

NUTRITION AT NESTLÉ¹

“When a person is sick, the doctor should first regulate the patient's diet and lifestyle.”

Sun Si-Miao, famous doctor of the Tang Dynasty (China), 7th Century B.C.

Peter Brabeck-Letmathe, CEO of Nestlé since 1997 and Chairman since 2005, had always been tagged as a visionary when he was immersed in drawing up the Group's strategy. As far back as 2010, during the presentation of Nestlé Health Science – a new Nestlé Group company that provided nutritional solutions for people with special needs, one that illustrated Nestlé's commitment to becoming the leading global Nutrition, Health and Wellness company – he commented:

“If we look at health care expenditure, we notice that chronic diseases are the most impactful and growing issue to be tackled.”

According to an analysis by PricewaterhouseCoopers, by 2015 three percent of the world's GDP would be lost as a consequence of chronic diseases – diabetes, cardiovascular, obesity, and so on. At that moment, there were more than one billion obese people in the world already, 300 million of them suffering from adipositas, the extreme form of obesity. Chronic diseases accounted for sixty percent of all deaths, and it was estimated that this percentage would increase by seventeen points over the coming years.

Health care costs in the U.S. (where these costs were the highest) were expected to rise to about fifteen percent of the GDP (and it would be higher in the following years) and the forecast for emerging markets was not much different. By 2015, China would be spending USD 500 billion, Russia would spend USD 300 billion, and India USD 200 billion, on health care costs alone.

¹ The Research Division of San Telmo Business School Spain, has published this case. Written by Professor Antonio García de Castro and research assistant Ms. Rocío Reina Paniagua. This case has been developed as a basis for class discussion only and is not intended to illustrate any judgment on the effective or ineffective management of a specific situation.

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The British Minister of Health once stated that the expense of the British National Health Service amounted to GBP 3,500 per second. If public health were to follow a linear evolution (in terms of chronic diseases and ageing population), this expenditure could easily double by 2050 (one-third of Britain's wealth).

The final conclusions of a recent European Health Committee meeting on malnutrition in the European hospital system, explained that malnutrition represented a hidden cost (adding more hospitalization hours for patients that were unable to go home due to excessive weakness, plus the consequences of being away from work and other social costs) of more than EUR 100 billion. This happened despite the fact that there were products, such as Nestlé Health Science's Impact milkshakes, that could reduce hospitalization by 1.5 to 2.5 days, according to clinically proven research. A hospitalized patient had an impact on the health system of EUR 150 per day, and the treatment he or she received had a cost of EUR 25 per day.

"If we bear this in mind, it becomes evident that today's health system, which concentrates primarily on treating illnesses, is not sustainable and will have to undergo a drastic overhaul.

We are certain that the prevention of illnesses will play a much more important role in the future. In this respect, nutrition will become an efficient measure for personalized medical treatment in an active prevention policy focused on health and wellness."

Luis Cantarell had been the CEO of Nestlé Health Science from its creation until late 2014, when he was named Executive Vice President of Zone EMENA (Europe, the Middle East and North Africa). His previous time at Nutrition had been particularly significant for him and for Nestlé, as it had laid the foundations for the advancement of that division when Peter Brabeck had asked him to take control of it in 2001.

Now Paul Bulcke, Nestlé's CEO since 2008, had once again asked him to pilot a new area that had been created to unite Europe with all the countries in the Middle East and North Africa. Cantarell left the Nutrition division in good hands; he and Heiko Schipper, who had replaced him in that position in 2015 after a year as head of infant nutrition, had worked together for years. However, he wanted share several documents that would help him understand the path that Nestlé had followed in the field of Nutrition.

Searching through some files, he found one of the first presentations he had prepared when the Nutrition division was kicking off. A lot of time had gone by, and he was glad to see that many of the things that appeared on the slides were now a reality. Exhibit 1 contains a brief CV of the persons that appear in this document.

Many things had been accomplished, and the future of nutrition continued to be highly appealing. One of Brabeck's latest statements came to his mind:

"Nutrition should be the science of the 21st century because of the huge impact it will have on countries' health systems. It should be an absolute priority. In view

of its complexity, nutrition is in need of a highly advanced technology. It will also be essential to use Big Data due to the huge amount of data that needs to be analyzed and processed (lifestyles, genetics, metabolic studies, etc.) It is indeed a great intellectual challenge.

Our health system (or should I say, illness system) is not sustainable in the long term. There is simply not enough money to run it. We will be obliged to change the system and Nutrition is the gateway to that change."

NESTLÉ S.A.

In 2015, Nestlé was the world's leading food and beverage company and it was striding purposefully towards becoming a global reference in the field of Nutrition, Health and Wellness.

Nestlé's 2014 sales amounted to CHF 91,612 million, with earnings of CHF 14,047 million. Its market capitalization was CHF 231,136 million, yielding earnings per share of CHF 4.54.

Its Business Model could be summed up in an organic growth in long-term sales of between 5 and 6% per annum; continuous improvement in EBIT (earnings before interest and taxes) margins; and a better management of capital, with a strong focus on being market leaders with its brands. Recent years saw an emphasis on the company's desire to be a reference for their long-term financial results, thus gaining the trust of consumers, suppliers, employees, customers, shareholders and society in general.

Nestlé had more than 339,000 employees in over 197 countries. Europe represented 28 percent of its business, the Americas 43 percent and Asia, Oceania and Africa, the remaining 29 percent.

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The Chairman of Nestlé, Peter Brabeck, and its CEO, Paul Bulcke, delivered the following joint message at the start of the 2013 Creating Shared Value report:

"Henri Nestlé founded the Company in 1866 on the success of a life-saving infant cereal. Today, we aim to enhance the quality of life of all our consumers by offering tastier and healthier food and beverages, as well as information and services to enable them to make the right choices at all stages of life. And we are investing in the future health and wellness of our consumers through our network of research centers, the Nestlé Institute of Health Sciences and the Nestlé Health Science business. We believe that a proper nutrition will play an ever more important role in the health and wellness of individuals and society."