Creditreform Corporate Issuer / Issue Rating

Nestlé S.A.

Creditreform Rating

Rating object	Rating information	
Nestlé S.A. Creditreform ID: 406367260 Incorporation: 1866 Based in: Vevey (Switzerland) Main (Industry): Food and beverage industry CEO: Ulf Mark Schneider	Corporate Issuer Rating: A+ / stable	Type: Update Unsolicited Public rating
	LT LC Senior Unsecured Issues: A+ / stable	Short-term rating: L2
Rating objects: Long-term Corporate Issuer Rating: Nestlé S.A. Long-term Corporate Issuer Rating: Nestlé Finance International Ltd. Long-term Local Currency (LT LC) Senior Unsecured Issues Nestlé Finance International Ltd.	Rating date: 14 November 2023 Monitoring until: withdrawal of the rating Rating methodology: CRA "Corporate Ratings" CRA "Non-Financial Corporate Issue Ratings" CRA "Corporate Short-Term Ratings" CRA "Rating Criteria and Definitions" Rating history: www.creditreform-rating.de	

Content

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Summary

Company

Nestlé S.A. – hereinafter also referred to as Nestlé, the Group, or the Company – is the world's leading manufacturer of food and beverages, established originally in 1973 and headquartered in Vevey, Switzerland. In 2022, the Company operated in 188 countries with approximately 275,000 employees. 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, as well as further expansion and innovations on its key categories such as PetCare, to drive further growth and profitability. At the same time, Nestlé is also undergoing a restructuring process in which it aims to divest its non-core and underperforming businesses, using cash inflows to accelerate its business transition.

In 2023, Nestlé generated revenues of CHF 94,424 million (2022: CHF 87,088 million) and an annual profit of CHF 9,596 million (2022: CHF 17,196 million). Net income declined from 17,196 million to CHF 9,596 million, largely because the net income of 2021 included a one-off gain of CHF 7,184 million from the sale of a stake percentage of L'Oréal. In 2022, the Company saw a significant deterioration in its capital structure, in particular driven by its high dividend payout and the new share buyback program started in 2022, in combination with a reduced free cash flow in the wake of supply constraints.

Rating result

Creditreform Rating has downgraded the unsolicited corporate issuer rating of Nestlé S.A. from AA- to A+. The rating attests Nestlé with a high level of creditworthiness, representing a low default risk. Significant factors leading to the rating adjustment are the increased level of debt and the deterioration of its equity-ratio. In particular, the partially debt-financed share buybacks that have been carried out since its newest share buyback program starting in 2022, and which have led to significant liquidity outflows, were the major reason for the unfavorable development in the Company's capital structure, and consequently of the deterioration in the result of the key financial ratios analysis. A weaker net income and operating cash flow in the wake of adverse market circumstances coupled with high payout ratio of dividends were also consequences of the deterioration in the Group's credit metrics in 2022. At the current stage, we consider a significant improvement in the capital structure to be unlikely over the period of the current share buyback program, which runs at least until the end of 2024, even though the predominant proportion of shares that Nestle planned to repurchase has already been bought back. Nonetheless, due to the Group's global market position, with a well-diversified product and brand portfolio that is adequately developed through a high level of innovation and promptly adapted to customer needs, along with its well-developed internal financing power complemented by excellent access to the capital market, we still view the economic and financial situation of Nestlé Group as favorable from a rating perspective.

Outlook

The one-year outlook for the rating is stable, based on the assumption that Nestlé will continue to perform successfully based on its leading and future-oriented market positioning, and on its financial strength, despite ongoing challenging market conditions. Although inflation is moderating, and capacity constraints have largely dissolved, there is nevertheless uncertainty with regard to increasing geopolitical tensions and their economic consequences, which could influence the Company's financial performance. However, we see Nestlé as well-positioned to cope further with adverse circumstances and to maintain its strong earnings capacity, thanks to its resilient business model. With our stable outlook, we expect that debt levels remain relatively stable as result of a recovering free cash flow, giving more financial headroom to finance its shareholder remunerations and possible acquisitions in line with its transformation process.

Reference:

The relevant rating factors (key drivers) mentioned in this section are predominantly based on internal analyses, evaluations from the rating process, 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 sections "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

Relevant rating factors

Table 1: Financials I Source: Nestlé S.A. Annual Report 2022, standardized by CRA

Nestlé S.A. Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (IFRS)	CRA standardized figures[1]	
	2021	2022
Sales (million EUR)	87,088	94,424
EBITDA (million EUR)	15,119	15,922
EBIT (million EUR)	11,679	12,381
EAT (million EUR)	17,196	9,596
EAT after transfer (million EUR)	16,905	9,270
Total assets (million EUR)	121,475	117,682
Equity ratio (%)	32,81	24,61
Capital lock-up period (days)	65,49	61,07
Short-term capital lock-up (%)	21,60	19,53
Net total debt / EBITDA adj. (Factor)	3,80	4,33
Ratio of interest expenses to total debt (%)	1,17	1,41
Return on investment (%)	14,87	9,04

ures analysis 2022:
+ Sales increase
+ High free cash flow
+ Ratio of interest expenses to total debt still good
+ EBITDA interest coverage

- Net total debt / EBITDA adj.
- Equity ratio
- Return on investment
-Liquidity ratios declined

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

General rating factors

+ Global market presence
+ World market leader with a diversified product and brand portfolio
+ Strong and resilient internal financing power
+ Sufficient financial facilities, excellent capital market access

[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 considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

- Exchange rate risks (Swiss francs, emerging markets)
- High commodity price volatility
- Rapidly changing consumer behavior
- Intense competition
- Reputational risk (quality, food safety, compliance with ethical principles)

Current rating factors

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

+ Strong organic sales growth in 2022 and during 2023
+ Pricing and cost reduction measures have mitigated higher inflation-related costs
+ Results and operating cash flow improvements in H1 2023
+ Supply chain constraints dissolving and inflation moderating during 2023
+ Growing free cash flow expected, alleviating strongly external fund needs

- Ongoing aggressive shareholder remuneration and a new share buyback program started in 2022 significantly deteriorated the credit profile
- Return on investment in 2022 significantly deteriorated by extraordinary events and adverse market conditions
- Free cash flow in 2022 impacted by higher inventories
- Adverse foreign exchange effects dampening reported sales growth during 2023
- Negative real internal growth during 2023 due to capacity constraints and portfolio measures

Prospective rating factors

Prospective rating factors are factors and possible events which – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+), or a weakening or negative effect (-) on future ratings if they occurred. This is not an exhaustive 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.

+ Accelerating growth based on portfolio optimization, innovation and marketing investments
+ Positive sales volume development driven in particular by supply chain normalization
+ Sustained improvement in operating profit margin partly driven by inflation moderation
+ Free cash flow recovery to pre-COVID-levels
+ Disposals can generate significant additional gain and cash inflow

- Increasing energy prices and economic slowdown affecting margins
- Increasing interest rates lowering profitability
- Renewed supply chain constraints
- Further debt increase (e.g. in the course of M&A transactions or shareholder remuneration)
- Reputational damage due to adverse developments in ESG factors

ESG-factors

ESG factors are factors related to environment, social issues and governance. For more information, please see the section "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.

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

In the food and beverage sector, we see mounting concerns related to food security and water scarcity amidst a growing global population and challenges due to climate change, as well as those 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.

In April 2023, the European Parliament adopted a new law to combat global deforestation. With regard to the new EU legislation, from the end of 2024 products such as coffee, cocoa, palm oil and soy may no longer be sold in the EU if forests have been cleared to produce them. The Council of the European Union adopted a corresponding regulation in Brussels. Nestlé reports, that the vast majority of its products was deforestation free which therefore reduces market and liability risks for the Company.

In 2022, Nestlé reduced 6.4 million tons of CO_2e compared with a business-as-usual scenario. Its objective is to reduce 50% of its scope 1, 2 and 3 greenhouse gas emissions by 2030 as compared to 2018, and to be a net zero company by 2050 at the latest.

Since 2019, the Company's management follows its self-established Code of Business Conduct, which has integrated the principles and sustainable development goals of the United Nations Global Compact, strengthening its ESG culture. The Company may achieve some milestones; however, its ambitious plan still requires significant investment, including R&D efforts (see also business risk). Overall, at the current stage, we do not see any significant material effects with regard to ESG factors.

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.

Best-case scenario: A+

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.

In our best-case scenario, we assume a broadly stable business development and recovering operating cash flow in the wake of a moderating inflation, ongoing dissolving supply chain constraints, and a recovering real internal growth. In this scenario, we do not assume a further worsening of the macroeconomic situation due to geopolitical tensions. Against the background of its high dividend payouts, the current share buyback program and possible M&A transactions, we do not consider a significant improvement in the capital structure as likely.

Worst-case scenario: A

In the worst-case scenario for one year, we see a deterioration of the Company's rating to A. Such a downgrade would have to be considered in the event of a persistent negative development following geopolitical and economic developments, with a corresponding deterioration in the Nestlé Group's operating results and financial position. A further significant increase in debt in the course of the Group's unchanged dividend policy, as well as larger acquisitions, could lead to a further deterioration of the rating. However, at this stage, we consider this scenario as less likely, as Nestlé aims to maintain its target of an adjusted leverage ratio of between 2.0x und 3.0x (2022: 2.5x).

Business development and outlook

Table 2: The development of business of Nestlé S.A. in 2022I Source: Annual Report 2022, reported information

Nestlé S.A.				
In million CHF	2021	2022	Δ	Δ %
Sales	87,088	94,424	7,336	8.4
EBIT	11,679	12,381	702	6.0
EAT	17,196	9,596	-7,600	-44.2

In 2022, the Company recorded sales of CHF 94,424 million, up by 8.4% compared to 2021, largely due to price increases (8.2%) to offset inflation-related costs. The increase in sales was almost entirely organic (excluding acquisitions, sales and currency fluctuations). The growth of EBIT was mitigated largely by higher inflation-related costs and a lower other operating income largely due to lower disposal gains as compared to 2021. The gross margin decreased from 47.8% in 2021 to 45.2% in 2022 due to the impact of inflation-related costs. EBIT structured by CRA increased to CHF 12,381 million (2021: CHF 11,679 million), up by 6.0%.

Nestlé's adjusted operating profit "underlying trading operating profit", which excludes special items such as restructuring costs, impairments of tangible assets and intangibles, litigation, disposal gains and losses, amounted to CHF 16,103 million (2021: CHF 15,119 million), up by 6.5%, thanks to the price increases, cost control measures, and growth leverage. Marketing expenses fell markedly with regard to capacity constraints. The adjusted operating profit, which had been significantly impaired since the COVID pandemic, reached nearly pre-crisis levels (2019: CHF 16,260 million). Nevertheless, the corresponding margin fell to 17.1% (2021: 17.4%; 2019: 17.6%), as the measures were not sufficient to fully offset the impact of inflation-related higher costs.

EAT decreased to CHF 9,596 million (2021: CHF 17,196 million, 2019: CHF 12,904 million), down by 44.2%, largely because in 2021 net income from participating interests included a one-off gain of CHF 7,184 million after the sale of Nestlé's stake in L'Oréal. Nestlé's equity share in L'Oréal dropped from 23.2% to 20.1%. In addition, higher net financial expenses (+CHF 167 million), and a higher tax rate (+CHF 469 million) reduced profit. Financial expenses rose, largely due to an increase in leverage, while the average interest rates remained broadly stable (2022: 2.2% vs 2021: 2.0%).

In comparison to pre-COVID-19 levels, profitability ratios were significant lower in 2022 (see table 6) affected by adverse market circumstances. Return on investment amounted to 9.0% (2021: 14.9%, 2019: 12.6%). This deterioration was largely due to higher manufacturing costs over the last two years, as in 2019 the gross profit margin was still 49.61% (2022: 45.2%), lower disposal gains in 2022, and a concurrent balance sheet extension as result of a generally increased asset base and especially higher inventories. The increase in inventories was largely related to capacity constraints triggered by the pandemic crisis.

As a result of the increase in inventories in the wake of supply constraints operating cash flow was 14.1% lower than the previous year, amounting to CHF 11,907 million (2021: CHF 13,864 million). Nevertheless, the still strong cash flow-margin of 12.6% (2021: 15.9%), displays a solid performance.

Table 3: The development of business of Nestlé S.A.in H1 2023 I Source: Half-Year Report 2023, reported information

Nestlé S.A.				
In million CHF	**H1 2022**	**H1 2023**	**Δ**	**Δ %**
Sales	45,580	46,293	713	1.6
EBIT	6,684	7,262	643	9,7
EAT	5,402	5,785	383	7.1

In the first half of 2023, Nestlé recorded sales of CHF 46,293 million (HY1 2022: 45,580 million), up by 1.6% compared to H1 2022, as reported growth was dampened by adverse FX effects (-6.7%) and scope effects (-0.4%). Organic growth amounted to 8.7%, still due to inflation-related pricing (9.5%), more than offsetting a decrease in sales volume, measured by real internal growth[2] (-0.8%). All markets and product segments contributed to organic sales growth. The growth of products, in particular of Coffee and Petcare, was supported by high demand through e-commerce and the recovery of the out-of-home channel. Nestlé's underlying trading operating profit margin increased slightly to 17.1% (HY1 2022: 16.9%). During 2023, the Company also recorded an increase in reported results. Reported EBIT increased to CHF 7,262 million (HY1 2021: CHF 6,619 million), up by 9.7%, and profit for the period to CHF 5,785 million (HY1 2022: CHF 5,402 million), up by 7.1% despite a still impacted gross margin and rising financial expenses, the latter also due to higher interest rates (HY1 2023: 2.6% vs. HY1 2022. 1.9%). The reported improvement was largely a result of lower distribution expenses (down by CHF 203 million), in the wake of lower freight and energy costs, as well as lower impairments (down by CHF 576 million) as compared to HY1 2022, more than offsetting higher restructuring costs (up by CHF 175 million). Operating cash flow improved strongly from CHF 3,935 million in HY1 2022 to CHF 5,741 million in HY1 2023, up by 45.9% with regard to the improved operating performance and lower inventories in context of a supply chain recovery. Operating cash flow even exceeded its HY1-2019 level (HY1 2019: CHF 5,159 million).

During the first nine months, reported sales were even more impacted by foreign exchange effects (-7.4%), suffering a decline on a reported base of 0.4% compared to 9M 2022; however organic growth was still strong, amounting to 7.8% and the real internal growth recovered slightly in the third quarter. According to the Company, the negative development of the real internal growth is a consequence of its portfolio optimization measures and ongoing capacity constraints, in particular in Water (Perrier), PetCare, as well as in supplements and vitamins. Nestlé expects a turnaround in the second half of 2023, due to gaining benefits from its portfolio measures and by constantly eliminating supply chain constraints, coupled with stepping up marketing investments and new pricing moderation. Although the margin had deteriorated slightly compared to H1 2022 (H1 2023: 45.6% vs. H1 2022 46.2%), it showed a slight improvement as compared to the end of 2022 (45.2%).

Nestlé is taking measures to reestablish its adjusted trading operating margin with the objective of reaching pre-COVID levels, i.e., over 17.5% (see Business risk). Its portfolio optimization measures will begin to have a positive impact on results; however, its business performance is currently impacted by adverse market conditions. Despite a tendency toward recovery, especially in supply chains, the market is still challenging and marked by uncertainty, especially in connection with aggravated geopolitical tensions. Nevertheless, the Company was again able to cope with the circumstances, recording solid performance and strong operating cash flows, and we see the Company as well-positioned to continue its favorable development, recovering again to pre-crisis-levels.

Structural risk

With revenues of approximately CHF 94 billion in 2022, and a presence in 188 countries, Nestlé is the world's leading food and beverage manufacturer. The parent company of the Group is Nestlé S.A., based in Vevey, Switzerland, its origins dating back to 1866. The shareholder base is broadly diversified, with 20% of private shareholders (20%), and 80% of domestic and foreign institutional investors, with no shareholder owning more than 5% of the share capital. Nestlé operates decentralized though five geographical zones and two significant globally managed business units:

[2] The real internal growth measures the impact on sales of volume increases or decreases, weighted by the relative value per unit sold.

- Zone North America (NA), representing a sales share of 27.9% in 2022
- Zone Europe (EUR), (20.3%)
- Zone Asia, Oceania and Africa (AOA), (19.6%)
- Zone Latin America (LATAM), (12.5%)
- Zone Greater China (GC), (5.6%)
- Nespresso (6.8%)
- Nestlé Health Science (7.0%)

Sales generation is strongly diversified, with a considerable concentration in the lower-risk rated regions of Europe and North America, as both together generate over 50%[3] of the share of sales. The Company also shows a certain diversification in terms of its product range. Nestlé divides its product portfolio into the seven categories of beverages in liquid and powder form, nutrition products and health science, products for pets (PetCare), milk products and ice cream, ready meals and products for the kitchen (prepared dishes and cooking aids), confectionery and water products, offering also premium products. Its product portfolio contains over 2,000 brands, of which the best-known include "Nescafé", "Nesquik", "Maggi", "Felix", "Kitkat", "Smarties", "Pellegrino".

Nestlé manufactures its products in 344 factories (2021: 354) in 60 countries, which on the one hand underscores its diversification; on the other hand, however, it entails country risks. Slightly less than half of its factories are located in North America and Europe. However, particularly in times marked by supply shortages, Nestlé's global structure, coupled with its magnitude, has proven to be beneficial in enabling global sourcing and adapting rapidly to specific customer needs. In addition, Nestlé maintains an extensive research and development organization in order to consistently align its product portfolio to the needs of the market.

Based on publicly available information and its longstanding existence, we assume sufficiently developed structures with regard to risk management, accounting, and controlling, as well as regarding other administrative and operational functional areas. The widespread geographical diversification and size of the Company require a high degree of organization, and entail risks associated with local legal, political, cultural and social particularities; nevertheless achievable for a company of this size. We assume that the Group's structure supports the implementation and monitoring of its strategy in accordance with the specific legislation and regulatory frameworks in the countries in which the Group operates. In addition, Nestlé's strategy includes regular acquisitions, entailing integration risks and the risk of non-realization of expected gains and synergies. However based on Nestlé's leadership position and longtime expertise we assume below-average structural risks.

Business risk

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 COVID-19 pandemic during 2020 and 2021. Currently, as already described, Nestlé was able to pass on a part of the higher inflation-related costs triggered by the energy crisis, to its customers through price increases. 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. Furthermore, disregarding environmental regulations or ethical prin-

[3] Including the assumption that a relevant percentage of the sales of Nespresso and Nestlé Health Science are generated in EUR and NA

ciples could cause lasting damage to the Company's image, and thus could affect sales and profitability. In order to avoid or at least limit such risks, Nestlé has implemented a 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's demands. Should this succeed only to a limited extent, it could lead to significant business losses. To maintain a certain proximity to its customers, the Company utilizes the above-mentioned decentralized structure. Nestlé also depends on a steady supply of raw materials and other materials and services. Natural disasters or macroeconomic changes can lead to an interruption in the supply chain and cause capacity bottlenecks or a disproportionate increase in purchase prices. Nestlé's operating performance is still affected by capacity constraints following the COVID-19 pandemic, albeit to a limited extent (see business development). Nestlé has a well-diversified infrastructure in order to prevent such developments and to mitigate their consequences (see also structural risk). Finally, the risks that international business holds for Nestlé in the form of country risks, but also the uncertainty with regard to currency and raw material price developments which pose a risk to the Company's financial performance as can be seen in the business development of H1 2023.

Nestlé has identified climate change as one of the greatest risks for its future, which in the form of higher temperatures and water shortages can affect the quality and availability of raw materials such as coffee, 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. Nestlé expects yield changes and shifts across commodities by 2040, driven by changes in growing conditions. To mitigate the lasting effects of climate change on coffee, grain, and dairy products, Nestlé plans to work with farmers for the development of agricultural best practices, such as regenerative agriculture practices and water generation programs. In addition, Nestlé's long-term climate target is to reduce its net greenhouse gas emissions to zero by 2050, corresponding to the European climate protection target.

Based on established structures, Nestlé strives for sustainable, mid-single-digit organic sales growth and an increase in operational efficiency by portfolio optimization coupled with a stringent and disciplined capital allocation. Its underlying trading operating profit margin range is expected to be of 17.5% to 18.5% by 2025 (2022: 17.1%, 2019: 17.6%). The Company is divesting its non-core and underperforming businesses, while investing in brands or product categories with higher margins or higher growth perspective. 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. Also, its core categories, which are strong growth drivers such as Petcare, confectionary and Coffee, remain essential for its strategy. Nestlé also strives to develop new high-growth and high-margin business areas.

Overall, we consider Nestlé's strategy, which is geared towards resource-efficient sales, profitable growth, and improved capital efficiency, to be a supporting factor for our credit rating. Nestlé's established and most well-known brands, as well is efforts to drive innovation in line with current consumer needs, alleviates competitive pressure. 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 on the Group's leading market position, geographical and product diversification, as well as the resilient earnings capacity of its business model, which creates additional competitive advantages, we consider the business risk to be low.

Financial risk

CRA has adjusted the original values in the financial statements for purposes of the financial ratio analysis. We have deducted only 50% of the goodwill reported in the balance sheet from equity, as we assume a certain recoverability of the balance sheet item. The following descriptions and indicators are largely based on CRA adjustments.

In 2022, the Company's capital structure deteriorated significantly compared to the previous year. The adjusted equity ratio fell below the 30%-level, representing a historical low in time of our analysis and for the first time leverage (measured by CRA as Net total liabilities/EBITDA adjusted) surpassed 4 times. Both deteriorations were largely related to Nestlé's dividend payments and new share buyback program, which started in January 2022. CRA's structured equity ratio decreased from 32.8% in 2021 to 24.6% in 2022. The dividend payments of CHF 7,618 million, representing a dividend payout ratio of 82.2% (2021: 45.4%), and the share buyback of CHF 10,746 million, also led to an increase in indebtedness. Net financial debt increased to CHF 48,159 million (2021: CHF 32,917 million). In contrast, Nestlé's net investment activities in the amount of CHF 1,903 million were less significant for the increase in debt. Partly affected by the lower operating performance and an increase of other liabilities, net total debt /EBITDA adj. rose to 4.3x (2021: 3.8x). This downward trend is also reflected in the half-year figures for 2023. Reported equity decreased to CHF 36,823 million (HY1 2022: CHF 45,213 million), down by 18.6%, while reported net financial debt increased to CHF 55,605 million (HY1 2021: CHF 48,460 million), up by 14.7% compared to HY1 2022, in view of dividend payments and share buybacks.

However, almost three quarters of Nestlé's share buyback program is already completed. The present program foresees a share buyback of CHF 20 billion in order to reduce capital, and Nestlé had already acquired shares for a total amount of CHF 13 billion by the first half of 2023. The Company expects the buyback to be completed by the end of 2024. According to a conference call in the first half of 2023, Nestlé does not expect the need further external financing for its dividend payments and share buyback, based on continuously recovering free cash flow. It aims to maintain its adjusted leverage-ratio between its target of 2.0x-3.0x, which amounted to 2.5x as of 31 December 2022. Based on this information, and assuming that no significant cash inflows from asset sales will follow, we do not believe that the Company's capital structure will improve significantly in the coming years, as its shareholder-benefitting measures and investment activities will not leave enough financial headroom for significant debt repayments. In addition, at this stage we do not assume that the current improving operating performance will be sufficient to offset the increased net debt and reach leverage metrics as previous years (Nestlé's reported net debt / adj. EBITDA ratios 2021: 1.8x, 2019: 1.4x).

Nevertheless, the Company has excellent internal and external funds, providing strong financial power and a certain flexibility. In 2022, free cash flow was CHF 6,570 million (2021: CHF 8,715 million), down by 24.6% compared to 2021. This drop was in connection with higher inventories due to supply bottlenecks. Nevertheless, free cash flow was still strong and more than sufficient to settle net investing activities and liabilities due. In HY1 2023 free cash flow was CHF 3,422 million (HY1 2022: CHF 1,472 million), thus 2.3 times higher than in HY1 2022, largely as a result of a better operating performance and the dissolving capital constraints. Nestlé expects to generate free cash flow of roughly CHF 10 billion in 2023. In addition, Nestlé has the ability to quickly and flexibly raise debt capital in different currencies via the debt issuance program. As of 31 December 2022, the Company and its financing subsidiaries had a carrying amount in bonds of CHF 43.8 billion (2021: CHF 36.5 million). In addition, the Company has a stake of 20.1% in L'Oréal, which is not part of its core business, and whose market value as of the balance sheet date of 31 December 2022 was CHF 35.4 billion.

The Company's liquidity position is also down compared to 2021. Nevertheless, we still consider its liquidity to be adequate based on its cash position, including short-term investments amounting to CHF 6.7 billion at end of 2022 (2021: CHF 14.0 billion), and an additional CHF 11.0 billion (2021: CHF 11.8 billion) in available committed credit lines, which together are sufficient to cover short-term financial debt by 1.6 times (2021: 2.3x).

Overall, despite a weaker balance sheet structure coupled with a higher leverage ratio compared to the year before, and without significant short-term recovery prospects dampening Nestlé's credit profile, we do not see any overall significant short- or medium-term financial risks for Nestlé that might endanger the Company's financial sustainability. The Company has well-balanced and diversified funding sources at its disposal and, in particular, generates strong and resilient operating cash flows, which are more than sufficient to meet its investments.

Further ratings

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

- Nestlé Finance International Ltd.

Due to the corporate, strategic, liability, financial, economic and performance-related interdependencies of the aforementioned subsidiary (direct 100% subsidiary of Nestlé S.A. and which have been consolidated into the group annual accounts) we derive the unsolicited issuer rating of this subsidiary from the unsolicited issuer rating of Nestlé S.A. and set it equal to its rating of A+ / stable.

Based on the long-term issuer rating and taking into account our liquidity analysis, the unsolicited short-term rating of Nestlé S.A. and the above-mentioned subsidiary was set at L2 (standard mapping), which corresponds to a high level of liquidity assessment for one year.

The rating objects of the issue rating are exclusively long-term senior unsecured issues, denominated in euro, issued by the above-mentioned subsidiary, which are included in the list of ECB-eligible marketable assets.

Nestlé S.A. is guarantor in respect of the issues that have been issued by the above listed group company under the Debt Issuance Programme (DIP), with the last basis prospectus of 30.05.2023 and with the last supplement of 25.08.2023.

We have provided the long-term local currency senior unsecured notes issued by Nestlé Finance International Ltd. with an unsolicited rating of A+ / stable. The rating is based on the respective corporate issuer rating.

Long-term local currency senior unsecured notes issued by the above-mentioned subsidiary, which have similar conditions to the current DIP programme, denominated in Euro and included in the list of ECB-eligible marketable assets, generally receive the same ratings as the current LT LC senior unsecured notes issued under the DIP programme. Notes issued 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.

Table 5: Overview of CRA Ratings I Source: CRA

Rating Category	Details	
	Date of rating committee	Rating
Nestlé S.A.	14.11.2023	A+ / stable / L2
Nestlé S.A. Finance International Ltd.	14.11.2023	A+ / stable / L2
Long-term Local Currency (LC) Senior Unsecured Issues issued by Nestlé S.A. Finance International Ltd.	14.11.2023	A+ / stable
Other	--	n.r.

Financial ratio analysis

Table 6: Financial key ratios |Source: Nestlé S.A. Annual Report 2019-2022, structured by CRA

Asset structure	2019	2020	2021	2022
Fixed asset intensity (%)	67.62	68.45	67.65	70.15
Asset turnover	0.83	0.77	0.78	0.81
Asset coverage ratio (%)	72.70	72.85	79.04	69.45
Liquid funds to total assets	9.30	7.97	11.52	5.68
Capital structure				
Equity ratio (%)	34.28	30.66	32.81	24.61
Short-term debt ratio (%)	37.73	36.79	32.95	33.97
Long-term debt ratio (%)	14.88	19.21	20.66	24.11
Capital lock-up period (in days)	55.27	59.73	65.49	61.07
Trade-accounts payable ratio (%)	12.71	12.78	12.86	13.42
Short-term capital lock-up (%)	24.09	24.30	21.60	19.53
Gearing	1.65	2.00	1.70	2.83
Leverage	2.85	3.08	3.14	3.49
Financial stability				
Cash flow margin (%)	14.74	15.26	22.27	13.11
Cash flow ROI (%)	12.37	11.92	15.97	10.52
Total debt / EBITDA adj.	3.76	4.28	4.58	4.68
Net total debt / EBITDA adj.	3.23	3.78	3.80	4.33
ROCE (%)	26.76	23.96	21.55	23.32
Total debt repayment period	2.92	5.01	4.30	4.32
Profitability				
EBIT interest coverage	13.22	15.05	12.25	9.90
EBITDA interest coverage	16.28	18.58	15.86	12.74
Cost income ratio (%)	83.38	82.96	86.78	87.01
Ratio of interest expenses to total debt (%)	1.68	1.31	1.17	1.41
Return on investment (%)	12.62	12.27	14.87	9.04
Return on equity (%)	32.84	34.90	48.13	28.58
Net profit margin (%)	13.94	14.67	19.75	10.16
Operating margin (%)	17.37	17.54	13.41	13.11
Liquidity				
Cash ratio (%)	17.95	13.18	17.46	13.79
Quick ratio (%)	63.25	60.34	68.27	50.30
Current ratio (%)	85.83	85.77	98.21	87.87

Appendix

Rating history

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

Table 7: Corporate Issuer Rating of Nestlé S.A.

Event	Rating created	Publication date	Result
Initial rating	03.04.2017	11.04.2017	AA / stable

Table 8: Corporate Issuer Rating of Nestlé Finance International Ltd.

Event	Rating created	Publication date	Result
Initial rating	03.04.2017	11.04.2017	AA / stable

Table 9: LT LC Senior Unsecured Issues issued by Nestlé Finance International Ltd.

Event	Rating created	Publication date	Result
Initial rating	03.04.2017	11.04.2017	AA / stable

Table 10: Corporate Short-term Rating of Nestlé S.A.

Event	Rating created	Publication date	Result
Initial rating	14.11.2023	www.creditreform-rating.de	L2

Table 11: Corporate Short-term Rating of Nestlé Finance International Ltd.

Event	Rating created	Publication date	Result
Initial rating	14.11.2023	www.creditreform-rating.de	L2

Regulatory requirements

The rating[4] 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.

[4] 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 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.

Rating methodology	Version number	Date
Corporate Ratings	2.4	July 2022
Corporate Short-Term Ratings	1.0	June 2023
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
Christina Sauerwein	Lead-analyst	C.Konieczny@creditreform-rating.de
Esra Höffgen	Analyst	E.Hoeffgen@creditreform-rating.de

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

Name	Function	Mail-Address
Philip Michaelis	PAC	P.Michaelis@creditreform-rating.de

On 14 November 2023, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 14 November 2023. 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.

Creditreform Rating AG ensures that the provision of ancillary services does not present conflicts of interest with its credit rating activities and discloses in the final rating reports any ancillary services provided for the rated entity or any related third party. The following ancillary services were provided for the rating entity or for third parties associated with the rated entity:

No ancillary services in the regulatory sense were carried out for this rating object.

For the complete list of provided rating and credit service ancillaries please refer to the Creditreform Rating AG's website: https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html#non-core-business-activities.

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.

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