Nestlé S.A.

Denials and defiance: Nestlé chief's exit over relationship prompts investor unrest

Shareholders turn on board over handling of CEO dismissal after chair Bulcke failed to heed earlier advice to fire Freixe

Mercedes Ruehl in Geneva and **Barney Jopson** in London

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Nestlé investors were confronted with an unexpected guest when they turned up for meetings with the Swiss group's management last week: its embattled chief executive Laurent Freixe.

Against a backdrop of swirling rumours about a love affair with a subordinate Freixe used the meetings, which he was not originally scheduled to attend, to rattle off his plans to revive the fortunes of the SFr192bn ($239bn) group behind KitKats and Nespresso.

"I had thought he might leave the company after I heard the rumours but he seemed adamant he would be there for the long term," said one investor who attended the Zurich leg of Nestlé's roadshow. "It was just this weird elephant in the room."

Freixe's apparent show of defiance was not enough to save him.

On Monday the Nestlé lifer was ousted by the board with no severance pay after an investigation found he failed to disclose a romantic relationship with a subordinate.

Nestlé, a totem of Swiss business, is mired in one of the most challenging periods in its 160-year history © J. David Ake/Getty Images

The debacle has led investors to question the judgment of outgoing chair Paul Bulcke, who was counselled to fire Freixe weeks ago, people familiar with the matter said. Nestlé said that Freixe denied the existence of the relationship right until the point he was fired.

The consumer goods giant, a totem of corporate Switzerland, is now facing one of the most difficult periods in its 160-year history. It has had three chief executives in just over a year and a share price that has sunk 40 per cent since 2022 off the back of weak demand for some of its core brands.

"I blame the board and a lot of investors feel the same," said Alexandre Stucki, founder and managing partner of AS Investment, which has invested in Nestlé for decades on behalf of Swiss families and domiciled clients. He said many were "shocked and disappointed" by Freixe's actions.

The legacy of Bulcke, who will be replaced by Nestlé's lead independent director Pablo Isla at next year's AGM, also appears to have been tarnished.

"It is a mess. Structurally speaking the group has lost its way and nothing has changed since [former chief executive Mark] Schneider, who, like Freixe, was appointed by Bulcke. Why did they pick someone [Freixe] with these judgment issues?" Stucki said.

Not so sweet

Nestlé share price, Swiss franc

Source: LSEG via markets.ft.com

Freixe, who had spent almost 40 globe-trotting years at Nestlé, which is based on the shores of Lake Geneva, told the Financial Times in May that the major difference between him and his predecessor, Schneider, was his "intimate" knowledge of the inner workings of the Nestlé machine.

"Because of that, and maybe my style, I'm very close to the people, so it's a big advantage," he said.

That closeness, as it turned out, would prove to be his downfall.

In the spring Nestlé's board was made aware of allegations that Freixe was having an affair via reports made through its internal whistleblowing channel "Speak Up".

The company subsequently investigated the claims — in a process running from May into early summer — via its human resources and legal departments but was unable to substantiate them, said a person familiar with the matter.

During this time Freixe repeatedly denied the affair's existence, according to two people familiar with the matter. Another person close to the situation said the original allegations were vague — along the lines of "the CEO has a girlfriend" — and were not backed with evidence.

Things seemed to die down, only for more detailed letters to arrive via Speak Up, according to one of the people. At the same time, the allegations were reported in Inside Paradeplatz, a Swiss finance blog.

Laurent Freixe told the FT in May he had an 'intimate' knowledge of the inner workings of the Nestlé machine
© Charlie Bibby/FT

This time, the board enlisted the help of external counsel — Swiss law firm Bär and Karrer — to help lead a second, more forensic investigation which involved trawling through emails and records of phone calls.

Freixe continued to deny the relationship, which the investigation found to be with a senior marketing executive in the firm's Vevey headquarters, according to two people with knowledge of the matter.

"Laurent Freixe denied the relationship throughout the course of both investigations," Nestlé said in a statement. The woman the investigation identified reported directly to Freixe.

“The problem was not that it was an undisclosed relationship — being in love is not illegal — it’s that it was an undisclosed conflict of interest . . . the conflict of interest is enormous with a direct report. How is that going to affect your decisions?” said a person close to the situation.

This time the board acted within days to fire Freixe, who did not respond to a request for comment on Tuesday. He was hastily replaced with Nespresso chief Philipp Navratil, who only joined its executive board this year.

The episode has cast a shadow over Nestlé’s corporate governance and shaken investor trust in a conservative Swiss institution unaccustomed to such turbulence.

Two people familiar with the situation said Bulcke was counselled weeks ago to fire Freixe by multiple people but he was reluctant to do so. Nestlé declined to comment on those discussions.

“It is clear some people knew [of the affair] within the organisation. It’s unclear how high that went. It will take time to regain trust,” said one Swiss-based Nestlé investor.

The saga sees Nestlé join a growing number of global companies to part ways with their chief executive on the basis of a romantic relationship with an employee.

McDonald’s dismissed Steve Easterbrook in 2019 after he had a consensual relationship with an employee. In 2023 Bernard Looney was fired by BP after he failed to disclose past relationships to the board. CNN Worldwide president Jeff Zucker also left his role for similar reasons in recent years.

The internal turmoil adds to a difficult year for Nestlé as it battles to end a cycle of negative headlines.

French authorities raided its offices in July as part of an investigation into its alleged use of unauthorised filtration methods in bottled mineral water. Nestlé also had to issue a recall of frozen meals in the US this year over contamination concerns.

Now, it falls to Navratil to steady the ship and rouse a company employing 277,000 employees and operating across 185 countries.

A source close to Nestlé said the board had been working on succession planning since the start of the year and that Navratil was "clearly at the top of the list".

Some Nestlé shareholders, though, are sceptical.

"It feels like another quick fix, just like Freixe after Schneider. He [Navratil] doesn't have a track record in financial markets," said a London-based investor.

"Does he have the strategic vision and experience to turn the company around? I am not so sure."

With additional reporting by Anjli Raval and Madeleine Speed in London

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