Transcript

Conclusion

Emmanuel FABER, CEO

It is time for the wrap-up. Let me start from where I left you. I hope you enjoyed the visit, encountering the teams and the businesses again, many of whom you knew before, but I also hope that you have felt how many new wins, fresh air, oxygen, are coming into the Danone organisation, teams and leadership to create something radically new for us, bringing Danone from teenage to adult age.

Regarding what Bertrand and Mark have shared, McKinsey have just published a study that they went scouting for large FMCG companies, and found out by interviewing CEOs that people felt, overall, that the point of licence-to-operate for their business in FMCG was putting at risk an amount of money equivalent to 70% of their total EBITDA. Therefore, 70% of EBITDA for food and consumer goods companies is at risk due to licence-to-operate.

What is licence-to-operate? It is actually very simple. What gives me the right to exist? Why do I exist as an organisation? Why do I exist as a brand? Why am I useful and to whom am I useful enough in order to have the right to exist? That is the very central point of licence-to-operate. It is beyond the question of regulation and politics. It is about the purpose.

You have seen a few good examples with water. You saw this big Evian billboard, 'A Bottle with a View.' That is exactly what it is about. We have to have a point of view on the world in terms of why we exist. You heard about the emotional part, the purpose part, of the brand ladder, how to move Actimel from a functional need, immunity defence, to staying strong, which is the insight of the consumer. You heard the story about Danonino coming from growth of bones, calcium and others to the 'Say Yes' campaign, because your kid is going to become stronger and more autonomous. Big brands will have to have big ideas, and they will have to be consistent with these ideas.

The same is true in terms of the level and the scale of the company that stands behind these brands, Danone. We have reaffirmed the mission of Danone and have translated it into a Manifesto. A Manifesto is a point of view, and people may agree or disagree, but when they agree they stick to it, because they understand what you are doing and why. This Manifesto has allowed us to create the first five-year roadmap to this transformation, Danone 2020, which has inspired and reignited the purpose of why our four business units and our new pioneer region, Africa, should exist.

You may have noticed that I mentioned the world to start with, and I mentioned a world in which we were we doing business, but I also said we were doing business in and for it. That is the purpose of this Manifesto and reaffirmation of the mission: we are doing business for a purpose. Each of our organisations, each of the Danoners – and you have seen the employer branding campaign here – are here for a purpose, and part of that purpose is to create value that we can share. The pace, the amplitude, the order of magnitude of what we want to create for shareholder value is the path that we see here, the ambition to gradually create growth that will come from being profitable, as it is today, being sustainably profitable, which will come when we repeat this consistently, and then gradually accelerating through all the incredible initiatives that my colleagues on the teams in the business have shared with you over the last 48 hours.

Therefore, we have started, and in three main ways, the first being the transformation. I met a number of you, probably not all of you, since I was appointed as the CEO of this Company about a year ago, and many of you started our discussion by asking whether this change of governance was for real, and then, whether I was actually going to change something, what I wanted to change and what I think should change. Talking to you and discussing things over lunch and dinner, I think there is no question now that things have changed. The governance has changed. Frank made it clear, and I make it clear now, that you cannot blame him; you have to blame me if there is a problem. I am in charge, and in charge with a team; that is the first thing I explained when I started this meeting two days ago. This team is sitting with you all, and we act collectively for change in the Company.

I will not go through these changes, but the change is happening, and at a pace which is sometimes frightening for us. One of the issues that keeps me awake at night and keeps the Executive Committee busy is the pace of that change. Are we not changing too fast? Are we not changing too far? We need to deliver in the short term at the same time, and we cannot change so many things at the same time. Therefore, there is no question of why we change and what we change, but it is a question of how far and fast we go. I think one of my critical roles is to listen, in a dialogue with all the teams and with the people in Danone, visiting the countries and the people in the field, making sure that we have the right pace of change.

The second thing is that this profitable growth that we are really aiming at is happening as we speak. 2015 will be the second and third half-years, after the first half of 2014, when we will deliver profitable growth. I know it is only slightly profitable, but it is profitable, and that is a big change. It is a big change in the mindset of what we do, and as you have seen in many ways, it has happened through very hard, fundamental work. This is why I am very confident that it will continue, because we are reshaping the business fundamentals in all five of our operational divisions, revisiting the fundamentals of the profitability of our growth model, and therefore I am very confident that this paves the way for a gradual acceleration of the profitability first and of the growth second.

I would like to briefly revisit with you this gallery of incredible businesses that we have, looking at them more closely and with the mindset I have described and that you have shared across these two days. 'Fresh Dairy Products: A Resilient Return to profitable Growth' – that is the message that I wanted to share with you personally, because this is my evaluation of where we are in dairy. That starts with the health of yogurt. There was a very interesting interview with Peter Brabeck in a German newspaper a couple of days ago where he basically said that Nestlé had been pouring too much R&D into products that everyone could make by themselves, and that the future of the Company would be nutritional products. The only area he mentioned as being a point of focus was the gut, microbiota and how they work.

That is what we have done for 100 years, so let us do it with even more purpose, in an even more convincing and focused way, because we have here a unique category for the health of the world tomorrow. We also have an incredible portfolio, and no one else, at five times the size of the number two company in this segment, has such as range of brands. It is also rich; you could say it is too rich, but we will make sure we focus on the bigger brands in this portfolio, but it is a wonderful portfolio to have and to continue growing this category.

Finally, and I will not expand much further on this, an efficient operating model is being put in place gradually by Gustavo and his team. The result of this is that I am confident in our ability to deliver 3% to 5% organic top-line growth for dairy and a 200 basis point improvement or above in organic margin by 2020.

The second great category we have is water, and you have seen incredible packaging innovation, the incredible creativity of the advertising copy, the relevance to particular cultures of eating and drinking in our geographies, a great balance in our portfolio of Aquadrink brands and products, along with plain water, that we will continue to accelerate, new growth opportunities related to the concern that more and more people, but also governments have, about the pandemic of obesity and other lifestyle related diseases, and a unique brand and consumer activation which we are shaping as part of ensuring we are absolutely perfect in the daily execution of our brand's activations.

That leads me to be confident that this category will continue to generate for Danone, our business, to generate 7% to 10% in top-line growth by 2020. According to the numbers they have actually delivered more than this. Yes, there will be a few quarters where we will transition Mizone to a lower-growth environment, and yes, there was a great summer this in Europe this year, so do not forget that in your modelling when we discuss the quarters next year, but this is just an incredible business that we have, and it is right in the centre of what Danone can bring to the world.

The third category is early-life nutrition, which is key to our mission. Remember the alimentation tree which now serves to guide our innovation, and the creativity of our R&D and marketing teams starts with building health capital. That starts during the 1,000 days, and this is the mission of early-life nutrition at Danone. We are confident that we are building a roadmap in China towards a more sustainable model. It is already a big model, and I have to say that I am very proud of the teams who have been able to take the incredibly bad luck of the false alert with Fonterra, for which I would personally accept part of the blame, going back to everything Bertrand shared about predicting that world and how we protect ourselves from that kind of accident. Let us not believe that it is purely by coincidence, but whatever happened, we are now back on track in China with a business model which is more robust, more profitable and creating more value.

Therefore, we are back on track. Aligning the authorities is not an easy topic, because the Government in China have conflicting views today on what exactly needs to be done to ensure that mothers tomorrow will continue to have the brands of their choice on such a huge topic for Chinese society, which is replacing the current generation with new generations in the single-child policy, although it is being opened to a second one now. That is a huge political topic, the stability of mothers being able to get the right products, and at the same time, making sure that they get to a point where the Internet is a safer environment for consumers to trade on compared to what it is today. We are fully participating in these discussions. They will need further alignment between QSIQ, the China food and drug administration, customs, the Minister of Health, and many stakeholders here. This is also why I am quite happy, to be honest with you, that we have extended our strategic partnership with COFCO to the baby food industry, because now we have strongly-rooted partners in that business to help us navigate and understand the best routes to follow to continue to grow our businesses there in a more gradually sustainable manner.

The second very important point is tailored nutrition in the first 1,000 days. There are many different ways to defined 'tailored' – it means being specific, not being adult food, the food that you share with your toddler because he or she is sitting at the table, not the cow's milk that you sometimes give mixed with water because you have ended your breastfeeding period, or because you cannot or choose not to breastfeed. You need to give these babies specific food. It starts with breastfeeding for whoever wants to do that, but if not, there is only one alternative, which is infant formula, and then gradually through weaning there is a need for specific food. There are specific nutrition needs for these babies, who are not little adults. Their metabolism is changing dramatically in these 1,000 days, and there is a growing understanding that many of the metabolic disorders that are created afterwards are actually born during these 1,000 days that start at conception of the baby, not his or her birth.

We are entering more and more into science-driven innovation that will lead us to be able to propose solutions to for specific tailored nutrition needs for these babies. We spoke about allergies, which is an immensely preoccupying trend in early life nutrition for the future, where our global position of leader will help us continue to differentiate our proposals and the solutions we propose for mothers. Based on this, based on global demographics and the speed at which the middle class continues to grow, we are very confident that our ELN business will continue to grow 7% to 10% in the next several years and certainly to 2020.

The fourth business is what Flemming,referred to as the diamond, our advanced medical nutrition business, which I can only repeat is fully part of our mission and supports the Manifesto that we have started to write and share within Danone. The medical nutrition business brings unique expertise to building an eco-systemic approach to business, gathering all the parties needed to tackle the needs of their patients. You will remember the example of the UK and the National Health System partnership that was brought into our business model, with the carers, the patients, their families and the health practitioners, all of them being part of a single ecosystem which is now powered by digital technology. Therefore, medical in many ways is paving the way to what, within the Manifesto ambition, what all the Danone brands would aspire to become, which is community relevant, fair and transparent.

Therefore, with the hyper-demographics that I described two days ago and that Flemming expanded on, whether in terms of ageing or specific rare diseases, which there is a pressing social need to answer, we are confident that this business will deliver 6% to 8% growth. We have shared with you the questions we have had and continue to have about the fact that there will probably be budget cuts in Europe, and we will probably also see them happening in what used to be emerging countries, which also have their own ups and downs these days and will continue to do so. However, through innovation and through the huge licence to operate that this business has because of the usefulness of the science that we bring to our patients, we are confident about their ability to navigate through that they will fully contribute to the profitable and strong growth we want to create at the Danone level.

I will not expand on Africa, because it is in many ways transversal to this, and I think that you were inspired by the workshop on many of the innovations and the approach that we have for Africa. I expect Africa to inspire the four businesses we have just been discussing, and I expect that we are able to roll out into Africa in a way that makes sense, not only for these businesses but of course also for the diets, the habits, the cultural and the agricultural models of Africa.

This is not news in many ways compared to what Cecile shared with you yesterday morning, but I can tell you as the CEO of this Company that I feel personally committed to delivering this agenda to you. I feel confident that we will deliver this agenda because, most importantly, of the collective engagement and the discipline with which we are creating and executing this agenda.

I will start with the excellence in execution. It is a big word, but a very important one and at the same time a very basic ways, but in many ways we have to go back to basics in a number of cases. I heard some of your remarks after the dairy presentation yesterday, and I think some of my dairy colleagues have pre-empted some of your questions and remarks about the fact that, of course, if the dairy category does not have a problem with 5% growth, and we are not able to grow more than zero or 1%, that is a matter of execution, and this is what the team is fully focused on doing. It starts with revamping the incredibly strong and powerful brands that we have, and you have heard the stories of Actimel and Danonino and the reason there will be an Activia story.

I am confident that if we are much more demanding on the execution of our brands, we will of course have to be much more demanding on the execution of the products themselves. Jean-Philippe discussed the triple win that we are seeking to obtain with our products. The triple win is very important, and starts with a superior consumer experience. The reason why Aquadrinks are so successful is, in many ways, because they have a huge consumer preference over more basic organoleptic experiences. The way the flavours in the Aquadrinks agenda have been engineered to create absolutely unique taste and experience profiles is absolutely critical to the success of Aquadrinks today.

It is also critical because it is what allows us to execute on the fact that we have less sugar than a couple of years ago, and we are even at the stage where, through the excellence of execution, we are able to create products where the perception of sweetness is higher than the real sugar content, and this is because we create other tastes. We are using more complex flavours. The large mouth cap for a number of Aquadrinks also allows us to use the smell at the opening to fully participate in the organoleptic experience, which in and by itself creates a different sweetness experience just because of the smell.

I am entering into this level of details because I think I have to, we have to and we do every day. We cannot have a product where, because we want to protect the margin, we are cutting the quality. We have been doing this too often, and this is simply not paying respect to the brands and to the communities that trust these brands. Therefore, it is costly. When Cecile shared with you that during the whole of this year we would only be slightly profitable, she said it was because we were reinvesting, and of course the most logical way to reinvest is advertising support. This is true, but not always; it is also about efficiency and restructuring, and you have seen a lot of examples. We have not made any big announcements about restructuring, but you are familiar enough with numbers and made the count yourself. There is not a business where there has not been significant reorganisation in one way or another or reshuffling of our fixed cost base, whether in overheads, in salesforce, or in manufacturing footprint across the board. You have heard about Mizone, about Italy, about Poland dairy, about Russia dairy, about medical in terms of salesforce synergies, and about the Dumex story in China. We are reinvesting in efficiencies all across the board.

However, we are also reinvesting in the quality of our products. The Actimel recipe is better than it was two years ago in Europe. Martin shared with you yesterday the consumer preference and the grades we are obtaining in consumer satisfaction on some of our new products, and this is absolutely critical. We cannot be perfect in the execution of our brands if we are not at the same time working harder than we have in the past on the quality of our products, the perfection of our delivery of the brand promise through the product experience. This is absolutely true across the board.

The second point I would like to expand on is financial discipline. It is discipline not only for the sake of discipline, which is respecting a collective action, but also to give us flexibility. This financial discipline, for me, is best exemplified by what Cecile shared with you yesterday about the beyond budget process we have started. Going back to what I said about the pace of change at Danone, we are not dreaming or thinking about how we could design a beyond budget process. We started on 1 January 2015 to operate a rolling forecast of four quarters, which have allowed us to look, as Cecile reminded us, at reallocations of resources on a quarterly basis and on a collective basis, collecting all the surplus of resources on a company level, discussing them at the COMEX level, and finally, calling the shots on investing in the ones we feel are the most appropriate for the agenda we want to create.

Yesterday night at dinner we were discussing whether we would favour only the short-term or the long-term in our decision-making process for these quarterly allocations, and the answer is that I do not know, because it will fully depend on where we are in terms of delivering this agenda. Just to use the example I used yesterday night, in April the US dairy team came up with the idea of spending a bit more on Oikos, Activia and Light & Fit, and we decided we would allocate that. The return was supposed to come in a few weeks' time, and it came in two cases out of three, so it was a successful decision. The return was not even a quarter, because we pushed very efficient advertising that immediately created additional sales.

Flemming came to us in the allocation of the third quarter and said that we had an opportunity to create efficiencies in a couple of smaller countries, merging salesforce and medical teams, and that would need restructuring costs, asking me if I would consider this as part of the allocation for this quarter. The answer was yes, so we did that, but the return will not be there until next year. Therefore, the idea of this quarterly review of budget allocation is that it allows us to make the decisions when they need to be made. Another example concerns the US. The US distribution or retail system is about yearly campaigns where you decide about your new product development and introductions, about your promotional strategy, in the summer, June and July. It is done after that, more or less.

Therefore, if we have been running budget sessions at the corporate level for years and decades that force the US team to look in December at what their next year will be, they already know about half of the year, but they do not know about the next half because it will be negotiated in June. This allocation of resources every quarter will hopefully allow us to make the right decisions for the US team on time in the right quarter so as to give them the flexibility they may need to discuss with their big partners in retail in the US.

Some of the decisions, as I said, would allow us to decide about Q2 advertising in Q1, would allow us to decide on a restructuring that might only have an impact nine months later, could allow us to launch, push, or help nudge a product that would only be on the shelf 12 months later. Therefore, we are able to completely disconnect the budgets, the allocation of resources, from any artificial calendar exercise, and I think this is fundamentally the best way Danone can handle the world which Bertrand was describing as VUCA.

We have started this, and it is a revolution, I can tell you. It is a revolution which will ultimately also mean more efficiency, because we are not going through a huge budget exercise that is already obsolete in some ways after one month. However, it is also a complete change in mindset, and that is one thing I would like to highlight here in terms of a consistent short-term and long-term agenda. The core of the way we are going to build our business model will be our five-year horizon of what we want to accomplish. There will be, and of course there is already, a strategic game with KPIs including numbers that will serve as the basis of what we want to do. It is not only about having a discussion about the five-year agenda and how that inspires the business to enter a new category, go away from home or deliver this or that. It is really starting from what we want to achieve in five years.

That, as was explained particularly in the dairy presentation yesterday, will lead to the creation of mandates. Our businesses will have mandates, not only top-down, because there will be discussions, adjustments, etc., but at the end of the day there will be a mandate, and your role for the next three years, looking at it purely from a financial standpoint, could be to deliver the margin, the growth, the cash flow or whatever; you will have a role and a mix of roles with KPIs. Then the quarterly allocation will serve to ensure that you deliver on your mandate at the end of the day. Therefore, this is a way to connect the short-term, the mid-term and the long-term agenda.

I would like to say one more important thing in terms of doing this, which is that we need to walk the talk and to put our money where our mouth is. Danone is a particularly incentive-oriented company, not because we particularly like money but because people are proud to deliver, they are committed to deliver, and they like to make sure that this is recognised. This is the contract that they have with the Company. Therefore, the way we manage incentives at Danone is hugely symbolic, and it says a lot about whether we are serious about things.

You may remember two or three years ago when we embarked on our CO_2 reduction transformation. We shared with you that we made this creatively stupid decision that a third of the bonus for Danoners would be social, and part of social was CO_2 reduction. We had no idea how to measure CO_2 reduction, so we partnered with SAP and co-developed a solution that is now helping us measure the CO_2 output of all our SKUs. SAP, by the way, is now marketing this as their standard platform of their ERP for climate change, a topical topic.

Therefore, we have been innovative, and this is not because the people at Danone wanted to get the Dollar or the Euro that was behind this incentive, but because it meant we were serious a leadership team about moving the needle on CO_2. The same is currently happening with the financial discipline and the allocation of resources I am describing, in three ways. One is that we will move needle between growth and profitability, in terms of the yearly economic incentives, more towards profitability, and that is a big message for the Danoners in terms of where we believe the priority lies today.

The second point is that we will introduce more solidarity, because the point about resource allocation is that if I give you more money I want more return, more results, but if I also cancel some of the money that was in your plan, I will not ask you to deliver some of the same results. Therefore, there will be flexibility in the way we adjust the targets of our managers, but there will also be an increased level of solidarity, and one decision we have made at Executive Committee level is that 50% of our economic bonus will be the same, so we share as a team the same economic bonus in terms of half of it. That means that, after many years of experiencing these bonus solidarity schemes within Danone, and the very positive impact they had on the ability to allocate resources, we have decided to put it at the COMEX level, and again this is a huge message. It perfectly fits with the fact that this team is running the Company with me, as a team.

The third element in terms of incentives is about the consistency between short-term and long-term. We are not going to reward only the results, but we will create a scheme that will allow us to reward the consistency of these results with a mandate. Assume you see a great tactical opportunity, because the factory of your biggest competitor who does private label burns down, and suddenly your customer asks for help and you start supplying private labels. Because of that, you are doing significantly better volume at the end of the year. However, if this is not consistent with what we want that business to do, taking Italy for dairy as an example, or Mizone in China, or Aqua in Indonesia, we will not reward that number in the same way as if this were building what we want to build collectively as a company.

I am sharing all of this because incentives at Danone are a very important symbolic, managerial way of walking the talk. Because of all these changes in the way we work, because there is no discussion within the Company anymore about why we need to change, and many people now feel they work in a safer environment, in an environment that makes more sense and is more predictable from a corporate standpoint, where they can relate more what they do in the short term with what they want to do as the purpose of the company and the team in the long term, I am very confident about this growth scale which goes from where we are, slightly profitable this year, to strong, profitable, sustainable growth.

The last reason why I am very confident is related to the Danoners themselves, and that is actually something I shared when I started as CEO. What I am amazed by is the level of engagement of our teams. Mark covered a bit of that in terms of developing leaders. There are no big or small jobs at Danone; all jobs count and the engagement of all Danoners behind the Manifesto is important. Our business model that food, drinks, eating, drinking, is something precious for the world, makes me even more confident in any of the good processes that we are putting in place here.

Thank you very much. That is the end of my conclusion.

Q&A

John Cox - Kepler Cheuvreux

I have two questions. The first one is that you say there will be no transformational M&A, and we know you keep a pretty tight ship in terms of working capital. Net EBITDA will probably come down way below two times this year. What are your thoughts on buybacks as an efficient form of use of capital? The second question is slightly more theoretical in terms of the journey Danone is on. How important is the success of this transformation in terms of Danone remaining an independent company? Regarding the whole though process of Danone over the last 18 months or two years, how much in the background is the potential threat of Danone being taken over?

Emmanuel FABER

The boss is asking me to start with the second question. The independence of Danone was a topic when Frank was appointed CEO. When I joined Danone and became CFO in 2000, 15 years ago, it was already a topic. We know it is there, but one of the key questions we have asked ourselves on several important occasions is why we feel that the independence of Danone is so important. I do not need to earn the money I make with Danone today to be happy; I could do many other things. I am the CEO of this Company, Frank was CEO before me, and the team is leading this Company for something, for some purpose.

Why does it make sense that we exist as a company? There are other great companies, we could join them, and I am sure that 100,000 Danone employees would still be comfortable working in a broader environment. Therefore, in no way could the independence of Danone be a factor for me in terms of putting aside constraints, putting aside what is right to do for the business, simply because we feel that we have something so special that the company can exist in and by itself just because of its values, its mission, or whatever.

I do not believe that. I think we are a business in and for the world, and we just have to act as a business. We believe profoundly in generating and sharing the value we create as a business many people, so it has always been there and continues to be there, but it has not been a driving factor in terms of an urgent need to do this or that. It is just that, for me, it is about taking good care of the resources that are put behind our mission, and there are basically two of these. Firstly, we need to make the best out of our talents and how we grow them, and give them the ability to grow further. Having people who are not employed properly, having people who are doing a job that does not make sense, is not helping them to grow, and there is no doubt that when we reduce the teams and work harder on efficiencies, the important thing is to do it the Danone way, respecting the people. However, that does not mean we will operate in a way which is outside of the business mainstream, because we are in real life.

The same applies to the money that is put to work with us. We know that we have to deliver a legitimate return for the money and the risk that you are taking with us, so of course the question of independence is there, but it has not been a key driver. It is really a driver of being good caretakers of a large, complex business that encompasses many stakeholders whom we want to serve properly.

Cecile CABANIS

Regarding the balance sheet, I said that cash will be a factor of what we deliver consistent with our model, and that the level of working capital on sales would be sustained but probably not improved from where it is today because it is already strong. The way we use our cash is very simple – it is to invest behind our efficiencies and transformation, and it is to invest behind our growth. It is also to pay our dividends, and as we said before, buybacks will be only an adjustment, if and when they are done.

From the floor

I have two questions. Cecile, yesterday you said that 40% to 50% of the CAPEX would be about building growth, 10% to 15% about protecting growth and 10% about productivity. What is the other 25% to 40%? Emmanuel, following on from your previous presentation, you emphasised that part of Danone's purpose is about creating shareholder value. Philosophically, how do you feel when that part of the purpose comes into conflict with other parts of Danone's purpose? How do you decide what you will prioritise?

Cecile CABANIS

Regarding the CAPEX, it was a picture of what we do today; it was not meant to be a guidance that we will always spend this in this proportion. The rest of the CAPEX is about maintenance, it is about quality, it is about ISIT and improving our tools, so it is about many things.

Emmanuel FABER

There is one possible debate and one impossible debate for me about the way shareholder value can conflict with other agendas. I will start with the possible debate; it is about the horizon of value creation, and that is a difficult one, as we know. We see opportunities that will deliver value after ten years or so, which is a very long time, and that is a debate that needs to take place. It is a legitimate debate for me to have. We can agree, disagree and so on, and we have to take into account the fact that there may be different views among your community of people as to what is appropriate, depending on what is on the Company's agenda, in terms of the value creation horizon.

The other debate that cannot, for me, be legitimate is when there is a discussion with our shareholders which is caused by an underperformance of our share price which is related to the fact that we are not managing our business properly. That is my and our responsibility to address, and you have already heard me say in the past, with the two profit warnings of 2012 and 2013, that I was just not proud of what we did, that Frank did not feel proud either, that nobody felt proud or happy in any way, and there was a very legitimate concern on the part of our shareholders about what was going on. That is why I am saying that there is no debate there. It is for us to address the problems, the issues, and for me these are two different debates.

Talking about the second one, we are addressing some of these fundamental issues, and I will not go back over everything that was said and shared over the last two days. We may not be doing enough, and time will tell, but we are really working on this collectively. Secondly, on the first one, which is the horizon of value creation, one thing we have made quite clear is that the priority is to be consistently profitable before aiming for higher growth, which ultimately may mean higher value in 10 or 20 years' time. That is where I think we are on these two important debates.

David HAYES - Nomura

You were in the newspapers back in June, Emmanuel, talking about dairy being 2% to 4% growth, and this has more or less gone to 3% to 5%. I just wonder what has changed over that period. Have you identified more opportunities, or have you decided to allocate more resources into that division at the sacrifice of that margin target being shifted as part of that balance?

Secondly, you have talked a lot about the partnerships you have developed, particularly in China. Do all your partnerships, as a rule, have to have some sort of visibility to eventual control? Talking specifically about the Chinese business, do you see that happening in that situation over time?

Emmanuel FABER

I think the rise from 2% to 4% to 3% to 5% has nothing to do with the margin improvement number that we have shared. Putting it another way around, there was no consideration of a scenario of 2% to 4% with a 400 basis point improvement; that was not the process of discussion. It was really the fact that, despite our team's frustration about Europe not being exactly where we want, despite Gustavo's frustration, my frustration and your frustration, the more we dig into the renewed vision of this category the more we see its potential.

Therefore, that is why we see no reason it should not play into this 3% to 5%, 3% being the absolute minimum, and I heard Gustavo saying 5% for sure, so we will see in five years' time, but it is really related to the fact that they are doing a tremendous job revamping the portfolio. The category vision, the brand purpose, the brand ideas and the brand intentions are very strong, and Martin explained briefly in one of the two workshops how we have also changed the way we work with the agencies. Therefore, it is a completely reshuffled way of approaching dairy, and with underlying growth of 5% for the category globally, that is where we are, so it has nothing to do with the margin.

Regarding China, it is an open-ended partnership, I would say. There is no path to control, and I would even say that, if we had a path to control, I would not look at it this way, because I do not think you can move to control such large food companies in China without ensuring your whole ecosystem is well attuned to that agenda. The agenda of putting more resource management or talent or money into the Chinese ventures would have to be driven by our Chinese partners, and we will react to that, which is essentially what happened with Yashili, and we have been tactically using Yashili and Dumex to create this uniquely positioned company.

Therefore, it is open-ended; we will consider whether there are opportunities, but we are not actively seeking them, and I would not rely even on our contractual arrangement if that had been the case.

Alan ERSKINE – Crédit Suisse

I have two questions. First of all, on early life nutrition and the 7% to 10% range you have, there is still quite a significant domestic European baby food business, where there is no growth in the baby population and rising incidence of breastfeeding. Could we interpret that you expect growth of over 10% outside your domestic European business? That is my first question.

My second question is a bit more semantic, really, but you have made it clear that you are putting in place a business model that is more robust and capable of predicting and absorbing bumps in the road, but your portfolio is still more concentrated than those of a number of your peers, and we have seen over the last couple of years that, for individual businesses, a headwind can move the needle at group level. My question is this. Regarding the 5% you have put out there, which may well come to be interpreted as at least 5%, did you not consider making that a *range rather than a number, and to the extent that it is not, could that become something of a constraint on the business? Those are my questions.*

Emmanuel FABER

I will take the first one. I hope that one day, at another investor seminar, Felix and his team will come and explain how we see what he and I alluded to, which is this specific need for baby nutrition. Coming to the conclusion of this, there is no evidence that breastfeeding means a small per capita usage of infant milk formula, and there is no evidence that a growing breastfeeding rate, which we would be in favour of alongside the WHO, is hindering the growth of IMF, which is the case in a number of European countries. Were we mapping the level of breastfeeding on one axis and IMF usage on the other, which we probably will one day, there is no linear curve at all, which is related back to the point that there is a lot of cultural and social ways of living, working and being married that intervene in the choice and the ability to breastfeed.

Regarding the point about demographics, one of the fastest areas of growth we see in Europe concerns allergies and tailored nutrition. Unfortunately, this is a global topic that we have to address, which by the way is the most valorised part of our product offer, and so there is both a growth in volume related to this and growth due to the mix. They are European demographics, and that limits the ceiling of what the early-life nutrition business can grow to.

Part of the alimentation process, the opening of the Manifesto linked to the 1,000 days will also provide interesting models, if you look for instance at the Nutrimom product that is currently being launched in New York, as Felix explained yesterday, to create models that go beyond simply providing the product to providing services, education and membership at a very important period of time in a mother's life. There could be many more; there could be organic, which is a question now for the US, where, not only in the weaning food where we are playing but also in the infant milk formula, a growing number of mothers want to have a non-GMO or GMO-free milk powders.

Therefore, this health consciousness overall will continue to create opportunities to grow our business, whatever the shape or form of that business, even in so-called developed countries.

Cecile CABANIS

Regarding the second part of the question, there are several elements, the first being that whatever we set as a target, which is more than 5% for 2020, I am taking the opportunity to make sure everybody understands that this is what we are going to gradually build towards 2020. Many of you asked me whether it will happen next year. Regarding whether or not it is a constraint, I do not believe it is a constraint given what we think is the potential for each of the categories in which we operate. You have seen the plans, and they are strong; for most of the categories it is about continuing the journey to find the growth opportunities. Alimentation will also come and enrich our growth agenda, and then it is back to dairy, but dairy is gradually improving the trend in terms of returning to a safe and profitable growth agenda.

You have seen the plan, and it is not as if we are starting now. We have started, the turnaround is in the progress, and we have shown you the achievements to date. Therefore, I do not think we see that as a constraint but rather as the ambition and the objective everybody is working towards, and we confident that, with what we have been doing and with what we are putting in place in how we build our agenda of growth, we will get there.

Celine PANNUTI – JP Morgan

My question was on your comments about total shareholder return and the incentive that is moving a bit more towards margin. Can you help us understand what will be the resulting EPS growth? You gave us good guidance on top-line and said that margin would improve. How should we be looking at that balance between top-line and margin in order to appraise the resulting EPS?

Regarding dividend growth, or dividend payout, you mentioned that you continue to pay dividends, but are there any changes or any comments you want to make on that?

Cecile CABANIS

Basically, the EPS will be the exact result of the model we are putting in place. There is no specific change to expect in terms of tax or financial results. We have been monitoring the financial results closely and our cost of debt has decreased, but there is nothing major to expect there. Therefore, the EPS will be the consequence and the result of our model coming into play year after year and delivering profitable growth, and it will take into account the gradual improvement of the growth as well as the fact that this growth will be consistently profitable. Regarding dividends, they will be the consequence of the delivery of this model with consistent growth.

Alain OBERHUBER – Mainfirst Bank

Emmanuel, I have a strategic question, coming back again to medical nutrition. What was the ultimate reason you kept medical nutrition and even improved it so it is core now, making it more strategic?

Emmanuel FABER

I will try to make it a short story, though I am not very good at that. When we bought Numico we said that we would keep medical nutrition, although that was a new business for us, and I would say that it was a simple decision to make because it was the fastest growing and most profitable part of Numico, so it was a great financial engine in the equation.

The team faced significant changes in the environment in 2008 and 2009, particularly in Europe, with the 12% overall growth they were experiencing included 6% growth in Europe, and that 6% went down to 2% or 3%, and we could see more clouds coming, more budget cuts, more concentration of hospital buying, etc. Therefore, we were legitimately concerned about the fact that we, as a food company, would still be right operators of a business like this one, as it might have needed more than we could bring to go through this period of big changes in Europe.

We accepted offers for dialogue from a number of strategic partners in the circumstances, and we started a discussion. Flemming and the team, myself, and Pierre-Andre at the time of course, were very much involved in that. That basically led to a situation where some people told us we had to sell the business because we had not received the price we thought it was worth. My concern was that that price, the value of the business, would be lower, because of these prospects and so on, than what we had in our minds, what we had in our models, etc.

However, we stopped that discussion process because the checks we went through on the value indicated that we had not destroyed value in any way. The discussion with these guys also changed the way our team looked at their own business and opened new avenues and areas in terms of how to improve and solidify the business model. Flemming and I had a long discussion and finally decided that there was even more value for us to create in the next five years with that business than by selling it.

Everything that I have just said is financial, and I have put aside everything else related to today's transformation of Danone, which is about the Manifesto, the mission, the caretakers, the ecosystem of parties, digital and so on, which of course was a fundamental topic on which we were already working and which was adding to the rationale of why we would keep a business like this one as part of the core of Danone's mission.

Therefore, we were reassured at the end of this review period that we were on the right track in terms of creating value. We could see way more value to be created, on which there was a dual commitment by Flemming and Danone corporate that this would be the agenda that we would roll out over the next five years.

From the floor

I have a question on return on investor capital. You showed us some nice examples of the improvements you have made in Russia and in Europe. Where do you expect the ROIC to land this year, and what kind of uplift do you expect from all these initiatives from a mid-term point of view? This is more of a conceptual question for Emmanuel in terms of your appetite for risk. I *always see Danone as a company that encourages risk in its people. How does your attitude to risk differ from Frank's?*

Cecile CABANIS

Regarding the ROIC, it is basically the same as what we said last year, which was that we were not satisfied with the current level and that we would be focusing on how we allocate our resources. Yesterday's examples were meant to show how we have been able to restore that to a significant level, especially in Europe, because we took this as the example of the main drag over the past few years.

Therefore, our commitment is of course to gradually to continue improving in organic terms. Let us bear in mind that, given our geographical footprint, the ROIC is quite sensitive given the evolution of currencies, so I would guide on a specific figure, but our commitment is to improve gradually and to continue being fully conscious in how we allocate resources and capital.

Emmanuel FABER

Regarding the other part of your question, I will keep it focused on this point about ROIC and make it short. I can only repeat what I just said in New York when we were discussing our ROIC, which is that we have taken too much risk in the past by stretching down the ROIC through a number of transformational deals, and I would be concerned about doing this too much.

Gerry GALLAGHER – Deutsche Bank

Emmanuel, in your wrap-up to what you said, from my perspective at least, you made a very important comment, which was that the incentives in the business would be more aligned to the profitability the business delivers. Could you talk a little about why that has been put in place and perhaps give a little more detail around it?

Emmanuel FABER

I cannot give more details, but the way it will be done is very simple, because today we have three criteria for the economic bonuses of our managers, two of them being top-line growth, which is the biggest one today, and the other being organic margin improvement in profitability. We are currently working as a team on how we move the needle and rebalance the two, basically, so the mechanics will be extremely simple and they will be in place in two weeks' time for applications starting January 1.

Why are we doing this? It is simply that we need to be consistent, putting our money where our mouth is, and that about an equation that starts with more profitability and consistent profitability before shooting for higher growth. Maybe we will reconsider the balance in three years' time because we think we are at the wrong level of profitability and it is time for us to accelerate growth; we will see. Therefore, it is basically like resource allocation; it is adjusting this incentive to the current agenda of transforming the Company.

Cecile CABANIS

I hope that you have enjoyed these past few days. Thanks a lot for coming with your questions and your interest. We are fully at your disposal to continue all our discussions.