

10 May 2022 – Neuss, Germany

Rating Action / Update:

Creditreform Rating has set the unsolicited corporate issuer rating of Nestlé S.A. to **AA-** / **stable**

Creditreform Rating (CRA) has affirmed the ratings of the unsolicited, public corporate issuer rating of Nestlé AG and Nestlé Finance International Ltd. – together referred to as Company or the Company –, as well as the unsolicited corporate issue rating of the long-term local currency senior unsecured notes issued by Nestlé Finance International Ltd at **AA-**. Additionally, CRA has provided the above rating objects with a **stable** outlook.

Analysts

Sabrina Mascher de Lima
Lead Analyst
S.Mascher@creditreform-rating.de

Esra Bartel
Co-Analyst
E.Bartel@creditreform-rating.de

Neuss, Deutschland

Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

- Global market position with a well-diversified product and brand portfolio
- Resilient business model, with operating growth in 2021 and in Q1 2022
- Continuing strong financial profile and relatively stable credit metrics despite higher outlays
- Significant debt increase amid higher investments and ongoing business restructuring
- Aggressive shareholder remuneration with payouts higher than operating cash flows
- Cost inflation combined with global economic deceleration will potentially impact profitability

ESG-criteria:

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

We regard the food and beverage sector as having a moderate environmental impact, although we see mounting concerns related to food security and water scarcity amidst a growing global population and climate change challenges as well as regarding sustainable production practices and packaging recycling. Major social risks faced by the sector include human rights violations along the value chain, particularly associated with the supply of cocoa from Cote d'Ivoire and Ghana, and issues concerning health and nutrition. Companies in this sector will be increasingly pressured to meet public activism and stricter regulations in the years ahead.

Nestlé has taken numerous initiatives to mitigate the environmental and social impact of its business activities. Given that a large portion of the Company's carbon footprint is derived from agricultural activities associated to the sourcing of ingredients (over 70% of all CO₂ emissions), Nestlé fosters sustainable farming practices and ensuring deforestation-free supply chains. Accordingly, its greenhouse gas emissions have declined over the past three years, standing at around 94 million tons of CO₂e in 2021 from nearly 98 million tons of CO₂e in 2019. Additionally, the Company has put in place a plan to reduce child labor risks in the supply of cocoa, which consists in providing a sufficient source of income to farming families based on the quantity and quality of cocoa beans sustainably produced as well as assisting and monitoring children's school attendance. The Company's management follows its self-established Code of Business Conduct, which integrates the principles and sustainable development goals of the United Nations Global Compact since 2019.

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.

A major risk for the Company is the safety of its products and the challenges to ensure strict quality controls in its global and large-sized operations, which could – should these be perceived as inadequate - result in financial penalties and ultimately impact consumer confidence in Nestlé's products. Recently, Nestlé was forced to recall Buitoni's frozen pizzas in France after authorities linked them to an outbreak of E. coli infections. So far, this has not had any material impact on the overall performance of the Company and we assume that Nestlé will act responsibly to repair any damage and ensure stricter product quality controls so that the problem does not reoccur.

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 result

Creditreform Rating has affirmed the unsolicited corporate issuer rating of Nestlé AG at **AA-**. This rating attests Nestlé's very high creditworthiness and a very low risk of default. Main factors included in the assessment are the Group's global market position with a well-diversified product and brand portfolio as well as a high level of innovation and ability to adapt quickly to changing consumer needs. An additional positive consideration is the Company's financial strength, with robust cash reserves and solid operating cash flow generation as well as excellent access to the capital market. Lastly, Nestlé's business transformation is on course, focusing on segments that are more profitable and have high growth potential coupled with divestitures of non-core and underperforming activities. This restructuring process will likely lead to short-term burdens but should enable Nestlé to achieve its strategic growth targets in the medium to long term.

On the other hand, Nestlé's credit profile has been adversely affected by a material increase in financial debt levels aimed at financing its organic growth plans and its several business acquisitions over recent years. Despite higher indebtedness, Nestlé's adjusted leverage metrics (measured by CRA as Total Liabilities – Liquid funds / adjusted EBITDA) remained stable at 3.80 times in 2021 (3.78 times in 2020), as it was offset by higher cash holdings and moderate growth in recurring EBITDA generation. An additional constrain to the rating is the partially debt-financed share buybacks carried out since 2017 and which have led to significant liquidity outflows, although Nestlé still benefits from a strong financial profile. Against the background of highly volatile macroeconomic conditions, with risks of a global recession and an inflationary environment, a slowdown in business growth and delayed target achievement cannot be ruled out.

Outlook

The one-year outlook for the rating is **stable** and reflects the assumption that Nestlé will sustain its financial strength amid higher market volatility thanks to its resilient business model and strong global market position. It also incorporates our expectation that any debt increase to help fund higher investments or potential business acquisitions will be accompanied by additional cash flows, resulting in stable financial key indicators over the near term.

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 positive business development over the next 12-24 months, with modest growth in organic sales and achievement of Nestlé's targets for operating profit margin between 17.0-17.5%. For this scenario, it is assumed that global macroeconomic turbulence and its consequent adverse impact on inflation and supply chains will not worsen. We do not expect any material reduction in debt levels in the near term, as Nestlé has restated a large-sized share buyback program for the 2022-2024 period and will continue with its business restructuring; thus we consider an improvement in the ratings in the coming years 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 be considered in the event of persistent weakening in the global economic environment, with a resulting adverse impact on Nestlé's financial position and operating results. A significant debt increase with no additional cash flow generation could exert negative pressure on Nestlé's credit profile, largely due to continued large payouts to shareholders and to undisciplined business acquisitions.

Business development and outlook

Table 1: Financials of Nestlé AG | Source: Nestlé's Annual report 2021, standardized by CRA

Nestlé AG Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.3. (IAS, Group)	CRA standardized figures ¹	
	2020	2021
Sales (million CHF)	84,343	87,088
EBITDA (million CHF) *	18,261	15,119
EBIT (million CHF) *	14,796	11,679
EAT w/o non-controlling interests (million CHF) *	12,232	16,905
Total assets (million CHF)	107,984	121,430
Equity ratio (%)	30.66	32.78
Capital lock-up period (days)	59.73	65.49
Short-term capital lock-up (%)	24.30	21.60
Net total debt / EBITDA adj. (factor)	3.78	3.80
Ratio of interest expenses to total debt (%)	1.31	1.17
Return on Investment (%)	12.27	14.88

* It does not exclude extraordinary and non-cash effect items, such as partial disposal of L'oreal shares and impairment (mostly related to the worsening performance of the Wyeth brands).

Nestlé has a highly diversified business model, both in terms of its geographical footprint and in terms of its product categories, brands and target consumers, which grants the Company resilience to overcome increasingly market volatility globally. Despite the global economic contraction in 2020 caused by the Covid-19 pandemic and the inflationary environment throughout

¹ 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 takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

2021, Nestlé has maintained stable operating results over the past years. The Company's organic sales have increased consistently over the past few years, reaching an extraordinary level of 7.5% in 2021, well above the 3% average growth rate over the 2017-2020 period. This positive performance is partly driven by a recovery in consumer demand globally as well as by price increases to offset cost inflation. If we also take into consideration the negative impact of exchange rate fluctuation and divestments, Nestlé's consolidated net revenues still grew by 3.3% in 2021, amounting to CHF 87.1 billion (2020: CHF 84.3 billion). Nestlé's adjusted EBITDA generation of CHF 17.8 billion in 2021 (excluding extraordinary events) remained stable compared to the previous year and margin was sustained between 20-21% historically. Nestlé's operating performance continued to develop positively during the first quarter of 2022, with sales growing by 5.4% compared to the same period of the previous year, supported by continued price increases and market share gains in segments with more positive trends.

Nestlé is paving the way for a sustainable growth amid fast evolving consumer trends. The Company has raised its capital expenditures in order to shift its portfolio towards more profitable premium brands and product categories with higher growth perspectives, such as coffee, pet care, plant-based foods and healthcare. Accordingly, Nestlé's capex in 2021 amounted to CHF 5.3 billion, 22% higher than in the previous year and well above the average of CHF 4.4 billion over the 2017-2020 period.

Nestlé is also undergoing a restructuring process, in which it aims to divest its non-core and underperforming businesses and accelerate the business transition through strategic acquisitions. As part of its portfolio management strategy, Nestlé had a net cash inflow of CHF 608 million with more than 85 transactions over the last five years, which together drive 20% of the Company's current revenues. Major transactions concluded since 2017 are Aimune Therapeutics and The Bountiful Company - both expanding Nestlé's Healthcare segment and with a combined purchase amount of USD 4.9 billion -, Starbucks licensing deal for USD 7.15 billion and several other smaller but highly strategic acquisitions.

Due to higher investment needs and intensive M&A activity over the last few years, Nestlé increased its reliance on external funds, with its financial debt reaching CHF 46.6 billion at the end of 2021 compared to CHF 29.8 billion in 2017. Despite higher indebtedness, Nestlé maintained relatively stable credit metrics and a healthy capital structure over time, as evidenced by its adjusted equity ratio remaining consistently above 30% and leverage (measured by CRA as Net total liabilities/EBITDA) below 4 times historically. Nevertheless, the Company has faced modest deterioration in its financial key indicators since the beginning of 2020, with significantly weaker operating results during the Covid-19 pandemic and only partial demand recovery throughout 2021. Prior to the pandemic, Nestlé's leverage has always been below 3.5 times and now stands closer to 4 times. In our view, the Company should be able to restore its pre-pandemic credit condition over the next 12-24 months provided there is no further increase in debt and if operating results are not adversely affected by the potential slowdown in global economic activity.

Nestlé's liquidity position remains strong, based on its cash position of CHF 14 billion at the end of December 2021 and an additional CHF 11 billion in available committed credit lines, which together is sufficient to cover short-term financial debt by 2.3 times and to meet all of its upcoming financial debt obligations until 2025 year-end. Although the Company still generates strong cash flows from its operations, ranging between CHF 14 and 16 billion annually during 2019-21, there have been significant outlays over the past years, in particular those related to dividends and share repurchases. Nestlé's own cash flow generation has not been sufficient to accommodate its basic operating cash obligations, capital expenditures and shareholders' payout, resulting in increased reliance on external funds over the past years. We believe this trend

will continue, as Nestlé expects even higher capex during 2022 and has announced a new share buyback program amounting to CHF 20 billion during the 2022-2024 period.

We believe that Nestlé's high cash disbursements are set to continue for some time, exerting some negative pressure on its credit profile. However, the Company still benefits from a very high creditworthiness based on its strong internal funds generation, ample access to capital markets as well as from its resilient and diversified business model, providing it with several levers to pull in order to raise cash and meet its future financial obligations, even amid adverse market conditions.

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 investments in the Group. Additionally, the business development of NFI depends on the ability of Nestlé AG to service the payment obligations from the inter-company 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. Due to these economic, financial and liability relationships between Nestlé AG and 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 and, 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 were issued under the Debt Issuance Programme (DIP) with their latest basis prospectus of 28.05.2021 and with the Supplement of 18.03.2022. 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 a 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 issuers rated 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 2: Overview of CRA Ratings | Source: CRA

Rating Category	Details	
	Date	Rating
Nestlé AG (Issuer)	10.05.2022	AA- / stable
Nestlé Finance International Ltd. (Issuer)	10.05.2022	AA- / stable
Long-term Local Currency (LC) Senior Unsecured Issues	10.05.2022	AA- / stable
Other	--	n.r.

Table 3: Overview of 2021 Debt Issuance Programme | Source: Base Prospectus dated 28.05.2021

Overview of 2021 EMTN Programme			
Volume	Not defined / specified	Maturity	Depending on respective bond
Issuer / Guarantor	Nestlé AG (Guarantor)	Coupon	Depending on respective bond
	Nestlé Finance International Ltd. (Issuer)		
Arranger	Credit Suisse	Currency	Depending on respective bond
Credit enhancement	none	ISIN	Depending on 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 Debt Issuance Programme (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.

Appendix

Rating history

The rating history is available under:

<https://www.creditreform-rating.de/en/ratings/published-ratings.html>

Table 4: Corporate issuer rating of Nestlé AG | Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Initial Rating	03.04.2017	11.04.2017	Withdrawal of the rating	AA / stable

Table 5: Corporate Issuer Nestlé Finance International Ltd. | Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	31.10.2018	07.11.2018	Withdrawal of the rating	AA / stable

Table 6: LT LC senior unsecured issues of Nestlé Finance International Ltd. | Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	31.10.2018	07.11.2018	Withdrawal of the rating	AA / stable

Regulatory requirements

The rating² was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating that is public. 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:

With Rated Entity or Related Third Party Participation	No
With access to Internal Documents	No
With Access to Management	No

² 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.

The rating was conducted based on the following information.

List of documents
Accounting and controlling
<ul style="list-style-type: none"> Nestlé Annual Review 2021 Consolidated Financial Statements of the Nestlé Group 2021 Interim Reports Q1 2022
Finance
<ul style="list-style-type: none"> Debt Issuance Programme (Base Prospectus of 28.05.2021 / Last Supplement of 18.03.2022)
Additional documents
<ul style="list-style-type: none"> Company's presentations Material Facts / Press releases Corporate Governance Report 2021 Sustainability Report 2021

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

The documents submitted 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.

Rating methodology	Version number	Date
Corporate Ratings	2.3	29.05.2019
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

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	Mail-Address
Sabrina Mascher de Lima	Lead-analyst	S.Mascher@creditreform-rating.de
Esra Bartel	Analyst	E.Bartel@creditreform-rating.de

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

Name	Function	Mail-Address
Christian Konieczny	PAC	C.Konieczny@creditreform-rating.de

On 10 May 2022, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 10 May 2022. 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](#).

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.

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.

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](#).

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

Disclaimer

Any rating performed by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct, which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the enterprise or the issue under review.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

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Creditreform Rating AG

Contact information

Creditreform Rating AG

Europadamm 2-6
D-41460 Neuss

Phone: +49 (0) 2131 / 109-626
Telefax: +49 (0) 2131 / 109-627

E-Mail: info@creditreform-rating.de
Web: www.creditreform-rating.de

CEO: Dr. Michael Munsch
Chairman of the Board: Michael Bruns

HR Neuss B 10522