

**Rating object**

Nestlé AG  
 Nestlé Finance International Ltd.  
 Long Term Local Currency Senior unsecured issues issued by  
 Nestlé Finance International Ltd.

**Rating incl. outlook / watch**

AA- / stable  
 AA- / stable  
 AA- / stable

The present rating is, in the regulatory sense, a public unsolicited rating.

**Date of inception / disclosure to rated entity / maximum validity:**

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
Nestlé AG	11.05.2021	11.05.2021	Withdrawal of the rating
Nestlé Finance International Ltd.	11.05.2021	11.05.2021	Withdrawal of the rating
Long Term Local Currency Senior unsecured issues issued by Nestlé Finance International Ltd.	11.05.2021	11.05.2021	Withdrawal of the rating

There occurred no changes after the communication of the rating to the rating object.

**Rating summary:**

Creditreform Rating has confirmed the unsolicited corporate issuer rating of Nestlé AG and Nestlé Finance International Ltd., as well as the unsolicited corporate issue rating of the euro-denominated, long-term senior unsecured notes issued by Nestlé Finance International Ltd., at AA-. The outlook remains stable.

Decisive for the confirmation of the rating are Nestlé's leading global market position, diversified product and brand portfolio, and its profitable business model with well-developed internal financing power, which is complemented by excellent access to the capital markets. In addition, despite the negative effects of the COVID-19 pandemic, the 2020 financial year can be described as satisfactory. Due to negative exchange rate effects and the recent divestments of low-margin or non-core businesses (e.g. US ice cream, Herta charcuterie, Yinlu in 2020 and Nestlé Skin Health in 2021), revenue dropped by 8.9% to 84.3 billion CHF (previous year: CHF 92.6 billion). Excluding exchange rate effects and divestments, Nestlé posted organic sales growth of 3.6%, which is remarkable when compared to the industry as a whole. The decline in sales in the "Water" and "Confectionery" areas, which are more dependent on the out-of-home sales channel and which were particularly affected by the lockdown measures to contain the COVID-19 pandemic, was overcompensated due to the strong performance of the other segments, in particular "Petcare" and "Milk products and ice cream". The operating result improved from CHF 13.7 billion to CHF 14.2 billion, taking into account that the previous year was negatively impacted by noticeable restructuring expenses and impairments. The operating profit margin – among other reasons due to the reduced sales base – was 16.9%, thus well above the previous year's value of 14.8%. If the operating result is corrected for other operating income and expenses, such as impairments on property, plant and equipment and intangible assets and restructuring costs, the "underlying operating result" used by Nestlé as a KPI was CHF 14.9 billion (previous year: CHF 16.3 billion). Despite the absolute decline, the corresponding margin improved slightly to 17.7% (previous year: 17.6%) and was therefore within the planned target range of 17.5% -18.5%, despite a challenging market environment. At CHF 12.4 billion, EAT was below the previous year's figure of CHF 12.9 billion. The main reasons for this are opposing effects from lower net sales proceeds and lower write-downs compared to the previous year. In addition, other comprehensive income was particularly weak at CHF -3.6 billion due to negative currency translation differences, which had a negative impact on equity. Moreover, ongoing share buybacks and the high dividend payments totaling CHF 14.5 billion in 2020 put a strain on equity, so that the adjusted equity ratio used by Creditreform Rating AG fell to 30.7%<sup>1</sup> (previous year: 34.3%). In 2020, distributions were noticeably higher than Nestlé's stated free cash flow of CHF 10.2 billion (previous year: CHF 11.9 billion), which was lower than last year, and consequently had to be financed, at least in part, by borrowings. Against this background, net financial liabilities rose noticeably by CHF 4.2 billion to CHF 31.3 billion and, according to the company,

<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.

amounted to 1.7 times adjusted EBITDA (previous year: 1.4x). The key financial figure 'net total debt / EBITDA adj.' used by CRA also showed a slight increase, with a value of 3.94 (previous year: 3.68). Nevertheless, both key figures can still be described as solid.

Despite a slight deterioration in individual key financial figures, the result of the key financial figure analysis for the past fiscal year 2020, which was affected by the COVID-19 pandemic, remained stable overall, which contributed to the confirmation of the rating. Based on the 2020 consolidated financial statements, we continue to assess the liquidity situation as solid. We see the slightly lower cash balance and reduced free cash flow as unproblematic against the background of the Company's fundamental internal financing power, available financial facilities, its diversified maturity structure of financing, and established access to the capital market. The sustained positive business development in the first quarter of 2021 also had a stabilizing effect, with organic sales growth of 7.7%, thus confirming a certain resilience of the Nestlé business model in a market environment affected by the pandemic.

Even though the current ratio arithmetic leaves room for manoeuvre, we do not rule out a further deterioration in the financial ratios - and consequently the rating - especially if Nestlé increases debt in an inadequate manner through M&A transactions and the continuation of the initiated share buyback program, while at the same time experiencing a dilution of the operating profit margin in the wake of the acquisitions already made and the related integration costs.

We have derived the unsolicited corporate issuer rating of Nestlé Finance International Ltd. from the rating of Nestlé AG based on its interrelationship with the parent company in terms of corporate and liability law, as well as its strategic, financial, and economic relationship, setting this equal to that of Nestlé AG (AA- / stable). Application of the CRA rating system for corporate issues results in a rating of (AA- / stable) for the euro-denominated, long-term senior unsecured issues assessed here.

#### Primary key rating drivers:

- + Largest food and beverage company worldwide (by sales) with a diversified product and brand portfolio
  - + Very profitable business model with well-developed internal financing power, supplemented by excellent access to the capital market
  - + Organic sales growth in 2020, despite the COVID-19 pandemic
  - + Improved operating result - but only due to the high charges from restructuring expenses and impairments in the previous year
  - + Improved operating profit margin - even before other operating income and expenses as well as exchange rate effects (underlying trading operating profit margin)
  - + Stable result of the key financial figure analysis, despite a slight deterioration in individual key financial figures in 2020
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- Sales fell significantly due to negative currency effects and the sale of business units
  - Total other comprehensive income burdened by high currency retranslations
  - Distribution policy (dividends and share buybacks) continues to burden liquidity and equity
  - Distributions in 2020 were noticeably higher than the free cash flow, and had to be partially financed by borrowing
  - Increase in (net) financial debt in 2020
  - Further increase in debt in 2021 is likely, due to expected M&A, if the share buyback program of up to CHF 20 billion, which runs until 2022, is continued
  - In light of the acquisition of The Bountiful Company for USD 5.75 billion along with the associated integration costs, Nestlé expects the underlying operating profit margin to be diluted in the short term

#### ESG-criteria:

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](#).

**Rating scenarios:**

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 an organic sales growth towards a mid single-digit rate and a moderate improvement in the underlying trading operating profit margin. It is assumed here that the COVID-19 pandemic and the social and macroeconomic situation will improve in the medium term, depending on the progress of vaccination. 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 key financial ratios and thus of the rating.

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**Initial rating:**

Rating object	Event	Rating created	Publication date	Monitoring until	Result
Corporate Issuer Rating of Nestlé AG	Initial rating	03.04.2017	07.11.2018	13.10.2020	AA / stable
Corporate Issuer Rating of Nestlé Finance International Ltd.	Initial rating	31.10.2018	07.11.2018	13.10.2020	AA / stable
LT LC Senior Unsecured Issues issued by Nestlé Finance International Ltd.	Initial rating	31.10.2018	07.11.2018	13.10.2020	AA / stable

**Status of solicitation and information basis:**

The present rating is, in the regulatory sense, a public **unsolicited** rating. 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

**Rating methodology / Version / Date of application:**

Rating methodology	Version number	Date
<a href="#">Corporate Ratings</a>	2.3	29.05.2019
<a href="#">Government-related Companies</a>	1.0	19.04.2017
<a href="#">Non-financial Corporate Issue Ratings</a>	1.0	October 2016
<a href="#">Rating Criteria and Definitions</a>	1.3	January 2018

**Regulatory requirements:**

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

**Conflict of interests**

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

**Rules on the presentation of credit ratings and rating outlooks**

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.

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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](#).

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

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