



# Operational Excellence Through Nestle's Embedded Values

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## Abstract

This study critically examines how Nestlé India embedded values—particularly Creating Shared Value (CSV), long-term orientation, operational excellence, sustainability and performance discipline—translate into measurable corporate-finance outcomes. The analysis uses FY2023–FY2025 information, with FY2025 as the principal reference year. Nestlé reported sales of CHF 89.5 billion in 2025, organic growth of 3.5%, an underlying trading operating profit margin of 16.1%, free cash flow of CHF 9.2 billion and ROIC of 12.7%. At the same time, the company faced coffee and cocoa inflation, tariffs and foreign-exchange pressure. Operational initiatives remained important: Fuel for Growth generated CHF 1.1 billion of savings in 2025, while capex was 4.8% of sales. The study concludes that embedded values create financial relevance when they improve productivity, resilience, cash flow, risk management or capital efficiency; values alone do not guarantee higher returns.

## Executive Summary

Nestlé remains one of the world's largest food and beverage groups, with sales of CHF 89.5 billion in 2025, 271,000 employees and 335 factories in 75 countries. The 2025 results are mixed: organic growth improved to 3.5%, but the underlying trading operating profit margin fell to 16.1% because coffee and cocoa inflation, tariffs and foreign-exchange pressure outweighed part of the savings and pricing gains. ROIC was 12.7%, down from 14.1% in 2024, though it still points to real value creation against a reasonable illustrative cost-of-capital range.

| 2025 metric       | Actual         | Corporate-finance interpretation                     |
|-------------------|----------------|------------------------------------------------------|
| Sales             | CHF 89.5B      | Large, diversified revenue base                      |
| Organic growth    | 3.5%           | Improved growth momentum                             |
| UTOP              | CHF 14.4B      | Operating profit before selected exceptional items   |
| UTOP margin       | 16.1%          | Still strong, but 100 bps lower at constant currency |
| Free cash flow    | CHF 9.2B       | Strong funding capacity                              |
| ROIC              | 12.7%          | Positive value-creation signal                       |
| Net debt          | CHF 51.4B      | Down CHF 4.6B during 2025                            |
| Dividend proposed | CHF 3.10/share | Continued shareholder distribution                   |

## Central argument

Nestlé's values matter financially when they improve productivity, resilience, brand strength, working-capital discipline or financing access. Values alone do not guarantee superior returns. The evidence has to show up in margins, cash flow, ROIC and risk-adjusted capital allocation.

## Key findings

- The 2025 Fuel for Growth program delivered CHF 1.1B of savings, above its CHF 0.7B 2025 target, while the total program targets CHF 3.0B of savings by the end of 2027.
- Capex fell to 4.8% of sales in 2025, reflecting tighter investment discipline and a stronger focus on returns from the existing asset base.
- ROIC declined to 12.7% in 2025 from 14.1% in 2024, so the CA should not treat operational excellence as a metric that improves every year.
- ESG progress is measurable: a 24.5% net GHG reduction versus 2018, 98.6% renewable electricity at relevant sites, 96.7% assessed deforestation-free primary supply chains, and 27.6% of key-ingredient volumes from regenerative agriculture.

## Company Scale and Embedded Values

Nestlé's values matter to corporate finance when they shape how the company sources inputs, invests in innovation, runs factories, allocates capital and manages risk. The current strategy centers on RIG-led growth, a winning portfolio, a performance culture and business transformation. The company also targets CHF 3.0B of cost savings by the end of 2027.

| Embedded value         | Operational expression                                           | Corporate-finance channel                                       |
|------------------------|------------------------------------------------------------------|-----------------------------------------------------------------|
| Creating Shared Value  | Farmer programs, nutrition, water, responsible sourcing          | Supply resilience, quality, brand trust, risk reduction         |
| Long-term orientation  | R&D, portfolio management, innovation platforms                  | Growth quality, pricing power, ROIC discipline                  |
| Operational excellence | Simplification, procurement, automation, process standardization | COGS/SG&A savings, working-capital improvement                  |
| Sustainability         | Decarbonization, packaging, regenerative agriculture             | Avoided risk, resource efficiency, financing/reputation effects |
| Performance culture    | Clear accountability and measurable KPIs                         | Faster execution and capital productivity                       |

## 2025 operating footprint

| Indicator                         | 2025                |
|-----------------------------------|---------------------|
| Countries where products are sold | 185                 |
| Employees                         | 271,000             |
| Factories                         | 335 in 75 countries |
| Annual R&D investment             | CHF 1.7B            |
| R&D employees                     | 4,000               |
| R&D locations                     | 22                  |
| Emerging-market share of sales    | 41%                 |

This footprint is both an advantage and a finance challenge. Scale can lower unit costs and improve procurement leverage, but it also raises exposure to foreign exchange, commodity prices, geopolitical events and working-capital complexity.

## Financial Performance: 2023-2025

The three-year trend tells a fuller story than the FY2023 figures alone. Reported sales fell from CHF 93.0B in 2023 to CHF 89.5B in 2025, but organic growth recovered from 2.2% in 2024 to 3.5% in 2025. The decline in reported sales reflects foreign exchange and portfolio effects, not a collapse in underlying demand.

| Metric                 | 2023  | 2024  | 2025  | 2025 vs 2024   |
|------------------------|-------|-------|-------|----------------|
| Sales (CHF B)          | 93.0  | 91.35 | 89.5  | -2.0% approx.  |
| Organic growth         | 7.2%  | 2.2%  | 3.5%  | +1.3 pp        |
| UTOP margin            | 17.3% | 17.2% | 16.1% | -1.1 pp        |
| Free cash flow (CHF B) | 10.4  | 10.7  | 9.2   | -13.8% approx. |
| ROIC                   | 13.9% | 14.1% | 12.7% | -1.4 pp        |
| Net debt (CHF B)       | 49.6  | 56.0  | 51.4  | -8.2%          |

**Interpretation:** Operational excellence works as a stabilizer and cash-generation mechanism, not a guarantee of rising margins every year. In 2025, cost savings partly offset unusually high coffee and cocoa input costs, tariffs and FX pressure. Nestlé reported CHF 1.1B of Fuel for Growth savings and more than CHF 1B of additional ongoing efficiencies outside that program.

## Operational Excellence: From Values to Cash Flow

The earlier CA described Nestlé Continuous Excellence (NCE) as the operating mechanism behind this. The updated evidence shows the same logic applied more broadly: Nestlé is simplifying end-to-end processes, expanding shared services, standardizing activities, using data and automation, and tightening investment governance. These actions link values to finance through lower operating costs, better asset utilization and improved cash conversion.

| Operational lever      | 2025 evidence                                          | Financial mechanism                        |
|------------------------|--------------------------------------------------------|--------------------------------------------|
| Fuel for Growth        | CHF 1.1B savings delivered in 2025                     | Direct operating-cost reduction            |
| 2027 savings target    | CHF 3.0B cumulative target                             | Potential margin and cash-flow uplift      |
| Operational efficiency | Annual efficiency savings target of CHF 1.0B by 2027   | Lower structural cost base                 |
| Capex discipline       | Capex = 4.8% of sales                                  | Higher capital productivity                |
| Process simplification | Nine end-to-end processes being standardized/automated | Lower transaction cost and complexity      |
| Working capital        | Sharper KPI governance and accountability              | Cash released from inventories/receivables |

### Operating leverage logic

Revenue growth raises the utilization of factories, distribution infrastructure and corporate capabilities. Waste and process reduction lowers the cost base without needing proportional revenue growth. Procurement scale can cut input costs and supplier complexity. Digitalization and automation can reduce manual processing, forecast error and downtime. Capex discipline keeps operational excellence from becoming an excuse for excessive investment.

A useful finance KPI here is incremental ROIC: savings should not simply raise accounting profit. Management should test whether each major transformation investment earns returns above the company's opportunity cost of capital.

### Portfolio and Category Economics

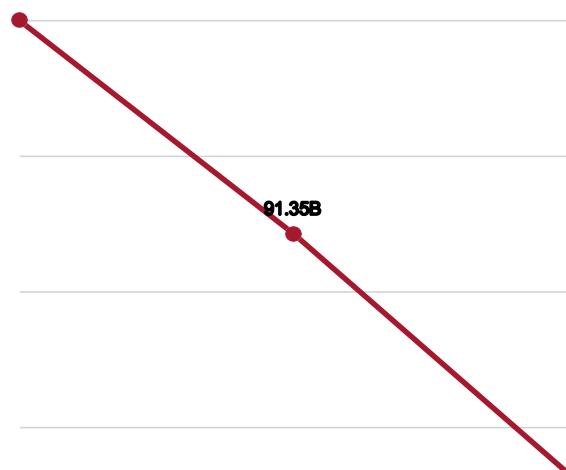
Nestlé's portfolio diversification is itself a financial risk-management tool. In 2025, the largest sales pools were Food & Snacks, Coffee, PetCare and Nutrition. This reduces dependence on any single category, while premium and high-growth categories can improve mix and support pricing power. Nestlé reported 2025 sales of CHF 25.1B for Food & Snacks, CHF 24.6B for Coffee, CHF 18.4B for PetCare, CHF 17.9B for Nutrition and CHF 3.6B for Water & Premium Beverages.

| Category      | 2025 sales | Finance interpretation                              |
|---------------|------------|-----------------------------------------------------|
| Food & Snacks | CHF 25.1B  | Large scale; brand and innovation critical          |
| Coffee        | CHF 24.6B  | Major growth engine; exposed to commodity inflation |

## Visual Analysis – Financial Performance

Based strictly on the 2023–2025 figures already stated in the CA

Reported sales (CHF B)



Organic growth (%)



UTOP margin  
17.3 %



2024  
17.2 %



2025  
16.1 %



Free cash flow  
10.4 B



2024  
10.7 B

Free cash flow  
10.7 B



2025  
9.2 B

Free cash flow  
(CHF B)



| Category                  | 2025 sales | Finance interpretation                                    |
|---------------------------|------------|-----------------------------------------------------------|
| PetCare                   | CHF 18.4B  | Attractive category with recurring demand characteristics |
| Nutrition                 | CHF 17.9B  | Science-led growth and portfolio premiumization           |
| Water & Premium Beverages | CHF 3.6B   | Smaller base; sustainability and resource risk important  |

## 2025 growth-quality indicators

E-commerce sales grew organically by 13.5% and reached 20.5% of total Group sales. Emerging markets represented 41% of Group sales and delivered 5.4% organic growth in 2025. Nutrition and Health Science, PetCare and Coffee show why portfolio mix matters to long-run ROIC, not just top-line growth.

## Capital Structure and WACC

Nestlé's reported 2025 net debt was CHF 51.4B, down from CHF 56.0B at the end of 2024. The reduction reflects strong second-half free cash flow, an extraordinary CHF 2.0B distribution from the Froneri joint venture, and foreign-exchange benefits.

| Capital indicator          | 2024             | 2025            | Interpretation                                                             |
|----------------------------|------------------|-----------------|----------------------------------------------------------------------------|
| Net debt                   | CHF 56.0B        | CHF 51.4B       | Deleveraging                                                               |
| Net debt / adjusted EBITDA | 2.90x            | Lower than 2024 | Leverage improved; exact 2025 ratio should come from the full APM schedule |
| Free cash flow             | CHF 10.7B        | CHF 9.2B        | Still substantial debt-service capacity                                    |
| Capex / sales              | Higher than 2025 | 4.8%            | Greater investment discipline                                              |
| Dividend proposed          | CHF 3.05         | CHF 3.10        | Continued shareholder distribution                                         |

### Illustrative WACC framework

| Component              | Illustrative assumption | Formula / logic                                 |
|------------------------|-------------------------|-------------------------------------------------|
| Risk-free rate         | 3.5%                    | Market assumption; not a Nestlé-reported figure |
| Beta                   | 0.75                    | Illustrative equity-risk input                  |
| Equity risk premium    | 5.5%                    | Market assumption                               |
| Cost of equity         | 7.63%                   | $R_f + \beta \times ERP$                        |
| Pre-tax cost of debt   | 2.8%                    | Illustrative, based on high-grade funding       |
| Tax rate               | 22.1%                   | Nestlé 2025 underlying tax-rate input           |
| After-tax cost of debt | 2.18%                   | $K_d \times (1 - \text{tax rate})$              |
| Illustrative WACC      | ~6.6%                   | Using an 82/18 equity-debt mix                  |

**Important:** WACC is an analytical estimate, not a figure Nestlé reports as an accounting KPI, so it belongs in the CA as a valuation assumption. The finance conclusion is stronger when the CA shows a range of WACC values instead of a single exact cost of capital.

## ROIC and Economic Value Added (EVA)

Nestlé's own 2025 Alternative Performance Measures report puts group ROIC at 12.7% after goodwill and intangible assets, down from 14.1% in 2024. The calculation uses average invested capital including goodwill and intangible assets of CHF 80.435B in 2025 and CHF 82.238B in 2024. The corresponding after-tax operating profit measure was CHF 10.252B in 2025.

| Year | ROIC  | Average invested capital incl. GW & IA | After-tax operating profit measure |
|------|-------|----------------------------------------|------------------------------------|
| 2024 | 14.1% | CHF 82.238B                            | CHF 11.569B                        |
| 2025 | 12.7% | CHF 80.435B                            | CHF 10.252B                        |

**Illustrative EVA sensitivity**

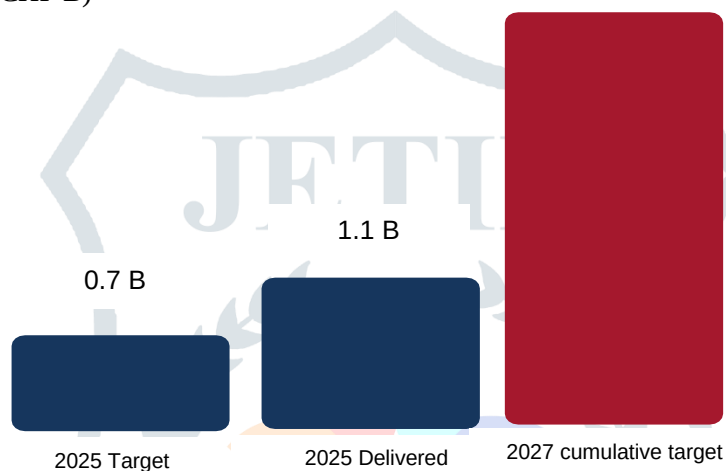
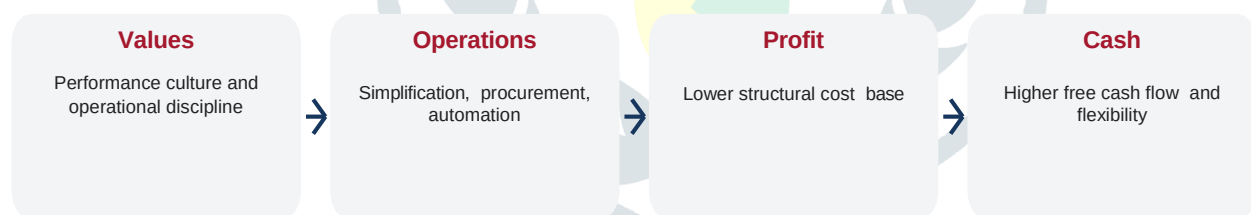
| Assumed WACC | 2025 ROIC | ROIC - WACC | Illustrative EVA* |
|--------------|-----------|-------------|-------------------|
| 5.5%         | 12.7%     | 7.2 pp      | CHF 5.79B         |
| 6.5%         | 12.7%     | 6.2 pp      | CHF 4.99B         |
| 7.5%         | 12.7%     | 5.2 pp      | CHF 4.18B         |
| 8.5%         | 12.7%     | 4.2 pp      | CHF 3.38B         |

Illustrative EVA = (ROIC - assumed WACC) x CHF 80.435B average invested capital. This is an academic sensitivity analysis, not Nestlé's reported EVA.

**Visual Analysis – Operational Excellence**

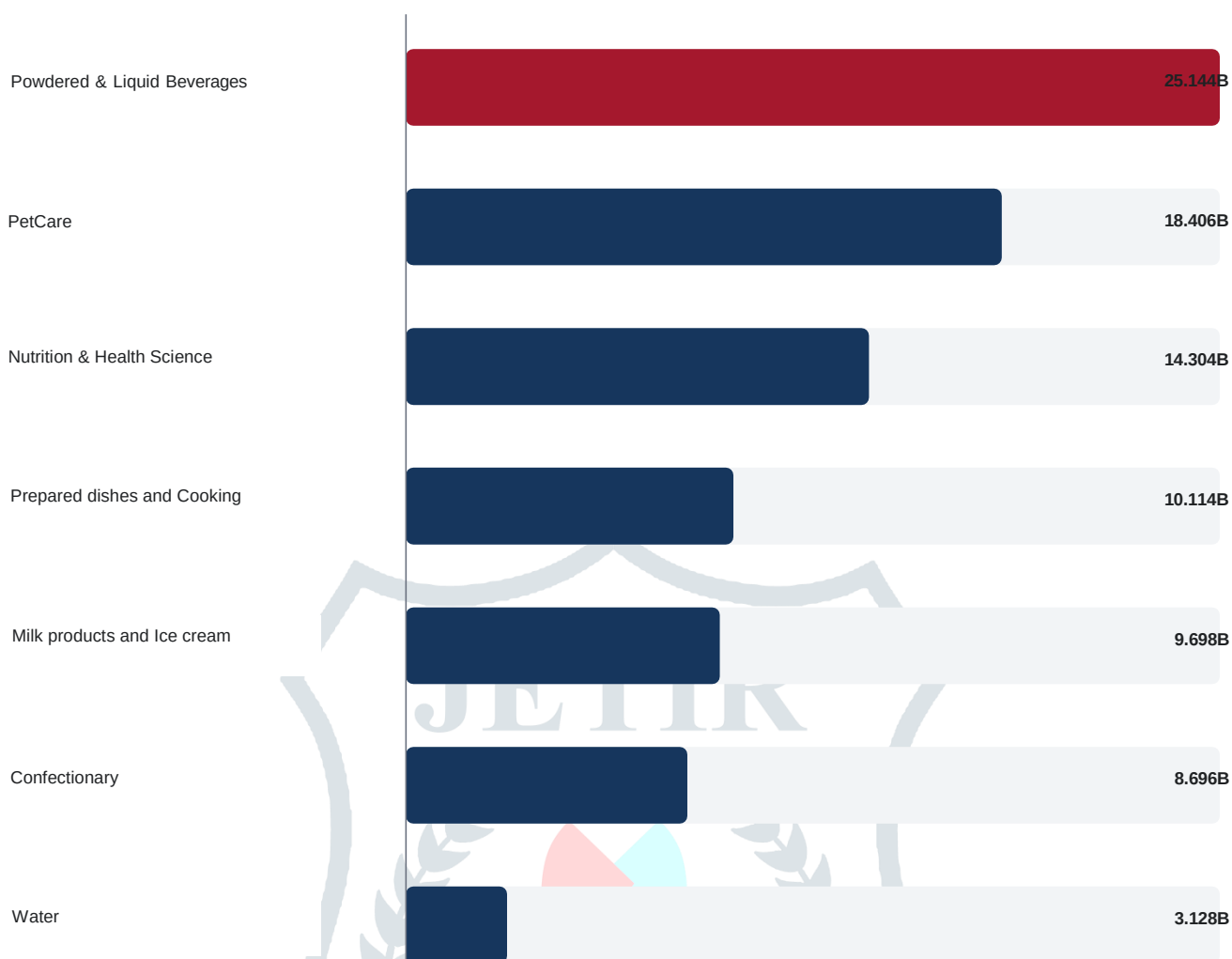
Fuel for Growth, capital discipline and the operating-finance bridge

Fuel for Growth savings (CHF B)

**Operating-finance bridge**

## Visual Analysis – Portfolio and Category Economics

2025 sales by category (CHF B)



**Interpretation:** Even at an assumed WACC of 8.5%, 2025 ROIC stays above the hurdle rate. But the drop from 14.1% to 12.7% shows why management needs to keep improving operating profit and capital efficiency instead of relying on past performance.

## Free Cash Flow and Capital Allocation

Free cash flow was CHF 9.2B in 2025, against CHF 10.7B in 2024 and CHF 10.4B in 2023. The decline does not remove cash's strategic role: free cash flow funds organic investment, dividends, debt reduction and selective portfolio moves.

| Capital-allocation priority | 2025 evidence                                  | Finance implication                       |
|-----------------------------|------------------------------------------------|-------------------------------------------|
| Organic investment          | Capex disciplined to 4.8% of sales             | Focus on projects with measurable returns |
| Dividends                   | CHF 3.10 proposed per share                    | Predictable shareholder cash return       |
| Debt reduction              | Net debt down to CHF 51.4B                     | Lower financial risk and interest burden  |
| Portfolio actions           | Non-core assets reviewed; Herta stake disposed | Simplification and capital release        |
| Innovation                  | CHF 1.7B annual R&D investment                 | Long-term growth option value             |

### Corporate-finance decision rule

For any major investment, Nestlé should weigh the expected risk-adjusted return against the hurdle rate. A values-driven project should not get capital simply because it is sustainable; it should get capital when the strategic and financial case together justify it. Conversely, a project with strong cash returns but high environmental or reputational risk can destroy value through liabilities that show up later.

### Creating Shared Value and ESG as Financial Levers

The strongest version of the CSV argument is not that sustainability automatically lowers financing costs. The financial link needs to be shown through measurable operational efficiency, risk reduction, supply continuity, brand strength and resource productivity.

Nestlé's 2025 data give a useful KPI base: a 24.5% net GHG reduction versus its 2018 baseline, 98.6% renewable electricity at manufacturing sites, owned R&D centers and owned distribution centers, 96.7% assessed deforestation-free primary supply chains, and 27.6% of key-ingredient volumes sourced from farmers using regenerative agriculture.

| ESG KPI                                   | 2025  | Potential finance linkage                             |
|-------------------------------------------|-------|-------------------------------------------------------|
| Net GHG reduction vs 2018                 | 24.5% | Lower transition and regulatory risk                  |
| Renewable electricity                     | 98.6% | Energy-resilience and emissions benefits              |
| Deforestation-free assessed supply chains | 96.7% | Supply continuity and compliance                      |
| Regenerative agriculture volumes          | 27.6% | Long-term input resilience                            |
| Virgin plastic reduction vs 2018          | 28.0% | Material/resource efficiency and regulatory readiness |
| Packaging designed for recycling          | 87.5% | Circularity and compliance readiness                  |

**Caution:** A stronger Critical Analysis (CA) should not claim that these percentages alone reduced WACC.

The causal chain must be tested from ESG action → operational/risk effects → cash flow → cost of capital → valuation

## Balanced Scorecard: Values to Value

| Perspective       | Strategic objective                  | 2025 KPI / evidence                                   | Finance linkage               |
|-------------------|--------------------------------------|-------------------------------------------------------|-------------------------------|
| Financial         | Protect value creation               | ROIC 12.7%; FCF CHF 9.2B; UTOP margin 16.1%           | Return and cash generation    |
| Customer          | Grow priority platforms              | Organic growth 3.5%; e-commerce +13.5%                | Revenue quality and mix       |
| Internal process  | Transform for productivity           | CHF 1.1B Fuel for Growth savings; capex 4.8% of sales | Margin and capital efficiency |
| Learning & growth | Build capability and innovation      | CHF 1.7B R&D; 4,000 R&D employees                     | Long-term growth option value |
| Sustainability    | Reduce operating and transition risk | 24.5% GHG reduction; 98.6% renewable electricity      | Risk-adjusted cash flows      |



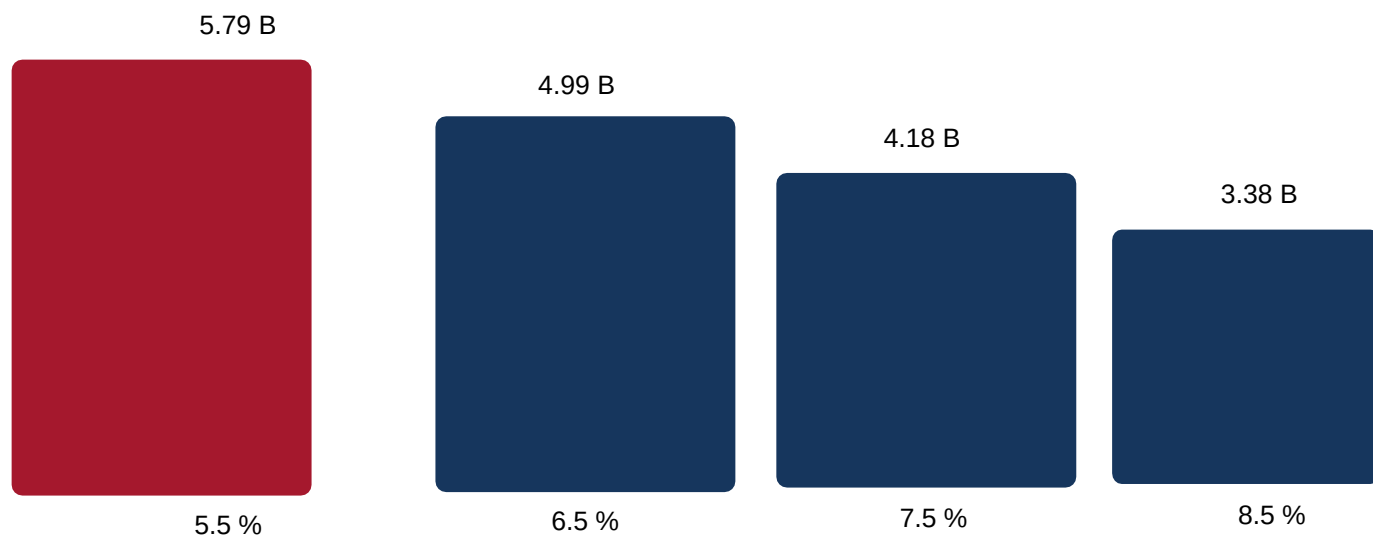
Illustrative

EVA

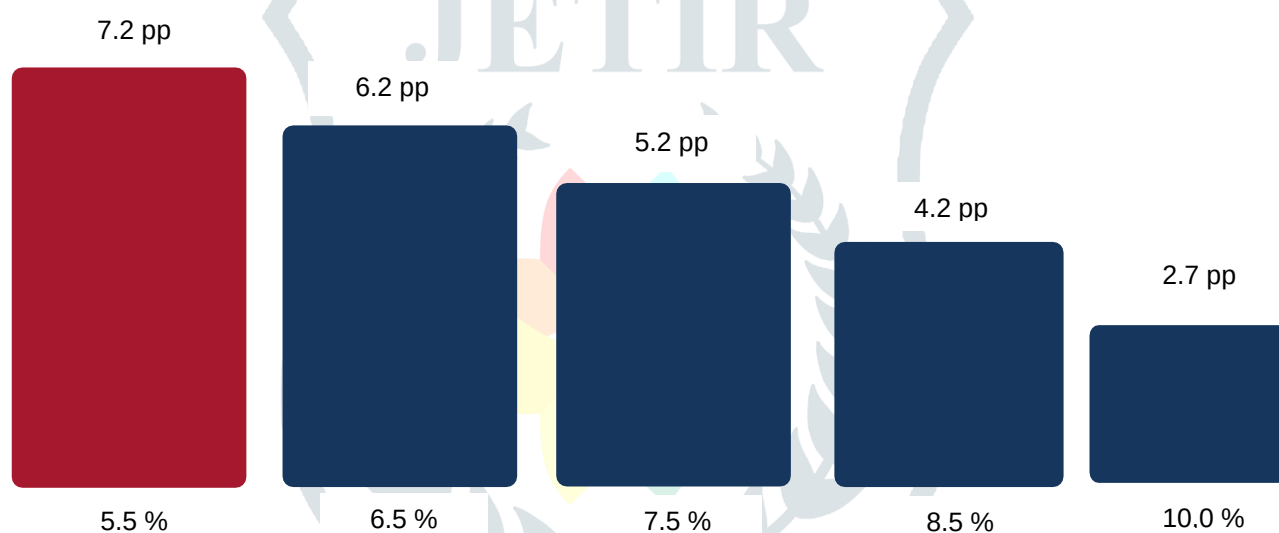
sensitivity

(CHF

B)



ROIC spread over assumed WACC (percentage points)



2025 ROIC: 12.7% | Average invested capital: CHF 80.435B | Illustrative WACC range: 5.5%–10.0%

## How the scorecard works

Learning and growth builds innovation and operational capability. Internal processes turn that capability into productivity and quality. Customer outcomes turn operational and innovation advantages into growth. Financial outcomes then show up as stronger margins, cash flow, ROIC and lower risk.

This framework guards against a common analytical error: treating ESG or employee initiatives as financial outcomes in their own right. They are drivers. ROIC, FCF, EVA and valuation are the actual financial tests.

## Critical Evaluation, Risks and Recommendations

| Strength              | Why it matters                                  | Limitation / risk                                 |
|-----------------------|-------------------------------------------------|---------------------------------------------------|
| Global scale          | Procurement, R&D and manufacturing leverage     | Complexity and FX exposure                        |
| Strong brands         | Pricing power and customer loyalty              | Brand damage can destroy intangible value quickly |
| Operational savings   | Direct margin and cash-flow benefit             | One-off savings cannot replace sustainable growth |
| CSV / ESG integration | Supply resilience and risk mitigation           | Measurement and causality remain difficult        |
| Portfolio discipline  | Capital can move toward higher-return platforms | Divestitures can reduce short-term scale          |

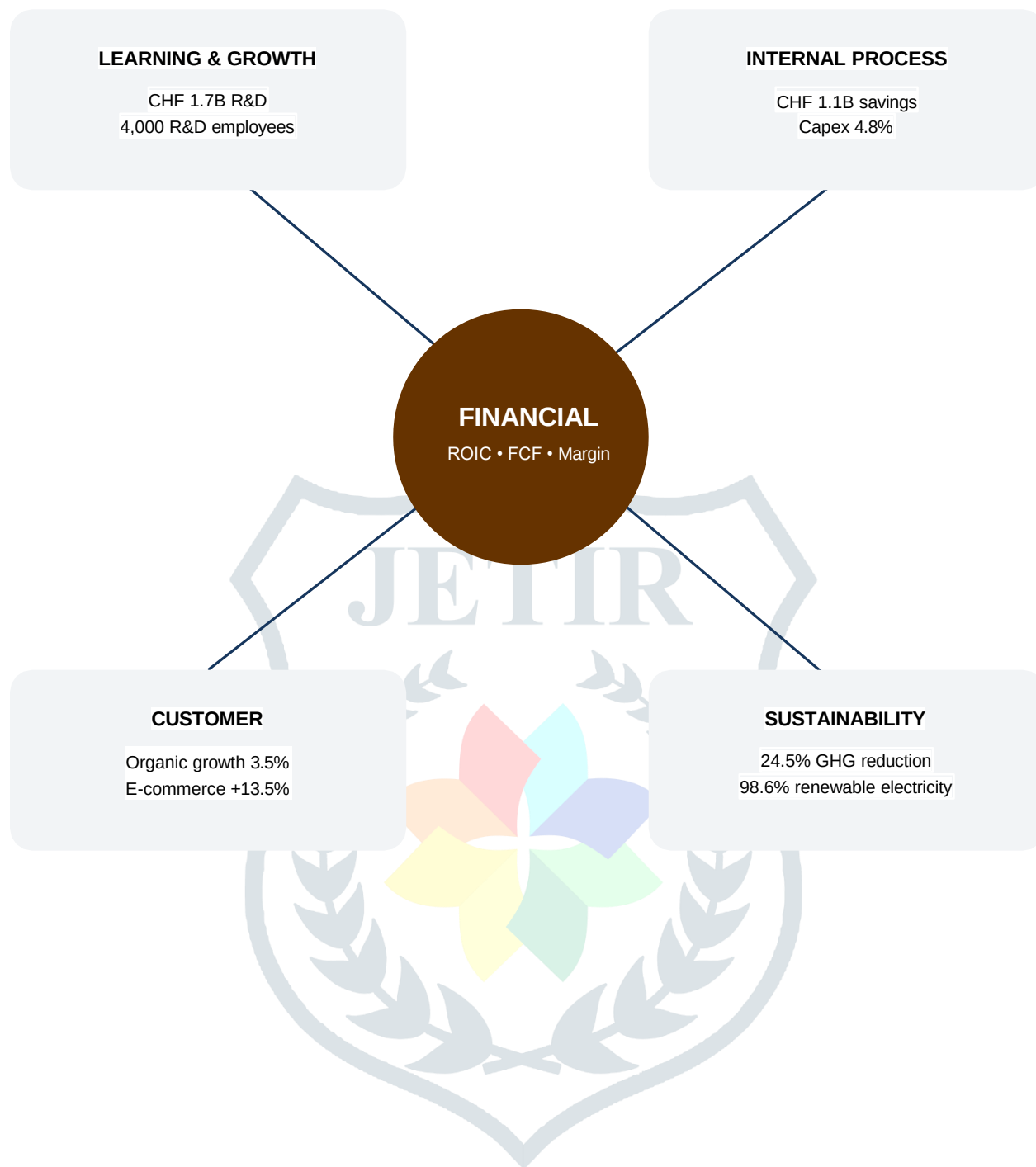
### Recommendations

| Priority | Recommendation                                                                                                           | Expected finance benefit                                 |
|----------|--------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| High     | Treat the CHF 3.0B transformation target as a capital-productivity program, tracking savings after implementation costs. | Margin expansion and higher ROIC                         |
| High     | Protect high-return growth platforms while cutting structural complexity; evaluate each business on incremental ROIC.    | Better portfolio quality                                 |
| High     | Continue debt reduction while preserving dividend credibility.                                                           | Lower financial risk and greater flexibility             |
| Medium   | Link major sustainability projects to explicit NPV/IRR, avoided-cost and risk metrics.                                   | More credible ESG-to-value evidence                      |
| Medium   | Expand working-capital dashboards and inventory productivity KPIs.                                                       | Higher FCF conversion                                    |
| Medium   | Disclose a clearer bridge from sustainability KPIs to financial outcomes.                                                | Improved investor confidence and analytical transparency |

Key correction to the original CA: Claims such as an exact ESG-driven WACC discount or a specific supply-chain cost saving should be labelled as estimates unless Nestlé's reporting directly supports them. The updated analysis uses company-reported numbers where possible and labels WACC/EVA calculations as analytical estimates.

## Visual Diagram · Balanced Scorecard: Values to Value

A visual version of the scorecard already included in the CA



## Additional Quantitative Data: Category Economics

This section adds a more granular operating-finance view from Nestlé's FY2025 results. It separates growth created by pricing from real internal growth and compares profitability across categories. Nestlé reported Group organic growth of 3.5%, made up of 0.8% real internal growth (RIG) and 2.8% pricing. Foreign exchange reduced reported sales growth by 5.7%.

| Category                       | Sales 2025  | Organic growth | RIG   | Pricing | UTOP margin |
|--------------------------------|-------------|----------------|-------|---------|-------------|
| Powdered & Liquid Beverages    | CHF 25.144B | 7.3%           | 0.7%  | 6.6%    | 17.2%       |
| PetCare                        | CHF 18.406B | 2.2%           | 2.6%  | -0.4%   | 21.7%       |
| Nutrition & Health Science     | CHF 14.304B | 0.6%           | 0.1%  | 0.5%    | 19.7%       |
| Prepared dishes & cooking aids | CHF 10.114B | -0.4%          | -0.2% | -0.1%   | 19.5%       |
| Milk products & Ice cream      | CHF 9.698B  | 1.3%           | 0.8%  | 0.5%    | 23.0%       |
| Confectionery                  | CHF 8.696B  | 8.2%           | -0.7% | 8.8%    | 12.7%       |
| Water                          | CHF 3.128B  | 3.9%           | 1.0%  | 2.9%    | 9.2%        |

**Corporate-finance insight:** Coffee/beverage and confectionery growth was heavily price-led, while PetCare showed positive RIG. This matters because pricing-led revenue growth can protect nominal margins during inflation, but sustained RIG is generally a stronger sign of underlying demand and volume economics.

## Profitability by Category and Margin Quality

The category margin data show where Nestlé's embedded values and operating capabilities create the most economic value. Milk products & Ice cream had a 23.0% UTOP margin, PetCare 21.7%, Nutrition & Health Science 19.7%, and Prepared dishes & cooking aids 19.5%. Water was lower, at 9.2%.

| Category                       | 2025 UTOP  | 2024 UTOP  | YoY change | Finance reading                               |
|--------------------------------|------------|------------|------------|-----------------------------------------------|
| Powdered & Liquid Beverages    | CHF 4.324B | CHF 4.920B | -12.1%     | Commodity inflation and investment pressure   |
| PetCare                        | CHF 4.000B | CHF 4.087B | -2.1%      | Strong margin, capacity recovery              |
| Nutrition & Health Science     | CHF 2.825B | CHF 3.006B | -6.0%      | Portfolio/brand performance needs improvement |
| Prepared dishes & cooking aids | CHF 1.977B | CHF 2.137B | -7.5%      | Category weakness                             |
| Milk products & Ice cream      | CHF 2.229B | CHF 2.442B | -8.7%      | High margin but pressure from costs           |
| Confectionery                  | CHF 1.107B | CHF 1.299B | -14.8%     | Pricing offsets cocoa pressure only partly    |
| Water                          | CHF 0.288B | CHF 0.279B | +3.2%      | Small but improving profit pool               |

**Decision implication:** Capital allocation should favor categories that combine attractive structural growth, strong returns/cash flow, a competitive position and evidence of winning market share, not simply the largest revenue pools. Nestlé describes these four lenses explicitly in its 2026 strategy update.

## Geographic Revenue and Market Exposure

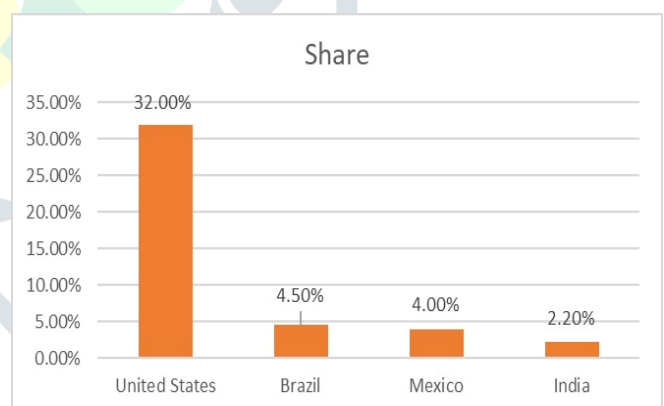
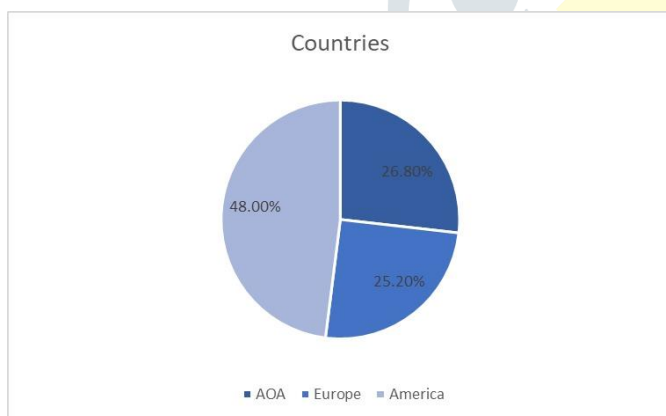
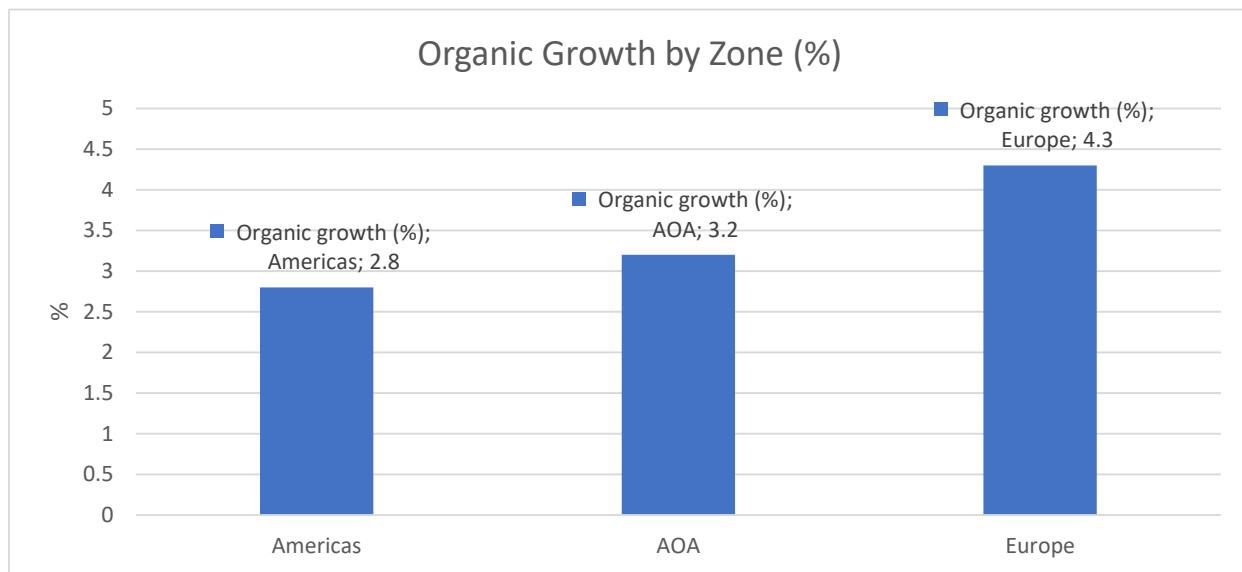
Nestlé's global footprint is a major source of diversification but also creates foreign-exchange exposure. In 2025, the Americas represented 48.0% of Group sales, Asia/Oceania/Africa (AOA) 26.8%, and Europe 25.2%. Emerging markets accounted for 41% of Group sales. India represented CHF 2.007B of sales, about 2.2% of the Group total.

| Market / Zone | 2025 sales  | Share | Organic growth | Finance implication                         |
|---------------|-------------|-------|----------------|---------------------------------------------|
| Americas      | CHF 42.958B | 48.0% | 2.8%           | Largest exposure; FX and tariff sensitivity |
| AOA           | CHF 23.989B | 26.8% | 3.2%           | Higher growth potential; China transition   |

|               |             |       |      |                                                   |
|---------------|-------------|-------|------|---------------------------------------------------|
| Europe        | CHF 22.543B | 25.2% | 4.3% | Strong growth but competitive pricing environment |
| United States | CHF 28.605B | 32.0% | 1.0% | Largest single-country exposure                   |
| Brazil        | CHF 3.983B  | 4.5%  | 6.7% | Strong emerging-market growth                     |
| Mexico        | CHF 3.576B  | 4.0%  | -    | Important Americas market                         |
| India         | CHF 2.007B  | 2.2%  | -    | Strategically important emerging market           |

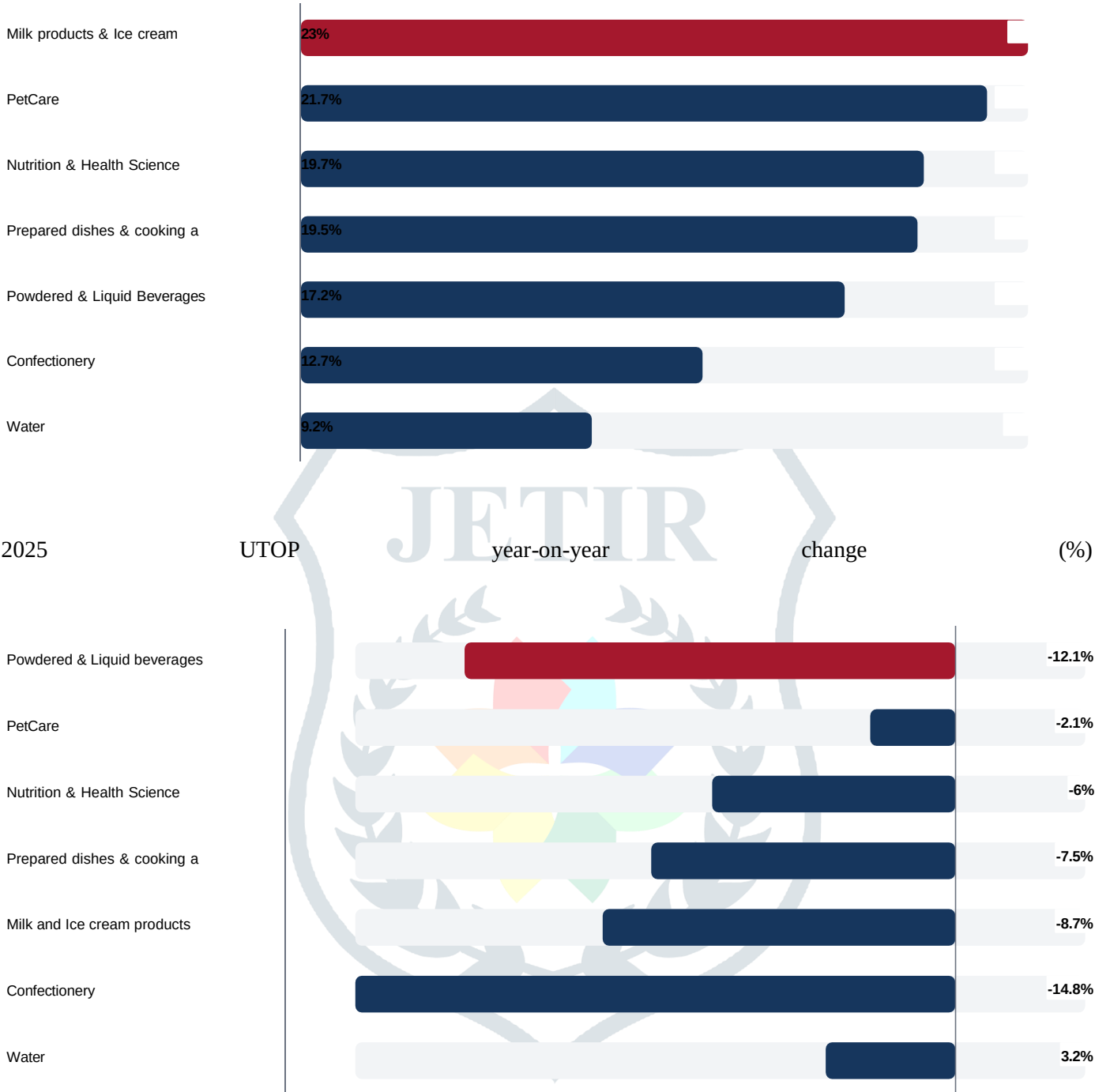
**Risk insight:** Nestlé reported a -5.7% foreign-exchange impact on Group sales in 2025, so reported revenue growth can diverge materially from underlying business performance. For finance analysis, weigh organic growth and RIG alongside reported sales.

## Visual Analysis · Geographic Revenue Exposure



Visual Analysis · Category Profitability and Margin Quality

UTOP margin and year-on-year UTOP change:



## Cash Generation, Cost Savings and Capital Discipline

The most direct link between operational excellence and corporate finance is cash. Nestlé delivered CHF 9.2B of free cash flow in 2025. Fuel for Growth delivered CHF 1.1B of savings, more than CHF 350M above target, roughly half from accelerated operational efficiencies and half from procurement savings. Other ongoing initiatives added more than CHF 1B in further efficiencies.

| Indicator                       | 2025           | Analytical ratio / impact           |
|---------------------------------|----------------|-------------------------------------|
| Sales                           | CHF 89.49B     | Base = 100%                         |
| UTOP                            | CHF 14.389B    | 16.1% of sales                      |
| Free cash flow                  | CHF 9.2B       | ~10.3% of sales                     |
| Fuel for Growth savings         | CHF 1.1B       | ~1.23% of sales                     |
| Additional ongoing efficiencies | >CHF 1.0B      | Additional cost productivity        |
| Capex / sales                   | 4.8%           | Lower than recent elevated levels   |
| Net debt                        | CHF 51.4B      | CHF 4.6B reduction during 2025      |
| Net debt / EBITDA               | 2.85x          | Near upper end of 2-3x policy range |
| Dividend proposed               | CHF 3.10/share | Almost 30 years of annual increases |
| R&D investment                  | CHF 1.7B       | ~1.9% of sales                      |
| A&P spend                       | 8.6% of sales  | +50 bps; growth investment          |

Operating-finance bridge: cost savings lead to higher operating profit, which strengthens free cash flow, which funds debt reduction, reinvestment and dividends, which lowers financial risk and improves capital flexibility. That chain is more defensible than claiming 'values' create shareholder returns directly.

Working-capital point: 2025 inventories were a major working-capital pressure because of higher coffee and cocoa input costs. Nestlé is using better data, tighter inventory governance, and closer control of receivables and payables to improve cash generation.

## Sustainability Data with Direct Operational Relevance

This section expands the sustainability data with operational metrics that link to costs, resilience and risk. Nestlé's 2025 data show a 24.52% net GHG reduction versus its 2018 baseline, up from 19.92% in 2024. Renewable electricity at manufacturing sites, owned R&D centers and owned distribution centers reached 98.6%. Regenerative-agriculture sourcing rose to 27.6% of key-ingredient volumes, up from 21.3% in 2024.

| KPI                                       | 2023   | 2024   | 2025   | Finance relevance                      |
|-------------------------------------------|--------|--------|--------|----------------------------------------|
| Net GHG reduction vs 2018                 | 16.62% | 19.92% | 24.52% | Transition-risk reduction              |
| Renewable electricity                     | 91.9%  | 95.3%  | 98.6%  | Energy resilience / emissions          |
| Regenerative agriculture                  | 15.2%  | 21.3%  | 27.6%  | Input resilience / farmer productivity |
| Plastic packaging designed for recycling  | 83.5%  | 86.4%  | 87.5%  | Regulatory readiness                   |
| Virgin plastic reduction vs 2018          | 14.9%  | 21.3%  | 28.0%  | Material efficiency                    |
| Packaging recyclable/reusable/compostable | 86.6%  | 89.5%  | 89.5%  | Circularity / compliance               |
| Lower-emission vehicle fleet              | 49.3%  | 54.2%  | 60.3%  | Fuel / transition efficiency           |

New corporate-finance angle: Nestlé states that 15% of short-term management incentive remuneration and 20% of long-term incentive remuneration depend on sustainability-related targets and/or impacts in 2025. That embeds ESG KPIs into managerial incentives rather than treating them as a separate reporting exercise.

## New Corporate-Finance Ratios and Derived Metrics

The following calculations sharpen the analysis. They are derived from Nestlé's reported FY2025 figures and

are labelled as calculations, not company-reported KPIs.

| Derived metric                  | Calculation              | Result     | Interpretation                   |
|---------------------------------|--------------------------|------------|----------------------------------|
| FCF margin                      | CHF 9.2B / CHF 89.49B    | ~10.3%     | Strong cash conversion capacity  |
| UTOP / sales                    | CHF 14.389B / CHF 89.49B | 16.1%      | Matches reported UTOP margin     |
| Fuel for Growth savings / sales | CHF 1.1B / CHF 89.49B    | ~1.23%     | Material structural productivity |
| R&D / sales                     | CHF 1.7B / CHF 89.49B    | ~1.9%      | Investment in future growth      |
| A&P / sales                     | Reported 8.6%            | 8.6%       | Brand investment intensity       |
| Sales / employee                | CHF 89.49B / 271,000     | ~CHF 330K  | Scale/productivity indicator     |
| Emerging-market sales           | 41% × CHF 89.49B         | ~CHF 36.7B | Large growth exposure            |

## Visual Analysis · Sustainability as an Operational Finance Lev

2023-2025

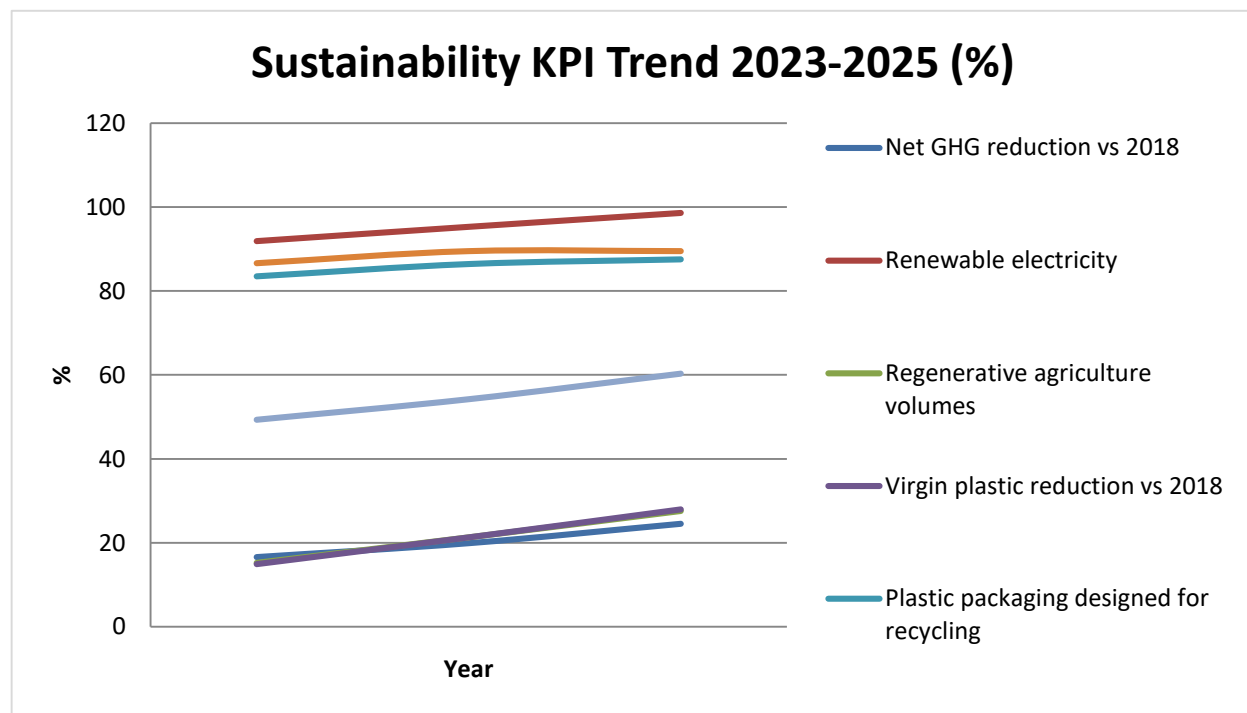
sustainability

KPIs

from

the

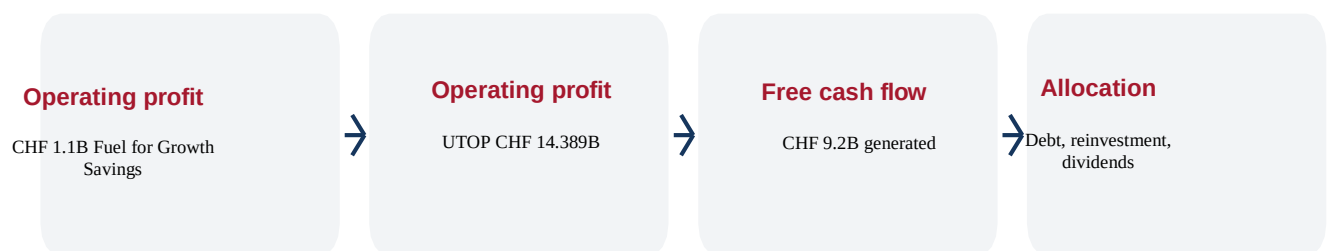
CA



## Visual Diagram · Cash Generation and Capital Allocation

The causal chain stated in the CA

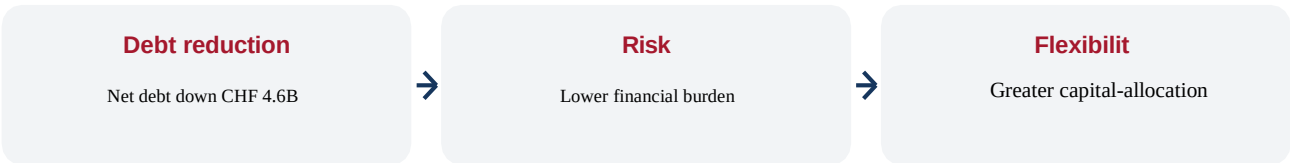
2025 operating-finance chain



Capital flexibility effect

| Derived metric           | Calculation  | Result | Interpretation                     |
|--------------------------|--------------|--------|------------------------------------|
| ROIC spread at 6.5% WACC | 12.7% - 6.5% | 6.2 pp | Illustrative value-creation spread |

Sensitivity of ROIC spread

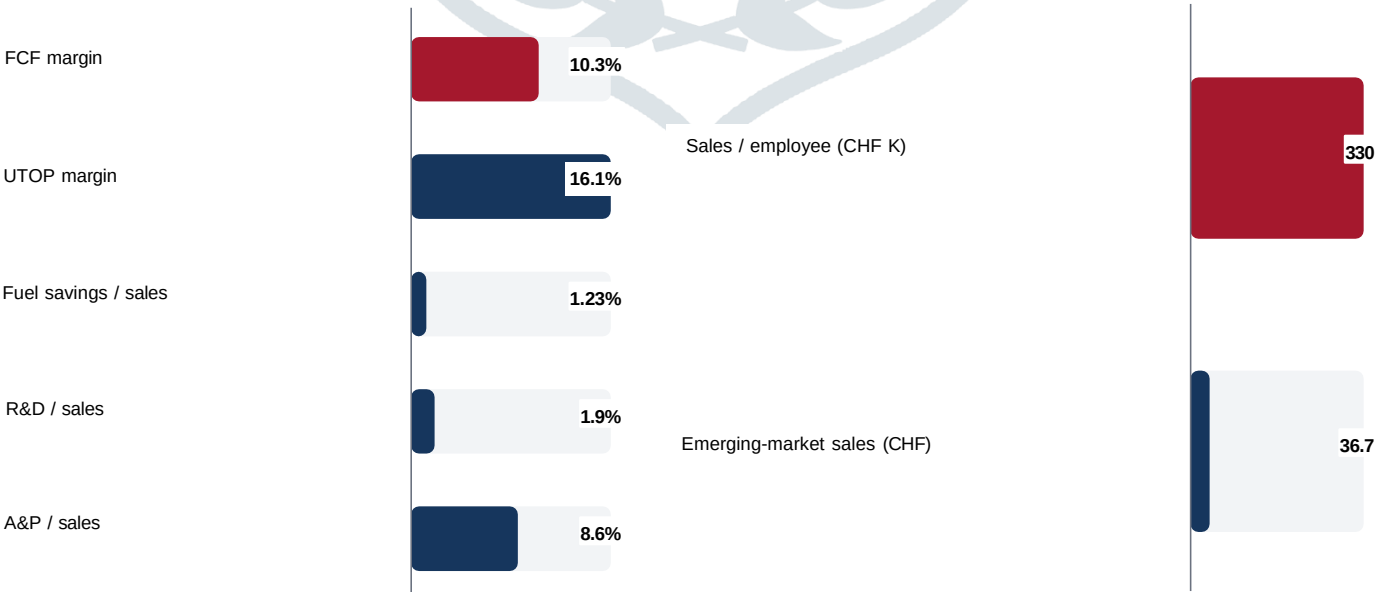


| Assumed WACC | 2025 ROIC | Spread  | Meaning                                                 |
|--------------|-----------|---------|---------------------------------------------------------|
| 5.5%         | 12.7%     | +7.2 pp | Very strong value-creation cushion                      |
| 6.5%         | 12.7%     | +6.2 pp | Strong value-creation cushion                           |
| 7.5%         | 12.7%     | +5.2 pp | Still positive                                          |
| 8.5%         | 12.7%     | +4.2 pp | Positive but less comfortable                           |
| 10.0%        | 12.7%     | +2.7 pp | Positive, but capital discipline becomes more important |

**Academic conclusion:** The important corporate-finance test is not whether Nestlé has 'good values.' It is whether those values improve expected risk-adjusted cash flows or reduce the capital needed to generate them. ROIC, FCF margin, operating margin, leverage and category-level profitability supply the measurable bridge between the two

Visual Analysis • Key Corporate-Finance Ratios

2025 ratios (% of sales)



Derived metrics calculated from the figures already contained in the CA

### What the metrics collectively show

- Free cash flow margin of ~10.3% demonstrates substantial cash-generation capacity.
- UTOP margin of 16.1% remains strong, but declined from 2024.
- Fuel for Growth savings equal ~1.23% of sales · material structural productivity.
- R&D at ~1.9% of sales supports long-term growth option value.
- Emerging-market sales of ~CHF 36.7B show a large growth and exposure base.

### Caselet: Nestlé's Operational Excellence Challenge in 2025

Nestlé entered 2025 with a large and diversified global operating base, but its financial performance reflected a difficult combination of commodity inflation, tariffs and foreign-exchange pressure. The company reported sales of CHF 89.5 billion and organic growth of 3.5%. Although underlying growth momentum improved, the underlying trading operating profit margin declined to 16.1%, compared with 17.2% in 2024. ROIC also declined from 14.1% to 12.7%. For management, the challenge was therefore not simply to increase revenue, but to convert growth into sustainable profitability and efficient use of capital.

The company's operating model provided several tools for addressing this challenge. Nestlé's Fuel for Growth programme generated CHF 1.1 billion of savings during 2025, exceeding its CHF 0.7 billion target. The broader programme has a cumulative target of CHF 3.0 billion by the end of 2027. More than CHF 1 billion of additional ongoing efficiencies were also reported. These initiatives included simplification, procurement savings, process standardisation and greater use of data and automation. From a corporate-finance perspective, the objective was to lower the structural cost base while maintaining the capabilities required for growth.

The savings programme became particularly important because commodity pressures were significant. Coffee and cocoa costs affected the economics of important product categories, while tariffs and foreign exchange created additional pressure. Nestlé therefore had to balance pricing, cost control, product mix and investment. Group organic growth of 3.5% was composed of 0.8% real internal growth and 2.8% pricing, while foreign exchange reduced reported sales growth by 5.7%. This distinction mattered because price-led growth and volume-led growth have different implications for long-term demand and profitability.

Category performance further complicated the decision. Powdered & Liquid Beverages generated CHF 25.144 billion in sales and 7.3% organic growth, but its UTOP margin was 17.2%. PetCare generated CHF 18.406 billion in sales with a 21.7% UTOP margin. Milk products & Ice cream recorded the highest UTOP margin at 23.0%, while Water recorded 9.2%. Confectionery showed 8.2% organic growth but a 12.7% UTOP margin. Management therefore needed to evaluate businesses not only by revenue size, but also by growth quality, profitability, competitive position and capital requirements.

Capital allocation added another layer to the case. Free cash flow was CHF 9.2 billion in 2025, down from CHF 10.7 billion in 2024, but still provided substantial financial flexibility. Net debt fell from CHF 56.0 billion to CHF 51.4 billion. Capex represented 4.8% of sales, reflecting tighter investment discipline. Nestlé

also maintained substantial investment in future growth, including approximately CHF 1.7 billion in annual R&D. The management question was therefore how much cash should be directed toward debt reduction, dividends, innovation, operational transformation and portfolio priorities.

Sustainability was increasingly integrated into this decision-making environment. Nestlé reported a 24.52% reduction in net greenhouse-gas emissions compared with its 2018 baseline, 98.6% renewable electricity at relevant owned sites, and 27.6% of key-ingredient volumes sourced from farmers using regenerative agriculture. These initiatives could potentially strengthen supply resilience and reduce transition or regulatory risks. However, management needed to avoid assuming that an ESG metric automatically created shareholder value. The financial pathway had to be demonstrated through operational efficiency, risk reduction, cash-flow effects or improved capital productivity.

The ROIC perspective provided a common decision rule. Nestlé's 2025 ROIC of 12.7% remained above an illustrative WACC range used in the analysis. At an assumed WACC of 6.5%, the spread was 6.2 percentage points and illustrative EVA was approximately CHF 4.99 billion. Because WACC and EVA in this case are analytical estimates, management should use them as decision-support measures rather than as reported accounting outcomes.

The central case question is therefore how Nestlé can sustain operational excellence without sacrificing long-term growth. Cost savings can improve margins, but excessive cost cutting may weaken innovation, brands or supply resilience. Conversely, sustainability and innovation investment can support long-term competitiveness, but projects still require disciplined financial evaluation. The appropriate management approach is to connect each major initiative to measurable outcomes such as incremental ROIC, free cash flow, operating margin, working-capital efficiency, risk-adjusted returns and relevant sustainability indicators.

For management, the next stage of the transformation should therefore focus on three linked priorities. First, structural savings should be sustained and measured after implementation costs. Second, capital should be directed toward businesses and projects that demonstrate attractive risk-adjusted returns and strong strategic relevance. Third, sustainability initiatives should increasingly be evaluated through explicit financial mechanisms such as avoided costs, resilience benefits, resource productivity and risk reduction. This would allow Nestlé's embedded values to remain connected to measurable corporate-finance outcomes rather than being treated as separate from financial performance.

The case illustrates a broader corporate-finance lesson. A company's values do not create financial value automatically. They become economically important when they influence decisions that change expected cash flows, business risk or the amount of capital required to generate returns. Nestlé's 2025 experience demonstrates both sides of this relationship: operational discipline produced substantial savings and debt reduction, while inflation and other external pressures still reduced margins and ROIC. The continuing challenge is to maintain that discipline while building the capabilities required for sustainable long-term growth.

## Conclusion

Nestlé is a strong corporate-finance case for the idea that embedded values can become operating and financial capabilities. The evidence is most convincing when values connect to concrete mechanisms: procurement productivity, process simplification, innovation, capital discipline, supply resilience and risk management.

The 2025 results give a more balanced picture. Sales were CHF 89.5B, organic growth improved to 3.5%, but the underlying trading operating profit margin fell to 16.1%. ROIC declined from 14.1% to 12.7%, while net debt fell to CHF 51.4B and free cash flow held up at CHF 9.2B. Nestlé's values are not a substitute for financial discipline; they matter when they improve the economics of decisions.

From a corporate-finance view, the most defensible conclusion is that values create value when they change cash flows, risk or the efficiency of invested capital. Nestlé's 2025 savings program, capital discipline, portfolio strategy and sustainability KPIs give measurable evidence of that link, while the decline in ROIC and margin shows why continuous execution still matters.



## 21. References & Source links

Primary sources used for the Nestlé Corporate Finance Case Analysis:

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