Danone Investor Update

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Questions and Answers

Nadia Ben Salem-Nicolas: Welcome back to the second part of the event, the Q&A session with our speakers that I'll have the pleasure to animate. We are sitting here together not wearing masks when we'll speak to ensure we are audible, and respecting one metre distance between each seat.

A few practical things before we start the Q&A. For the Q&A, we'll go with our usual phone and webcast system. If you would like to ask a question or make a contribution to the call, please press *1 on your telephone keypads. If you would like to withdraw your question, please press *2. You will be advised when to ask your question. One rule I would like you to follow: please limit your question to one – maybe a follow-up question - but this is to ensure that as many as possible people can participate to the call. And maybe with that, we look forward to a lively discussion. And to kick-off the call, first questions come from Celine Pannuti at JP Morgan. Good morning, Celine.

Celine Pannuti: Yeah, sorry, I was on mute. Good morning, everyone. Yeah, my first question is on the margin target. So, first of all, I wanted to understand why you're choosing to commit to a margin target when a lot of your competitors seem to be willing to reinvest more to growth. And I think the growth has been the issue at Danone because you have by and large managed to increase your margin over the past couple of years.

And within that, if you could also answer when you look at your business structurally by business division, how you make up mid-to-high teens structurally, again, because we've seen some of your competitors reinvesting. And first, for example, you are one of the most profitable in specialised nutrition. So, if you could answer that. Thank you.

Nadia Ben Salem-Nicolas: Emmanuel, do you want to take the first one on the emphasis on margin – and not the absence of growth, as we have growth in our targets.

Emmanuel Faber: Yeah, absolutely. Thank you, Nadia. Thank you, Celine for the question. I think the level of ambition is clear for us, not only for the reasons explained, that we want to reconnect as soon as possible with out top-line profitable growth. But, also, as I explained in my presentation, we have come to realise that the volatility of the world in which we live, economically in the countries, does not leave enough room for manoeuvre for us in our profitability to live with the current or actually the previous set of ambitions that we had for margin. So, we believe that there is a need – an opportunity and a need – to be much more ambitious, and this is what we shared with our margin expansion to mid-to-high in the mid-term.

This is not without fuelling growth. We expect to reinvest 20%, 25% of our savings from the plan to make sure that we push our brands. Because over the last several years, gradually, we have lost about 100 bps of margin in A&P spending, which we believe we need to catch up, and there are opportunities for us to catch up. That's really one thing, it's not against. But, I'm clear on the fact that with the environment in which we live today, I want an agenda that is under our control. And the efficiencies agenda, the organisational agenda, the productivity agenda is in our control. So, we start with that, and we will refuel growth gradually.

To your questions about the businesses, we also said that we are pruning, reviewing our portfolio, pruning it from an operational standpoint – my colleagues made comments on that in the presentation – to make sure that the brands, the SKUs are fit with the ambition of profitable growth. And second, we have started a strategic review with two assets to start with. There will be more. We will update you in the next several months on the progress of this review to make sure that the assets that we have are fit with the equation that we ambition.

Nadia Ben Salem-Nicolas: Thank you, Emmanuel. Next question is coming from Warren Ackerman at Barclays. Good morning, Warren.

Warren Ackerman (Barclays): Morning. Morning, everybody, hope you can hear me okay. My question is, I suppose, on the reinvestment rate again. I mean, on Project Protein you said €1 billion and you would retain only €300 million, so 70% reinvestments. Whereas on the new plan, it's only 20%, 25% reinvestment, so it's a much lower reinvestment of the gross savings. Why is that the right number given the volatility out there?

And my kind of follow-up is for Juergen just on the disclosure and the reporting. How would the reporting change for us given the move to a kind of local organisation? Thank you.

Nadia Ben Salem-Nicolas: Two questions for you, Juergen. First one on the pace of reinvestment of the savings.

Juergen Esser: Yes. Thank you, Warren, for your question. Let me try to help you on that one. So what we are indeed explaining is that we have now this €1 billion saving plan with the majority of the savings kicking in, in 2022. And what we are saying today is that we want to reinvest between 20% to 30% of those savings into our strategic growth initiatives. And we will discuss these strategic growth opportunities in the next CME session which we will have in the first semester.

Obviously, we will need to stay extremely flexible and agile in the way we are going to reinvest because we know that, especially the next couple of months and quarters, the context will stay very volatile. There will probably be a lot of stop-and-go in the economies, and so we want to maintain a high level of flexibility. At the same moment, we know that we need to invest, and we want to invest when we see market opportunities. But, we also want to make sure that we really adapt our investment pace to a rhythm of what we see happening in our categories.

When it comes to the second question on the reporting, there's two elements which are probably important. Number one, on 2020 full year there will be no change in the way we will communicate in our financial communication. For 2021, we are currently under discussion. We didn't do – we didn't take a decision yet. But where I want to reassure you is on the fact that the organisational changes we have been discussing will not lead to any reduction in the level of granularity of our financial disclosures. So, our intent is really to keep reporting the performance by category. We might then adjust the geographical split to reflect the new geographical focus of the organisation. But again, as said, we didn't decide on that yet, and we will keep you updated as soon as there is something new to say on that.

Emmanuel Faber: Thank you, Juergen. I would like Henri to comment further on your question about the need for reinvestment, because there are also elements about the innovation model that will be changed with our end-to-end design-to-delivery a new function.

Henri Bruxelles: Yes. Thank you, Emmanuel. Actually, with the new organisation end-to-end design-to-delivery - putting under the same roof the research and innovation, the cycles of procurement, the manufacturing and the quality - we want actually this organisation to act as a one-stop-shop for the country in terms of ingredients, in terms of scientific and technological assets, in terms of recipe design. Because what we want is really to have bigger innovations – fewer, bigger, more impactful innovations. So, this will be articulated with the innovation led at country level based on local insights, based on an end-to-end approach locally around the key growth spaces – plant-based, probiotics, SN and many others. But at the same time, we will fuel and accelerate these innovations through the global organisation that will develop stronger assets, which will be used by the countries to really accelerate their innovation pipeline.

We want also to balance better the innovation in terms of short-term innovation, but also having more medium-term, long-term innovation fuelled by the science and technological assets.

Warren Ackerman: Okay, thank you.

Nadia Ben Salem-Nicolas: Thank you, Warren. Have a good day. Next question is from John Ennis at Goldman Sachs. Good morning, John.

John Ennis (Goldman Sachs): Good morning, everyone. Hopefully, you can hear me loud and clear as well. My question is on cash costs to deliver the saving plan. These are, of course, exceeding the overall saving plan by €400 million. I just wondered: can you give a few more details behind costs? Are you [inaudible] that these restructuring costs will disappear post-2023? Because I guess by then we will have seen restructuring costs over 2018-2023. So can they completely roll-off some element of cash restructuring even closer to 2023?

Nadia Ben Salem-Nicolas: Question is about the constituent of the €1.4 billion restructuring cost, Juergen.

Juergen Esser: Yes, thank you. Thank you, John. So, what we are saying today is indeed by launching our savings plan of €1 billion and particularly the one with local-first, we are engaging into a restructuring project – a restructuring project of €1.4 billion overall cost. Those costs will hit particularly our EPS in 2021. It will be mostly cash. It will be spent upfront. And so, we will see first savings kicking in in the second semester of 2021, and then the vast majority of savings, around two-thirds of the savings, being impacted positively in our P&L in 2022. So, upfront investment 2021, and then cash flows 2021 and particularly 2022 positively impacting our balance sheet.

Emmanuel Faber: And I would like to add that from a timing standpoint, we expect all the project, the local-first project that we have presented this morning, to be ended from an execution standpoint.

John Ennis: Thank you very much.

Nadia Ben Salem-Nicolas: Thank you, John. Thank you, John. I see that the next question in the queue is coming from Bruno Monteyne at Bernstein. Good morning, Bruno.

Bruno Monteyne (Bernstein): Hi. Good morning, everybody. There seem to be two views out there about how to improve margins medium-term to long-term. So one is clearly focusing on cost savings, the other one is focusing on more innovative brands that have a stronger connection with consumers. And given the whole focus today on cost savings, is that because in the short term you think that is the right priorities, you don't really see opportunities to improve innovation and branding in the short-term?

And related to that, is there a medium-term to long-term risk that if the reorganisation – you are cutting 20% of overheads, making people redundant in your organisational structure – is there a risk to the organisation's capability to derive innovation with all that organisational turmoil going on? Thank you.

Nadia Ben Salem-Nicolas: You want to take the two questions, Emmanuel?

Emmanuel Faber: Yeah. Thank you, Bruno, for your question. I will take the first one and leave Veronique to answer the second one, as she has also done our SN merger last year, pretty successfully.

So, on your question, it's both. As you rightly said, there are two views, and we have both views, actually. We have decided to focus this event on efficiency because then again, that's definitely something that we feel is under our own control, and that is what makes us comfortable that the first material benefit from the €1 billion savings plan is going to be felt in H2 next year, so in less than 12 months from now. And as I said, by the end of 2022, everything will be implemented to move forward in the full year of 2023 with the €1 billion saving.

The reinvestment is there exactly because we believe that by unlocking the ability of our countries to be much more nimble, faster, and not in a way having to wait for decisions and trade-offs being made all up and down the pyramid of categories, yes, category expertise will stay, of course. And I'm sure my colleagues will expand on that. But it's absolutely essential that we free our people to just make sure they are on the market with the great brands that we have. And as you know, two-thirds of our portfolio is absolutely local strong brands of positions of number one and number two locally.

So, it's not one or the other. We present this morning an efficiency programme that will be the backbone of the reorganisation which we expect will unlock growth. And I would like Veronique to comment further on this aspect.

Veronique Penchienati-Bosetta: Thank you, Emmanuel. Maybe two additional points on what Emmanuel just said. So yes, definitely, this local-first adaptation plan is for efficiency and for growth. All the principle of having local centricity supported as well by commons, the D2D organisation, the growth strategy and the expertise on categories is really to equip the countries to be locally-centric, answering the needs from the local consumer, but at the same time ensuring as well scale and efficiencies. And that's very important for us.

Now, it's clear it's a big transformation. And we've been through that, I would say, at a smaller impact, when we did the SN integration in 2019, combining the Early Life Nutrition businesses and the Medical Nutrition businesses both at the global level and as well at the local CBU level. And for that we are taking as well all the learnings in terms of governance and all that, to ensure that we have teams that both are able to deliver and as well, at the same time, transforming. The way we will overall manage and govern, especially in the next months to come, until the implementation of the new organisation will be by segregated teams. The current teams really focussing on delivering the business and as well the new Zone Presidents entering the Comex, working on designing, shaping, implementing the new organisation for the future.

Emmanuel Faber: Thank you. Can I maybe have one question for you Veronique? How did you manage on retention of the people and this business continuity issue?

Veronique Penchienati-Bosetta: So, on that, we had clearly a part to ensure that we keep the right people. And in SN over one year, we had no regretted loss during the SN integration. So, we will drive the same way with proximity, engagement with the team to ensure that we deliver, transform and keep the people.

Nadia Ben Salem-Nicolas: Thank you, Veronique. Always insightful to remind this merger was led in a 12-month timeframe and delivering mid-single-digit growth for SN, and also margin improvement that year.

Let's move to the next question from Martin Deboo at Jefferies. Good morning, Martin.

Martin Deboo (Jefferies): Yeah. Good morning, everybody – one main question and one supplemental for me. Emmanuel, as you said at the start, you said there at two occasions that peers have been through big restructuring programmes and you hadn't. But the reality is you went through Protein, as other questioners have alluded to, which is also a €1 billion saving programme. So, I think the question has to be: what are the new sources of cost saving you are finding in today's programme over and above Protein, or is it the case that Protein savings were dissipated in cost-creep elsewhere? So just some clarification on this first, this Protein.

And a quick supplemental is: I think you are going to incur probably around 90 basis points of COVID on costs this year, which will hopefully reverse next year. Is the reverse of those on costs within the €1 billion target, or is that an additional source of cost upside in 2021? Thank you.

Emmanuel Faber: Thank you, Martin. I think we are very clear on the fact that Protein was not a transformational project. Protein was a new way of working and process when it comes to indirect spend and only indirect spend. It has no people-related cost nor direct spending, which are obviously our biggest blocks of costs and, of course, of value creation. So, what was obviously a very countercultural programme with Protein was this idea that we would have a centralised engine working on those categories and imposing with discipline the choice under which we would buy from service providers and others. It worked very well because we will, this year, deliver the savings that we had anticipated. The truth is that, as you pointed out, it actually was reinvested mostly in what you have called cost creeping in a number of areas – this is true – and also in the fact that we needed to reinvest additionally in the margin because of a lack of other engines. The lack of other engines is exactly what we are addressing now.

So, the big difference between Protein and what we are announcing today is that we materially transform the way we work, our organisation's work and the way our people are going to work, and the number of those. So, these are really two very different sources of cost savings for us and efficiency, especially unlocking growth. Because the only impact that Protein could have had on growth, and had probably, was the savings that we reinvested. It was a financing facility for growth. But, here we are really talking about an organisation redesign that is, when it comes to the end-to-end design-to-delivery, it really takes us forward towards the next generation of what organisations are doing right now from a place where we were backward. And the same when it goes to going local and nimble because we absolutely and fundamentally believe that most of what will be relevant to manage the risks and the opportunities in our food businesses is going to be at the local level, given everything else that we've already explained from a macro standpoint.

So, these are two radically different approaches. But it is true that the discipline that we established successfully on Protein, and that the success of the SN merger, without losing either people, growth or margin through that process, is making me particularly confident that our programme will work.

On the 90 bps of COVID cost, I will let Juergen answer. Thank you.

Juergen Esser: Yes. Good morning, Martin, just a few words of clarification. So, as we talk about the €1 billion savings, you really talk about €700 million from overheads cost and €300 million of recurring productivity. As Henri has explained earlier, this does not include the reversal of COVID costs we are incurring in 2020. An important element I believe is that going into 2021, and particularly in the first half of 2021, we believe that some of those COVID-related costs are sustained because of what I said earlier, which is that we believe that this was for a number of months, you will see economies with stop-and-gos, lockdowns and therefore also a continued stressed supply chain. So, we do not know exactly when this will be carved out, but at least for the first semester we do believe that some of those costs will be maintained.

Nadia Ben Salem-Nicolas: Thank you, Juergen.

Martin Deboo: Okay, thank you.

Nadia Ben Salem-Nicolas: Thank you, Martin. Have a good day. Next question is coming from Alan Erskine at Credit Suisse. Good morning, Alan. Can you hear us?

Alan Erskine (Credit Suisse): Good morning, yes. Can you hear me?

Nadia Ben Salem-Nicolas: Very well.

Alan Erskine: Perfect. Okay. Emmanuel, you referenced the margin expansion from 2014 to 2019, and most of that was driven by Specialised Nutrition, whose margins obviously well above 15%, and indeed, above some of its peers. So, we've heard a lot today about unlocking efficiencies and cost savings. But as far as the sort of strategic refresh, have you challenged the margin structure of Specialised Nutrition? Is there any risk that competitors have sacrificed to get that margin expansion and that that business is over-earning? Can you give us confidence that as you get cost savings, they're not just diluted by the need to perhaps invest more in price or whatever in Specialized Nutrition?

And then my supplementary question is on, I think, Juergen, you mentioned that H1 would see some adverse category mix, which I think was over and above the impact of cross-border trade in China. So, could you just elaborate on that comment about negative category mix in H1? Thank you.

Emmanuel Faber: Thank you, Alan, I'll take your first question. I'll put it this way: €700 million of savings will come without any negative impact on any of our businesses locally. On the contrary, I repeat, there is a strong willingness in our geographies already, and that has exploded with the COVID, to get more flexibility, nimbleness, ability to decide locally, go beyond the strict definitions of the verticals of the categories because innovation and growth opportunities are staying at adjacent places.

And so, the savings will not come with a burden on the countries, or on the margin of those countries. So, I'll put it this way: this €700 million comes with no change in the mix of margin or the nature of the underlying margins of any of our businesses.

On the €300 million that comes from D2D, they are there as an integrated activity that will foster the margin of our businesses using the example that Henri used during the presentation when we are using excess organic milk from a dairy factory in the north of France to fuel high-technology ingredient manufacturing in 50 kilometres from here from an ELN factory in Steenvoorde that will become the focal point in the world for our ability to deliver organic baby food and medical nutrition specialised ingredients.

We are doing exactly that. We are doing a good job for both, and that's exactly what we intend to do. So, the net-net is we will not have to tweak the margins or sort of limit the ability of those businesses to be competitive. It's on the contrary, giving them competitiveness.

The last thing, I would say, is that we have set, on top of this, a review of our assets from a strategic standpoint, which is across the geographies and across the categories on which we want to make sure that for those who are under-delivering from a margin standpoint or under-delivering from a growth standpoint, we have a path which is fast and credible enough to bring them into what we needed for our midterm ambition that we have set both on sales and on margins, and solutions that may be strategic for those who won't have that.

Nadia Ben Salem-Nicolas: You want to take the second question, Juergen, on elaborating on the negative mix in H1 next year that we are mentioning?

Juergen Esser: With pleasure. Good morning, Alan. Yeah, just to give you a little bit of perspective on 2021 and the way we see going through the quarters and semesters. So overall, we see year 2021 as a year of recovery after 12 months of COVID impact starting Q1 this year. Visibility at least for few months will remain relatively low, and this is why today we refrained from giving a guidance.

However, with the latest news flow and what we know today, we believe that year 2021 will be a year of two phases, strongly backloaded. There will be an H1, where, especially in Q1, we have a huge base of comparison for our ELN business, where we had this year the panic-buying, the pantry-loading.

We know that entering into next year, we will still be exposed to some exposure in our out-of-home business for Waters, but also still exposed to some cross-border channels restrictions with China, which will weigh on our S1 sales and even more on our margin, a margin which I believe will be further impacted by the category mix between SN on one side, and on the other side the EDP and Waters. And where – and this is what I said earlier, we also believe that it will carry over some of the COVID-related cost into S1.

Then there will be an S2, where we are planning to return to profitable growth, where we would see first margin expansion, first margin expansion because of the plans we have been discussing with you this morning, and where the first savings will kick in from those plans. All in all, when you look at the totality of this year, I think that COVID will still have a material impact on the year, particularly and notably on H1.

However, today, we are confident to deliver a margin which will be broadly in line with the magnitude of year 2020.

Nadia Ben Salem-Nicolas: Thank you, Alan.

Alan Erskine: Thank you.

Nadia Ben Salem-Nicolas: Good day. Next question is coming from Jon Cox at Kepler. Good morning, Jon.

Jon Cox (Kepler Cheuvreux): Yeah. Good morning, guys. Thanks very much for the presentation. I have one main question, really, it's back to the €1 billion in savings, which is about 400 basis points, and then you've said maybe a quarter of that or 100 basis points will be reinvested into the business. So really, how should we look at in 2020 around 14%, fast-forward 2023, it's going to be around 17% in the margin in a sort of a decent scenario. And then in addition, the 90 basis points from the COVID cost may come on top of that, so potentially a blue skies would be like you're looking for something like 18% in 2023 or maybe 2024.

And the follow-up is really on the SKU rationalisation. You're talking about 20% of your SKUs. That seems like a big number. I wonder if you can sort of give us what that percentage of revenue may be, if you're going to remove 20% of your SKUs next year? Thank you.

Nadia Ben Salem-Nicolas: Thank you, Jon. I guess the first question is more about what mid-terms means when it comes to margin development.

Emmanuel Faber: Shall I take it. Thank you, Jon, for your question. Yes, I think the mid-term definition that we're using is consistent with the one with that we have been using when we established that guidance, which is, as you know, there is no date. It's important that there is no date because we believe we need flexibility, given the uncertainties of these times, but yet it's basically as soon as possible.

So, I think it's everybody's guess what we mean by mid-to high teens, but it's certainly much higher than the back to pre-COVID level that we target for '22. As I just said in my earlier presentation, we believe '22 is the starting point and not the end of the process. And indeed, if the COVID costs ever go away, there will be an addition to this base, but I'm very clear that we will be there in the mid-term. And as you know, the mid-term for us is more like three to four years than five.

Jon Cox: Thanks.

Nadia Ben Salem-Nicolas: And the next question on the impact of top line of SKU rationalisation, either Henri or Juergen.

Henri Bruxelles: I can take it, Jon. Thank you for your question. So, on the SKU rationalisation, so actually we exit 2020 with a deep conviction that COVID has structurally changed the consumption patterns and the shopping patterns of our consumers. And our customers at the same time are reviewing their range.

So, the exercise in which we are entering, we think is a powerful exercise where we will actually review the long tail of our SKUs. And actually, the long tail of our SKUs, when we took 20% of SKU, they can represent just 1% to 2% of our net sales, so really the long, long tail. And doing this exercise at the same time, we will look at, what we call, our hero SKUs, so SKUs which after COVID have higher velocity, much higher velocity, and still opportunity to gain further distribution or further shelf space.

So, actually what we will be doing with this exercise is replacing in the shelf the low velocity SKU by the SKU with higher velocity or with very powerful innovation post-COVID. So, a new occasion base, for instance, as we have seen this in Waters for instance, or in EDP with new type of formats.

Finally, this exercise will help us to really unlock trapped capacity at zero capital, and at the same time, to really look for inefficiencies that we have on this long tail, both in terms of product losses, buying massification or operational efficiency. So, as a conclusion, regarding the impact of our organic growth, we see that this dynamic portfolio management will actually have no negative impact on our growth perspective in 2021 and for the years after.

Jon Cox: Thanks.

Nadia Ben Salem-Nicolas: Thank you. Thank you, Henri. Next question is from David Hayes at Société Générale. Good morning, David.

David Hayes (Société Générale): Good morning all. Thank you. So my question just refers back to a couple of things you talked about in previous months. So I guess the first one in February, you talked about a €2 billion investment programme, all of that related to recycled plastics and obviously spread between one-off costs and recurring costs in CapEx. Just wonder how you've put that plan into context? Is that plan off the table? Is that slowed? Or does that plan go ahead, and we should think about what you talked about today in addition to that?

And the second question, related to things you said previously, I think in October previewing this event, you talked about obviously asset reviews. So can we take it that these targets are all assuming that there's no portfolio management in terms of any business being sold? And I guess related to that, you talked about assets being reviewed with maybe more outsourcing as part of the programme. Can we take it that there is some outsourcing plans in this €1 billion of savings and what that is? Thanks.

Nadia Ben Salem-Nicolas: Juergen, the first one on the €2 billion plan, how it articulates with the announcement of today. And the second one being on to what extent portfolio management is included in the margin expansion target.

Juergen Esser: Yes. Thank you very much. So, on the €2 billion investment plan, which we announced in February, this plan is broadly maintained. Let me just remind you of one element, which is that plan is consisting of two blocks. One block is which is really about the transformation of our value chain to make it end-to-end digital. And what Henri has been presenting this morning, the additional productivities of €300 million are, to a very large extent, leveraging those investments. And for us this new organisation, which can now truly work cross categories, is a true accelerator on the base of those investments. So these investments are absolutely confirmed.

There is a second building block, which is really about the differentiation of our business model. You said it David, it's about – a lot about packaging, but also investments into climate and agriculture and others. Here, the ambition remains broadly unchanged, but the phasing and pace may be adapted for a number of reasons.

One of the reasons is very much linked to current disruption during this COVID crisis, which is for example that there is a disrupted supply chain for our recycled PET. And so this we are, of course, taking into account without changing our plans in the midterm, but of course adapting our short-term plans.

There is the element of SKU portfolio pruning, which also makes that we need to review a number of our plans because we are now sweating some of our assets in a different way, which is also impacting some of the transformation of our packaging. And overall, of course, we are staying very closely monitoring the way we are allocating resources. But overall, the plan is broadly maintained.

And when it comes to your question on portfolio, there is no direct link between the two. What we have said a couple of weeks ago is that we are doing a very granular and detailed exercise in terms of portfolio review of our businesses. We have announced that we put under immediate review our Argentinian business and Vega, and this is progressing. And so, when we will have more to share on this element, we will get back to you.

Emmanuel Faber: And if I may simply add on this last point, David, as we have explained, if we finally decided that Argentina should not be part of our portfolio anymore sometime next year, just looking at, for instance, EDP and their margin – and I can refer back to Alan's point about the mix of our categories in terms of margin – the deconsolidation of Argentina would bring 100 basis points alone to this.

So, we are really looking at the portfolio review as a way to further enable and adjust our ability to safely travel into our significantly larger margin ambition for the mid-term.

David Hayes: Thank you.

Nadia Ben Salem-Nicolas: Thank you. Thank you, David. Next question is coming from Richard Taylor at Morgan Stanley. Good morning, Richard.

Richard Taylor (Morgan Stanley): Good morning, everyone, and thanks for the question. I just want to start by making a quick observation and then I'll ask a question. You talk quite a lot about COVID in your presentation as a cause of your margin and growth setback. But I think the concerns really started back at Q3 last year that you wouldn't made your targets on growth or margins. Then of course you walked away from your margin targets in February. So, I think – unless I'm mistaken, I think in February you explained that the update you rejected was due to your pivot towards the climate power and business model. I'm just making this observation because I think it's important to understand the delivery versus the targets.

So, on to my question, I think we all want to see Danone succeed and back to its best. You've been very good at margin delivery, as you said, and cash generation over the last few years, but also, as you mentioned in your presentation, less so on growth. You talked a little bit about what's holding you back, but I wanted to drill into that a little bit more. Why do you think the innovations and relaunches at Danone haven't quite hit their mark? They haven't really delivered growth and returns that you might have expected. Why do you think you've missed trends? I mean, going way back – missed Greek yogurt, and missed plant-based and more recently missing things like [inaudible]. Has the organisation just pivoted too much towards focusing on cost savings at the expense of focusing on growth? Thank you.

Emmanuel Faber: Thank you, Richard. I think I deserve to take this one. Let me maybe start with your observations because I share absolutely some of your points, and I don't think that some others are actually supported by the facts.

If I start by the Greek segment in the US, we actually started right after Chobani. We have been the only one to do that. And today, both Chobani and ourselves basically co-own this segment, which has created a €2 billion market in a matter of seven or eight years in the US. So we had actually been fast enough to move and to move at scale to make sure that at the end of the day, we are still in the range of 35% market share in the US, where Chobani and General Mills, who completely lost the game, are now fighting for the number two position about 10 points below us. So, on that particular point, I don't think your comment would be fair.

I would say on plant-based, that I haven't seen anyone yet been successful in strategically transforming a business from a non-plant-based to a plant-based. As I shared bluntly when acquired WhiteWave, we had been trying for several years. We had successful recipes, but there was no way that we could bring them to the market, including because we were organised by categories and not by geographies.

And I was commenting on my friend Alan Jope's declaration about the €1 billion that Unilever will make one day in plant-based. You heard my comment. I don't have much to add to this. So, given the speed at which our plant-based business right now is adding scale quarter after quarter, I think we are there as well.

So, where I think you truly have a point, Richard, is on what you said about the deceiving growth of some of our businesses in the last couple of years, and the numbers speak by themselves. I was not pleased by the performance of our EDP business last year. I wasn't pleased with the way our business was managed in North America in particular. The guys did a fantastic job but did not deliver on all the metrics. They delivered on a number of metrics but not all of them, which led to management changes that we called, and I think we rightly did to make sure that we would get from this incredibly interesting opportunity what it should bring us.

So that is what happened in Q3 last year, despite the fact that in Water, there were already all the plastic topics that Juergen mentioned. One of the reason why we double down in February 2020 with our climate driven action to address those, and in EDP as well, clearly, they were able to work super hard on their margin and be able at the end of the day to mitigate a big chunk of the negatives that in a few countries, in particular in Europe, was weighing of the growth of our Waters business.

When it comes to SN, they actually had a spectacular year way above the growth of any other competitors last year, while delivering on margin as well, at the moment when they were actually merging as one entity and delivering on the synergies as well. So, this is a comment on what happened previously in 2019.

And my last one is back to the point of innovation. I was proud to announce four years ago that we would accelerate in the food revolution on innovation, and we did. And I think we did well. But as Henri pointed out earlier, we had too many small, not-sticking innovation on the market. When we brought our abilities from 15% of products with less than two years in our range to 30% of them last year, I already shared with my team – not everyone agreed, but I shared that we were over-innovating. We were pushing on the market products, solutions that we were either not able to support, or that ultimately wouldn't actually make it as a lasting innovation. And so, there was a misuse of resources, management, time, energy and money that we intend now how to channel in a much more disciplined yet locally granular manner in terms of innovation.

So, I guess with that, you should hear what I actually said loud and clear, including to my team this morning when we announced what we shared with the whole team within Danone that, yes, there is COVID but there was more than COVID. We had structural weaknesses in the way we work and organise, in the way we build our competencies, and we make them work in the company that I intend this morning to address with the reorganisation.

So yes, there was self-inflicted ways of working at Danone that prevented us from benefiting from the full scale of the great categories and brands that we have.

Richard Taylor: Thank you.

Nadia Ben Salem-Nicolas: Thank you, Emmanuel. A bit long answer, but it was a very important question. Next question is from Jeremy Fialko at HSBC. Good morning, Jeremy. Can you hear us?

Jeremy Fialko: Hi. Okay. Good. Let me try again. Jeremy Fialko speaking.

Nadia Ben Salem-Nicolas: Good morning, Jeremy.

Jeremy Fialko: Hi. So, the first question I had is that a lot of the changes you're talking about relate to this dismantling of kind of above-country organisation. So, I'm just interested to hear about the benefits that you previously might have got from these above-country organisations which you're now trying to sort of dismantle. I'm just interested to hear what sort of benefits you thought that you got from those, and how you will be able to replicate that within the new country organisations?

And the second question I had is relating to 2022, where clearly you've given a margin target, but you haven't said anything about what sort of top line you can get. So I just wanted you to share a bit of perspective on that as well. Thank you.

Nadia Ben Salem-Nicolas: Maybe, Emmanuel or Juergen, you want to start with the second one about maybe growth perspective? And before, Véronique, takes the question on the benefits of the organisation?

Juergen Esser: Yeah, good morning, Jeremy. Yeah, let me try to help you with the growth perspective or the overall guidance for 2022. What we are announcing today is a guidance which is really built around margin, more than 15% margin by 2022, which is basically a level where we are very confident to deliver. Why we are very confident to deliver on the margin side? Because most of the savings kicking in by this year, which will make us achieve that level of ROS. It's very important because, as you understood, 2021 will be a year which is still relatively uncertain from a topline dynamic, from a net sales dynamic with a year of two semesters.

When it comes to net sales for 2022, we are confirming today our mid-term targets to go back to 3% to 5% growth. The pace to go there today is not certain, and this is why we are focusing today on efficiency because we know that this efficiency will be a true enabler to reinvest into our growth. I spoke about 20% to 30% of reinvestment. And so we will invest where we see opportunities and we will discuss that in the CME in H1 because we believe that we have identified very strong growth spaces for us, which makes us confident to deliver on this mid-term growth dynamic.

Nadia Ben Salem-Nicolas: And maybe Véronique before we conclude the Q&A session?

Véronique Penchienati-Bosetta: Yes, so two elements of answer. The first one is to re-insist on what we will gain for this local-first organisation, and then, how we ensure as well that we keep the expertise that we have today and even strengthen them at the service of the country.

So the first thing is this local centricity. For me, there is one point that is very important, which is we will switch from a category-centric or product-centric organisation to truly consumer-centric organisation across categories. And benefiting as well from synergies and scale at the country level, it can be on route-to-market, on logistic, as well on data and digital transformation, on e-commerce organisation that we want really to strengthen at each of the country level having a dedicated e-commerce team reporting directly to the GM and really covering the different categories to accelerate, capture and outpace the growth in e-commerce.

Now it's very important as well that we keep, protect and strengthen the expertise. And that will be really the role of the Commons that we have explained.

Category expertise, of course, we need to keep, protect the category expertise having the right insight by category, but as well across categories. And that will be in the growth strategy and capability teams. That will nurture the category expertise. We have even decided on our specific specialised nutrition business to keep a dedicated specialised nutrition unit with no P&L accountability because all the P&L will be in the country, but really to protect and strengthen the expertise, the specific expertise that is linked to medical affairs, market access, homecare, engagement model with healthcare professionals. And that will be a kind of guardian and the control tower to ensure that we do the right thing.

And then overall, these Commons, which will be leaner structures compared to what we have today, will be there really to serve the country with the right expertise, with the right support, but as well ensuring that we enhance capabilities, we enhance scale in the countries and continue to share our best practices and everything throughout the countries.

Nadia Ben Salem-Nicolas: Thanks a lot, Veronique. This will conclude this event that was focused on efficiencies as a first step to reconnect with shareholder value creation. We look forward to pursuing the dialogue on this in the coming weeks. We'll keep you posted with further developments, stay tuned. Thanks to all of you for your time this morning, and thanks to the investor community for your time and attention. Have a very good day. Bye-bye.

[END OF TRANSCRIPT]