-530	-540	-550	-560
EBIT	=	13,068	10,905	12,408	13,164	13,113	14,213	16,298	17,392	18,493
Associates		1,264	8,003	988	770	1,040	1,249	1,479	1,733	2,011
Interest income/exp. (net)		-631	-637	-624	-637	-576	-646	-863	-1,043	-1,083
EBT recurring	=	12,437	10,268	11,784	12,527	12,537	13,568	15,435	16,349	17,410
Pretax profit	=	12,437	10,268	11,784	12,526	12,537	13,568	15,435	16,349	17,410
Taxes		-3,256	-3,367	-3,305	-4,413	-3,385	-3,528	-4,476	-4,741	-5,049
Net Group profit	=	10,445	14,904	9,467	8,883	10,192	11,289	12,438	13,340	14,372
Minority interests		-430	-448	-401	-352	-493	-441	-387	-542	-485
Net profit	=	10,015	14,456	9,066	8,531	9,699	10,848	12,051	12,798	13,887
Net profit adjusted		11,175	10,832	10,353	10,499	11,099	11,986	12,427	13,050	14,127
EPS (stated)	=	3.13	4.53	2.89	2.75	3.15	3.61	4.15	4.49	4.87
EPS (adj.)	=	3.50	3.40	3.31	3.40	3.63	4.06	4.36	4.58	4.96

Growth		2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Revenues (net)	%	5.4	-0.6	-3.1	0.8	2.1	5.0	4.4	4.9	5.3
- Organic growth	%	4.6	4.5	4.2	3.2	2.6	3.9	4.4	4.9	5.3
-Internal growth	%	3.1	2.3	2.2	2.4	1.9	3.1	3.9	3.9	4.3
-Price	%	1.5	2.2	2.0	0.8	0.7	0.8	0.5	1.0	1.0
-Acquisitions	%	1.8	0.4	0.1	-0.8	-1.2	-0.4			
-Exchange rate	%	-3.7	-5.5	-7.4	-1.6	0.7	1.6			
Gross margin	%	4.3	0.1	0.1	2.8	4.1	4.7	5.8	5.3	5.5
EBITDA	%	3.1	-0.8	-3.0	5.5	-3.0	6.8	12.6	5.3	6.1
EBIT (before net other trading items)	%	4.3	-0.2	-4.5	-0.8	2.1	10.5	13.4	6.3	6.0
Trading operating profit	%	4.3	-0.2	-4.5	2.3	-0.4	8.1	14.2	6.6	6.2
EBIT	%	-2.4	-16.6	13.8	6.1	-0.4	8.4	14.7	6.7	6.3
Net profit	%	-2.4	-16.6	13.8	6.1	-0.4	8.4	14.7	6.7	6.3
EPS (adj.)	%	7.7	-2.9	-2.6	2.8	6.7	11.9	7.4	5.0	8.3

Margin analysis		2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Gross margin	%	47.9	48.2	49.8	49.8	51.8	52.5	53.2	53.4	53.5
EBITDA margin	%	18.6	18.6	18.6	18.6	18.5	19.1	20.6	20.7	20.9
Underlying TOP (before restructuring)	%	16.3	16.2	15.8	15.6	15.6	16.7	18.1	18.4	18.5
Other trading items	%	0.9	0.9	0.7	0.7	1.2	0.8	0.8	0.7	0.7
Trading operating profit margin	%	15.2	15.3	15.1	15.3	14.9	15.6	17.1	17.4	17.5
EBIT margin	%	14.1	11.9	13.9	14.7	14.3	15.0	16.5	16.8	17.0
Tax rate	%	26.2	32.8	28.0	35.2	27.0	26.0	29.0	29.0	29.0
Net profit margin	%	10.8	15.7	10.2	9.5	10.6	11.5	12.2	12.4	12.7
Operational free cash flow	%	10.5	11.2	11.3	12.2	10.8	10.6	11.1	11.3	12.5

Source: Company accounts, MainFirst Research



Balance Sheet

Figure 2: Balance Sheet

YEAR TO DECEMBER (CHF M)	2014	2015	2016	2017E	2018E	2019E
Fixed assets	91,427	87,259	91,667	91,432	94,274	93,572
Intangibles	54,357	52,008	53,404	52,884	54,176	53,636
t/o Goodwill	34,557	32,772	33,007	32,487	31,957	31,417
Tangibles	28,421	26,576	27,554	27,839	29,389	29,228
Financial fixed assets	8,649	8,675	10,709	10,709	10,709	10,709
Other fixed assets	0	0	0	0	0	0
Current assets	42,023	36,733	40,234	41,261	40,962	43,707
Inventories	9,172	8,153	8,401	8,263	9,053	10,258
Trade receivables	15,908	15,476	14,345	14,273	14,743	15,387
Other current assets	8,062	7,299	8,192	8,317	8,216	8,332
Cash & equivalents	8,881	5,805	9,296	10,408	8,950	9,731
Group equity	71,884	63,986	65,981	66,582	63,281	59,171
Minorities	1,754	1,648	1,391	1,391	1,391	1,391
Shareholders' equity	70,130	62,338	64,590	65,191	61,890	57,780
Provisions	16,275	15,084	17,312	17,312	17,312	17,312
Pension	8,081	7,691	8,420	8,420	8,420	8,420
Other	8,194	7,393	8,892	8,892	8,892	8,892
Liabilities	45,291	44,922	48,608	48,799	54,643	60,797
Interest-bearing liabilities	21,206	21,230	23,209	23,209	28,209	33,209
Interest-free liabilities	24,085	23,692	25,399	25,590	26,434	27,588
Trade liabilities	17,437	17,038	18,629	18,769	19,388	20,234
Other interest-free liabilities	6,648	6,654	6,770	6,821	7,046	7,353
Balance sheet total (CHF bn)	133.4	124.0	131.9	132.7	135.2	137.3
CAPITAL AND LIQUIDITY RATIOS						
Net working capital	7,643	6,591	4,117	3,766	4,408	5,410
Capital employed	99,070	93,850	95,784	95,199	98,682	98,983
Tangible group equity	37,327	31,214	32,974	34,095	31,324	27,754
Number of shares, fully diluted (m)	3,188	3,129	3,091	3,060	2,953	2,850
Fixed asset intensity (as a % of revenue)	62.1%	61.4%	65.6%	64.5%	66.0%	63.1%
Net working capital intensity	8.3%	7.4%	4.6%	4.1%	4.7%	5.5%
Fixed assets as a % of total assets	68.5%	70.4%	69.5%	68.9%	69.7%	68.2%
Net debt (cash) as a % of BS total	9.2%	12.4%	10.5%	9.6%	14.2%	17.1%
Equity ratio (Group equity/BS total)	53.9%	51.6%	50.0%	50.2%	46.8%	43.1%
Net gearing (Net debt/Group equity)	0.17	0.24	0.21	0.19	0.30	0.40
Net debt/EBITDA (adj.)	0.72	0.93	0.80	0.76	1.06	1.15
Interest cover (EBITDA/Net interest)	26.8	26.5	27.4	29.4	28.0	23.6
DSOs (trade receivables as days of revs)	63.4	63.6	58.5	57.0	57.0	57.0
Inventory turnover (Days)	36.5	33.5	34.3	33.0	35.0	38.0
RETURN RATIOS						
Price/NAV	3.02	3.44	3.34	3.87	3.93	4.06
Price/Tangible NAV	5.68	6.88	6.55	7.40	7.77	8.46
RoE (Net result/Shareholders' equity)	15.4%	16.6%	16.3%	17.0%	19.4%	21.5%
RoCE (EBIT)	14.2%	14.3%	14.3%	14.3%	14.9%	17.0%
RoCE (NOPAT)	9.9%	10.0%	10.0%	10.0%	10.5%	11.9%
Return on total assets (NOPAT)	7.4%	7.6%	7.3%	7.2%	7.6%	8.6%
ENTERPRISE VALUE COMPONENTS						
Enterprise value	211.4	216.0	208.1	242.3	243.9	239.6
Market Cap (CHF bn)	212.0	214.7	215.9	252.2	243.3	234.8
Net debt (cash)	12,325	15,425	13,913	12,801	19,259	23,478
Pension provisions	8,081	7,691	8,420	8,420	8,420	8,420
Market value of minorities	1,754	1,648	1,391	1,391	1,391	1,391
Other items	(22,801)	(23,457)	(31,477)	(32,423)	(28,523)	(28,523)

Source: Company reports, MainFirst estimates



Cash-Flow Statement

Figure 3: Cash flow statement

YEAR TO DECEMBER (CHF M)	2014	2015	2016	2017E	2018E	2019E
EBITDA (as reported)	17,077	16,560	17,465	16,939	18,084	20,364
Cash interest and tax payments	(4,004)	(3,929)	(5,050)	(3,961)	(4,173)	(5,339)
Change in working capital	(29)	493	1,801	402	(417)	(695)
Inventories	(780)	1,019	(248)	138	(790)	(1,205)
Trade receivables	(1,287)	432	1,131	72	(471)	(643)
Trade liabilities & prepayments	2,038	(958)	918	191	844	1,153
Other operating CF items	1,656	1,178	1,366	1,040	1,249	1,293
Operating cash flow	14,700	14,302	15,582	14,420	14,743	15,624
Capex	4,423	4,294	4,692	4,570	4,720	4,729
Intangible fixed assets	0	0	0	0	0	0
Tangible fixed assets	(4,423)	(4,294)	(4,692)	(4,570)	(4,720)	(4,729)
Free cash flow	10,277	10,008	10,890	9,850	10,023	10,895
Acquisitions/Disposals/Financial assets	3,016	458	(1,117)	0	0	0
Dividends, minority payouts	(7,219)	(7,374)	(7,369)	(7,238)	(8,204)	(9,114)
Equity measures	(1,666)	(6,377)	(448)	(1,500)	(6,000)	(6,000)
Other changes in net cash	(2,043)	185	(444)	(0)	(2,277)	0
Change in net cash	2,365	(3,100)	1,512	1,112	(6,458)	(4,219)
Net cash (debt)	(12,325)	(15,425)	(13,913)	(12,801)	(19,259)	(23,478)
CASH FLOW RATIOS						
Operating cash flow/Sales	16.0%	16.1%	17.4%	15.8%	15.6%	15.9%
Free cash flow/Sales	11.2%	11.3%	12.2%	10.8%	10.6%	11.1%
Dividend payout ratio	72.1%	78.0%	85.3%	74.8%	77.6%	79.3%
Capex/Sales	4.8%	4.8%	5.2%	5.0%	5.0%	4.8%
Capex/D&A	144.6%	135.1%	124.4%	138.2%	141.3%	134.1%
D&A/Sales	3.3%	3.6%	4.2%	3.6%	3.5%	3.6%

Source: Company reports, MainFirst estimates



Revenue and Earnings Model

Figure 4: Revenue and Earnings Model

In EUR m	FY to Dec. 31	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Net sales by zones										
Food	CHF m	62,776	59,382	56,585	57,098	56,553	57,155	58,708	60,772	63,336
Europe	CHF m	15,567	17,965	16,403	16,249	16,330	16,412	16,494	16,576	16,659
Americas	CHF m	28,358	26,625	25,844	26,356	27,410	28,507	29,647	30,833	32,066
Africa, Asia, Oceania	CHF m	18,851	14,792	14,338	14,493	12,812	12,236	12,567	13,362	14,611
Nestlé Waters	CHF m	7,257	7,390	7,625	7,926	7,785	8,174	8,583	9,012	9,462
Nestlé Nutrition	CHF m	9,826	9,614	10,461	10,326	12,091	13,217	14,422	15,712	17,092
Other F&B	CHF m	12,299	13,884	14,114	14,119	14,966	15,864	16,816	17,825	18,894
Total	CHF m	92,158	91,612	88,785	89,469	91,394	94,410	98,529	103,320	108,785
Net sales breakdown by zones										
Food	%	68%	65%	64%	64%	62%	61%	60%	59%	58%
Europe	%	17%	20%	18%	18%	18%	17%	17%	16%	15%
Americas	%	31%	29%	29%	29%	30%	30%	30%	30%	29%
Africa, Asia, Oceania	%	20%	16%	16%	16%	14%	13%	13%	13%	13%
Nestlé Waters	%	8%	8%	9%	9%	9%	9%	9%	9%	9%
Nestlé Nutrition	%	11%	10%	12%	12%	13%	14%	15%	15%	16%
Other F&B	%	13%	15%	16%	16%	16%	17%	17%	17%	17%
Total	%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Organic sales growth by zone										
Food	%	3.3%	2.7%	3.4%	2.9%	2.5%	3.3%	3.6%	4.1%	4.1%
Europe	%	0.8%	1.5%	3.7%	2.0%	2.1%	3.3%	3.5%	4.0%	4.0%
Americas	%	5.3%	5.0%	5.5%	4.2%	1.1%	3.2%	3.5%	4.0%	4.0%
Africa, Asia, Oceania	%	5.6%	2.6%	0.5%	3.2%	4.8%	3.6%	4.0%	4.5%	4.5%
Nestlé Waters	%	2.0%	5.4%	6.7%	4.5%	2.2%	4.5%	3.5%	4.0%	6.0%
Nestlé Nutrition	%	8.2%	7.7%	3.1%	1.5%	1.3%	4.5%	3.5%	4.0%	6.0%
Other F&B	%	5.4%	7.1%	5.3%	3.7%	5.2%	5.3%	8.5%	9.0%	9.0%
Total	%	4.6%	4.5%	4.2%	3.2%	2.8%	3.9%	4.4%	4.9%	5.4%

Source: Company accounts, MainFirst Research



Revenue and Earnings Model

Figure 5: Revenue and Earnings Model

EBIT by zones		2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Food	CHF m	11,055	10,509	10,225	10,542	10,025	10,302	10,768	11,345	12,035
Europe	CHF m	2,331	2,735	2,572	2,712	2,548	2,609	2,672	2,735	2,799
Americas	CHF m	5,162	4,940	5,021	5,074	5,043	5,331	5,633	5,951	6,285
Africa, Asia, Oceania	CHF m	3,562	2,834	2,632	2,756	2,434	2,362	2,463	2,659	2,951
Nestlé Waters	CHF m	665	714	825	946	950	1,038	1,133	1,235	1,344
Nestlé Nutrition	CHF m	1,961	2,343	2,361	2,342	2,418	2,709	3,029	3,378	3,760
Other F&B	CHF m	2,175	2,654	2,221	2,144	2,664	2,824	2,993	3,173	3,363
Unallocated	CHF m	(1,809)	(2,198)	(2,250)	(2,281)	(2,425)	(2,130)	(1,085)	(1,188)	(1,449)
Total	CHF m	14,047	14,019	13,382	13,693	13,633	14,743	16,838	17,942	19,053
EBIT breakdown by zones										
Food	%	79%	75%	76%	77%	74%	70%	64%	63%	63%
Europe	%	17%	20%	19%	20%	19%	18%	16%	15%	15%
Americas	%	37%	35%	38%	37%	37%	36%	33%	33%	33%
Africa, Asia, Oceania	%	25%	20%	20%	20%	18%	16%	15%	15%	15%
Nestlé Waters	%	5%	5%	6%	7%	7%	7%	7%	7%	7%
Nestlé Nutrition	%	14%	17%	18%	17%	18%	18%	18%	19%	20%
Other F&B	%	15%	19%	17%	16%	20%	19%	18%	18%	18%
Unallocated	%	-13%	-16%	-17%	-17%	-18%	-14%	-6%	-7%	-8%
Total	%	100%	100%	100%	100%	100%	100%	100%	100%	100%
EBIT margin by zones										
Food	%	17.6%	17.7%	18.1%	18.5%	17.7%	18.0%	18.3%	18.7%	19.0%
Europe	%	15.0%	15.2%	15.7%	16.7%	15.6%	15.9%	16.2%	16.5%	16.8%
Americas	%	18.2%	18.6%	19.4%	19.3%	18.4%	18.7%	19.0%	19.3%	19.6%
Africa, Asia, Oceania	%	18.9%	19.2%	18.4%	19.0%	19.0%	19.3%	19.6%	19.9%	20.2%
Nestlé Waters	%	9.2%	9.7%	10.8%	11.9%	12.2%	12.7%	13.2%	13.7%	14.2%
Nestlé Nutrition	%	20.0%	24.4%	22.6%	22.7%	20.0%	20.5%	21.0%	21.5%	22.0%
Other F&B	%	17.7%	19.1%	15.7%	15.2%	17.8%	17.8%	17.8%	17.8%	17.8%
Total	%	15.2%	15.3%	15.1%	15.3%	14.9%	15.6%	17.1%	17.4%	17.5%

Source: Company accounts, MainFirst Research



Revenue and Earnings Model

Figure 6: Revenue and Earnings Model

In EUR m	FY to Dec. 31	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Net Sales by business										
Powdered & liquid beverages	CHF m	20,495	20,302	19,245	19,792	21,485	23,323	25,319	27,487	29,840
Nestlé Waters	CHF m	6,773	6,875	7,112	7,414	7,785	8,174	8,583	9,012	9,462
Dairy, ice cream	CHF m	17,357	15,190	14,637	14,331	14,474	14,639	14,764	14,932	15,059
Nutrition/Health Science/Skin Health	CHF m	11,840	14,605	14,854	15,038	16,091	17,217	18,422	19,712	21,092
Prepared meals	CHF m	14,171	13,532	12,579	12,148	12,698	13,276	13,883	14,521	15,191
Chocolate and confectionery	CHF m	10,283	9,769	8,870	8,679	9,020	9,460	9,920	10,404	10,911
Nestlé Purina pet care	CHF m	11,239	11,339	11,488	12,067	9,841	8,321	7,637	7,253	7,229
Total Sales	CHF m	92,158	91,612	88,785	89,469	91,394	94,410	98,529	103,320	108,785
Net Sales breakdown by business										
Powdered & liquid beverages	%	22%	22%	22%	22%	24%	25%	26%	27%	27%
Nestlé Waters	%	7%	8%	8%	8%	9%	9%	9%	9%	9%
Dairy, ice cream	%	19%	17%	16%	16%	16%	16%	15%	14%	14%
Nutrition/Health Science/Skin Health	%	13%	16%	17%	17%	18%	18%	19%	19%	19%
Prepared meals	%	15%	15%	14%	14%	14%	14%	14%	14%	14%
Chocolate and confectionery	%	11%	11%	10%	10%	10%	10%	10%	10%	10%
Nestlé Purina pet care	%	12%	12%	13%	13%	11%	9%	8%	7%	7%
Total	%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Organic Sales growth by business										
Powdered & liquid beverages	%	4.6%	5.4%	5.4%	4.6%	3.7%	5.3%	6.5%	7.0%	7.0%
Nestlé Waters	%	2.0%	5.3%	7.0%	5.0%	2.7%	4.5%	3.5%	4.0%	6.0%
Dairy, ice cream	%	5.8%	3.4%	1.7%	1.6%	2.5%	2.8%	2.5%	3.0%	3.0%
Nutrition/Health Science/Skin Health	%	8.2%	8.7%	4.4%	2.0%	1.8%	4.5%	3.5%	4.0%	6.0%
Prepared meals	%	0.3%	(0.1%)	0.1%	2.7%	2.1%	1.8%	2.5%	3.0%	3.0%
Chocolate and confectionery	%	5.0%	4.2%	6.2%	1.8%	0.4%	2.8%	5.0%	5.5%	5.5%
Nestlé Purina pet care	%	6.8%	5.6%	6.3%	5.3%	3.8%	4.3%	6.5%	7.0%	7.0%
Total	%	4.6%	4.5%	4.2%	3.2%	2.6%	3.8%	4.4%	4.9%	5.4%

Source: Company accounts, MainFirst Research



Revenue and Earnings Model

Figure 7: Revenue and Earnings Model

EBIT (TOP) by business		2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Powdered & liquid beverages	CHF m	4,649	4,685	4,100	4,111	4,774	5,189	5,626	6,100	6,614
Nestlé Waters	CHF m	678	710	796	906	817	858	901	946	994
Dairy, ice cream	CHF m	2,632	2,701	2,471	2,640	2,582	2,611	2,634	2,663	2,687
Nutrition/Health Science/Skin Healt	CHF m	2,228	2,723	2,909	2,775	3,299	3,529	3,777	4,041	4,324
Prepared meals	CHF m	1,876	1,808	1,724	1,817	1,760	1,846	1,937	2,033	2,134
Chocolate and confectionery	CHF m	1,630	1,344	1,246	1,190	1,458	1,529	1,604	1,683	1,766
Nestlé Purina pet care	CHF m	2,163	2,246	2,386	2,535	2,027	1,714	1,573	1,494	1,489
Unallocated costs	CHF m	(1,809)	(2,198)	(2,250)	(2,281)	(3,084)	(2,534)	(1,215)	(1,018)	(954)
Total	CHF m	14,047	14,019	13,382	13,693	13,633	14,743	16,838	17,942	19,053
EBIT breakdown by business										
Powdered & liquid beverages	%	33%	33%	31%	30%	35%	35%	33%	34%	35%
Nestlé Waters	%	5%	5%	6%	7%	6%	6%	5%	5%	5%
Dairy, ice cream	%	19%	19%	18%	19%	19%	18%	16%	15%	14%
Nutrition/Health Science/Skin Healt	%	16%	19%	22%	20%	24%	24%	22%	23%	23%
Prepared meals	%	13%	13%	13%	13%	13%	13%	12%	11%	11%
Chocolate and confectionery	%	12%	10%	9%	9%	11%	10%	10%	9%	9%
Nestlé Purina pet care	%	15%	16%	18%	19%	15%	12%	9%	8%	8%
Unallocated costs	%	-13%	-16%	-17%	-17%	-23%	-17%	-7%	-6%	-5%
Total	%	100%	100%	100%	100%	100%	100%	100%	100%	100%
EBIT margin by business										
Powdered & liquid beverages	%	22.7%	23.1%	21.3%	20.8%	22.2%	22.2%	22.2%	22.2%	22.2%
Nestlé Waters	%	10.0%	10.3%	11.2%	12.2%	10.5%	10.5%	10.5%	10.5%	10.5%
Dairy, ice cream	%	15.2%	17.8%	16.9%	18.4%	17.8%	17.8%	17.8%	17.8%	17.8%
Nutrition/Health Science/Skin Healt	%	18.8%	18.6%	19.6%	18.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Prepared meals	%	13.2%	13.4%	13.7%	15.0%	13.9%	13.9%	14.0%	14.0%	14.0%
Chocolate and confectionery	%	15.9%	13.8%	14.0%	13.7%	16.2%	16.2%	16.2%	16.2%	16.2%
Nestlé Purina pet care	%	19.2%	19.8%	20.8%	21.0%	20.6%	20.6%	20.6%	20.6%	20.6%
Total	%	15.2%	15.3%	15.1%	15.3%	14.9%	15.6%	17.1%	17.4%	17.5%

Source: Company accounts, MainFirst Research



Quarterly Information

Figure 8: Quarterly Information

in CHF m FY to Dec. 31		Q1-16	Q2-16	H1-16	Q3-16	9M-16	Q4-16	H2-16	FY-16	Q1 17	Q2 17	H1 17	Q3 17	9M 17	Q4 17E	H2 17E	2017E
Total sales	CHF m	20,934	22,221	43,155	22,359	65,514	23,986	46,345	89,500	21,022	22,001	43,023	22,249	65,272	24,856	48,371	91,394
Pricing	%	0.9%	0.5%	0.7%	1.3%	0.8%	0.5%	0.9%	0.8%	1.0%	0.9%	0.9%	0.6%	0.8%	0.3%	0.4%	0.7%
Volume	%	3.0%	2.6%	2.8%	1.9%	2.5%	2.1%	1.9%	2.4%	1.3%	1.5%	1.4%	2.6%	1.8%	2.2%	2.4%	1.9%
Organic growth	%	3.9%	3.1%	3.5%	3.2%	3.3%	2.9%	2.8%	3.2%	2.3%	2.4%	2.3%	3.2%	2.6%	2.5%	2.8%	2.6%
Exchange rates	%	(2.8%)	(1.2%)	(2.0%)	(1.1%)	(1.7%)	(1.3%)	(1.2%)	(1.6%)	(0.4%)	(0.2%)	(0.3%)	(0.6%)	(0.4%)	1.0%	0.2%	0.7%
Acquisitions and disposals	%	(1.0%)	(0.6%)	(0.8%)	(0.2%)	(0.6%)	(1.4%)	(0.8%)	(0.8%)	(1.5%)	(3.1%)	(2.3%)	(3.2%)	(2.6%)	0.1%	(1.5%)	(1.2%)
Total	%	0.1%	1.3%	0.7%	1.9%	1.0%	0.2%	0.8%	0.8%	0.4%	(0.9%)	(0.3%)	(0.6%)	(0.4%)	3.6%	1.6%	2.1%
Zones		Q1-16	Q2-16	H1-16	Q3-16	9M-16	Q4-16	H2-16	FY-16	Q1 17	Q2 17	H1 17	Q3 17	9M 17	Q4 17E	H2 17E	2017E
Organic sales growth by zone																	
Food	%	3.9%	3.1%	3.5%	3.2%	3.4%	2.9%	3.0%	3.2%	2.3%	2.4%	2.3%	3.2%	2.6%	2.5%	3.0%	2.8%
EMENA	%	3.2%	2.0%	2.6%	1.4%	2.2%	1.4%	1.4%	2.0%	1.7%	0.3%	1.0%	3.7%	1.9%	2.9%	3.3%	2.1%
Americas	%	5.0%	5.2%	5.1%	3.5%	4.5%	3.5%	3.3%	4.2%	0.4%	2.1%	1.3%	1.3%	1.3%	0.6%	0.9%	1.1%
Africa, Asia, Oceania	%	2.1%	2.5%	2.3%	3.7%	2.8%	4.2%	4.1%	3.2%	4.5%	5.1%	4.8%	6.3%	5.3%	3.1%	4.7%	4.8%
Waters	%	5.3%	3.1%	4.2%	4.1%	4.2%	5.9%	4.8%	4.5%	3.1%	4.6%	4.0%	(1.0%)	2.2%	2.3%	0.5%	2.2%
Nestlé Nutrition	%	2.6%	-	1.3%	1.4%	1.3%	1.8%	1.7%	1.5%	1.1%	0.7%	0.9%	1.2%	1.0%	2.3%	1.8%	1.3%
Other F&B	%	5.2%	3.2%	4.2%	5.4%	4.6%	1.5%	3.2%	3.7%	5.8%	1.8%	3.7%	7.9%	5.1%	5.3%	6.7%	5.2%
Total	%	3.9%	3.1%	3.5%	3.2%	3.3%	2.9%	2.8%	3.2%	2.3%	2.4%	2.3%	3.2%	2.6%	2.5%	3.0%	2.8%
Price/mix (value) by zone																	
Food	%	0.9%	-0.1%	0.4%	1.3%	0.9%	1.0%	1.1%	0.7%	1.0%	0.9%	0.9%	0.6%	0.8%	0.3%	0.6%	0.9%
EMENA	%	0.1%	-0.9%	-0.4%	-0.8%	-0.5%	-1.1%	-1.0%	-0.7%		0.7%	0.4%	0.7%	0.5%	0.3%	0.4%	0.4%
Americas	%	2.3%	2.9%	2.6%	3.5%	2.9%	2.9%	3.2%	2.9%	1.8%	1.0%	1.4%	0.3%	1.0%	0.3%	0.3%	0.8%
Africa, Asia, Oceania	%	0.4%	-0.6%	-0.1%	0.3%	0.1%	0.8%	0.7%	0.3%	1.5%	2.1%	1.8%	1.5%	1.7%	0.3%	0.9%	1.3%
Waters	%	-0.5%	-0.5%	-0.5%	0.2%	-0.2%	1.1%	0.5%		0.5%	0.4%	0.5%	-0.6%	0.1%	0.3%	-0.2%	0.1%
Nestlé Nutrition	%	0.4%		0.2%	1.3%	0.5%	0.7%	1.0%	0.6%	1.5%	0.8%	1.1%	-0.4%	0.6%	0.3%	0.0%	0.5%
Other F&B	%	0.7%	-0.7%		1.7%	0.6%	-0.4%	0.6%	0.3%	-0.6%	-1.0%	-0.8%	1.9%	0.1%	0.3%	1.1%	0.2%
Total	%	0.9%	-0.1%	0.7%	1.3%	0.8%	1.0%	0.9%	0.7%	1.0%	0.9%	0.9%	0.6%	0.8%	0.3%	0.6%	0.9%
Volume by zone																	
Food	%	3.0%	3.2%	3.1%	1.9%	2.5%	1.9%	1.9%	2.5%	1.3%	1.5%	1.4%	2.6%	1.8%	2.2%	2.4%	1.9%
EMENA	%	3.1%	2.9%	3.0%	2.2%	2.7%	2.5%	2.4%	2.7%	1.7%	-0.4%	0.6%	3.0%	1.4%	2.6%	2.8%	1.7%
Americas	%	2.7%	2.3%	2.5%	0.0%	1.6%	0.6%	0.1%	1.3%	-1.4%	1.1%	-0.1%	1.0%	0.3%	0.3%	0.6%	0.3%
Africa, Asia, Oceania	%	1.7%	3.1%	2.4%	3.4%	2.7%	3.4%	3.4%	2.9%	3.0%	3.0%	3.0%	4.8%	3.6%	2.8%	3.8%	3.4%
Waters	%	5.8%	3.6%	4.7%	3.9%	4.4%	4.8%	4.3%	4.5%	2.6%	4.2%	3.5%	-0.4%	2.1%	2.0%	0.7%	2.1%
Nestlé Nutrition	%	2.2%		1.1%	0.1%	0.8%	1.1%	0.7%	0.9%	-0.4%	-0.1%	-0.2%	1.6%	0.4%	2.0%	1.8%	0.8%
Other F&B	%	4.5%	3.9%	4.2%	3.7%	4.0%	1.9%	2.6%	3.4%	6.4%	2.8%	4.5%	6.0%	5.0%	5.0%	5.6%	5.1%
Total	%	3.0%	3.2%	3.1%	1.9%	2.5%	1.9%	1.9%	2.5%	1.3%	1.5%	1.4%	2.6%	1.8%	2.2%	2.4%	1.9%

Source: Company accounts, MainFirst Research



Quarterly Information

Figure 9: Quarterly Information

Businesses	Q1-16	Q2-16	H1-16	Q3-16	9M-16	Q4-16	H2-16	FY-16	Q1 17	Q2 17	H1 17	Q3 17	9M 17	Q4 17E	H2 17E	2017E	
Organic sales growth by business																	
Powdered & liquid beverages	%	6.3%	4.1%	5.2%	4.3%	4.9%	3.7%	4.0%	4.6%	3.6%	2.8%	3.2%	4.1%	3.5%	4.3%	4.2%	3.7%
Nestlé Waters	%	5.7%	3.7%	4.7%	4.7%	4.7%	5.9%	5.3%	5.0%	3.4%	5.0%	4.2%	0.2%	2.9%	2.3%	1.2%	2.7%
Dairy, ice cream	%	1.5%	(0.1%)	0.7%	1.3%	0.9%	3.7%	2.5%	1.6%	1.3%	3.1%	2.2%	3.1%	2.5%	2.3%	2.7%	2.5%
Nutrition/Health Science/Skin	%	3.8%	1.2%	2.5%	3.4%	2.8%	(0.4%)	1.5%	2.0%	3.1%	(0.3%)	1.4%	2.2%	1.7%	2.3%	2.3%	1.8%
Prepared meals	%	1.5%	3.9%	2.7%	3.6%	3.0%	1.8%	2.7%	2.7%	4.2%	1.2%	2.7%	1.6%	2.3%	1.3%	1.5%	2.1%
Chocolate and confectionery	%	2.8%	3.4%	3.1%	(1.4%)	1.6%	2.4%	0.5%	1.8%	(2.9%)	(0.3%)	(1.6%)	2.6%	(0.2%)	2.3%	2.5%	0.4%
Nestlé Purina pet care	%	5.1%	6.1%	5.6%	5.3%	5.5%	4.7%	5.0%	5.3%	1.3%	5.1%	3.2%	5.1%	3.8%	3.5%	4.3%	3.8%
Total	%	3.9%	3.1%	3.5%	3.2%	3.3%	2.6%	3.1%	3.2%	2.3%	2.4%	2.3%	2.9%	2.6%	2.7%	2.8%	2.6%
Price/mix (value) by business																	
Powdered & liquid beverages	%	1.1%	0.7%	0.9%	0.6%	0.8%	1.2%	0.9%	0.9%	1.4%	1.6%	1.5%	0.6%	1.2%	0.3%	0.5%	1.0%
Nestlé Waters	%	-0.5%	-0.7%	-0.6%	0.6%	-0.2%	0.6%	0.6%		0.4%	0.6%	0.5%	0.6%	2.8%	0.3%	0.5%	0.5%
Dairy, ice cream	%	-0.7%	-0.7%	-0.7%	2.3%	0.3%	3.5%	2.9%	1.1%	1.8%	2.4%	2.1%	0.6%	1.6%	0.3%	0.5%	1.3%
Nutrition/Health Science/Skin	%	1.0%	-0.6%	0.2%	1.7%	0.7%	-0.5%	0.6%	0.4%	0.8%	-0.4%	0.2%	0.6%	0.3%	0.3%	0.5%	0.3%
Prepared meals	%	0.8%	0.8%	0.8%	0.2%	0.6%	1.0%	0.6%	0.7%	1.8%	1.2%	1.5%	0.6%	1.2%	0.3%	0.5%	1.0%
Chocolate and confectionery	%	2.5%	4.7%	3.6%	-6.6%	0.2%	8.6%	1.0%	2.3%	-0.3%	-1.7%	-1.0%	0.6%	-0.5%	0.3%	0.5%	-0.3%
Nestlé Purina pet care	%	1.5%	0.3%	0.9%	1.8%	1.2%		0.9%	0.9%	0.4%	0.8%	0.6%	0.6%	0.6%	0.3%	0.5%	0.5%
Total	%	0.9%	0.5%	0.7%	1.3%	0.8%	0.1%	1.1%	0.7%	1.0%	0.9%	0.9%	0.6%	0.9%	0.3%	0.4%	0.7%
Volume by business																	
Powdered & liquid beverages	%	5.2%	3.4%	4.3%	3.7%	4.1%	2.5%	3.1%	3.7%	2.2%	1.2%	1.7%	3.5%	2.3%	4.0%	3.8%	2.7%
Nestlé Waters	%	6.2%	4.4%	5.3%	4.1%	4.9%	5.3%	4.7%	5.0%	3.0%	4.4%	3.7%	-0.4%	0.1%	2.0%	0.8%	2.2%
Dairy, ice cream	%	2.2%	0.6%	1.4%	-1.0%	0.6%	0.2%	-0.4%	0.5%	-0.5%	0.7%	0.1%	2.5%	0.9%	2.0%	2.3%	1.2%
Nutrition/Health Science/Skin	%	2.8%	1.8%	2.3%	1.7%	2.1%	0.1%	0.9%	1.6%	2.3%	0.1%	1.2%	1.6%	1.3%	2.0%	1.8%	1.5%
Prepared meals	%	0.7%	3.1%	1.9%	3.4%	2.4%	0.8%	2.1%	2.0%	2.4%		1.2%	1.0%	1.1%	1.0%	1.0%	1.1%
Chocolate and confectionery	%	0.3%	-1.3%	-0.5%	5.2%	1.4%	-6.2%	-0.5%	-0.5%	-2.6%	1.4%	-0.6%	2.0%	0.3%	2.0%	2.0%	0.7%
Nestlé Purina pet care	%	3.6%	5.8%	4.7%	3.5%	4.3%	4.7%	4.1%	4.4%	0.9%	4.3%	2.6%	4.5%	3.2%	3.2%	3.9%	3.2%
Total	%	3.0%	2.6%	2.8%	1.9%	2.5%	2.5%	1.9%	2.5%	1.3%	1.5%	1.4%	2.4%	1.7%	2.4%	2.4%	1.9%

Source: Company accounts, MainFirst Research



DCF Analysis

Figure 10: DCF Analysis

YEAR TO DECEMBER (CHF)	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	TERMINAL
Core model assumptions											
Group revenue	91,394	94,410	98,529	103,320	108,785	114,538	120,596	126,975	133,690	140,761	148,206
EBIT (adj.), excl. at-equity	13,633	14,743	16,838	17,942	19,053	20,193	21,333	22,670	24,092	25,569	27,098
NOPAT (adj.)	9,543	10,320	11,786	12,560	13,337	14,135	14,933	15,869	16,864	17,898	18,969
Capex	(4,570)	(4,720)	(4,729)	(4,753)	(4,787)	(4,582)	(4,341)	(4,190)	(3,971)	(3,758)	(3,957)
Depreciation	3,306	3,341	3,527	3,507	3,696	3,681	3,845	3,801	3,947	3,877	3,997
Change in working capital	402	(417)	(695)	(755)	63	66	70	73	77	81	86
Other operating items	1,040	1,249	1,293	1,566	1,656	1,978	2,150	2,565	2,827	3,346	3,719
Free operating CF (FoCF)	9,721	9,773	11,182	12,126	13,965	15,278	16,657	18,119	19,745	21,444	22,813
Group revenue, y/y %	2.2%	3.3%	4.4%	4.9%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
EBIT margin %	14.9%	15.6%	17.1%	17.4%	17.5%	17.6%	17.7%	17.9%	18%	18.2%	18.3%
Working-capital intensity %	4.1%	4.7%	5.5%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%
Fixed-asset intensity %	64.5%	66%	63.1%	61.7%	58.5%	56.7%	53.6%	51.8%	48.8%	47.1%	44.4%
Capex as a % of revenue	5%	5%	4.8%	4.6%	4.4%	4%	3.6%	3.3%	3%	2.7%	2.7%
Capex as a % of Depreciation	138.2%	141.3%	134.1%	135.5%	129.5%	124.5%	112.9%	110.2%	100.6%	97%	99%
Normalised tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
RoCE (NOPAT)	10%	10.8%	11.9%	12.7%	13.2%	14%	14.6%	15.7%	16.5%	17.6%	18.5%
Free CF/ICE	10.1%	10.3%	11.3%	12.3%	13.8%	15.2%	16.3%	17.9%	19.3%	21.1%	22.3%

DCF PARAMETERS	CURRENT	TARGET	COMMON PARAMETERS	
Interest-bearing liabilities, as % of EV	13%	5%	Terminal FCF growth	1%
WACC	5.8%	6.1%	Risk-free rate	1.75%
NPV of FoCF	415,513	362,719	Market risk premium	6%
+ Net cash (debt), current		(12,801)	Beta	0.75
- Pension prov. (Book value)		(8,420)	Cost of debt (pre-tax)	3.6%
- Minorities (Market value)		(1,391)		
+/- Other items		32,423		
= Equity value	425,324	372,531		
/ Number of shares (m)		3,060		
= NPV per share (CHF)	139	122		

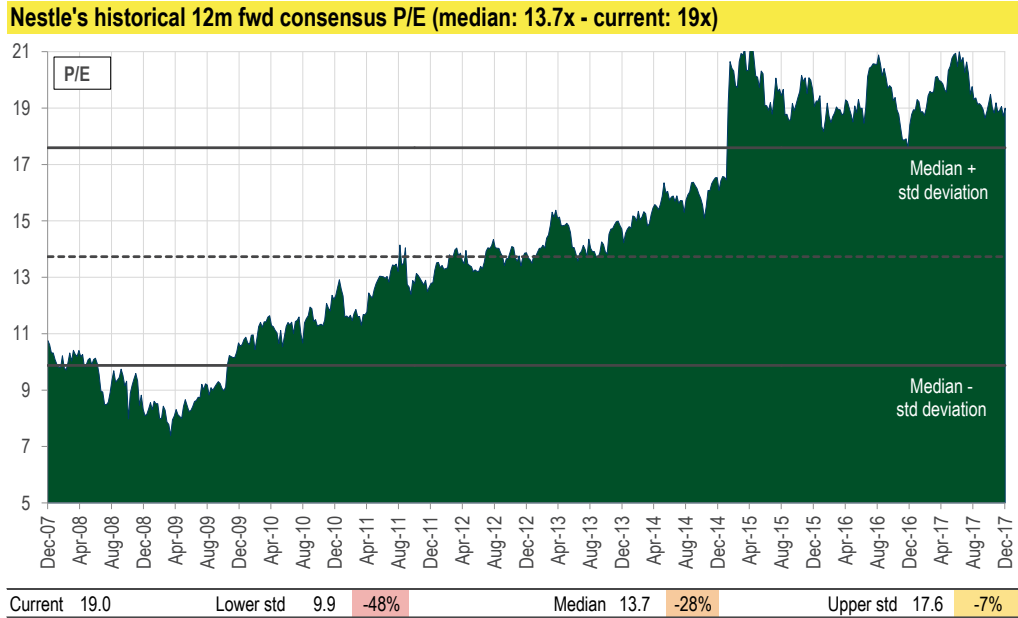
Sensitivity Analysis Terminal Growth

WACC	-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%
5.1%	115	123	133	145	160	181
6.1%	96	101	107	114	123	134
7.1%	81	85	89	94	100	106
8.1%	71	73	76	79	83	88
9.1%	62	64	66	69	71	74
10.1%	56	57	58	60	62	64
11.1%	50	51	52	54	55	57
12.1%	45	46	47	48	49	50



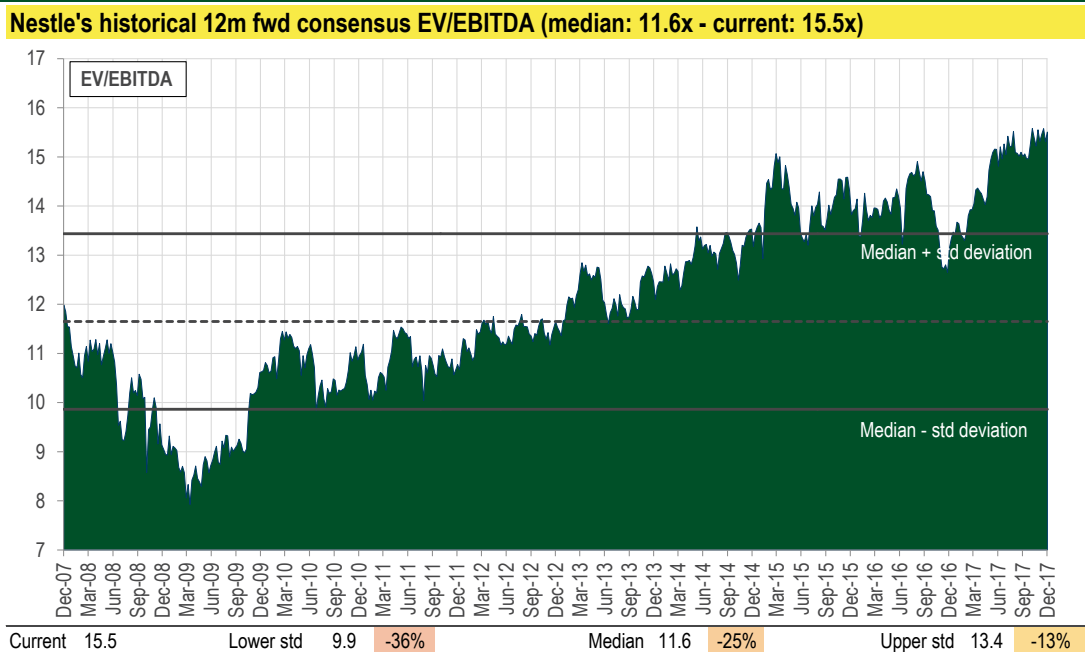
Valuation

Figure 13: Nestlé's Historical 12m fwd P/E



Source: Company accounts, MainFirst Research

Figure 14: Nestlé's Historical 12m fwd EV/EBITDA

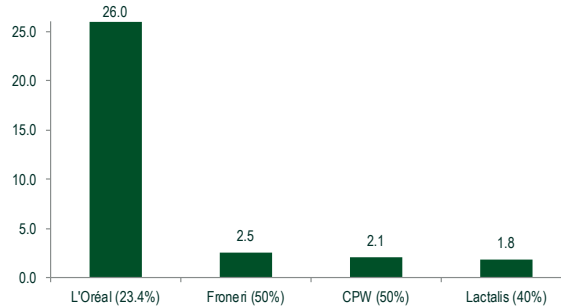


Source: Company accounts, MainFirst Research



Valuation

Figure 15: Assumed market value for Nestlé's stakes in associates and JVs (CHFbn)



Source: Company accounts, MainFirst Research, Note: Froneri EBIT margin based on R&R average (FY14-15), CPW based on multiples and margins of Kellogg's and General Mills, Lactalis based on Danone margins (pre-White Wave) and multiple of dairy companies

Figure 16: Residual Operating Income (ReOI) valuation approach for fair value of share price (CHF)

Amounts in CHFm	FY-16	FY-17E	FY-18E	FY-19E	FY-20E	FY-21E	FY-22E	FY-23E	FY-24E	FY-25E	TERMINAL
Operating income (Trading operating income)	13,693	13,633	14,743	16,838	17,942	19,053	20,193	21,333	22,670	24,092	25,569
NOPAT	8,869	9,952	10,910	11,955	12,739	13,528	14,337	15,147	16,096	17,105	18,154
Net operating asset (capital employed)	90,200	88,378	91,636	91,629	93,407	92,657	93,389	92,372	92,925	91,661	91,974
ROCE (NOPAT)	10.6%	11.3%	11.9%	13.0%	13.6%	14.6%	15.4%	16.4%	17.3%	18.7%	19.7%
WACC	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%
Residual operating income	3,344	4,481	5,550	6,397	7,182	7,862	8,717	9,482	10,493	11,469	12,595
Discount rate		1.000	0.945	0.891	0.840	0.792	0.746	0.704	0.663	0.626	0.590
Total PV of FCF		57,934									
PV of Terminal Value		148,102									
Capital employed		90,200									
Enterprise Value		296,236									

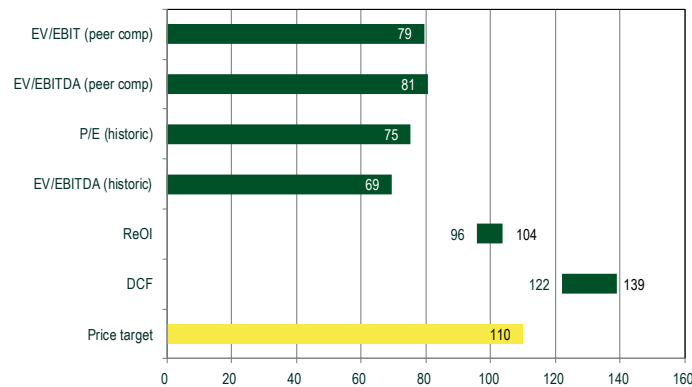
Source: Company accounts, MainFirst Research, Note: ReOI = Operating income (after tax) – required income of capital employed, same common parameters as disclosed in DCF valuation

Figure 17: Sensitivity analysis of Residual Operating Income (ReOI) valuation approach for fair value of share price (CHF)

		Terminal growth rate						
		100	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%
WACC	6.4%	90	91	93	95	97	100	103
	6.3%	91	92	94	97	99	102	104
	6.2%	92	94	96	98	101	103	106
	6.1%	94	96	98	100	103	106	109
	6.0%	94	96	99	101	104	107	110
	5.9%	96	98	100	103	105	109	112

Source: Company accounts, MainFirst Research, Note: ReOI = Operating income (after tax) – required income of capital employed

Figure 18: Overview of valuation approaches



Source: Company accounts, MainFirst Research



Additional Tables

Figure 19: Key Figures Nestlé Results vs. MainFirst Estimates and Consensus

		Q1-16	Q2-16	H1-16	Q3-16	Q4-16	H2-16	FY-16	Q1 17	Q2 17	H1 17	Q3 17	9M 17	Q4 17E	H2 17E	MF 2017E	MF 2017E	MF 2017E	Cons. 2017E	Δ to consens.
Sales	CHF m	20,900	22,221	43,155	22,359	23,986	46,345	89,500	21,022	22,001	43,023	22,249	65,272	24,856	48,371	91,394	90,134	90,134	90,134	1.4%
Volume growth (RIG)	%	3.0%	2.6%	2.8%	1.9%	2.1%	1.9%	2.4%	1.3%	1.5%	1.4%	2.6%	1.8%	2.2%	2.4%	1.9%	1.8%	1.8%	1.8%	10bps
Pricing	%	0.9%	0.5%	0.7%	1.3%	0.5%	0.9%	0.8%	1.0%	0.9%	0.9%	0.6%	0.8%	0.3%	0.4%	0.7%	0.7%	0.7%	1.0%	-30bps
Organic growth	%	3.9%	3.1%	3.5%	3.2%	2.6%	2.8%	3.2%	2.3%	2.4%	2.3%	3.2%	2.6%	2.5%	2.8%	2.6%	2.7%	2.7%	2.7%	-10bps
Scope	%	-1.2%	-0.6%	-0.8%	-0.2%	-1.4%	-0.8%	-0.8%	-1.5%	-3.1%	-2.3%	-3.2%	-2.6%	0.1%	-1.5%	-1.2%	-1.2%	-1.2%	-1.6%	40bps
Exchange rate	%	-2.8%	-1.2%	-2.0%	-1.1%	-1.3%	-1.2%	-1.6%	-0.4%	-0.2%	-0.3%	-0.6%	-0.4%	1.0%	0.2%	0.7%	-0.4%	-0.4%	-0.4%	112bps
Total	%	-0.1%	1.4%	0.7%	1.8%	0.3%	0.9%	0.8%	0.4%	-1.0%	-0.3%	-0.5%	-0.4%	3.6%	1.6%	2.1%	0.7%	0.7%	0.7%	142bps
Gross profit	CHF m			22,070			23,517	45,587			21,615				25,698	47,459	45,521	45,521	45,521	4.3%
Gross margin	%			51.1%			50.7%	50.9%			50.2%				53.1%	51.9%	50.5%	50.5%	50.5%	
Trading operating profit (underl.)	CHF m			6,808			6,885	13,693			6,798				6,853	13,633	13,754	13,754	13,754	-0.9%
Growth	%			5.8%			-0.9%	2.3%			5.6%				-1.4%	-0.4%	0.4%	0.4%	0.4%	
Underlying TOP (before restructurir	%							15.6%										15.6%	15.6%	
Margin change	%																	0.0%	0.0%	
Trading operating profit margin	%			15.8%			14.9%	15.3%			15.8%				14.2%	14.9%	15.3%	15.3%	15.3%	-34bps
Margin change	%			0.8%			-0.3%	0.2%			0.0%				-0.7%	-0.4%	0.0%	0.0%	0.0%	
Operating profit	CHF m			6,484			6,680	13,164			6,400				6,642	13,113	13,468	13,468	13,468	-2.6%
Operating profit margin	%			15.3%			14.4%	14.7%			15.0%				13.7%	14.3%	14.9%	14.9%	14.9%	-59bps
EBT	CHF m			6,156			6,370	12,526			6,170				6,367	12,537	12,852	12,852	12,852	-2.5%
Net profit before minorities	CHF m			4,293			4,590	8,883			5,055				5,137	10,192	10,328	10,328	10,328	-1.3%
Net profit attrib. to shareholders	CHF m			4,100			4,431	8,531			4,889				4,810	9,699	10,088	10,088	10,088	-3.9%
Growth	%			-9.2%			-2.6%	-5.9%			19.2%				8.6%	13.7%	18.3%	18.3%	18.3%	
Underlying EPS	CHF			1.65			1.75	3.40			1.68				2.03	3.63	3.51	3.51	3.51	3.3%
Growth	%			5.8%				2.7%			1.8%				15.9%	6.7%	3.2%	3.2%	3.2%	
DPS	CHF							2.30								2.37	2.39	2.39	2.39	-1.0%

Source: Company accounts, MainFirst Research

Figure 20: Key Figures MainFirst Estimates

		Q1-16	Q2-16	H1-16	Q3-16	9M-16	Q4-16	H2-16	FY-16	Q1 17	Q2 17	H1 17	Q3 17	9M 17	Q4 17E	H2 17E	2017E
Organic sales growth by zone																	
Food	%	3.9%	3.1%	3.5%	3.2%	3.4%	2.9%	3.0%	3.2%	2.3%	2.4%	2.3%	3.2%	2.6%	2.5%	3.0%	2.8%
EMENA	%	3.2%	2.0%	2.6%	1.4%	2.2%	1.4%	1.4%	2.0%	1.7%	0.3%	1.0%	3.7%	1.9%	2.9%	3.3%	2.1%
Americas	%	5.0%	5.2%	5.1%	3.5%	4.5%	3.5%	3.3%	4.2%	0.4%	2.1%	1.3%	1.3%	1.3%	0.6%	0.9%	1.1%
Africa, Asia, Oceania	%	2.1%	2.5%	2.3%	3.7%	2.8%	4.2%	4.1%	3.2%	4.5%	5.1%	4.8%	6.3%	5.3%	3.1%	4.7%	4.8%
Waters	%	5.3%	3.1%	4.2%	4.1%	4.2%	5.9%	4.8%	4.5%	3.1%	4.6%	4.0%	-1.0%	2.2%	2.3%	0.5%	2.2%
Nestlé Nutrition	%	2.6%		1.3%	1.4%	1.3%	1.8%	1.7%	1.5%	1.1%	0.7%	0.9%	1.2%	1.0%	2.3%	1.8%	1.3%
Other F&B	%	5.2%	3.2%	4.2%	5.4%	4.6%	1.5%	3.2%	3.7%	5.8%	1.8%	3.7%	7.9%	5.1%	5.3%	6.7%	5.2%
Total	%	3.9%	3.1%	3.5%	3.2%	3.3%	2.9%	2.8%	3.2%	2.3%	2.4%	2.3%	3.2%	2.6%	2.5%	3.0%	2.8%
Organic sales growth by business																	
Powdered & liquid beverages	%	6.3%	4.1%	5.2%	4.3%	4.9%	3.7%	4.0%	4.6%	3.6%	2.8%	3.2%	4.1%	3.5%	4.3%	4.2%	3.7%
Nestlé Waters	%	5.7%	3.7%	4.7%	4.7%	4.7%	5.9%	5.3%	5.0%	3.4%	5.0%	4.2%	0.2%	2.9%	2.3%	1.2%	2.7%
Dairy, ice cream	%	1.5%	-0.1%	0.7%	1.3%	0.9%	3.7%	2.5%	1.6%	1.3%	3.1%	2.2%	3.1%	2.5%	2.3%	2.7%	2.5%
Nutrition/Health Science/Skin Health	%	3.8%	1.2%	2.5%	3.4%	2.8%	-0.4%	1.5%	2.0%	3.1%	-0.3%	1.4%	2.2%	1.7%	2.3%	2.3%	1.8%
Prepared meals	%	1.5%	3.9%	2.7%	3.6%	3.0%	1.8%	2.7%	2.7%	4.2%	1.2%	2.7%	1.6%	2.3%	1.3%	1.5%	2.1%
Chocolate and confectionery	%	2.8%	3.4%	3.1%	-1.4%	1.6%	2.4%	0.5%	1.8%	-2.9%	-0.3%	-1.6%	2.6%	-0.2%	2.3%	2.5%	0.4%
Nestlé Purina pet care	%	5.1%	6.1%	5.6%	5.3%	5.5%	4.7%	5.0%	5.3%	1.3%	5.1%	3.2%	5.1%	3.8%	3.5%	4.3%	3.8%
Total	%	3.9%	3.1%	3.5%	3.2%	3.3%	2.6%	3.1%	3.2%	2.3%	2.4%	2.3%	2.9%	2.6%	2.7%	2.8%	2.6%

Source: Company accounts, MainFirst Research



Figure 21: Changes to our Nestlé Estimates

	New estimates			Old estimates			Changes		
	2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
Net sales	91,694	94,625	98,782	91,394	94,410	98,529	0.3%	0.2%	0.3%
EBITDA	17,465	16,939	18,084	16,939	18,084	20,364	3.1%	-6.3%	-11.2%
EBIT adj.	13,633	14,743	16,838	13,633	14,743	16,838	0.0%	0.0%	0.0%
Net Income	9,699	10,848	12,051	9,699	10,848	12,051	0.0%	0.0%	0.0%
EPS	3.15	3.61	4.15	3.15	3.61	4.15	0.1%	0.0%	0.1%
Adj. EPS	3.63	4.06	4.36	3.63	4.06	4.36	-0.1%	0.0%	0.0%

Source: Company accounts, MainFirst Research

Figure 22: Key Figures Nestlé Results vs. MainFirst Estimates and Consensus

	2017E	Cons. 2017E	Diff. (%)	2018E	Cons. 2018E	Diff. (%)	2019E	Cons. 2019E	Diff. (%)
Net sales	91,694	90,188	1.7%	94,625	93,760	0.9%	98,782	97,632	1.2%
EBITDA	17,465	17,193	1.6%	16,939	18,517	-8.5%	18,084	19,966	-9.4%
Margin	19.0%	19.1%	-0.1%	17.9%	19.7%	-9.4%	18.3%	20.5%	-10.5%
EBITA	13,633	13,854	-1.6%	14,743	15,034	-1.9%	16,838	16,328	3.1%
Margin	14.9%	15.4%	-3.2%	15.6%	16.0%	-2.8%	17.0%	16.7%	1.9%
EBIT adj.	13,633	13,854	-1.6%	14,743	15,034	-1.9%	16,838	16,328	3.1%
Margin	14.9%	15.4%	-3.2%	15.6%	16.0%	-2.8%	17.0%	16.7%	1.9%
Net Income	9,699	10,673	-9.1%	10,848	11,481	-5.5%	12,051	12,516	-3.7%
EPS	3.15	3.49	-9.5%	3.61	3.82	-5.5%	4.15	4.23	-1.7%
Adj. EPS	3.63	3.49	4.1%	4.06	3.82	6.3%	4.36	4.23	3.2%

Source: Company accounts, MainFirst Research

Figure 23: Main Shareholders

Name	%
Blackrock	3.8%
Capital Group	2.9%
Norges Bank	2.7%
Vanguard	2.7%
UBS	1.8%
Sun Life	1.8%
Credit Suisse	1.4%
Third Point	1.3%

Source: Company accounts, Bloomberg, MainFirst Research



Figure 24: Input cost structure and gross margin impact

	2010	% of Raw	2014	2015	2016	2017E	2018E	2019E	2020E	
	% of sales	& Pack	COGS (%)	(CHF m)	(CHF m)	(CHF m)	(CHF m)	(CHF m)	(CHF m)	
Revenues	100%			91,612	88,785	89,469	91,394	94,410	98,529	103,320
Raw	25%	73%	49%	16,716	13,861	13,998	14,523	15,169	15,945	16,864
-- Milk (liquid and powder)	7%	20%		7,330	4,860	4,613	5,150	5,749	6,418	7,166
-- Coffee	2%	7%		1,018	871	882	1,053	1,256	1,499	1,788
-- Cereals	2%	7%		1,622	1,399	1,202	1,211	1,221	1,230	1,240
-- Sugar	2%	7%		1,211	973	1,346	1,164	1,007	871	753
-- Cocoa	1%	3%		951	1,037	1,087	776	554	396	282
-- Others (Oils & Fats)	10%	30%		7,157	7,157	7,157	7,157	7,157	7,157	7,157
Pack	9%	27%	18%	4,132	3,563	3,450	3,639	3,840	4,055	4,285
-- Flexible	2%	6%		1,618	1,328	1,317	1,359	1,403	1,448	1,494
-- Plastic	1%	4%		1,105	907	899	928	958	988	1,020
-- Resin	1%	2%		603	495	491	506	522	539	556
-- Metal	1%	3%		774	590	586	741	937	1,185	1,498
-- Pulp	2%	6%		1,641	1,518	1,422	1,546	1,680	1,827	1,985
-- Others	2%	5%		1,386	1,138	1,128	1,164	1,202	1,240	1,280
Others				-	-	-	-	-	-	-
Raw & Pack	34%	100%	67%	20,848	17,423	17,448	18,162	19,009	20,000	21,149
Labour	17%		33%	15,398	14,923	15,038	15,361	15,868	16,560	17,366
COGS (P&L)	51%		100%	47,553	44,730	44,199	44,235	44,939	46,210	48,250
Raw & pack (excl. Labour)		100%		15,867	15,377	15,496	15,829	16,351	17,065	17,895
Raw & pack (excl. Labour) development (CHF m)				-95	-490	118	333	522	713	830
Gross margin impact on raw & pack (bps)				10	53	-13	-37	-57	-76	-84
COGS (CHF m)				-558	-2,823	-531	36	704	1,271	2,041
Gross margin impact on COGS (bps)				61	308	60	-4	-77	-135	-207
Gross margin expectatons (%)				48.2%	49.8%	49.8%	51.8%	52.5%	53.2%	53.4%
Price increases				2.2%	2.0%	0.8%	0.7%	0.8%	0.5%	1.0%
Volume growth				2.3%	2.2%	2.4%	1.9%	3.1%	3.9%	3.9%
Organic growth				4.5%	4.2%	3.2%	2.6%	3.9%	4.4%	4.9%
Soft commodities and labour inflation										
				2014	2015	2016	2017E	2018E	2019E	2020E
Raw	25%									
-- Milk (liquid and powder)	7%			16%	-34%	-5%	12%	12%	12%	12%
-- Coffee	2%			8%	-14%	1%	19%	19%	19%	19%
-- Cereals	2%			-14%	-14%	-14%	1%	1%	1%	1%
-- Sugar	2%			-7%	-20%	38%	-14%	-14%	-14%	-14%
-- Cocoa	1%			22%	9%	5%	-29%	-29%	-29%	-29%
-- Others (Oils & Fats)	10%									
Pack	9%									
-- Flexible	2%			1%	-18%	-1%	3%	3%	3%	3%
-- Plastic	1%			1%	-18%	-1%	3%	3%	3%	3%
-- Resin	1%			1%	-18%	-1%	3%	3%	3%	3%
-- Metal	1%			2%	-24%	-1%	26%	26%	26%	26%
-- Pulp	2%			8%	-7%	-6%	9%	9%	9%	9%
-- Others	2%			1%	-18%	-1%	3%	3%	3%	3%
Others										
Raw & Pack	34%									
Labour (*)	17%			-1%	-3%	1%	2%	5%	4%	5%
COGS (P&L)										
Raw & pack (excl. Labo)				3.6%	-13.9%	0.3%	3.7%	3.7%	3.7%	3.7%

* similar to revenue growth rates

Source: Company accounts, MainFirst Research

Company Snapshot

Figure 25: Nestlé – sales by Businesses FY-17E

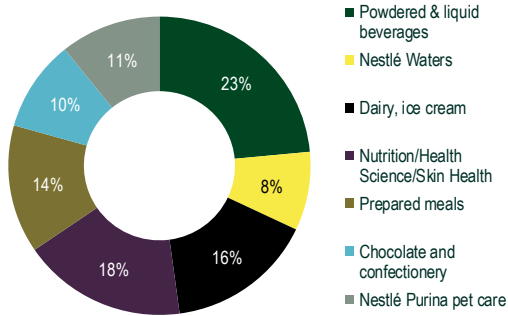
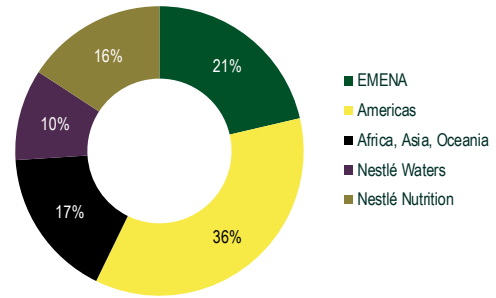


Figure 26: Nestlé – Sales by zones FY-17E



Source: Company accounts, MainFirst Research

Source: Company accounts, MainFirst Research

Figure 27: Nestlé – sales and gross margin evolution

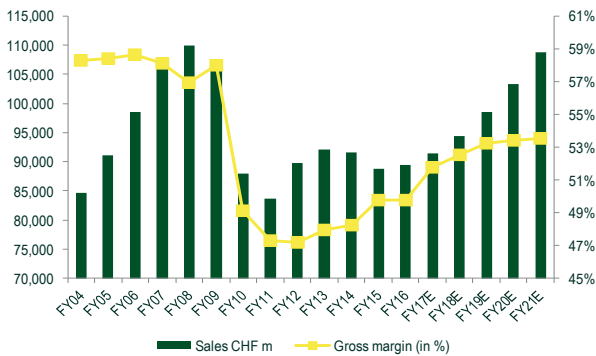
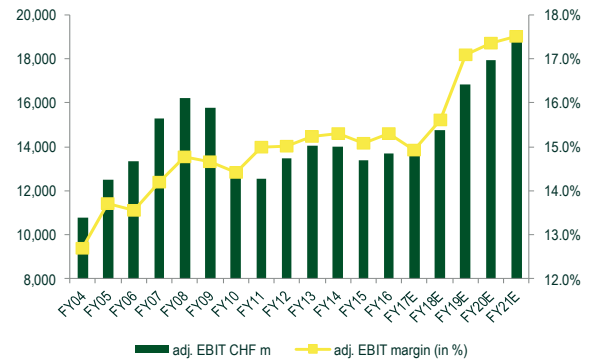


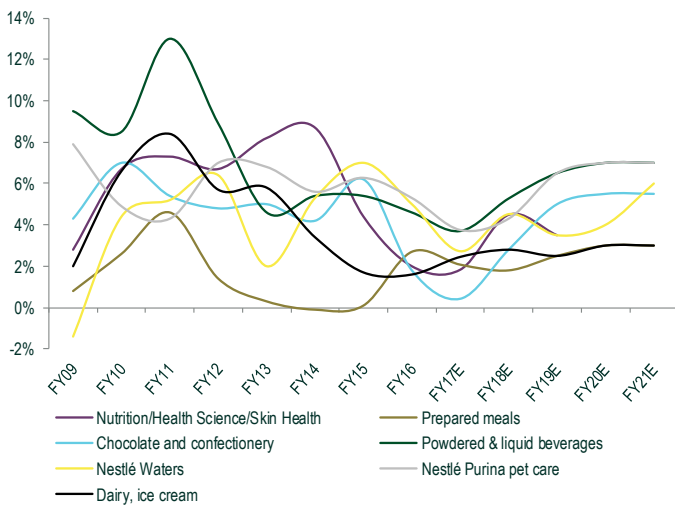
Figure 28: Nestlé – adj. EBIT and adj. EBIT margin evolution



Source: Company accounts, MainFirst Research

Source: Company accounts, MainFirst Research

Figure 29: Nestlé – organic growth by product category



Source: Company accounts, MainFirst Research

Figure 30: Nestlé – company description

Company description:

Nestlé SA is a nutrition, health and wellness company, which manufactures, supplies and produces prepared dishes and cooking aids, milk-based products, pharmaceuticals and ophthalmic goods, baby foods and cereals. It operates through six segments: Zone Europe; Zone Americas; Zone Asia, Oceania and Africa; Nestlé Waters; Nestlé Nutrition; and Other. The company was founded by Henri Nestlé in 1866 and is headquartered in Vevey, Switzerland.

Management team:

CEO: Ulf Mark Schneider (as of 1st January 2017)
CFO: Francois-Xavier Roger

Company headquarters:

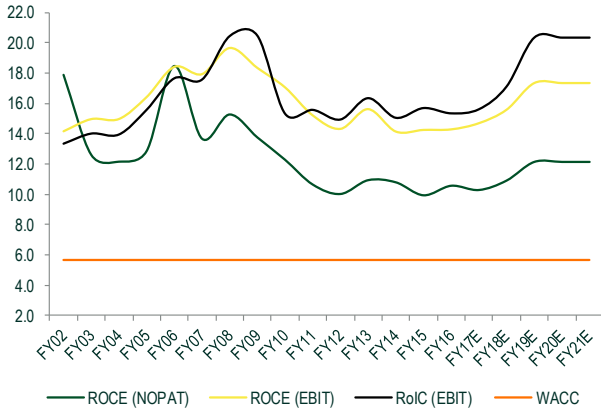
Avenue Nestlé 55,
Vevey, Vaud 1800,
Switzerland

Company website:

www.nestle.com

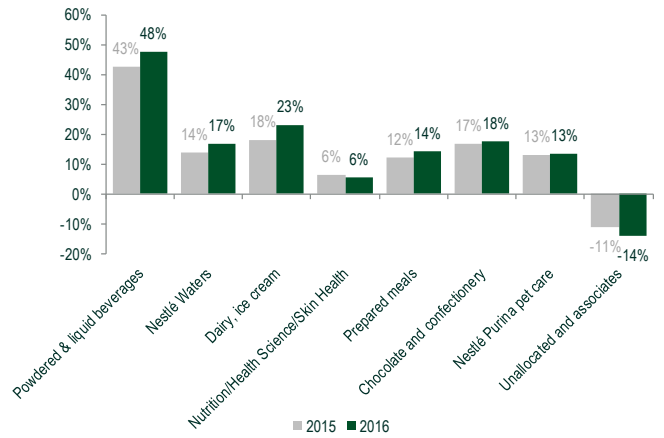
Source: Company accounts, MainFirst Research

Figure 31: Nestlé - Return ratios



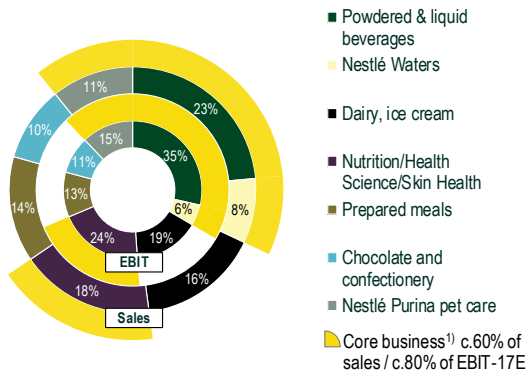
Source: Company accounts, MainFirst Research

Figure 32: Nestlé - ROCE by business



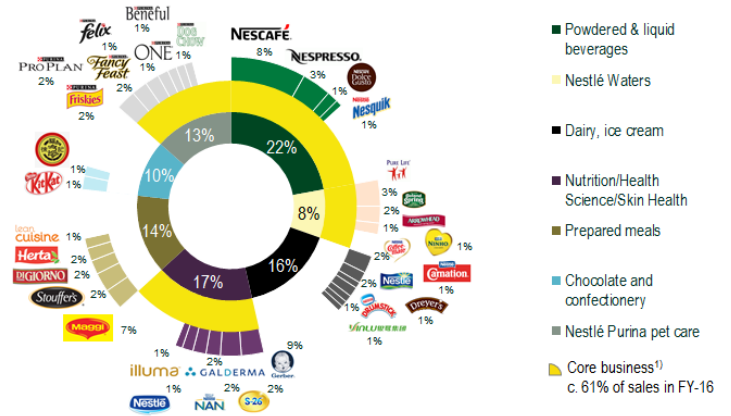
Source: Company accounts, MainFirst Research

Figure 33: Nestlé - Sales and EBIT by segment (FY-17E)



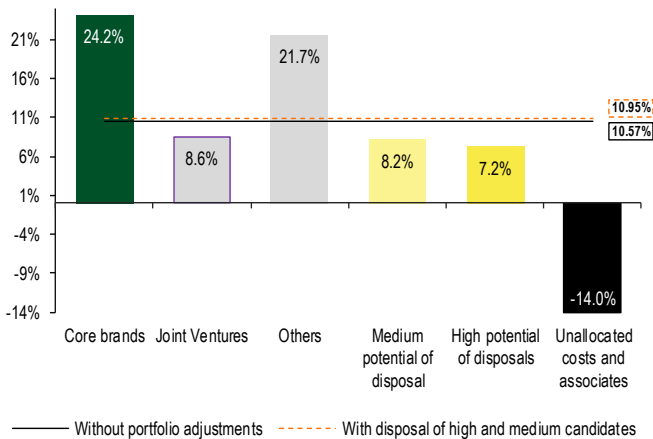
Source: Company accounts, Euromonitor, MainFirst Research

Figure 34: Revenue split by categories and core brands (FY-16)



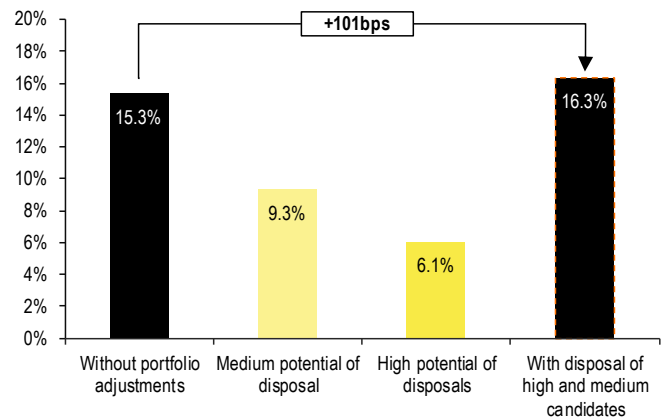
Source: Company accounts, Euromonitor, MainFirst Research

Figure 35: Weighted average of ROCE per classification



Source: Company accounts, Euromonitor, MainFirst Research

Figure 36: Potential EBIT margin improvement based on divestments



Source: Company accounts, Euromonitor, MainFirst Research

SWOT Analysis

Strengths

- World's largest foodstuff manufacturer, with No. 1 or No. 2 market position in all relevant food categories
- Strong and focused brand portfolio / unique innovation and market power
- Earnings visibility, even in a difficult economic environment
- Solid balance sheet despite recent acquisitions / strong, sustainable cash flow generation
- Strategy is oriented towards the long term and sustainability

Weaknesses

- Highly exposed to the US dollar and euro
- Stock loses attractiveness when market sentiment improves
- Chocolate and confectionery activities are mainly located in the USA and market position is only No. 3 behind Hershey and Mars
- US frozen (fast-food) prepared dish business continues to have below average growth rate and operating trading margin

Opportunities

- Start of new CEO could trigger a stronger than previously expected transformation to a health and wellness company
- Divestment of several activities US frozen prepared dishes, US ice cream, US Confectionery, JV in CPW, Froneri, Lactalis, BPW and L'Oréal
- Stronger focus on ROCE
- Further expansion in growth segments (nutrition, professional food and skin health)
- Strategy of focusing on health and wellness offers new opportunities, like in the area of health prevention, medical nutrition and skin health
- Lean Cuisine and Stouffers becoming base to serve audience of LOHAS (Lifestyle of Health and Sustainability)

Threats

- Commodity price increases
- Retail hard discounters in Europe could result in higher marketing costs
- Overpaying for acquisitions
- US frozen prepared dish business has not yet build a strong brand. Private label and change of consumer habit remain a threat to the business

Definitions and Ratios

Figure 37: Definitions/Ratios

PER-SHARE DATA

EPS, adj.	Earnings per share, adjusted for exceptional (often non-cash) items
NAV per share	Shareholders' equity per share
FCF per share	Free cash flow (after capex) per share
EVA per share	Economic value-add per share = $EPS - WACC * Invested\ capital / Number\ of\ shares$

CAPITAL RATIOS

Net working capital	Inventories + Trade receivables - Trade liabilities
Net working capital intensity	Net working capital as a % of group revenues
Fixed asset intensity	Total fixed assets as a % of group revenues
Tangible group equity / Tangible NAV	Group equity - Goodwill

LIQUIDITY RATIOS

Net debt (cash)	Interest-bearing liabilities - Cash and equivalents
Net gearing	Net debt in relation to Group equity (book values)
Interest cover	EBITDA (reported) as a multiple of Net interest
Net debt / EBITDA	Net financial debt as a multiple of reported EBITDA
DSOs	Trade receivables / Group revenues * 365 (days)
Inventory turnover (Days)	Inventories / Group revenues * 365 (days)

RETURN RATIOS

Operating FCF yield	$(Free\ Cash\ Flow - Net\ interest\ taxed) / Enterprise\ value$
FCF yield (Market cap)	Free Cash Flow (before M&A and Dividends) / Market cap
RoE (Net)	Return on equity = Net result shareholders (adj.) / Shareholders' equity
RoCE (EBIT)	Return on capital employed (EBIT) = $EBIT\ (adj.) / Capital\ employed$
RoCE (NOPAT)	RoCE based on normalised operating profit after tax (NOPAT)
RoIC (EBIT)	Return on invested capital = $EBIT\ (adj.) / Invested\ capital$
Capital employed	Fixed assets (incl. Intangibles and Goodwill) + Net working capital
Invested capital	Group equity + Interest-bearing liabilities

Source: Company accounts, MainFirst Research



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BARRY CALLEBAUT	BARN SW	CHF	1,507	Neutral
ARYZTA	ARYN SW	CHF	31	Neutral
EMMI AG	EMMN SW	CHF	655	Outperform
HOCHDORF HOLDING AG	HOCN SW	CHF	283	Outperform
ORIOR AG	ORON SW	CHF	76	Not rated
HUEGLI AG	HUE SW	CHF	785	Not rated
DANONE	BA FP	EUR	71	Outperform
UNILEVER CERTS.	UNA NA	EUR	52	Underperform
PARMALAT	PAR MI	EUR	3	Not rated
GENERAL MILLS	GIS US	USD	52	Not rated
KELLOGG	K US	USD	62	Not rated
CAMPBELL SOUP	CBP US	USD	46	Not rated
MONDELEZ INTERNATIONAL	MDLZ US	USD	41	Not rated
HERSHEY	HSY US	USD	111	Not rated
EBRO FOODS	EBRO SW	EUR	21	Not rated
ARCHER-DANLS.-MIDL.	ADM US	USD	44	Not rated
GLANBIA	OGN ID	EUR	17	Not rated
ASSOCIATED BRIT.FOODS	ABF LN	GBP	3,333	Not rated
SUEDZUCKER	SZU GR	EUR	17	Not rated
TATE & LYLE	TATE LN	GBP	646	Not rated
FLOWERS FOODS	FLO US	USD	19	Not rated
J M SMUCKER	SJM US	USD	105	Not rated
KERRY GROUP 'A'	KYG IG	EUR	83	Not rated
GIVAUDAN 'N'	GIVN VX	CHF	2,156	Neutral
SYMRISE	SY1 GR	EUR	65	Neutral
DAIRY CREST	DCG LN	GBP	608	Not rated
DEAN FOODS NEW	DF US	USD	10	Not rated
SAPUTO	SAP CN	CAD	44	Not rated
INNER MONGOLIA YILI EN. 'A'	2319 HK	CNY	29	Not rated
BRIGHT DAIRY & FOOD CO L'	600597 CH	CNY	14	Not rated
CHINA MENGNIU DAIRY CO	2319 HK	HKD	21	Not rated
YAKULT HONSHA CO LTD	2267 JT	JPY	8,810	Not rated
MORINAGA & CO LTD	2201 JT	JPY	6,450	Not rated
LOTTE CONFECTIONERY CO	004990 KS	KRW	166,000	Not rated
MEIJI HOLDINGS CO LTD	2269 JT	JPY	9,070	Not rated
STRAUSS GROUP	STRS IT	ILs	6,940	Not rated
MASSIMO ZANETTI	MZB IM	EUR	9	Not rated
YASHILI INTERNATIONAL HOI	1230 HK	HKD	2	Not rated
FRESENIUS SE & CO KGAA	FRE GY	EUR	70	Neutral

Source: MainFirst, Bloomberg

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