# Danone Investor Seminar 2018

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## Delivering Superior Sustainable Profitable Growth

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Even if I trust that by this time of the day we've been able to show you and convince you that we have the right strengths and opportunity to go forward on our journey towards superior sustainable profitable growth, what I will do now with you for the next 30 minutes is take you back to the journey, sharing again what you know about the steps we've been already taken, about where we stand in terms of our performance and the path that we are taking to go forward towards 2020 and beyond.

The journey started in 2015 where we stated an intent and an objective to rebalance our model of growth to make it more profitable in order to ensure that it would be more robust and more resilient. So we said growth needs to be profitable before it reaccelerates.

2016 we announced the acquisition of WhiteWave, a big enhancement to our portfolio towards growth acceleration, fully in line with having a unique healthy category portfolio that would bring the ability to go for superior growth.

Last year we shared with you the food revolution, the way the industry was transforming and how we were fit to tackle these opportunities of the disruption and we detailed our objectives for 2020.

This year we published our 2030 goals, including an equation that is putting an objective of superior sustainable profitable growth. And we said that we would do that as a B-Corp, because we are fully convinced that being responsible and embedding fully social and environmental high standard in the way we do business is going to improve the resilience of the model and is also going to bring a competitive advantage to our brands in a world that is getting more complex, more volatile and in an industry that is getting disrupted.

We walk the talk on rebalancing the model of growth. If you look at the numbers and the delivery, we had a growth between 2014 and 2017 of 3.7% and we had a strong improvement of margin of 180 basis points. This improvement of margin was not by chance or by coincidence. It was really about being very conscious and disciplined on the way we were going about growth and value growth as well as maximising efficiencies in a context where inflation was going to be more and more hitting the overall model. And this enabled us to both reinvest and greatly improve the margin.

And we did that by taking a certain number of steps in structural transformation to the business model. On organisation, the last one was the creation of the growth and innovation organisation. You've heard Veronique and I trust that by now we've been convincing you that this is a great enabler for growth acceleration in the future. Efficiencies which is a key lever to rebalance the model and make it more robust. Protein Program that we announced early 2017 going for €1 billion gross savings, that would serve to both continue to enhance the margin but also reinvest behind the support of our growth. And you've just heard about where we are on this journey.

On growth engines, I cited WhiteWave. You had a workshop on Manifesto Venture. You've seen, you've heard, you've tasted many innovations so I hope that by now you trust our ability to accelerate innovation and innovations that are bringing and accelerating value growth.

And lastly, and actually it's lastly on the chart, but we started with that. We truly transformed the way that we are looking at our performance management process and resource allocation to make sure that we were getting agile and dynamic. So we do it every quarter and also balanced between the different time horizon between short-term delivery and long-term transformation.

Continuing on the track record, historically this ability to improve our growth model led to a strong recurring EPS growth, 10% CAGR between 2014 and 2017 as well as an increase and acceleration of free cash delivery, 14% in CAGR over the period and 20% in H1 2018.

It is important also to pause on portfolio management. I took here two recent divestiture examples, because it is also a proof point that we are able to create value through our portfolio management. The first example is Stonyfield. Stonyfield, it is a long partnership journey that started in 2001, where we took as a start a 40% stake. We sold it, last year, where we were a wholly-owned 100% owner, 20 times EBITDA, and we made four times proceeds versus the initial investment. Yakult, which is the second example that we did earlier this year, going down into a minority stake from around 21% to less than 7%, 39 times net income and more than four times the acquisition price.

All this performance was and continues to be delivered in an environment that has been volatile and complex. These are the examples that we used in H1, where in H1 it has even further accelerated, including unexpected headwinds. In H1, we delivered margin improvement of 51 basis points. So, this is showing that we have been able to rebalance the model of growth. We have been walking the talk. In an environment that is getting even more volatile, it is very important that we continue to work on this acceleration of growth and efficiency, to make sure that we can have a safe journey and absorb the bumps on the road.

The 2020 path. We set, last year, a certain number of metrics and objectives, both financial and around the growth model. On financial metrics, we said that net debt to EBITDA would be less than three times. We said that we would improve ROIC towards 12%. On the growth model, we said that growth would accelerate to 4–5% in 2020, with an improvement of margin that will lead to more than 16% in recurring operating margin, in 2020.

So, how do we do that? Maybe before I go through how we do it, this is the progress that we have made so far. You see that underlying, we have made progress in overall all the metrics. In ROIC, there is a slight decrease, which is linked to the absorption of the goodwill of WhiteWave, but the underlying ROIC, as Emmanuel showed you this morning, has improved greatly in most of our businesses. On the rest of the KPIs we started to make good progress.

Now, let us focus on the path forward. The environment will continue to be volatile. Inflation is back. We have some headwinds. We also discussed this morning the short-term contraction of China. So, the way to go ahead and make sure that we continue to build consistent EPS growth and sustainable value creation is by continuing to work on our three priorities; accelerate growth, maximise efficiencies, and allocate capital with discipline. I will now go through each metric to tell you what the levels are and where we stand.

I will start with the financial metrics and with the deleverage plan. Overall, on the deleverage plan, we said that we would go from 4.5 times, which was following the debt that we incurred from the WhiteWave acquisition, to less than three times in 2020. We have been very happy about the progress. Some of you even think that we are deleveraging rather quicker than expected. I think it is good news, because we need to be able to keep the right level of flexibility to continue to invest organically behind growth and efficiency. At the same time, we said that we would be committed to remain strong grade rating, which is the path that we follow.

So, if you take the performance 2017, we were reported 3.3 times, but actually if you remove the one-off from the EBITDA, it was 3.9 times. At the end of June 2018, we accelerated, given the partial divestiture from our Yakult participation, and we have been standing at 3.3 times. Going forward, the deleverage will be really about continuing to maximise the free cash flow delivery of the business, through NOPAT expansion, continued tight management of working capital and continued discipline in resource allocation.

How are we going to use the cash? Not by doing the cheque to get Horlicks, but we are going to use the cash, consistently with what we have done, in continuing to be very consistent with our dividend policy. You have here on the right part of the chart, the dividend that has been paid since 2014 and has been increasing each year. As well, we will continue to be investing our cash organically behind our growth and efficiency agenda. We have put a level of CAPEX to you, since a few years now, that would be between 4–5%. It will continue to be 4–5%. Given what we showed you all over the day-to-day, it might accelerate. So, it might be accelerating from 2017, given the plant-based investment, as well as the transformation for packaging in terms of acceleration. So, with all that, we are confirming the objective of less than three times net debt to EBITDA by 2020.

Going now to the ROIC, so last year, we gave you a roadmap to say that we were committed to go back to 12% by 2020, and that obviously, given the goodwill of WhiteWave, it would not be a linear phase, which is what we have been having, because wee have closed 2017, as you know, with a 10.3% ROIC. Now, coming back to what Emmanuel showed you this morning, we have made great progress in key businesses in terms of ROIC progression. It is a focus that we continue to have. When you look at value creation, you can see that the ROIC is well above WACC, and we continue to monitor very closely that we are enhancing value creation in the business.

However, when we look at some assumptions that we had last year, some have changed, mostly currencies' devaluation against the euro, that is not the same assumption that we had last year, and it has deteriorated. There was also a new accounting norm, which is IFRS 16, which is around the capitalisation of operating leases from 1st January, 2019. Also, to a minor extent, we also had some slower on-boarding of WhiteWave that you know, especially around fresh foods and premium dairy. So, the overall impact on the ROIC assumptions, versus what we came with last year, is between 1% and 1.5%. This does not change our commitment to reach and to go for 12%, but given the assumptions, we are delaying it by 24 months, to make sure that we are transparent and pragmatic with the change in assumptions. Again, what is very important is that we continue to improve the value creation of our business every year, and that we continue to improve ROIC versus WACC, which is, as I showed you, well above. So, we continue to commit to 12%, and it will be by 2022.

Going to the sales growth, we said that growth would accelerate until it reached 4–5% by 2020. We said the 4–5% would be reached through three reporting lines growing more than 5% - Specialized Nutrition, Water and Essential Dairy & Plant-Based NORAM – and Essential Dairy & Plant-based growing 3–4%. We have built for that a unique portfolio of healthy categories. We did not build it in the past three years,we built it over two decades. The last mile was the WhiteWave acquisition. Today, around 90% of the volume that we sell are recommended for daily consumption. With the WhiteWave acquisition, we also rebalanced our geographical portfolio. We have just less than 50% of emerging countries in our portfolio. It is very important to say that emerging countries, although it is volatile, it is a tremendous opportunity of growth. It has shown that it has been. So, it is very important that with that geographical portfolio, we are well poised for growth.

In terms of levels, it is overall what you have seen today. From the WhiteWave acquisition, you heard Paco this morning, we are pushing plant-based to the max, which is a huge opportunity, €1.7 billion in 2017 to €5 billion in 2025. Value innovations, you have seen it throughout the presentation. You have seen it in every room. You tested them. It is a huge part of the acceleration, also of our agenda. We were at 16% in 2016. We are at more than 20% in 2018. It is a huge acceleration. This is coming with value, on the one we put there, plus 50% versus average of the range. Manifesto brands, Véronique said, the manifesto brands that we have today are growing three times more than the average, and you have seen a few proof points of that. So, we need to double down on that. Finally, go into faster growing channels, and this is around the plan to accelerate e-business from €1 billion to €2 billion in 2020.

You remember that we decided after the on-boarding and the integration of WhiteWave, to unify Essential Dairy & Plant-Based as an organisation, under the leadership of Paco. The Plant-Based acceleration plan is also showing that this is a plan that needs cross-fertilisation, where innovation will travel, where we will share best practice. So, it was really important to do that, to accelerate the overall business. As a consequence, we will make the reporting consistent with that. So, as from January 2019, we would unify in the reporting Essential Dairy & Plant-based NORAM and Essential Dairy & Plant-based International. In terms of objective, what does it mean? So, we used to have EDP NORAM growing more than 5% in 2020, EDP International between 3–4%. So, it would lead to the full category growing 4–5%.

This is not a downgrade in reporting. I think it is really important that we fully align what we look at externally and internally, in terms of the way we manage business and the way we are really looking at the plans. Overall, we will make sure that you continue to have the right granularity, as we do today, around region and segments. We are doing basically what we did for Specialized Nutrition, when we unified ELN and AMN, under the leadership of Bridgette, to foster synergies. So on growth, I am happy to confirm the objective for 2020, 4–5% sales growth in 2020.

Margin, we gave you an objective that was more than 16% in 2020. Margin is first about growth. Profitable growth is about growth, and it is about value growth. For that, we have many levers that we are accelerating. Innovations, we mentioned it throughout the day. I told you, we have been accelerating significantly from 16 to 18. You have seen. You have tested. So, I am hopeful that we managed to convince that it is really part of the acceleration. It is an enabler, and it is an enabler for value growth, because we are able to price, because when you do relevant innovations, the consumer is ready to pay a premium.

Manifesto brands, a catalyst for consumer engagement, here again, the ones that we have are growing three times the average. So, we have the objective to embark all our brands to be manifesto brands. On the more technical levels, trade terms and promotions, it is really important that we continue to build and enhance our capabilities in making sure that we optimise both the trade terms in the relationship that we have with retailers and the engagement that we take in terms of business case, as well as make sure that we are doing the right promotion with the right level of return on investment to come for value creation and not only growth. So, we are really monitoring that very closely and improving.

Targeted price increases, in an environment where inflation is growing and will stay, it is important that we have the right capabilities and reaction in terms of doing targeted price increasing. I discussed them with you last week on Q3, where we passed price increases in Waters to mitigate the PET inflation, but also in EDP NORAM, to mitigate transport costs and in some inflationary markets. So, this is part of growing value, and growing value is part of improving and enhancing the margin on operation.

Then it is about efficiencies. We have been consistently monitoring very closely and improving our efficiencies overall. You have, on the left, the pattern of productivity gains that will reach this year around €800 million. We have launched Protein as a catalyst to make a step change, that will bring €1 billion gross savings by 2020, and that will bring €200 million gross saving already this year. I do not mention more on that, because you have seen Susanne and Katharina. You have seen that they are real projects, that there are real savings that are already coming and that there are opportunities, and that we know how to go and get this €1 billion. We are also preparing on making it into the business as a sustainable. So, we are prepared to get them and to make them stay.

Procurement is evolving, under the leadership of Katharina, who joined one year ago. We are functionalising indirect procurement, which is very important to tackle the Protein synergies and savings but also make it sustainable and unlock more efficiencies. However, procurement is more than efficiencies, if we really want to support Danone's journey, it is about value creation. So, we are currently deploying the organisation as a very lean organisation, close to the business, also able to foster with supplier enabled innovations and sustainable sourcing practices. That is how we would come from pure efficiency to fully embedding into the business value creation enhancement.

Synergies, so this is still the same chart since the beginning, which is good news. We are fully on track, as we were last year. So, 2018 will be more than $180 million, more than 60%. We are fully on track to reach the $300 million worth of EBIT by 2020.

Portfolio management is a focus that we have. We embed that every year in our strategic process and strategic planning conversation. This is a list of what we have done in terms of changes, business model, between 2014 and 2018, either divestiture or licensing. This is management of portfolio that we do looking at short, mid and long-term value creation. Does this make sense to our value creation metrics for the long-term? Is it in our value creation agenda? In the past years, it has brought around 40 basis points of margin improvement, and it is a work that we do with a lot of discipline every year in the strategic planning. So, with that I am confirming our margin objective of more than 16% by 2020.

To give you, I hope, even more comfort on the way we are making sure that incentives of the people are totally in line with the objective that we set for our self. So, you have here, both the performance compensation and performance shares, which are long-term incentives, which are given to 1,500 executives and directors. As you can see, on the performance compensation, the last programme was linked to achieving margin more than 16% in 2020. If you look at the performance shares, we have the free cash flow generation that will enable our deleverage agenda with delivery that needs to be more than €6.5 billion in the next three years. So, the incentives are fully in line with what we have been telling you, in terms of having the objective and the roadmap.

Overall, we are on the road. I confirmed last week our 2018 guidance, which is double-digit recurring EPS growth. I confirmed that we would be able to improve the margin in 2018, despite very strong headwinds and unexpected ones. This, I hope, is convincing you that we are walking the talk, in terms of making our model more robust, being able to absorb the bumps on the road, and having an acceleration of growth and efficiency agenda that is delivering according to plan.

Then, this is what I describe for 2020, confirmation of the objective, 4–5% in like-for-like sales growth, more than 16% of margin and the deleverage plan in line. I also confirm the commitment of 12% of ROIC, postponed by 24 months, given the change in some assumptions, and finally continuing to work to get to our superior, sustainable, profitable growth agenda. I think, and I hope, that we have been able today to convince you that we can go there safely and in an environment that yes is volatile, but we have the attributes, the strength, the opportunities and the discipline to make it happen. Thank you.