

CASE STUDY OF NESTLÉ¹

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1. INTRODUCTION

“Nestlé” is a Swiss multinational food and beverage company whose business started in 1866. It is one of the largest food companies in the world, with presence in 191 countries, and more than 2,000 brands. Some of these are globally iconic while others are just regional, presenting a great variety of products, such as tea, coffee, bottled water, medical and baby food, breakfast cereals, and lots more. It is a well-known company world-wide, specially because of Nestlé milk chocolate bar, which is one of the most famous products.

The company focuses on the production and supply of great quality and healthy food products. Nestle has a huge portfolio and is seen as an enormous competitor across the food industries. Nevertheless, although nowadays their revenues keep increasing, its growth rate is decreasing.

In this case study, we will focus on the food industry where the majority of Nestlé products are present. The following information about the history and context of this company will be based on the data from Nestlé’s web page (“*The Nestlé Company History*, Nestlé”).

2. HISTORY

It all started in 1867 when a German pharmacist named Henri Nestlé launched his “*farine lactée*”, a breakthrough infant food to deal with high mortality rates among the infants who cannot be breastfed. In 1875, he sold the firm to 3 businessmen who helped expand production and sales. Later on, the firm merged (1905) with their rival, the Anglo-Swiss Milk company, with whom they competed by selling rival versions of the other’s original products. Once these two big companies became one, they lived a period of prosperity (1905-1913), and just before the World War I, they became a global dairy company, with more than 20 factories around all continents. Once the WW1 broke, the industry was able to survive thanks to their condensed milk, which became really popular in the armed force, as it lasted for long and it was easy to transport. Moreover, this demand prevailed after the war from warring nations. At the end of the decade, they already had 40 factories

The company was rocked by the Wall Street Crash in 1929 after being recovered of a declined demand for canned milk which led to falling prices. During this period and after all the difficulties, the power was centralized, and they consolidated their research only at one laboratory.

World War II affected every market. To protect the company, Nestlé & Anglo-Swiss relocated some managers to a new office in Stamford (USA). To fight the war, the firm started supplying and expanding to Africa, Asia, Australia and Latin America. Later on, due to the entering of the US into the war, Nestlé rapidly gained popularity among the American population, and

even though the war slowed down *Nescafé* sales, when the war ended the product was included in aid supplies in Japan and Europe.

In 1947, they merged with *Alimentana* (Maggi Soups) and they renamed the company to Nestlé Alimentana. The merger meant the growth of new segments for the company, such as the launch of more canned and prepared foods.

The post-war was marked by a diversification in the production. Firstly, as people started spending money on machines such as freezers, Nestlé started launching new products like ready meals, canned foods and also, they acquired firms related to coffee and milk.

In 1977, the firm was renamed Nestlé S.A. They continued with their strategy of diversification. However, during that period the company was criticized because of the declining breast-feeding rate, so people started boycotting its products believing that their baby food was one of the causes.

The 80s and 90s decade were of growth. They had a new ambition they named “Nutrition, Health and Wellness” and for achieving it they disposed of unprofitable brands just to satisfy the health-conscious consumers. They targeted a global leadership in water, ice cream and animal food. Moreover, Nestlé was one of the first companies to develop breast-milk substitutes.

Finally, during these last years, Nestlé articulated its Creating Shared Value approach to business and launches different plans to further develop sustainable supply chains such as in coffee. Its position in traditional segments gets stronger and they also focus on medical nutrition in order to make this segment stronger too.

In the following table (Figure 1), it can be appreciated the most important launches and acquisition of Nestlé since 1866, ordered chronologically.

MOST IMPORTANT LAUNCHES AND ACQUISITIONS	
1937	<i>Nescafé</i> was launched (powder extract of pure coffee that could be prepared with hot water).
1947	Merged with <i>Alimentana</i> (firm that created the Maggi Soups).
1948	<i>Nestea</i> (a soluble tea) was launched. <i>Nesquik</i> was launched this year too and it was a top seller in the United States. Moreover, canned raviolis were launched under Maggi brand.
1977	Minority shareholder with L’Oréal.
1985	Carnation and Coffee-Mate are acquired by Nestlé.
1986	Nespresso story started.
1998	Nestlé bought mineral waters business Sanpellegrino group.

2001	Nestlé buys US pet food business Ralston Purina, and merges it with Nestlé Friskies Petcare to establish the new market leader in pet care, Nestlé Purina Petcare.
2002	Nestlé acquires the licensing rights to premium producer Häagen-Dazs in the US and Canada.
2006	Nestlé acquires weight management business Jenny Craig and Australian breakfast cereals company Uncle Toby's.
2007	Nestlé acquires Novartis Medical Nutrition since they started focusing on medical nutrition. They also bought the baby food company Gerber and Swiss mineral water.
2009	Creation of a foodservice business division.
2010	Acquisition of Kraft Foods' frozen pizza business.
2012	Acquisition of Wyeth Nutrition to strengthen its position in infant nutrition.
2013	Purchase of Pamlab specialized in medical nutrition for patients with conditions including mild cognitive impairment and depression.
2014	Full control of the Galderma dermatology (it was created with L'Oréal) with the creation of Nestlé Skin Health.

Figure 1: The most important launches and acquisitions of Nestlé.

3. INDUSTRY ANALYSIS AND COMPETITORS

The food and beverage industry is one of the most rapidly growing industries. People cannot live without food. It is a complex industry and a global collective of diverse businesses that supplies most of the food consumed by the world's population. This industry is defined by a powerful competition forcing them into a mode of endless improvement in most of the areas of the business as well as continuous new product introductions. It is also a really diverse industry but most companies in it are trying to find ways to drive down costs, streamline operations and monitor food safety.

The global food and beverage industry represents more than 10% of the world's GDP according to a report from Plunkett Research; it is worth over US\$ 8 trillion. Despite the sluggish economy and plunging food and beverage prices experienced by some of the major markets over recent years, the overall of the industry is still growing at a steady pace, led by some of the world's largest companies inside this area.

Nestlé is the second largest food and beverage company in the world according to the Forbes Global 2000 list, as it was displaced from the first place by *Anheuser-Busch InBev* company, who is now taking the lead. Another important company in the sector is *PepsiCo* which did not make its best, but still came in third in the food and beverage category.

3.1. CHALLENGES OF THE FOOD AND BEVERAGE INDUSTRY

The industry has experienced massive changes over the last decade owing to increasing consumer demand and industry innovation. Driven by the changing in global trends, this industry has some challenges to face.

People nowadays are more nutrition-friendly, they prefer fat-free products, and are generally more inclined towards maintaining robust health. This means that products are not only judged based on quality, but also by the nutritional content. Some of the other challenges are the raw material quality or product traceability.

Regarding these challenges, Nestlé is also concerned on how to develop new eye-catching products, and improving the quality of their goods, and consequently building a better and stronger reputation. Concerning of what was previously mentioned, the final business model of Nestlé will focus on how to reblossom the firm again.

3.2. SALES EVOLUTION OF THE INDUSTRY

The Food & Beverage industry belongs to a standard consumer segment, which is a key element concerning the level of sales and revenues it produces. Moreover, the fact that it is a non-cyclical industry, based on basic products, makes it more appealing for investors. The aforementioned means that the products inside this area will always be on demand, no matter the financial situation of each individual, or how well the economy is performing at the moment. In the graph below (Figure 2), it can be appreciated the evolution of sales inside the industry, which clearly has followed a steady state despite the year 2012.

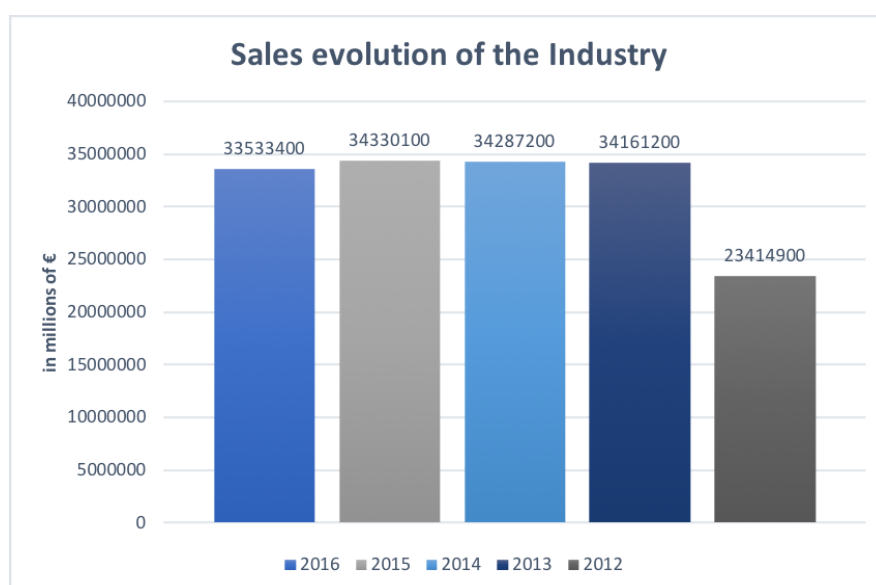


Figure 2: Sales evolution of the industry.

Source: Amadeus

If we focus on the expected growth of its sales and revenues, represented in figures 3 and 4, it can be seen that in 2018, the total revenue in millions of Euros was 84.743, with a revenue growth of 16,6%. Total revenues are supposed to continue growing throughout the years as we can observe in these graphs. However, this growth rate is supposed to decrease.

Revenue Growth in the Food & Beverages market

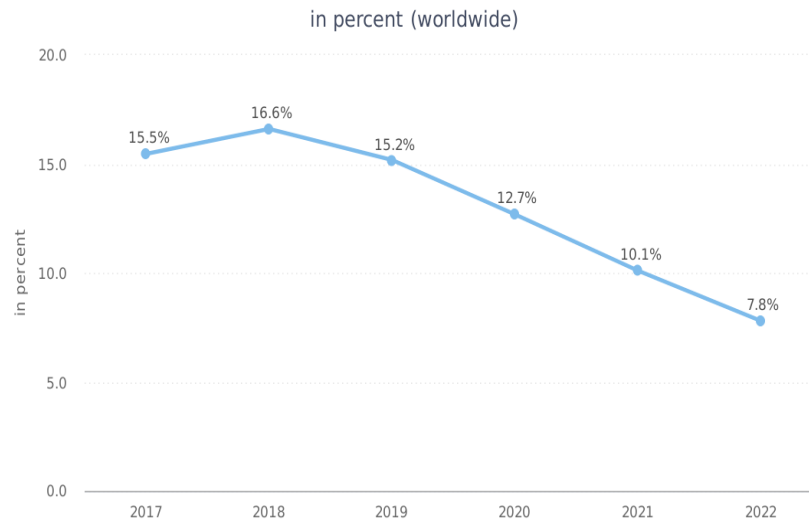


Figure 3: Revenue Growth in the food and beverage market (in percent).

Source: Statista, September 2018; Selected region only includes countries listed in the Digital Market Outlook Outlook.

Revenue in the Food & Beverages market

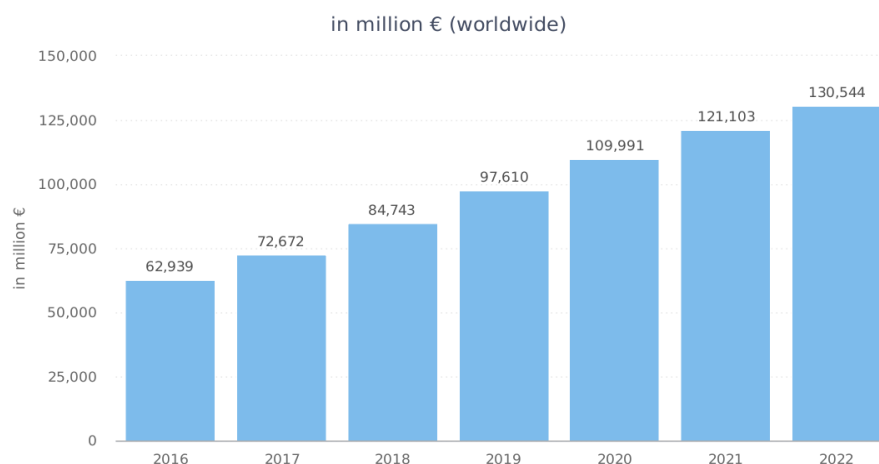


Figure 4: Revenue in the Food & beverage market (in million €).

Source: Statista, September 2018; Selected region only includes countries listed in the Digital Market Outlook Outlook.

In particular, Nestlé’s sales and revenues will be deeply analyzed jointly with the financial statements. However, we could mention that due to the sale in 2014 of part of its stake in the cosmetics business l’Oreal, the company suffered a decline in sales. Moreover, Nestlé and other

companies of the sector are facing “a difficult environment since profit margins are under pressure as companies are not able to raise prices, while productivity is edging lower” (*Koen De Leus, senior economist at KBC in Brussels*).

3.3. QUALITATIVE ANALYSIS: SWOT OF THE INDUSTRY

The different weaknesses, strengths, opportunities and threats of the industry are analyzed in the following figure.

	Helpful for achieving objectives	Harmful for achieving objectives
	STRENGTHS	WEAKNESSES
INTERNAL ORIGIN (attributes of the organization)	<ul style="list-style-type: none"> • Consumer staples → no matter the financial situation of the individuals, food and drinks will always be demanded • Unmatched research and development capability • Ability of innovation. • Strong geographic presence • Environmental sustainability efforts • Ownership of some of the most recognizable brands in the world. • Clear and accurate labelling • Transparency in material sourcing. 	<ul style="list-style-type: none"> • Overly reliant on commodity products with limited progress on the value-added chain. • It has to respond to market trends through product replenishment, new product introductions and consumer targeting. • Many similar products in the market, make them compete in price • Ultra-Processed food is really criticized nowadays • Contaminated food recalls
	OPPORTUNITIES	THREATS
EXTERNAL ORIGIN (attributes of the environment)	<ul style="list-style-type: none"> • With the economy strengthening, the industry’s future looks bright. • Worldwide recognition and expansion (189 countries). • Growing number of small Silicon Valley based food startups. • Growing ready-to-drink (RTD) tea and RTD coffee markets. 	<ul style="list-style-type: none"> • Consciousness about the environment • Pricing competition is seen as a major industry challenge • Under-utilization of social media inside this era of millennials • Increased competition in the beverage and food industries • The price of coffee beans could significantly rise due to major weather disasters

Figure 5: SWOT of the industry.

3.4 MAIN COMPETITORS

Nestlé operates in a lot of different markets and therefore it has several important competitors. There are companies with a very diversified portfolio that represent an important competition for Nestlé, but there are also more specialized companies that compete with it.

We have chosen five of these companies basing our decision on several ratings and reports. We will study, as we have stated before, the food and beverage industry, basically the chocolate market. The five companies we will base our analysis on since they are the main five competitors of Nestlé are: Danone, Mondelez, Unilever, Mars and Pladis.

The production of **Danone** focuses on the production and sale of healthy and delicious food that is custom-made for the requirements of people of all ages. **Mondelez** produces various products like chocolate, cookies, and confectionary. **Unilever** is a consumer goods producer company and their products include food and beverage. It has an extensive distribution channel. **Mars** is a famous food industry and is the topmost producer of confectionary products. **Pladis Ltd** is a global biscuit, chocolate and confectionery company.

In each specific market Nestle operates, it has also to face the presence of very specialized companies which are more focused and therefore experienced on that market. If we take the Coffee market as an example, we can see that Starbucks, Keurig and Maxwell House appear as the main competitors. However, we have focus our analysis oN the big competitors on a general level.

3.5. MARKET SHARE

Nestlé has a very large business portfolio that include products such as water, cafe, health, chocolate, among others. A big percentage of Nestlé's sales are related to chocolate products, so because of this the analysis of the market share will be focused on the global chocolate market. However, to analyze how's the company doing, and to know its strengths and weaknesses, it will be considered Nestlé as a whole, in order to have a more general view and understanding.

Regarding the global chocolate market, the Nestle market share from year 2012 to 2016 is shown in the following figure 6. As it can be seen, the market share is decreasing over the years, even if Nestle still represents a huge part of the market. This is an important factor for investors and analysts, therefore the company should try to avoid this decreasing trend in order to achieve a greater competitiveness.

Nestlé's market share of the global chocolate market from 2012 to 2016

Nestlé's market share of the global chocolate market 2012-2016

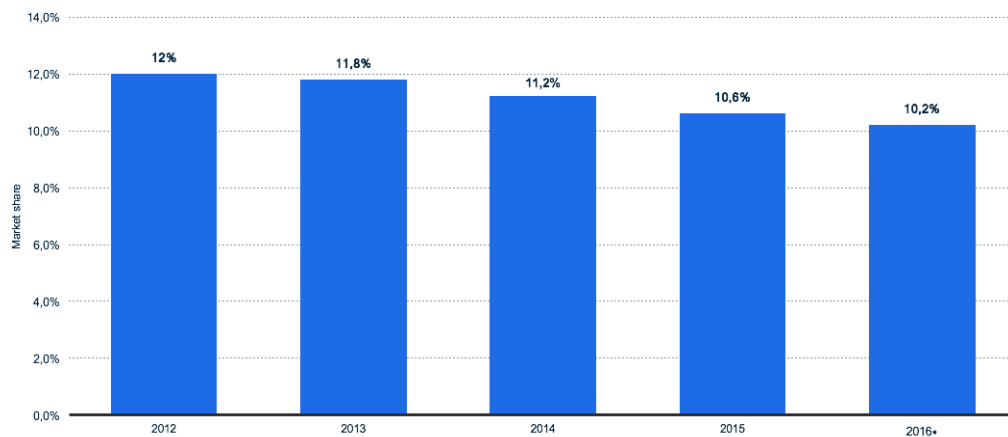


Figure 6. Market share of Nestlé on Global Chocolate market.

Source: Statista. Wall Street Journal.

4. BUSINESS MODEL OF NESTLÉ

4.1. MISSION

“Nestlé” is a world-wide company which impacts on the every day’s life of millions of people by improving their quality of life and contributing for a more healthy future. It has a great impact on people from the farmers with whom they work to the families who enjoy its products. It supports the achievement of the sustainable development goals of the United Nations by:

- Helping more than 50 million children to have a more healthy lifestyle.
- Improving the living conditions of 30 million people directly related to their business activities
- Working for achieving a null impact in the environment by their activities.

4.2. DISTINCTIVE FACTORS

The company gives its support to health development, breastfeeding, actions to stop children exploitations, and environmental issues.

- **“Nestlé” Spain does not use genetically modified raw materials:** Although in many countries the safety of genetically modified organisms, commonly referred to as transgenic, is increasingly accepted, not only by authorities but also by consumers, in Spain their safety continues to be questioned, that is why if at any time it uses them it would indicate this in the labeling of its products.

- **Palm oil:** Nestlé guarantees that these and all its products are totally safe for health. The use of palm oil is made for sensory reasons such as texture. Compared to conventional oils (olive, sunflower), it is more resistant and keeps the product much better.
- **Support to the breastfeeding:** It supports the recommendations of the World Health Organization to feed babies with breast milk the first six months of life and continue breastfeeding later with complementary foods.
- **Against children exploitation:** The company has recruited 18 controls and correction agents to raise awareness of child labor and inform in order to determine if interventions are needed.
- **Actions in order to stop the climate change.**
Nestlé wants to position itself as part of the solution, and strives every day to reduce its emissions and improve the management of resources.
- **They do not test their products with animals.**
- **The world's largest private research network in nutrition and food:** Nestlé Research has the largest private R & D global network which aims to investigate the benefits of nutrition for health in order to apply them to Nestlé products.

4.3. CORPORATE GOVERNANCE

The Board of Directors of Nestlé is highly engaged in the long-term value creation and the investment for the future development of the company. The Board is really concerned about the growth and efficiency, thus it stated commitments to margin expansion, streamlining the portfolio, a prudent capital allocation and moreover, they approved a share buyback programme of CHF 20 billion for strategic opportunities. All these subjects show how the governance is involved with the sustainable growth of Nestlé.

Ulf Mark Schneider is the executive member of the Board of Directors of Nestlé and the CEO of the company since 2017. The financial analyst Paul Bulcke is the chairman of Nestlé and has certain responsibilities for the direction and control of the group.

4.4. CORPORATE SOCIAL RESPONSIBILITY

The Nestle Corporate Business Principles have been developing for over 150 years and they are the basis of the company culture.

These principles try to adapt to the world that keeps changing but the basic fundamentals have

not change since the company first was created. Moreover, they reflect the idea of honesty, fairness and concern for people.

All these points are important for all the countries and they take into account each country and their religion and culture:

1. **Nutrition, Health and Wellbeing**

Nestle objective is to offer food and drinks that are tasty and healthy and that promote a healthy lifestyle. (“A gusto con la vida”).

2. **Quality assurance and product safety**

It assures that their products are safe and that have a high quality.

3. **Communication with the consumer**

They are committed to maintain reliable and responsible communication. Consumer privacy is respected.

4. **Human rights in their business activity**

Nestle supports the United Nations Global Compact on human rights and they try to offer an example of good human practices in all the activities.

5. **Leadership and personal responsibility**

For Nestle, the staff are really important, they say they are the key of their success. Employees are professional and motivated people. They ensure the employees privacy and they do not tolerate any form of discrimination.

6. **Safety**

Nestle protects their employees and tries to prevent accidents and injuries.

7. **Relations with suppliers and customers**

They ask for agents, suppliers and employees to work and act with honesty, fairness and integrity. These same aspects apply to the clients.

8. **Agriculture and rural development**

From the environmental point of view, Nestle contributes to improve the production system, the economic level of farmers and the agricultural production.

9. **Environmental sustainability**

They aim to use natural resources in the life cycle of the production and their goal is to have “zero waste”.

10. **Water**

Nestle wants to improve the administration of water.

4.5. SEGMENTATION OF PRODUCTS

- Bottled water
- Animal feeding
- Infant feeding
- Drinks
- Cereals
- Chocolates
- Out of home
- Healthcare nutrition
- Dairy products
- Ready meals

5. QUESTIONS

1. **Prepare a qualitative analysis of Nestlé including the main strengths and weaknesses.**
2. **Analyze the Balance Sheet, Income Statement and Cash Flow Statement and identify the main strengths and weaknesses and the reasons and purposes you would make in order to solve those weaknesses.**
3. **Analyze the ratios of Nestlé and compare them with the main competitors.**
4. **Does Nestlé have capacity to grow?**
5. **Prepare the Cause and Effect diagram.**
6. **Which measures would you recommend to the company in order to improve their performance?**
7. **What could be purpose to the company in order to increase profits in the long-term?**

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7. NOTES

- Average was build with the top 5 competitors of Nestle:
 - MONDELEZ, using GAAP and unconsolidated accounts
 - MARS, using GAAP and unconsolidated accounts
 - PLADIS, using IFRS and consolidated accounts
 - DANONE, using IFRS and consolidated accounts
 - UNILEVER, using IFRS and consolidated accounts
- For the term “Sales”, it was used “total turnover” for constructing the average
- Operating working capital includes other current assets and other current liabilities
- For constructing the average, as the result was in € and Nestle’s data is in the Swiss Franc, we used the following exchange rate for comparing them 1:1,13054. This was because the Swiss currency is really stable and the difference between periods was really small.

8. ANNEX

8.1 BALANCE SHEET:

	Average (%)	2017	2017 (%)	2016	2016 (%)	2015	2015 (%)	2014	2014 (%)
ASSETS	100	130.380	100%	131.901	100%	123.992	100%	133.450	100%
Non-current assets	74%	98.190	75%	99859	76%	94.558	76%	99.489	75%
Property, plant and equipment		27.775	21%	27.554	21%	26.576	21%	28.421	21%
Goodwill		29.748	23%	33.007	25%	32.772	26%	34.557	26%

Intangible assets		20.615	16%	20.397	15%	19.236	16%	19.800	15%
Investments in associates and joint ventures		11.628	9%	10.709	8%	8.675	7%	8.649	6%
Financial assets		6.003	5%	5.719	4%	5.419	4%	5.493	4%
Employee benefits assets		392	0%	310	0%	109	0%	383	0%
Current income tax assets		62	0%	114	0%	128	0%	128	0%
Deferred tax assets		1.967	2%	2.049	2%	1.643	1%	2.058	2%
Current assets	26%	32.190	25%	32.042	24%	29.434	24%	33.961	25%
Cash and cash equivalents	8%	7.938	6%	7.990	6%	4.884	4%	7.448	6%
Short-term investments		655	1%	1.306	1%	921	1%	1.433	1%
Inventories		9.061	7%	8.401	6%	8.153	7%	9.172	7%
Trade and other receivables		12.422	10%	12.411	9%	12.252	10%	13.459	10%
Prepayments and accrued income		607	0%	573	0%	583	0%	565	0%
Derivative assets		231	0%	550	0%	337	0%	400	0%
Current income tax assets		919	1%	786	1%	874	1%	908	1%
Assets held for sale		357	0%	25	0%	1430	1%	576	0%
LIABILITIES AND EQUITY	100%	130380	100%	131901	100%	123992	100%	133450	100%

EQUITY	29%	62.777	48%	65.981	50%	63.986	52%	71.884	54%
Share capital		311	0%	311	0%	319	0%	322	0%
Treasury shares		-4.537	-3%	-990	-1%	-7.489	-6%	-3.918	-3%
Translation reserve		-19.433	-15%	-18.799	-14%	-21.129	-17%	-17.255	-13%
Other reserves		989	1%	1.198	1%	90.637	73%	90.981	68%
Retained earnings		84.174	65%	82.870	63%	1.648	1%	1.754	1%
Non-controlling interests		1.273	1%	1.391	1%				
LIABILITIES	72%	67.603	52%	65.920	50%	60.006	48%	61.566	46%
Non-current liabilities	39%	31.549	24%	28.403	22%	26.685	22%	28.671	21%
Financial debt		15.932	12%	11.091	8%	11.602	9%	12.396	9%
Employee benefits liabilities		7.111	5%	8.420	6%	7.691	6%	8.081	6%
Provisions		2.445	2%	2.640	2%	2.601	2%	3.161	2%
Deferred tax liabilities		3.559	3%	3.865	3%	3.063	2%	3.191	2%
Other payables		2.502	2%	2.387	2%	1.729	1%	1.842	1%
Current liabilities	33%	36.054	28%	37.517	28%	33.321	27%	32.895	25%
Financial Debt		10.536	8%	12.118	9%	9.629	8%	8.810	7%
Trade and other payables		18.872	14%	18.629	14%	17.038	14%	17.437	13%
Accruals and deferred income		4.094	3%	3.855	3%	3.673	3%	3.759	3%
Provisions		863	1%	620	0%	564	0%	695	

Derivative liabilities		507	0%	1.068	1%	1.021	1%	757	1%
Current income tax liabilities		1.170	1%	1.221	1%	1.124	1%	1.264	1%
Liabilities directly associated with assets held for sale		12	0%	6	0%	272	0%	173	0%

Figure 7. Balance Sheet of Nestlé and the average of the industry.

8.2 INCOME STATEMENT

	% Average	2017	2017 (%)	2016	2016 (%)	2015	2015 (%)	2014	2014 (%)
Sales	100%	89.791	100%	89.469	100%	88.785	100%	91612	100%
Other revenue		330	0%	317	0%	298	0%	253	0%
Cost of goods sold		-44.923	-50%	-44.199	-49%	-44.730	-50%	-47.553	-52%
Distribution expenses		-8.205	-9%	-8.059	-9%	-7.899	-9%	-8.217	-9%
Marketing and administration expenses		-20.540	23%	-21.485	-24%	-20.744	-23%	-19.651	-21%
Research and development costs		-1.724	-2%	-1.736	-2%	-1.678	-2%	-1.628	-2%
Other trading income		111	0%	99	0%	78	0%	110	0%
Other trading expenses		-1.607	-2%	-713	-1%	-728	-1%	-907	-1%
Trading operating profit		13.233	15%	13.693	15%	13.382	15%	14.019	15%
Other operating income		379	0%	354	0%	126	0%	154	0%
Other operating expenses		-3.500	-4%	-884	-1%	-1.100	-1%	-3.268	-4%
Operating profit	15,45%	10.112	11%	13.163	15%	12.408	14%	10.905	12%
Financial income		152	0%	121	0%	101	0%	135	0%
Financial expenses		-771	-1%	-758	-1%	-725	-1%		-1%

Profit before taxes, associates and joint ventures	13,95%	9.493	11%	12.526	14%	11.784	13%	10.268	11%
Taxes		-2.779	-3%	-4.413	-5%	-3.305	-4%	-3.367	-4%
Income from associates and joint ventures		824	1%	770	1%	988	1%	8.003	9%
Profit for the year after taxes	10,96%	7.538	8%	8.883	10%	9.467	11%	14.904	16%
of which attributable to non-controlling interests		355	0%	352	0%	401	0%	448	0%
of which attributable to shareholders of the parent (Net profit)		7.183	8%	8.531	10%	9.066	10%	14.456	16%
Trading operating profit		14,70%		15,30%		15,10%		15,30%	
Net Profit: Profit for the year attributable to shareholders of the present	10,96%	8%		9,40%		10,20%		15,80%	
Basic earnings per share		2,32		2,76		2,9		4,54	
Diluted earnings per share		2,32		2,75		2,89		4,52	

Figure 8. Income Statement of Nestlé and the average of the industry.

8.3 CASH FLOW STATEMENT

	2017	2016	2015	2014
OPERATING ACTIVITIES				
Operating profit	10.112	13.163	12408	10905
Depreciation and amortization	3.227	3.132	3178	3058
Impairment	3.557	640	576	2067
Net result on disposal of businesses	132	-	422	509
Other non-cash items of income and expense	-185	35	172	689
Cash flow before changes in operating assets and liabilities	16.843	16.970	16756	17228
Decrease/(increase) in working capital	-243	1.801	741	-114
Variation of other operating assets and liabilities	393	54	-248	85
Cash generated from operations	16.993	18.825	17249	17199

Net cash flows from treasury activities	-423	-327	-93	-356
Taxes paid	-3.666	-3.435	-3310	-2859
Dividends and interest from associates and joint ventures	582	519	456	716
Operating cash flow	13.486	15.582	14302	14700
INVESTING ACTIVITIES				
Capital expenditure	-3.934	-4.010	-3.872	-3.914
Expenditure on intangible assets	-769	-682	-422	-509
Acquisition of businesses	-696	-585	-530	-1.986
Disposal of businesses	140	271	213	321
Investments (net of divestments) in associates and joint ventures	-140	-748	-44	3.958
Inflows/(outflows) from treasury investments	593	-335	521	-844
Other investing activities	-134	-34	-19	-98
Investing cash flow	-4.940	-6.123	-4.153	-3.072
FINANCING ACTIVITIES				
Dividend paid to shareholders of the parent	-7.126	-6.937	-6.950	-6.863
Dividends paid to non-controlling interests	-342	-432	-424	-356
Acquisition (net of disposal) of non-controlling interests	-526	-1.208	-	-49
Purchase (net of sale) of treasury shares	-3.295	760	-6.377	-1.617
Inflows from bonds and other non-current financial debt	6.406	1.695	1.381	2202
Outflows from bonds and other non-current financial debt	-2.489	-1.430	-508	-1.969
Inflows/(outflows) from current financial debt	-1.009	1.368	643	-1.985
Financing cash flow	-8.381	-6.184	-12.235	-10.637
Currency retranslations	-217	-169	-478	42
Increase/(decrease) in cash and cash equivalents	-52	3.106	-2.564	1.033
Cash and cash equivalents at beginning of year	7.990	4.884	7.448	6.415
Cash and cash equivalents at end of year	7.938	7.990	4.884	7.448

Figure 9. Cash flow statement of Nestlé and the average of the industry.

8.4. RATIOS

	Average*	2017	2016	2015	2014
DEBT AND CAPITALIZATION					
Debt = Liability / Assets	0,715	0,518	0,499	0,483	0,461
Equity (parent) = Equity attributable to shareholders of the parent / Assets		0,472	0,490	0,503	0,526
Debt quality = Current liabilities/Total liabilities	0,456	0,533	0,569	0,555	0,534
Repayment capacity = cash flow / loans	0,870	0,528	0,529	0,427	0,682
Repayment capacity (years) = 1 / repayment capacity	1,150	1,895	1,889	2,342	1,467
Cost of debt = financial expenses / loans	0,140	0,029	0,032	0,034	-0,036
Financial expenses = financial expenses / sales	0,025	0,008	0,008	0,008	0,008
LIQUIDITY					
Liquidity = Current assets / Current liabilities	0,812	0,892	0,854	0,883	1,032
Treasury= (debtors + cash)/current liabilities	0,436	0,564	0,543	0,514	0,635
Acid test = Cash / Current liabilities	0,241	0,220	0,212	0,146	0,226
Z (UPF) = -3,9 + 1,28 CA/CL + 6,1 E/A + 6,5 NI/A + 4,8 NI/E	0,791	1,087	1,285	1,533	2,377
Working capital (real) = Current assets - current liabilities	-1.544.256,58	-3864	-5475	-3887	1066
Operating working capital (WC needed) = Operating current assets - operating current liabilities	916.652,396	2.729,400	2.652,700	3.609,100	5.289,500
Working capital deficit/ surplus	-2.460.908,98	-6.593,4	-8.127,7	-7.496,1	-4.223,5
ASSETS MANAGEMENT					
Non-current assets turnover = sales / non-current assets	1,018	0,914	0,895	0,938	0,920
Current assets turnover = sales / current assets	2,824	2,789	2,792	3,016	2,697
Assets turnover = sales / assets	0,748	0,689	0,678	0,716	0,686
TERMS					
Inventories days = stocks / daily cost of sales	50,134	73,620	69,376	66,529	70,401
Days receivable (days) = clients / daily sales	30,995	50,495	50,632	50,368	53,623
Days payable (days) = suppliers / daily cost of sales	134,495	153,335	153,840	139,0312	133,840
GROWTH					
Sales growth = (year 2- year 1) / year 2	4,50%	0,36%	0,77%	-3,09%	-0,59%

Asset growth = (year 2- year 1) / year 2	1,60%	-1,15%	6,38%	-7,09%	10,80%
Debt growth = (year 2- year 1) / year 2	5,17%	2,55%	9,86%	-2,53%	9,35%
Net profit growth = (year 2- year 1) / year 2	23,67%	-15,80%	-5,90%	-37,29%	42,69%
PROFITABILITY, SELF-FINANCING AND GROWTH					
Return on Investment = EBIT / Assets	0,116	0,078	0,100	0,100	0,082
Return on equity = Net income / Equity	0,287	0,120	0,135	0,148	0,207
ROE (without minority shareholders)		0,117	0,132	0,145	0,206
Cash flow / Sales	0,154	0,150	0,174	0,161	0,1604
Net profit / Sales	0,110	0,084	0,099	0,107	0,163
Cash flow / Assets	0,115	0,103	0,118	0,118	0,110
G (Higgins)		0,38%	2,04%	3,04%	9,54%
STOCK EXCHANGE RATIOS					
Pay out: Dividends / Net profit		0,957	0,802	0,740	0,466
Dividend profitability: Dividends / Net equity		0,114	0,108	0,109	0,096
Dividend / Share price		2,32	2,76	2,9	4,54
PER = share price / earnings per share		34,019	26,639	24,405	15,104
WEIGHT OF THE PARENT COMPANY IN THE GROUP					
Assets parent company / Assets group		0,314	0,318	0,340	0,364
Liabilities parent company / Liabilities group		0,090	0,078	0,095	0,093
Sales parent company / Sales group		0,137	0,119	0,139	0,098
Net profit parent company / Net profit group		1,139	0,726	0,827	0,772

Figure 10. Analysis of ratios of Nestlé and the average of the industry.

*Average of the top 5 competitors (Pladis, Mondelez, Mars, Danone, Unilever) in 2016.

Source: Amadeus