BARCLAYS GLOBAL CONSUMER CONFERENCE STAPLES

DANONE

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Warren Ackerman: Thank you for joining us. So we have Juergen Esser, Danone's CFO, and Shane Grant who heads up the EDP division. So we've got the fireside chat. We're also going to do the breakout in here afterwards, so we're going to stay. If you want to listen to that, do please join us. Let's get started.

The first question, one for you, Juergen, and it's on the topic of promotion activity. Can you talk a little bit about the promotional environment in Europe, especially in France and Germany? There's been a lot of noise from politicians and retailers about anti-inflation baskets, and the manufacturers not doing enough to lower prices. I'd just be interested in your perspective, and are there any examples of where you've had to roll back pricing? Are you worried that the promo environment could actually become irrational? Just understand how you're managing the promo environment particularly in Europe.

Juergen Esser: Yes. Good morning, Warren. Good morning, everybody. Pleasure to be here. That's definitely a very important topic for us. When you look at the sequence of inflationary pressure, we are exactly where we thought we would be. We are coming from last year, with a very high inflationary pressure, especially in Europe, especially in EDP markets, and this is sequentially coming down. As this is sequentially coming down, what we observe in our categories is indeed an increase of promotional activities. This goes across countries. This goes across segments from dairy to plant-based, with an expectation that by the end of the year, we'll be back to the promotional activity intensity as we had it before COVID.

It's true that in a number of countries - and France, you mentioned it, is a good example - there's a very public debate about the necessity to adjust prices. The way we manage it is through different initiatives. One is, indeed, we are increasing promotional initiatives in both the frequency but also the depth of our promotional activities. But also, we are offering more product formats at entry price level in order to have affordable offerings for families. This is working very well for us. We have done that in France. We have done that in Spain. We have, for example, positioned our Danone brand at, for example, a €1 price point, which is a very important magic price point which has helped us to create awareness but also to drive penetration and frequency. So far, this is a very, very important lever.

Thanks to those initiatives, and in an environment indeed which is taking a lot of public discussion, we have been named and recognized as one behaving well in this environment while doing what we need to do in order to protect the financial algorithm and the financial health of our company. Which means that also in Europe moving forward into the second semester, I expect a positive pricing impact, despite the fact that we are reinvesting into price to bring the consumer back on the shelf.

Warren Ackerman: Okay. Maybe moving on to gross margin, which is obviously a key part in the investment case. In the first half, gross margin was up 90 bps, despite 700 bps roughly of raw mat pressure. Seems to me margins are inflecting. What are the building blocks for margins in the second half? Can you maybe walk us through what's happening on raw materials, particularly dairy? How quickly does lower dairy prices feed into COGS? And should we expect faster margin growth next year after that reinvestment is kind of done and in the base?

Juergen Esser: Yeah. It's true that this has been a very, very important milestone for us. Our gross margin has not been expanding for many years. And so since we launched our strategy in March 2022, we have been delivering quarter by quarter in line with expectations or above. But more importantly than that, we have been creating the conditions for gross margin expansion. And so for us, the fact that in H1, the gross margin expanded the first time is earning the fruits of all the work we have been doing over the last 18 months.

Now we want to make this a sustainable trend, and it is important that we come back to that. But before that, what has been driving the gross margin expansion in the first half? Definitely, it's about mix because mix has been accelerating across the portfolio thanks to the portfolio cleaning, but also thanks to the prioritization focus we took. Mix has been increasing in Waters because our focus on small formats and away-from-home. Mix has been increasing in Specialized Nutrition because we are focusing more on Medicalized products and Adult nutrition. And mix has been increasing in EDP with more focus on our more functional differentiated portfolio. All the portfolio rationalization we have been doing will help us to further accelerate this mix effect. That's number one.

Number two element, productivity. Very important for us. In the first semester, more than one third of the inflationary pressure we had, we were covering by productivity. Again, more than 5% of productivity, which gives us a 100 bps equivalent benefit vis-a-vis industry standards, and that's a big asset for us also moving forward.

And the third element which we should not underestimate is that we are now very seriously tackling our underperformers. We have been very vocal about them. We talk especially in EDP about emerging markets, Brazil, Africa and we are making very good progress on them. But also, now, we're looking forward, turning the page and going from gross margin expansion in Europe EDP. So, a number of drivers which have helped us to make this very significant move.

Now we want to make that sustainable. In order to make that sustainable, the next key lever is volumes. So, mix will be there. Productivity will be there. We will get the benefits from underperformers, but now volumes need to go back into the factories. So, we are obviously working with a lot of obsession and determination to win these volumes back, and we will get there, and that is what will help us to get into that value creation cycle, which we have been describing already in our strategy at the capital market event.

Warren Ackerman: We'll get onto volume a bit later, but in terms of coming back to the margin, where are the biggest margin opportunities? If you had to say 1, 2, 3 by geography, by category, how would you kind of size them?

Juergen Esser: When you look through the lens of categories, EDP is the biggest opportunity for us. Obvious. We have been declining in gross margin for many years, and this has been a direct consequence of the volume decline we had. So, having streamlined our portfolio, having segmented it with very clear swim lanes, and now reinvesting behind a portfolio which is optimized, will bring volumes back into our factories. We have capacity available. So, the operating leverage we will get into our gross margin is very, very significant, and this will be the number one driver.

Together with it, it is really about underperformers. You saw the level of margin we have in a region like Latin America. Obviously, there is a lot of opportunities which we want to materialize over the next quarters.

Beyond that, Waters, you see we are back on track. We are in the first semester back to double digit profitability. We want to get back where we have been before COVID. We believe that we have everything in our hand to do so, which will come, one, through mix because Mizone is back on track at delivering. And then the other side, we see a lot of opportunity in away-from-home and small format.

And then SN, the opportunity is growth. And here the opportunity is growth in Medicalized nutrition. This comes with excellent profit margins.

And I think the combination of these three elements give us everything to get back to a mid-teens level of profit in the midterm.

Warren Ackerman: In terms of portfolio, one of the big takeaways from the Evian seminar was that 25% of your portfolio was underperforming - negative growth, negative value creation - and that 10% would be rotated in and out. Where are we on that journey? And then related to that, can you talk a little bit about the ROIC upside? Because to me, that seems it's a low number. Could it get higher?

Juergen Esser: First, I do agree with you that it's a too low number, and we are going to get that up. And let me start with that. Last year, we closed at 8.9%, which is a depressive number, let's be very clear. We have two drivers in order to get that up. One is focus and incentive. Those of you who have been following us for years know that this has not been at the center of the conversation. We put it back at the center of the conversation internally and externally, and this is driving behavior.

Second element. It's true that the 8.9% is the consequence of a number of M&A transactions of the past. Very transformational transactions. So when you take out goodwill, we are today running on a return on asset of above 50%. 50%. Which means that leveraging the assets we have and leveraging the assets we have, especially in EDP but not only, is an incredible lever to get that back to a double digit level.

Warren Ackerman: Okay. And in terms of portfolio?

Juergen Esser: In terms of portfolio, it's true that we were very clear about the 25% of underperformers. We have done a number of elements. You saw over the last 24 months, we have been deconsolidating Waters Argentina. We have been stopping Waters in Brazil. We have been deconsolidating EDP in Russia. We have put Horizon Organic in the U.S. under strategic review. We have been licensing out milk in Brazil. And we will not stop there.

But already when you look at what we have been doing over those 24 months, we are addressing 90% of our liquid milk business. And we know our liquid milk business has never been very profitable, and on top that, created a lot of volatility. So, from a segment of liquid milk which represented more than 10% of our Dairy category, very soon, we will be very, very small in this part of Dairy, refocusing our efforts on the categories where we think we can drive differentiation and value up.

So we are walking the talk on that important subject for us, and we will not stop where we are. For us, what is very important is that either we have a credible plan on an underperformer to turn around - Mizone is a very, very good example, and you see us now back to growth, back to market share growth - or we don't have a credible plan, and then we find alternative routes for value creation.

Warren Ackerman: Thank you. And Shane, turning to you on U.S. EDP. You did your U.S. business review recently. The question we've been getting is around kind of slowdown that we're seeing from double digit to mid-single digit. Is that a blip or normalization? Is there something going on? Can you maybe just address what's happening in U.S. EDP from a share position? And maybe if you could unpack it a little bit by brand. What's your outlook in growth for the second half in US EDP? Do we continue mid-singles? Do you still have supply chain issues? There's a lot going on, but if you can just maybe outline how you view it, that would be super.

Shane Grant: Happy to, Warren. Firstly, good morning. Good morning, everybody. Maybe a few comments on the U.S. business. And thank you for following us so closely that you understand the cadence of our business reviews.

Look, overall, we're really pleased with the U.S. platform. If you take the long view of that business, it's moved from a business that was not growing, to 4 to 5 to 9 and then an 8 for the first half. So it's a platform that's $1 billion bigger today than it was three years ago. It's been a real growth engine for the company.

I think secondly, really importantly, the business model in North America are shifted and very in line with the Renew Danone strategy. It's a business which has now really strong expanding margins, giving us the space to reinvest in the brands for the long term.

And then thirdly, it's more competitive. So back to share growth last year. So overall, Warren, I think we're pleased with the business in North America.

I think more specifically to your comments, sort of Q1, Q2, we did see some shifting dynamics. Some of those were mathematical. So we had some pretty tough comps in Q2 particularly on plant-based and SN where we last year had some competitors with supply difficulties that we heavily stepped into the void. And we also saw some areas , some pockets of softness particularly on some brands that have a lower socioeconomic skew. So we had some evidence of some consumer weakness in some spaces in the U.S. I would particularly point to our plant-based business, and I'm sure we're going to talk more about that. But I would also talk to one or two of our yogurt brands. Danimals, for example, and we talked about that on the Q2 release. But fundamentally and structurally, we feel good about the U.S. business.

In terms of focus, I'd point to a few things. One is real emphasis on volumetric and velocity performance. The fact is, and to your comment, Warren, the U.S. business is going to start to normalize in terms of its growth rate. We're clearly coming off the peak pricing. We went pretty aggressive and pretty early in the U.S., and that dynamic's going to start to normalize. And so a business composition that looks like healthy volume, price, mix going forward with a more normalized growth rate I think is going to be the reality.

We're intensely focused on maintaining the competitiveness of the business. We've got some real strength areas. Creamers, for example, continues to outperform the market. We are at historic highs on Greek yogurt market share and continue to win share there. And we've got some areas to address, plant-based being one of them where, frankly, we probably pushed the pricing a bit hard and we have some price gap work to do that we started and we already see the responsiveness of that.

And then thirdly, making sure we can maintain this business model that we're in now and keeping on reinvesting in the business. And then lastly, frankly, preparing for 2024. One of the real areas of progression I think in the U.S. business has been readiness to execute and long lead time planning. And that has led to a really transformed interaction with our customers, which we think can lead to really tangible execution outcomes. So that's some commentary on U.S. business.

On your specific question on supply chain, we are largely through those difficulties. We probably have a few points of fill rate to go, but largely in good shape.

Warren Ackerman: Maybe just turning the conversation to European EDP. Obviously, you seem to be very vocal about what you're doing. We don't need to kind of go over that again. But just in terms of where you are now today, the SKUs seem to be done in the base. Can you talk a bit about innovation? I know, for example, the proteins in the UK from yesterday is quite exciting. But what else is coming? Are we going to start to see progressively more advertising, more innovation, more new product development? Are we moving into a new phase in terms of European EDP?

Shane Grant: Yeah. I'm sure Juergen and I will probably do a tag team on that one. But the short answer, Warren, is we're about where we want to be on that transformation. Pablo and team in Europe have done a very good job I think of managing in duality the short-term imperative there, but also the really hard structural work on our Europe EDP business. And I think we were pretty public about the returns of progressive volumetric improved performance, improved competitiveness, progressively through Q3, Q4, and we see that unfolding in the numbers and in the evidence.

I think in terms of the work that's been done, a few things. I think firstly, innovation, yes, but a real emphasis on core brand renovation. You and I have talked a lot about portfolio precision and swim lanes, and I think you've talked about that publicly. That method that was certainly used in the U.S. EDP business is being applied with real skill by the European team. And that's concretely playing out in the renovation of core brands, some that are starting to unfold and some that will come - Actimel, Activia. But also in more short term, I would say transference of best practice. So you would have seen the launch of the A to Z campaign adapted for Europe with a really good evidence in France, for example, of improving velocities pretty quickly once that communication went on air.

So the first message, I think a lot of intense work on core brand renovation. And you will see some of that in terms of product superiority, new visual identity, new communication progressively rolling into 2024 on some of our biggest brands, which we think is really important work.

The second, I think to your point around innovation, you will see progressively from us in Europe, consistent with the company approach to innovation, more scale big bets. I think you rightly point to the protein platform, and the launch of that in the UK I think is a very, very good example of that.

And then thirdly, the commercial discipline and obviously the hard choices on some of the SKU rationalization that's been done, and we feel good about where that's at. It's largely drawn to an end, and we'll see some of the benefits of that in the third and fourth quarter.

So, progress. We have some specific country evidence that we feel good about. Spain is probably the one we've talked about the most in terms of the portfolio precision of price tiering and some early evidence of very good accelerated volumetric and household penetration results. So more to come from Europe, but I think largely we feel that transformation's on track.

Juergen Esser: And with the fact that we feel that we are very much on track, you will see that we are going to sequentially reinvest behind the portfolio which we believe today is much better positioned and which will lead to two elements. One, we will see market shares turning, which have been suffering now for a number of quarters. And we will see volume/mix progressively going back to positive. And this will create conditions for us to go back towards a sustainable profitable growth model in EDP Europe.

Warren Ackerman: Okay. Thank you. Moving to plant-based. It's a big platform for you, 2.5 billion - or it's up to EUR 2.3 billion of revenue. We don't hear that much from you about it, especially on Silk. Also Alpro. What's happened to the category growth in the last 12 months in plant-based? Are you losing flexitarian consumers? Are they going back to maybe cheaper versions? It does seem like the price points are quite expensive in a cost of living crisis. What can you do as the market leader to reinvigorate the plant-based dairy space? And what kind of plant-based growth would you be happy with next year?

Shane Grant: Thanks, Warren. Yeah. Look, we've spent the first part of this year going, doing I would say the deepest plant-based strategic work we've probably ever done since the acquisition of WhiteWave. So we spent a lot of time on this subject globally, in Europe and North America.

A few things on plant-based which I think are important. Firstly, it's a really important part of our business, big business. It's also a business that we have deep conviction can grow and will grow. We talk internally about the really simple idea that the future is plant-based. And we strongly believe that. I think you peel that back you and say, well, what are the reasons to believe that? Everything that we see is the macro has remained really intact. Health halo, sustainability, mass flexitarian movement in the developed world. I think you go one level deeper in that and you go, arguably, it's got one of the best consumer bases in CPG. Young, big households, affluent. So the structural elements of plant-based we think are still there.

There's a couple of dynamics which have been in play in the first half of the year, which have not led to performance we're happy with. You can see it in the numbers. The plant-based business is not where we want it to be this year. Firstly, the price gap has got big, and we've taken some actions to course correct that. We certainly have done that in the U.S. We're progressively doing that in Europe. And as we've done that, we've seen really encouraging scan flattening and then progressive improvement. And the second is some of the comps that we had. So there's some mathematical things in the first half and some competitive pieces that have been impacting the performance.

I think more longer term, what we're focused on is what does it take to really accelerate the category and play our role to lead it. If you think about the growth pre-pandemic, sort of mid to high-single digit, really accelerated during COVID and now back to sort of mid-single digit range, but has been price led.

We see still enormous opportunity to accelerate household penetration really around three spaces. One is for the real loyal users, brand loyalty. And not ingredient loyalty, but brand loyalty. And that's about brand differentiation, brand specialness. And you would have seen in the first half of this year, we restaged the brand Silk in our packaging overhaul, visual identity overhaul to really modernize the brand. That is also happening on Alpro now progressively across Europe.

I think secondly, the flexitarian frequency opportunity that you mentioned, we see as we talk to consumers a real opportunity to change the innovation model and the product model. If you think about the way plant-based has been built, which is sort of through these ingredient verticals, what we see in our business both in terms of things that we have in market and things that we are testing is a shift from ingredient to benefits – it is very, very powerful with consumers. We will launch, for example, a high protein platform in the U.S. early next year. We will launch progressively more indulgent products around flavors, for example, for the coffee occasion. So this sort of shift from ingredient to benefits we think's really important, Warren.

And then lastly, in terms of new user recruitment, and a bit back to your push on pricing and accessibility. There's an enormous runway on just commercial fundamentals. For example, in the U.S., we will launch two new entry packs into the market the end of this year, which is going to aid the accessibility of the category and start to diversify the format mix. Same strategic opportunity in Europe.

So, Warren, we remain sort of long term really bullish on the segment. We're really happy with the portfolio we've got within plant-based, which is well beyond beverages. And there's a bit of reconstruction to do both short and long term that we're working hard on.

Warren Ackerman: Okay. Thank you. Moving to reinvestment, Juergen. 100 bps or 99 bps in the first half. Can you maybe explain where that's going? How much is actually advertising versus digital, sustainability? It's all Opex, I know that, but just in terms of the breakdown of that reinvestment. And as you go into the second half, would you expect the reinvestment to be at the same rate, or is it going to start to fade? And then how do you think about that reinvestment rate as we go into next year?

Juergen Esser: We have been reinvesting very significantly, as you say, almost 100 bps in the first semester. The biggest part of this investment being A&P - brand support - which is and was necessary in order to become again competitive. But also investments into revenue growth management skills, which in the moment where we need to manage price, promotions, pack price architecture, are critical in order to win in this market. And the third layer, which is about digitalization, especially on our industrial and supply chain platforms.

We are catching up on the A&P part. We are getting very close to what our peers are today spending in terms of relative spend on net sales. But this is not where we want to stop. Because in a way, from the moment where we have been underperforming our categories in the past, we do not only want to get and catch up to our peers, but we want to outperform at a certain moment. That means you can expect us to continue reinvesting into A&P.

On the platforms we just optimized - and I think this is very important. So we are reinvesting more on lesser brands in a more efficient way. And so, we are very determined to continue reinvesting also for the remainder of the year and going into next year. There will be a moment that we will go in a self-sufficient and self-finance dynamic. That will happen at a certain point. And this is why it's so important for us to get the gross margin dynamic up and sustained, because this will in the end help us also to accelerate on the profit margins moving forward.

Warren Ackerman: I want to mention supply chain. Obviously, that's really key at the moment. You brought Vikram into the business. 30-year veteran on supply chain. What is he doing in terms of manufacturing footprint, robotics, AI to actually bring your supply chain and make it world-class again where it was two decades ago?

Juergen Esser: First of all, Vikram is indeed, I think, a recognized world-class leader in that category. He has been attracting a lot of world-class talents. So I think that today, the team taking care of supply chain in Danone has nothing to do with the team we had 24 months ago.

Couple of focus points. First focus point definitely on reorganizing and optimizing our logistic networks. And here we are earning the fruits: where we are today delivering 5% productivity - 100 points more than what industry standard is - it's because we are getting immediately the benefits of it. This goes hand in hand with one element, which is that we have been very much working on localizing and regionalizing our sourcing, which is helping us to limit, to a very large extent, any supply chain disruptions.

The next phase, when what is in front of us and which will help us to sustain a more than 5% productivity, is the optimization of our demand and supply planning so that we can optimize and leverage our industrial platform. This is the job for the next 24 to 36 months. But we are very confident that we can keep the rhythm and the drumbeat in order to deliver and help us reinvesting into the business.

Warren Ackerman: I want to change gear completely now and talk about Specialized Nutrition and particularly China Infant Milk Formula. We've obviously had warnings from Feihe and a2 Milk down in Australia. Is there any read across to Danone? Is there a concern that some of the local players who haven't got their registrations through could be price mavericks in the market and that could weigh on near term trading in China? And if you're able to give any kind of outlook on China IMF for the back half, that would be great.

Juergen Esser: Of course. Look, I think nobody can be surprised that the category is soft. We have been talking about this since a number of quarters now. That will also be the case over the next two quarters. At a certain moment, we believe the category is going to stabilize. We do not know exactly when. Still, it is a category of retail value of EUR 23 billion, EUR 24 billion. We today reach around 10% of urban babies. And we believe that this is the moment to increase our share in the market. And you have seen us winning in the market now quarter after quarter. In a market who is just consolidating. And there's no surprise about it.

As all the category moves from the old GB to the new GB, we are seeing behaviors of destocking, lowering prices, and this creates some distortions in the market. We have been extremely clear from the beginning that we would be very, very disciplined managing our stocks and our prices, and the team is doing an excellent job. We know that this phase will take until the end of the year, but we believe also that this is the moment to be ambitious on market shares.

Few elements helping us beyond the fact that we are very much focusing on keeping the drumbeat on stock and price, which is the innovations which are going to kick in. We used to have only two local products on IMF. All the rest imported international labels. We got the recipes registered for six or seven more products, which will kick in over the next two to three quarters. We have never had that for the last decade. So that is for us a true asset, and it will help us to bring new news to the market and to enter finally in the ultra-premium segment with a China label.

Second element. This is a category in China which is two third offline, one third online. Today, online is winning, and this is not a surprise. Because our business was born online more than a decade ago, we are over indexed on online, and we want to use that very strong competitive position also to grow further our market shares. So we feel good on where we are today, we're on track and we believe that there's opportunities in front of us.

Warren Ackerman: And those new products, when do they come into the market? I assume it's going to be phased in. It is all coming second half, or would it go into first half next year? What kind of distribution build should we expect? I saw that you're increasing advertising, you're increasing spend in the first half presumably behind this.

Juergen Esser: Yes. This is a model where first you need to create engagement with healthcare professionals. So, we have been working on that over the last quarters, explaining the new recipes, explaining the product superiority. And so, you will see over the next 12 months a number of innovations entering into the market. Some of those innovations do exist already today through international labels. So, all what we are proposing today, for example, in Europe on mixed feeding, on C-section products, which will finally enter the Chinese market with a Chinese label. And that will be a big plus for us. But we have also Nuturis coming, which is the most breakthrough engine, the recipe which is really the closest to breast milk. And this will come next year. We believe that will help us to further accelerate and enter finally into the ultra-premium segment because here we speak about an index of 115 to 130 to our existing portfolio.

Warren Ackerman: Maybe moving to clinical nutrition and adult nutrition. You know we've written a lot about that at Barclays. For those not familiar, can you maybe explain the weighting of adult and clinical within your portfolio, why it's so attractive, what your growth plans are for the division. How big an opportunity is Chinese clinical nutrition in light of healthcare regulatory change that's going on in China at the moment.

Juergen Esser: Look, our medical nutrition business overall is a EUR 3 billion business. So it's a quite sizeable business. It's composed of two elements: our baby medical nutrition and our adult medical nutrition business. Both of them growing very fast - double digit - semester by semester.

When you look at the drivers behind that growth, it's on one side definitely demographics, which is helping us. And this is true in Europe where we are market leader on enteral tube feeding, as well as in China where we are also market leader on enteral tube feeding. Knowing that the markets are not of the same characteristics in China as in Europe. In Europe today, 80% is today in enteral tube feeding. We are winning share in this market. This market is growing fast. In China, it's not exactly the same characteristics and structure where today only 20% is in enteral, 80% in parenteral. But also here, enteral growing faster, and we are winning share because we have great products and we have an access to 90% of top tier hospitals in China. So, an amazing platform we are having in a market which is growing.

The market which is growing because demographics are helping, but also because the awareness of the importance of having the right nutrition when you are exposed to certain incidence of cancer or stroke is raising. And this is raising in the medical healthcare professionals network, but also in the patients' community. So, the opportunity is amazing, and we are investing for growth. We're investing into engagement, but also investing into capacity.

Now, we don't want to stop here. Because here we talk mainly about hospital treatment, but the opportunity goes beyond. The opportunity goes into the recovery phase. And for example, in China, we got the registration for a number of A-FSMP products, which is oral feeding for people with stroke, with cancer, where the opportunity is huge. And where we are also investing into structures like in Europe and home care where we have been buying a company in Poland. We have today business in Germany, in the UK. Where we are very intentionally investing. So, the opportunity is massive. We have the assets. We have the route-to-market. Now we need to accelerate on this front.

Warren Ackerman: And Shane, for you, a question on Latin America, Brazil and Mexico. You've done some interesting things - you mentioned it earlier. So, a license deal with Paulistaon your dairy side. You're obviously looking at your portfolio quite carefully. Can you maybe share some observations about what's happening on the ground in Latin America, how your business is doing, and how quickly can you rebuild margins? That licensing deal alone, what does that do pro forma for LatAm margins, for example?

Shane Grant: Thanks, Warren. I have been spending some time, I would say, learning our Latin America business first part of this year and indeed some time in Mexico and indeed some time in Brazil with the teams there. Firstly, I think the teams there have been doing a very, very good job of making some tough choices and managing the business with a good amount of discipline, as you said, with a mission to sort of recover the margin. Certainly through COVID, particularly the descaling of the water business in Mexico and everything that flowed from that, there's a margin mission ahead.

The team made some real material moves there. You mentioned the licensing of the dairy business - or the milk business, more specifically - but also the move in terms of the Waters Brazil business, to exit that. But also probably maybe a bit more stealth, some of the disciplined choices on the Waters business in Mexico in terms of customer and channel mix and SKU management. So, I think the headline is for me, and what we see there, is the business has somehow been rebased to be able to grow at a much more healthy way into the future. Business is growing nicely. It's been price led. So, we have a volume mission ahead.

Directly to your question on path back to the 10% margin plus range. We feel pretty confident in that. And we feel pretty confident we can do that actually quite quickly with the strategy that's in place. So, I think that can be a growth space for us, given the macros in Latin America, the footprint and certainly a margin play for us as well.

Warren Ackerman: Maybe just on the ESG Juergen. Can you outline what your ESG priorities are over the next 12 months?

Juergen Esser: Look, we have been working very hard over the last 12 months to rearticulate the Danone Impact Journey, as we call it, to refocus of our sustainability efforts in order to better link it to business. In the end, we talk about three pillars. We talk about the pillar of Nature. We talk about the pillar of Health - or Nutrition - and the pillar of People.

And when you look at a couple of examples in Nature, methane is for us a big and important topic. We took a commitment of reducing the methane emission by 30% until 2030. And we are very actively working with our farmers, with governments, with public associations to find solutions to reduce methane emission. The key topics here are about biodiversity, changing farming practices, changing feedstock, increasing the productivity of cows, and I think we have a very good plan to go there, where we have opportunities of co-financing with the community around us.

Second very important aspect about packaging, obviously. Packaging to make it reusable, compostable, recyclable. We came a long way. It is not that we are starting now. And we believe that we have here an opportunity to turn that into a true competitive edge, by having packaging which is really superior in the eyes of the retailer and the consumer.

And the third element to mention is probably sugar, which is becoming also more and more an important topic in the public discussion. And here we are very much focused especially on our kids products to offer the best kids product in the marketplace, which is in a way addressing a number of elements. It's addressing the element of health, but it's addressing also the element of superiority in the eyes of mothers and fathers providing kids nutrition to their sons and daughters.

So we are believing that we have identified the right priorities, which will have an impact on our environment, but also positive impact on our business performance and competitiveness.

Warren Ackerman: Final question. We're on the buzzer. It's a bit of a shorter term question, Juergen. Can you maybe outline the moving parts behind the vol/mix trends that you expect in the second half? Should we expect vol/mix to turn positive already in the third quarter? And then related to that, what does the deconsolidation of Russia do to vol/mix? Or what does it do to your economics financials? What kind of vol/mix range should we be sort of thinking about as we go into next year?

Juergen Esser: As I just said, volume and mix, and particularly volume, is the key lever for us to make the gross margin expansion sustainable. So, we are obviously very determined to get volume/ mix positive as soon as possible, but in a sustainable manner. And we are investing behind that in a very intentional way.

Two elements here. The fact that we are investing into A&P very, very significantly, that we have been rebasing the portfolio and running on an easier base of comps as we are going through the next quarters will help us. That's definitely a lever we want to use. The mix effect will accelerate because distribution and portfolio will help us to faster drive mix. And so, when you look at that in not only the very short term, but you look at it over the next two or three years moving forward, volume will turn positive. Mix will have an even superior impact than it has today because we need to be very realistic that pricing will not be anymore the first driver of growth in the inflationary environment we will have. So, it will be a much more balanced composition, and this is exactly what we were looking for.

When it comes to Russia and the Russian deconsolidation, it will help us to take out volatility because it has been historically a very important factor of volatility. It has been over the last couple of quarters an element of volume decrease, so it will definitely give us a benefit on that side.

Warren Ackerman: Okay. I think we're going to cut it there. Thank you, gentlemen.