

Rating object	Rating information	
<b>Nestlé AG</b>  Creditreform ID: 406367260 Incorporation: 1866 Based in: Vevey (Switzerland) Main (Industry): Food and beverage industry CEO: Ulf Mark Schneider  <u>Rating objects:</u> Long-term Corporate Issuer Rating: Nestlé AG Long-term Corporate Issuer Rating: Nestlé Finance International Ltd. Long-term Local Currency (LT LC) Senior Unsecured Issues	Corporate Issuer Rating: <b>AA- / stable</b>	Type: Update unsolicited
	LT LC Senior Unsecured Issues,; <b>AA- / stable</b>	Other: <b>n.r.</b>
	Rating date: 13 October 2020 Monitoring until: withdrawal of the rating Rating methodology: CRA "Corporate Ratings" CRA "Non-Financial Corporate Issue Ratings" CRA "Rating Criteria and Definitions" Rating history: <a href="http://www.creditreform-rating.de">www.creditreform-rating.de</a>	

## Content

Summary .....	1
Relevant rating factors .....	3
Business development and outlook ...	5
Structural risk.....	7
Business risk .....	8
Financial risk.....	9
Issue rating.....	10
Financial ratio analysis .....	13
Appendix.....	14

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## Summary

### Company

As the world's leading manufacturer of food and beverages, Nestlé AG – hereinafter also referred to as Nestlé or the Nestlé Group – has approximately 291,000 employees in around 187 countries. The Group's product portfolio includes over 2,000 retail brands in the food, beverage and health-supporting nutrition sectors, with a strategic focus on nutrition, health and wellness.

In 2019, Nestlé achieved sales of CHF 92.57 billion (previous year: CHF 91.44 billion) and a consolidated net profit of CHF 12.90 billion (previous year: CHF 10.47 billion). The moderate sales growth of 1.2% was influenced by negative currency effects and divestitures. The main factor here was the sale of Nestlé Skin Health, which resulted in a profit of CHF 3.45 billion and a significant improvement in operating profit to CHF 16.08 billion (previous year: CHF 13.75 billion) as well as in consolidated net income. Without this favourable one-off effect, earnings would have been lower than in the previous year. Organic sales growth amounted to 3.5%, after 3.0% in the previous year, thus corresponding to the Group's strategic orientation towards sustainable, mid-single-digit sales growth.

For the current financial year, due to the global recession caused by COVID-19, Nestlé expects organic growth to be adjusted slightly downwards to between 2% and 3%, as well as an improvement in its long-term operating profit margin. Based on the half-year figures for 2020, which show organic sales growth of 2.8% and a slightly improved underlying trading operating profit margin of 17.4% (same period of the previous year: 17.1%), we consider the adjusted target to be achievable. Although the food industry has been less severely affected by the consequences of the COVID-19 pandemic, which continues to develop dynamically. A significant deterioration in the current situation with corresponding negative effects on the Nestlé Group cannot be ruled out.

### Rating result

Creditreform Rating has adjusted the corporate issuer rating of Nestlé AG from AA to AA-. The outlook remains stable. With this rating, Nestlé continues to have very high creditworthiness and a very low risk of default. Significant factors that lead to the rating adjustment are the increased level of debt and the partially debt-financed share buybacks that have been carried out since 2017 and which have led to significant liquidity outflows, an unfavorable development in

the capital structure, and consequently to a deterioration in the results of the key financial ratios analysis. We also consider a significant improvement in the capital structure to be unlikely over the period of the current share buyback program until the end of 2022. Nonetheless, due to the Group's global market position with a well-diversified product and brand portfolio that is adequately further developed through a high level of innovation and promptly adapted to customer needs, and its well-developed internal financing power complemented by excellent access to the capital market, we do not see any risk to the economic and financial stability of the Nestlé Group. Its focus on high-growth and high-margin business areas, and the transformation process that has been implemented consistently, lead to short-term burdens but should enable Nestlé to achieve its strategic growth targets in the medium to long term. Against the background of the dynamically developing COVID-19 pandemic and the resulting global recession, temporary business losses and delayed target achievement cannot be ruled out.

#### Outlook

The one-year outlook for the rating is stable and is based on the assumption that Nestlé will continue to remain strong based on its leading and future-oriented market positioning, as well as on its slightly deteriorated but still very robust balance sheet and financial strength, especially with regard to the turbulence and challenges that arise from the dynamically developing COVID-19 pandemic and the resulting global recession. A possible increase in debt in the course of both the further transformation process and possible acquisitions, as well as the share buyback program, could have a negative effect on the result of the financial ratio analysis and consequently on the rating assessment.

**Reference:**

The relevant rating factors (key drivers) mentioned in this section, are predominantly based on internal analyses and evaluations of the rating process and the derived valuations of the analysts participating in the rating and, if applicable, other rating committee members. The fundamental external sources used, are specified in the section "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

**Excerpts from the financial key figures analysis 2019:**

+Increase in sales and earnings  
+Improved profitability metrics  
+Free cash flow  
+Liquid funds to total assets  
+Reduced net financial debt

-High outflow of liquidity through dividend payout and share buyback program

-Successively decreasing equity ratio  
-Capital lock-up periode  
-Trade-accounts-payable ratio  
-Ratio of interest expenses to total debt

**General rating factors** summarize the key issues that – according to the analysts as per the date of the rating – have a significant or long-term impact on the rating, positive (+) as well as negative (-).

**Current rating factors** are the key factors that, in addition to the underlying rating factors, have an impact on the current rating.

**Relevant rating factors**

Table 1: Financials I Source: Nestlé AG Annual Report 2019, standardized by CRA

Nestlé AG Selected key figures of the financial statement analysis Basis: Annual report of 31.12. (IFRS)	CRA standardized figures <sup>1</sup>	
	2018	2019
Sales (billion CHF)	91.44	92.57
EBITDA (billion CHF)	17.68	19.79
EBIT (billion CHF)	13.75	16.08
EAT (billion CHF)	10.47	12.90
EAT after transfer (billion CHF)	10.14	12.61
Total assets (billion CHF)	118.44	110.30
Equity ratio (%)	35.77	34.28
Capital lock-up period (days)	52.07	55.27
Short-term capital lock-up (%)	27.48	24.09
Net total debt / EBITDA adj. (Factor)	3.73	3.68
Ratio of interest expenses to total debt (%)	1.33	1.68
Return on investment (%)	9.48	12.62

**General rating factors**

- + Global market presence
- + World market leader with a diversified product and brand portfolio
- + Internal financing power
- + Moderate financial debt in relation to earning power
- + Sufficient financial facilities, excellent capital market access
  
- Exchange rate risks (Swiss francs, emerging markets)
- High commodity price volatility
- Rapidly changing consumer behavior
- Intense competition
- Reputation risks (quality, food safety, compliance with ethical principles)

**Current rating factors**

- + Increase in sales and earnings in 2019
- + Greater-than-expected improvement in the underlying trading operating profit margin in 2019
- + Strategic transformation of the product and brand portfolio
- + Organic sales growth in H1 2020 despite COVID-19 pandemic
- + Solid internal financing power
  
- Deterioration in results of 2019 financial analysis

<sup>1</sup> For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

- High dividend payments and the ongoing share buyback program lead to high liquidity outflows and a gradual decline in the equity ratio
- Increased level of debt in a multi-year comparison
- Deterioration in the operating result and the operating profit margin in 2019, in particular due to write-downs on the Yinlu cash-generating unit
- Earnings increases in FY 2019 and H1 2020 mainly result of realized profits related to the sale of parts of the company
- Significant decline in sales in H1 2020 due to company divestitures - no compensation expected for 2020 as a whole
- Turbulence and challenges as a result of the COVID-19 pandemic, which continues to develop dynamically, and the resulting global recession

#### Prospective rating factors

- + Successful implementation of the strategic focus
- + Sustained increase in organic sales growth greater than 5%
- + Sustained improvement in operating profit margin
- + Reduction of debt and improvement in equity ratio
- + Improvement of the leverage ratio (Net total debt / EBITDA adj.) small factor 3
- Second wave of COVID-19 infections with corresponding global social and macroeconomic upheavals
- Significant weakening or declining business development
- Deterioration in operating margin and internal financing power
- Significant increase in debt (e.g. in the course of M&A transactions)
- Reputation damage due to adverse developments in ESG factors
- Boycott of Nestlé products as a result of product defects or inadequate nutrient profiles

#### ESG-factors

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Nestlé AG we have not identified any ESG factor with significant influence.

The environmental impact of Nestlé's business activities can be regarded as average, although efforts are being made to exploit existing potential for improvement. In the social area, human rights violations along the value chain are particularly noticeable, but also deficiencies in product safety, which are also reflected in product recalls. The company's management follows its self-imposed Code of Business Conduct, which has been integrating the principles and sustainable development goals of the United Nations Global Compact since 2019. Overall, in the case of Nestlé AG no ESG factor has been identified which would have a significant impact on the rating.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Rating-methodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf>

**Prospective rating factors** are factors and possible events that – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+) and a weakening or negative effect (-) on future ratings, if they occurred. This is not a full list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

**ESG factors** are factors related to environment, social issues and, governance. For more information, please see the "Regulatory requirements". CRA generally takes ESG relevant factors into account, when assessing the rating object and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or the outlook.

**Please note:**

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

**Best-case scenario: AA-**

In our best-case scenario, we assume business development as planned for the year, with slight organic sales growth and an improvement in the underlying trading operating profit margin. It is assumed here that the COVID-19 pandemic and the social and macroeconomic situation will not worsen. Against the background of the current share buyback program and possible M&A transactions, we consider a noticeable reduction in debt and a significant improvement in the capital structure - and thus an improvement in the rating - to be unlikely.

**Worst-case scenario: A+**

In the annual worst-case scenario, we see a deterioration in the rating to A+. Such a downgrade would have to be considered in the event of persistent negative development regarding the pandemic and geopolitical and economic developments, with a corresponding deterioration in the Nestlé Group's financial position and operating results. A significant increase in debt in the course of the Group's unchanged dividend policy, as well as larger acquisitions, could lead to a deterioration in the rating, especially against the background of the overall currently gloomy perspective.

**Business development and outlook**

The economic development of the global economy slowed noticeably from 3.6% to 2.9% in 2019, among other things due to the trade dispute between the USA and China, BREXIT, and various geopolitical conflicts. In this difficult trading environment, Nestlé achieved sales of CHF 92.57 billion (previous year: CHF 91.44 billion), corresponding to growth of 1.2%. Without taking acquisitions, sales and currency fluctuations into account, the Group achieved organic growth of 3.5% (previous year: 3.0%). Although this fell short of the long-term target for organic growth in the mid-single-digit percentage range, the right trend was discernible.

At CHF 13.67 billion, the trading operating profit was slightly below the previous year's figure of CHF 13.79 billion, mainly due to a significant write-down of the Yinlu cash-generating unit in China, whose valuation had to be corrected by 1.02 billion CHF despite various restructuring attempts in 2019, and which is currently undergoing a strategic review. At 14.8%, the trading operating profit margin was below the previous year's figure of 15.1% and can be described as stagnating in a five-year comparison. If the trading operating profit is adjusted by other operating income and expenses, such as for impairment losses on property, plant and equipment, and intangible assets and restructuring costs, the "underlying trading operating profit" used by Nestlé as a KPI was CHF 16.26 billion (previous year: CHF 15.52 billion). The corresponding margin of 17.6% (previous year: 17.0%) already reached the target range of 17.5% -18.5% originally planned for 2020 in 2019.

Despite the weaker trading operating profit, the operating profit (EBIT) improved from CHF 13.75 billion in the previous year to CHF 16.08 billion. This was mainly due to the sale of Nestlé Skin Health, the skin care division of Nestlé, which resulted in a profit after disposal costs and impairment losses of CHF 3.45 billion. An increase in net financial expenses due to the annual average increase in net debt was more than offset by reduced tax expenses, so that the annual surplus of CHF 12.90 billion was significantly higher than the previous year's result of CHF 10.47 billion. Adjusted for the net capital gains, the annual surplus would amount to CHF 9.49 billion, compared to CHF 9.78 billion in the previous year.

Table 2: The development of business of Nestlé AG | Source: Annual Report 2019, reported information

Nestlé AG				
In billion CHF	2018	2019	Δ	Δ %
Sales	91.44	92.57	+1.13	+1.23
EBIT	17.68	19.79	+2.11	+11.93
EBITDA	13.75	16.08	+2.33	+16.95
EBT	13.91	16.06	+2.15	+15.46
EAT	10.47	12.90	+2.43	+23.21

In the first quarter of the current financial year 2020, Nestlé reported a significant decrease in sales of 6.2% year-on-year. This was primarily due to the sale of Nestlé Skin Health and the US ice cream business, negative exchange rate effects as a result of the ongoing appreciation of the Swiss franc, and a significant decline in sales in China which was primarily due to the outbreak of the COVID-19 pandemic and influenced by the measures and restrictions taken by the Chinese government in this regard. Organic growth in the same period was 4.3% and reflects the good development in North and South America and the EMENA zone.

In the first half of 2020, sales fell by 9.5% to EUR 41.2 billion, mainly due to the aforementioned company sales and exchange rate effects. The effects of COVID-19 varied greatly from region to region, with the partial closure of the out-of-home channel leading to a significant drop in sales - especially for water products and confectionery. Conversely, Purina pet, dairy, home coffee and Nestlé Health Science products saw strong growth. Nestlé puts the COVID-19-related costs at approx. CHF 0.41 billion. However, these could be overcompensated by other savings, such as fewer in-store activations and reduced structural costs, so that the trading operating profit was approx. CHF 6.97 billion, only approx. 1.2% below the previous year's figure of CHF 7.06 billion. Due to the reduced sales base, the trading operating profit margin improved from 15.5% to 16.9% y-o-y. In the course of the sale of the US ice cream business and a 60% stake in Herta Charcuterie (cold cuts and meat products), Nestlé generated a profit after disposal costs and write-downs of CHF 1.48 billion, thereby improving EBIT year-on-year from CHF 6.73 billion to CHF 7.83 billion. With slightly reduced financial expenses and slightly higher tax expenses, the profit for the period (EAT) was CHF 6.03 billion (previous year: CHF 5.12 billion). Without the capital gains, EBIT would be lower than in the previous year by CHF 6.35 billion or EAT of CHF 4.55 billion - especially since the first half of 2019 did not show any significant special income, but was burdened by restructuring costs and write-downs.

As the global market leader in the food and beverage industry with a diversified product and brand portfolio, Nestlé is among those cyclical and crisis-independent companies less affected by the COVID-19 pandemic due to its size and robustness. Nevertheless, the financial impact of the pandemic on the 2020 financial year is still difficult to quantify and depends to a large extent on the further course of the pandemic, as well as on the social and macroeconomic consequences of the crisis. For 2020 as a whole, Nestlé expects organic sales growth to be adjusted slightly downwards, between 2% -3%, and an improvement in the "underlying trading operating profit margin". Overall, we believe this to be plausible, even though sales will be significantly weaker due to the sale of business units and ongoing currency effects. Assuming that no further divestitures will take place until the end of the year, earnings should also be below the previous year's figure, which was influenced by special effects.

Against this background, we see the development of the balance sheet structure, which shows an increased level of debt with successively falling equity over the past few years, as unfavorable. Net financial debt fell slightly from CHF 30.33 billion to CHF 27.14 billion in 2019, due in part to the sale of Nestlé Skin Health and the associated cash inflow (after disposal costs) of CHF 9.77 billion. However, this is twice as high as in 2016. In the first half of 2020, net financial debt rose to CHF 33.11 billion due to the increase in financial liabilities and a significant decrease in liquid funds. The decline in liquidity in the first half of 2020 resulted primarily from the payment of the dividend (CHF 7.70 billion) and the payment as part of the share buyback program (CHF 4.23 billion). The high payouts in the form of dividends and share buyback programs that have been paid out to shareholders for years are understandable on the one hand due to the strong cash generation and high liquidity inflows from divestitures. On the other hand, they have led to additional borrowing and burdened equity, and thus the quantitative result of the financial ratio analysis, which is why we consider it necessary to adjust the rating by one notch to AA-.

### Structural risk

With revenues of around CHF 93 billion in 2019 and a presence in 187 countries, Nestlé is the world's leading food and beverage manufacturer. The parent company of the group is Nestlé AG, based in Vevey, Switzerland. The shareholder base is broadly diversified. In addition to private individuals (19%), domestic and foreign institutional investors (81%) also make up Nestlé's shareholders, with no shareholder owning more than 5% of the share capital. In geographical terms, the majority of stocks are in the USA (36.7%) and Switzerland (33.5%), followed by Great Britain (5.5%), Germany (4.4%) and other countries with an equity component of less than 3%. Nestlé is divided into three geographical zones and globally managed business units, which are reportable operating segments. In detail, these are the following segments:

- Zone Europe, Middle East and North Africa (EMENA)
- Zone North and South America (AMS)
- Zone Asia, Oceania and Sub-Saharan Africa (AOA)

Against the background of a harmonization and simplification of the organizational structure, the Nestlé Waters segment, which existed in previous years, has no longer been operated as a globally managed business since January 1, 2020, but is reported under the three zones EMENA, AMS and AOA. The same applies to the Nestlé Nutrition segment, which has not been globally managed since the beginning of 2018.

In terms of globally-managed business units, Nestlé is relatively evenly represented with sales shares of 28.6% (EMENA), 45.7% (AMS), and 25.7% (AOA) in the specific geographic markets, albeit in the USA, a share of 31.1% in total sales (or 68.1% in the AOA business unit), a considerable concentration can be noted.

Nestlé maintains an extensive research and development organization in order to consistently align its product portfolio to the needs of the market. In addition to renovation and innovation in the established product areas of food and beverages, potential growth areas such as the therapeutic and medical sector or plant-based nutrition, are prepared and developed here with a view to sustainable future viability.

In our opinion, both the Board of Directors and the Executive Committee are well-balanced, diversified and competent. The relationships within the committees are clearly structured and characterized by sustainable continuity.

At the end of 2019, Nestlé employed around 291,000 people, around half of whom worked in the factories and the other half in administration and sales. The number of employees fell by



17,000 or 5.5% compared to the previous year, which confirms the trend observed in previous years; in 2019 there was a disproportionate reduction in the number of employees in administration and sales. Nestlé manufactures its products in 403 factories in 84 countries, which on the one hand underscores its diversification, but on the other hand increases country risks in some cases. According to the distribution of revenue, by far the largest number of factories (77) are to be found in the USA - followed by the China region with 31.

The COVID-19 pandemic has led to far-reaching changes in the business environment, which Nestlé has addressed with appropriate measures. Despite the challenges, the Group's supply chains have proven to be robust, and production and sales could be maintained without any significant disruptions. Overall, we see Nestlé as well-positioned in terms of sustainable viability with its robust and established structures and global market presence, even against the background of the ongoing COVID-19 pandemic.

### Business risk

As the world market leader in the food and beverage industry, Nestlé has a broad and well-diversified portfolio of products and brands with a comparatively high level of resilience in relation to economic developments, also with regard to exogenous factors such as the current COVID-19 pandemic. However, Nestlé is exposed to numerous risks that could jeopardize its business. A major business risk for Nestlé is the potential loss of consumer confidence that could result from non-compliance with safety rules and quality standards in the production of food. In addition, there is a potential disregard of environmental regulations or ethical principles, which could lead to lasting damage to the Company's image. In order to avoid or at least limit such risks, Nestlé has a stringent control system that monitors procedures and processes in an adequate manner.

In addition, Nestlé is heavily dependent on its ability to anticipate changing consumer habits and to offer products that are in line with the market. Should this only succeed to a limited extent, it could lead to significant business losses. Nestlé also depends on a sustainable supply of raw materials and other materials and services. Natural disasters or macroeconomic changes could lead to an interruption in the supply chain and cause capacity bottlenecks or a disproportionate increase in purchase prices. Nestlé has a well-diversified infrastructure in order to prevent such developments and / or limit any consequences (see structural risk). Finally, the risks that international business holds in store for Nestlé in the form of country risks, but also the uncertainty with regard to currency and raw material price developments, should be mentioned. These risks, however, find a certain degree of relativization in the form of a broad product range and geographic scope.

Nestlé has identified climate change as one of the greatest risks for the future, which in the form of higher temperatures and water shortages can affect the quality and availability of green coffee in particular, but also that of other raw materials such as grain and dairy products. Against this background, Nestlé adopted the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD) in 2019 and began implementing them. Even though, according to an internal assessment carried out in 2019, Nestlé does not expect lasting effects of climate change on coffee, grain and dairy products until the second half of the century, the long-term climate target is to reduce net greenhouse gas emissions to zero by 2050 - this corresponds to the European climate protection target. We consider the Group's decarbonization strategy to be ecologically and economically indispensable, especially since consumer demand for products with a better environmental balance is growing rapidly and promises increasing sales and profit margins; at the same time, it offers Nestlé an opportunity to improve its image.



Nestlé divides its product portfolio into the seven categories of beverages in liquid and powder form, nutrition products and health science, products for pets, dairy products and ice cream, ready meals and products for the kitchen, confectionery and water products. The best-known brands include “Nescafé”, “Nesquik”, “Maggi”, “Felix”, “Kitkat”, “Smarties” and many more.

Based on established structures, Nestlé strives for sustainable, mid-single-digit organic growth and an increase in operational efficiency. The strategic focus is on the core competencies of nutrition, health and wellness, which are to be systematically further developed in terms of innovation, quality and nutritional profile and adapted to the rapidly changing needs of consumers. In addition, Nestlé strives to develop new high-growth and high-margin business areas. In addition to the innovative premium foods and plant-based foods, the therapeutic and medical sectors should be mentioned here. Against this background, the most recently completed major divestments of Nestlé Skin Health (nutrition products and health science) and the US ice cream business (dairy products and ice cream), as well as the acquisition of Zenpep (a gastrointestinal drug that is approved and available in the USA), and Aimmune Therapeutics (a US company that develops and markets therapies for life-threatening food allergies) can be seen as consistent with the Group’s strategy. Overall, we consider the strategy, which is geared towards resource-efficient sales, profit growth, and improved capital efficiency, to be plausible and promising, especially since it goes hand in hand with a focus on healthier and more environmentally-friendly products which underpin Nestlé’s future viability and competitiveness in a highly competitive market environment. In addition, Nestlé has the structural, human and financial resources to adapt its product portfolio quickly to changing consumer needs and trends.

Based on the Group’s well-established and future-oriented market positioning as well as its strategic orientation, we believe that Nestlé’s stable and favorable development will continue.

### Financial risk

Nestlé continues to have a very solid financial structure, although key financial ratios, and thus the overall results of the quantitative balance sheet analysis, have deteriorated noticeably in recent years.

Original equity decreased by CHF 5.54 billion to CHF 52.86 billion in 2019 (previous year: CHF 58.40 billion). This decline (CHF -13.12 billion) is even more noticeable when compared to the 2016 financial year (CHF 65.98 billion).

According to the structured balance sheet analysis for the past financial year 2019, the balance sheet equity ratio of the Nestlé Group decreased from 35.8% in the previous year to 34.3% in 2019. In 2016, the balance sheet equity ratio was 44.9%. The main reasons for this gradual decline are the rising dividend payments (over decades) and share buybacks that have been carried out since 2017, which are used to reduce capital. After the share buyback program of CHF 20 billion launched in 2017, a new share buyback program was launched at the beginning of the current financial year, which provides for the buyback of own shares with a value of CHF 20 billion by the end of 2022. As of the first half of 2020, Nestlé had acquired own shares with a value of CHF 4.2 billion, so that we assume that the share buyback program will continue as planned. Due to the share buybacks and dividend distributions, which will also continue during the COVID-19 crisis, we are assuming a further reduction in the equity ratio in the coming reporting periods.

At the same time, the Nestlé Group had a net financial debt of CHF 27.14 billion as of 31 December 2019, which was below the previous year’s figure (CHF 30.33 billion), but almost twice as high as in the 2016 financial year (CHF 13.91 billion). The increased level of debt is mainly due to borrowing in the course of share buybacks and acquisitions made in 2018. Although there

was sufficient liquidity from divestitures and operating cash flow available in 2019 for share buybacks and dividend distributions, we believe that debt could rise further in the short to medium term if the share buyback program is implemented as planned and the strategic acceleration of company acquisitions (e.g. Aimmune Therapeutics) is in place. Especially in connection with the global recession triggered by the COVID-19 pandemic and the resulting decline in profitability, this could lead to a further deterioration in the key financial figures

Gearing has increased gradually from 1.0 to 1.7 since 2016 and reflects the changed / deteriorated ratio of net debt to adjusted equity. The net financial debt in 2019 corresponded to 1.6 times the EBITDA adj. calculated by CRA (Previous year factor 1.7). The ratio of net total debt to EBITDA adj. had a factor of 3.7 (previous year: 3.7). The values can still be described as solid, but we see a deterioration in the key figures in a multi-year comparison.

In the first half of 2020, net financial debt rose again to CHF 33.44 billion, mainly due to additional borrowing of CHF 4.74 billion and significantly fewer liquid assets compared to 31 December 2019, which declined markedly in the wake of dividend payments and share buybacks. To ensure solvency, Nestlé had cash and cash equivalents totaling CHF 3.47 billion as of 30 June 2020, free credit facilities of approx. USD 6.80 billion and EUR 4.80 billion with short to medium remaining terms. In addition, Nestlé has the ability to quickly and flexibly raise debt capital in different currencies via the existing debt issuance programs. In addition, there is a stake in L'Oréal (world market leader for cosmetics), which is not part of the core business and whose market value on the balance sheet date of 31 December 2019 was CHF 37.2 billion, as well as the very well-developed operating cash flow of the Nestlé Group.

Against the background of the Group's excellent access to the capital market and its existing financing potential, we judge the liquidity situation to be solid, despite the currently reduced liquid funds. Both the debtor structure and maturity structure of the financing are sufficiently diversified. On the other hand, the declining equity, increased level of debt, and weaker results of the analysis of financial ratios dampen our assessment, so that we continue to see a low - albeit slightly increased - financial risk compared to the last rating, especially since Nestlé does not currently show any intention to reduce its debt in light of the planned share buybacks and possible acquisitions, and we consider a further increase in debt as possible in the short to medium term.

## Issue rating

### Further issuer ratings

In addition to the rating of Nestlé AG the following issuer and its issues (see below), have been rated.

- Nestlé Finance International Ltd.

Nestlé Finance International Ltd. ("NFI"), established in 1930, is a Luxembourg-domiciled financing company. As a wholly-owned subsidiary and financing vehicle of Nestlé AG its activities are directly related to the financing needs of the Group, which in turn depend on the development of the operating business and the investments in the Group. Additionally, the business development of NFI depends on the ability of Nestlé AG to service the payment obligations resulting out of the intercompany loans granted by the subsidiary to the parent company. Overall, the future development of NFI will be determined by the business development, strategy and capital and investment needs of the parent company, taking into account its specific and general business risks. In this respect, we consider a consolidated view of the business development and the outlook for the rating assessment of NFI as appropriate. Because of these economic, financial

and liability relationships between the Nestlé S.A and the Nestlé Finance International Ltd., we set the rating of Nestlé Finance International Ltd. equal to the rating of Nestlé AG. Therefore, the rating of Nestlé Finance International Ltd. is **AA- / stable**.

#### Issue rating details

The rating objects of this issue rating are exclusively the long-term notes, denominated in euros, issued by Nestlé Finance International Ltd., which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB.

The notes have been issued under the Debt Issuance Programme (DIP) with their latest basis prospectus of 29.05.2020 and with the Supplement of 28.08.2020. The Volume of the DIP is not specified. Notes issued by NFI are unconditionally and irrevocably guaranteed by Nestlé AG. The Guarantee constitutes the payment of the principal and three years' interest in respect of such note. The notes issued under the DIP constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and rank parri passu among themselves and with all other present or future unsecured and unsubordinated obligations of the issuer. Additionally, the notes benefit from a negative pledge provision and a cross default mechanism.

#### Result corporate issue rating

We derive the unsolicited corporate issue ratings of the EUR-denominated bonds of the issuer from the unsolicited corporate issuer rating of the issuer, using our rating methodology for non-financial corporate issues. According to the rating methodology for non-financial corporate issues of Creditreform Rating AG, there is no notching in relation to the issue rating for an issuer rating in the AA- to AAA range. The bond conditions / issue prospectuses did not give rise to any extraordinary reason for applying notching to the issuer rating. In the present case, we have set the unsolicited corporate issue ratings as equivalent with the unsolicited corporate issuer rating of Nestlé Finance International Ltd. equal (**AA-**). They thus have a high credit quality and low risk of default. The outlook is **stable**.

Other types of debt instruments or issues denominated in other currencies by the issuers have not been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

#### Overview

Table 3: Overview of CRA Ratings | Source: CRA

Rating Category	Details	
	Date	Rating
Nestlé AG (Issuer)	13.10.2020	<b>AA- / stable</b>
Nestlé Finance International Ltd. (Issuer)	13.10.2020	<b>AA- / stable</b>
Long-term Local Currency (LC) Senior Unsecured Issues	13.10.2020	<b>AA- / stable</b>
Other	--	n.r.

Table 4: Overview of 2020 DIP I Source: Base Prospectus dated 29.05.2020

Overview of 2020 Debt Issuance Programme			
Volume	Not defined / specified	Maturity	Depending on the respective bond
Issuer / Guarantor	Nestlé Finance International Ltd. (Issuer) Nestlé AG (Guarantor)	Coupon	Depending on the respective bond
Arranger	Credit Suisse	Currency	Depending on the respective bond
Credit enhancement	Guarantee of Nestlé AG	ISIN	Depending on the respective bond

All future LT LC senior unsecured Notes that will be issued by Nestlé Finance International Ltd. and that have similar conditions to the current DIP, denominated in Euro and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current LT LC senior unsecured Notes issued under the DIP. Notes issued under the programme in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG. For the time being, other emission classes or programmes (such as the Commercial Paper Programme) and issues that do not denominate in euro will not be assessed.

## Financial ratio analysis

Table 5: Financial key ratios | Source: Nestlé AG consolidated annual report, structured by CRA

Asset structure	2016	2017	2018	2019
Fixed asset intensity (%)	71.44	72.30	65.33	67.62
Asset turnover	0.83	0.75	0.80	0.83
Asset coverage ratio (%)	66.12	72.08	75.74	72.70
Liquid funds to total assets	8.26	7.45	8.70	9.30
Capital structure				
Equity ratio (%)	44.89	41.49	35.77	34.28
Short-term debt ratio (%)	33.86	33.11	36.33	37.73
Long-term debt ratio (%)	2.34	10.63	13.71	14.88
Capital lock-up period (in days)	49.94	52.52	52.07	55.27
Trade-accounts payable ratio (%)	10.91	11.17	11.01	12.71
Short-term capital lock-up (%)	23.80	22.53	27.48	24.09
Gearing	1.04	1.23	1.55	1.65
Leverage	2.20	2.31	2.59	2.85
Financial stability				
Cash flow margin (%)	13.46	19.53	12.08	14.74
Cash flow ROI (%)	10.73	15.17	9.33	12.37
Total debt / EBITDA adj.	3.81	4.57	4.31	4.28
Net total debt / EBITDA adj.	3.24	3.99	3.73	3.68
ROCE (%)	21.63	17.47	20.75	22.74
Total debt repayment period	3.70	5.78	-103.38	2.92
Profitability				
Gross profit margin (%)	100.00	100.00	100.00	100.00
EBIT interest coverage	17.37	12.77	13.64	13.22
EBITDA interest coverage	21.50	17.41	17.54	16.28
Ratio of personnel costs to total costs (%)	0.00	0.00	0.00	0.00
Ratio of material costs to total costs (%)	0.00	0.00	0.00	0.00
Cost income ratio (%)	85.41	88.02	85.42	83.38
Ratio of interest expenses to total debt (%)	1.22	1.26	1.33	1.68
Return on investment (%)	8.45	7.11	9.48	12.62
Return on equity (%)	18.04	14.59	23.67	32.84
Net profit margin (%)	9.89	8.38	11.45	13.94
Operating margin (%)	14.66	12.09	15.04	17.37
Liquidity				
Cash ratio (%)	20.96	20.79	10.46	17.95
Quick ratio (%)	62.01	59.46	74.08	63.25
Current ratio (%)	84.34	83.65	95.42	85.83

## Appendix

### Rating history

The rating history is available under <https://www.creditreform-rating.de/en/ratings/published-ratings.html>.

Table 6: Corporate Issuer Rating of Nestlé AG

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	03.04.2017	10.04.2017	13.10.2020	AA / stable

Table 7: Corporate Issuer Rating of Nestlé Finance International Ltd.

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	31.10.2018	07.11.2018	13.10.2020	AA / stable

Table 8: LT LC Senior Unsecured Issues issued by Nestlé Finance International Ltd.

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	31.10.2018	07.11.2018	13.10.2020	AA

### Regulatory requirements

The present rating<sup>2</sup> is an unsolicited rating in the regulatory sense. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

A management meeting did not take place within the framework of the rating process.

The documents and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

<sup>2</sup> In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

Rating methodology	Version number	Date	Website
Corporate Ratings	2.3	29.05.2019	<a href="https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Corporate%20Ratings.pdf">https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Corporate%20Ratings.pdf</a>
Non-financial Corporate Issue Ratings	1.0	October 2016	<a href="https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Non-Financial%20Corporate%20Issue%20Ratings.pdf">https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Non-Financial%20Corporate%20Issue%20Ratings.pdf</a>
Rating Criteria and Definitions	1.3	January 2018	<a href="https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/CRAG%20Rating%20Criteria%20and%20Definitions.pdf">https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/CRAG%20Rating%20Criteria%20and%20Definitions.pdf</a>

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Email-Address
Artur Kapica	Lead analyst	A.Kapica@creditreform-rating.de
Christina Sauerwein	Analyst	C.Sauerwein@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Email-Address
Rudger van Mook	PAC	R.vanMook@creditreform-rating.de

On 13 October 2020, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 13 October 2020. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

### ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here:



<https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Rating-methodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf>

## **Conflict of interests**

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

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The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

### Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

### Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

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