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BN.PA - Danone SA at Deutsche Bank dbAccess Global Consumer Conference

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## CONFERENCE CALL PARTICIPANTS

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## PRESENTATION

**Gerry Gallagher** - *Deutsche Bank AG, Research Division - European Tobacco, Spirits and Food (Co-Coverage) Analyst*

Good morning, everybody, if we could settle down. Again, my name is Gerry Gallagher, one of the consumer team here at Deutsche Bank. It's my very great pleasure to introduce Danone, again, at our conference, one of the keynote speakers we tend to have from year to year.

With us today is Cécile, CFO; and Bernard, who is in charge of the EDP business in Europe.

So with that, I will pass over to Cécile to present on Danone. Thank you.

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**Cécile Cabanis** - *Danone SA - Executive VP, CFO, IS/IT, Cycles & Procurement*

Thank you, Gerry. Good morning, everyone, and for those also who are listening through the audio webcast. Thank you for attending this presentation.

As you know, it is a very special time for food and beverage. It is fast-changing. We are operating in a world where the people have totally different expectations for food and brand. They pay more attention to how the food is produced, how the ingredients are grown, how the food is marketed and distributed. And they also want to know what is the brand's environmental and social impacts, what the brand stands for and how it connects with them.

No other time has offered so many opportunities. At Danone, we call it a revolution, and I will focus my presentation on sharing with you how we are living in an ongoing transformation in order to make sure that we are a catalyst of this revolution.

Then, Bernard, who is in charge of Essential Dairy and Plant-Based for Europe, will go through our great brand, Alpro, which is our plant-based in Europe that we acquired with WhiteWave last year, and he will show you how this brand is also a catalyst to our dairy transformation as a whole in Europe.

To start with, and probably more for those who don't know Danone so intimately, I will start with this chart that summarizes how we are building our agenda of creating sustainable value for all. I will highlight what are the convictions and what are the strategic choices we've been making all over the years and that makes us unique in this industry.

Over the years, Danone has redefined its mission as bringing health through food to as many people as possible and has transformed itself from being a European food and beverage conglomerate to a unique healthy category portfolio in order to inspire healthier eating and drinking habits.

The WhiteWave acquisition last year is another important milestone of that as it has brought to the portfolio an enrichment in plant-based and made us the world leader in organic.

At Danone, we are firmly convinced that the health of the people and the health of the planet are interconnected. We consider that financial success and sustainability are the 2 sides of the same coin. It is the responsibility that will enable the resilience and the sustainability of value creation. It's



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the responsibility on how we deliver value, how we are using the resources that we need, and this is together the delivery of the equation that will make sure that we create sustainable value.

This is fully embedded in our operating model. As some of you know, we have the ambition to be certified B Corp, which is a mark of trust for companies demonstrating very high standard of social and environmental performance, and it's also an external recognition that connects with the people and will bring us a crucial competitive advantage.

Our ambition is to embrace the food revolution and lead the way in creating and sharing sustainable value for all stakeholders. And with that, we will and we have defined our 9 goals for 2030. One of them is to deliver superior, sustainable, profitable growth, and we are moving towards this agenda in following our strategic priorities.

This is a view of our portfolio. I told you we've built a unique healthy category portfolio. You have it on this chart. It's regrouped within the way we're reporting our units to the market. We are a world leader in our main activities. We are delivering and selling products in more than 130 countries. And we are serving people through their lifespans, from babies to elderly, which enables us to really be a key player in the food revolution.

In terms of portfolio, you can see here our main activities. Specialized Nutrition is embedding both Early Life Nutrition and Advanced Medical Nutrition, and it's around 30% of sales; then Essential Dairy and Plant-Based, which is half of the portfolio; and Waters, which represent around 20% of sales.

What is important is that of our products, almost 90% are deemed important nutritionally to be consumed every day. And this is not us telling you that, this is based on an official public health recommendation, and so another proof point of our sustainability.

This chart we've shown in the past, but it's very important because it shows you that we are positioned in health categories. Health categories are very, very important secular consumer trends that are looking for more healthy products. And as you can see, our categories are highlighted, while the rest of the food and beverage is in gray. And we are outperforming in terms of categories, the overall growth of the food and beverage market. Research has showed that the growth outlook for the categories in which we play will be between 5% and 9%, while the average of the food beverage industry will be 4.5%.

To be a catalyst in the food revolution, our brands must become activist. They must sharpen and they must share a point of view on how they impact people's health locally and the planet's health. This is why we are constantly strengthening the commitments and achievements of our brands around nutrition, climate, waters, packaging and agriculture.

I will go through a few examples. First, we have reduced our carbon intensity by more than 10% on the full scope, so including agriculture, since 2015. In the U.S., in less than 2 years, we have transitioned 2 of our flagship brands, Danone and Danimals, into non-GMO brands. We are fully committed to transitioning to a circular economy of plastic, which is, as you all know, a growing concern for the industry and where we absolutely need to make sure that waste will become a resource. And we are doing that by sourcing more of our virgin plastic from bio-based resources, by increasing the proportion of recycled materials in our bottles and packaging in general, and by reducing plastic leakage to the environment via interception and via fostering recycling practices.

Maybe to be a bit more concrete, 2 examples. The first one is, at the end of 2017, we've launched a bottle for our brand So Delicious in the U.S. made from bioplastic with at least 80% plant-based plastic made from sugarcane. And evian has committed to be 100% circular by 2025. Today, the bottles are 100% recyclable. And by 2025, they will be made of 100% recycled plastic.

As a proof point of all of that, you have it in the middle of the last part of the chart, we've been already certified B Corp on around 30% of our global sales, with Danone North America, which is the largest B Corp.

Our transformation, as you see in this chart, is really supporting and reflecting the change in the way people are connecting with food and brands in the industry. Our success has long depended on having very strong brands and mass volume. This is not the case anymore. It depends now on



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making sure we are providing products, brands, convenience that are locally relevant and relevant to communities of people and especially the young generation that already represents 1/3 of the share of consumption.

Growth is now mostly driven by local brands, you know that. More than 1/2 of the growth is driven by local brands.

Retailing is taking place more and more through online and on-the-go. And purchase decisions are now more and more made through recommendation. This is why we are increasing our presence in local and single-serve products. It is why our branding emphasizes health and nutritional benefits. And we are expanding our e-commerce capabilities and adapting our organization to make sure that innovations are locally relevant and sharing more cross-regionally and with supplier and customers that are fully part of the solutions in order to be more relevant in the innovations that we provide.

Next chart, more short term, more concrete. You have here the recent quarter performance for our reporting units that I mentioned earlier. We are making good progresses on all of them.

In the most recent quarter, we had a 14.5% growth in Specialized Nutrition, which was driven also by an exceptional demand for Early Life Nutrition in China, and which is also supported by a successful execution of going into ultra premium, but also on more and more tailored nutrition success, now around 10% of the portfolio.

Essential Dairy and Plant-Based, you have it split into 2. The first part, the left part, is North America. In North America, our first quarter sales continued to reinforce the improving trends that we make, especially plant-based that is back to solid growth. And we achieved record market share in yogurt in a more challenging market. And we have, as you know, some challenged dynamics in Premium Dairy and Fresh Food, which are today still impacting the results.

The progress in North America was coupled with the continuous delivery of the synergies from the WhiteWave acquisition, which are fully on track and will continue to expand for this year.

Essential Dairy and Plant-Based International returned to positive like-for-like growth in Q1, driven by innovation, good progress sequentially in Europe and valorized segments, also with innovation in Europe and in Russia.

Finally, Waters. In Waters, we saw sales rising in all regions and segments with, as some of you know, a return to growth for the brand Mizone in China, and we continue to progress in our commitment towards circular economy.

One important part of the growth and a question that is often asked by some of you is where the growth comes from. And it's important to look at the fact that growth, historically, and we believe it will continue to be that way, is coming from valorization. And value growth is both the capacity to put to market innovations that have a positive mix effect and also resilient pricing.

Today, the growing demand in premium food is increasing, and people are ready to pay a premium in order to get quality food and the brands that connect with them as well as superior experience. This is really where we need to continue to play, and we believe that value growth will continue to be an important part of the growth agenda.

In 2014, we also started a transformation journey on how we operate. We felt it was very important that, in a world that is becoming more volatile, where the transformation is playing, we needed to be more agile and more disciplined.

You have the track record here on the left with the operating margin and EPS growth, and I think this shows that we have delivered. We remain totally focused on operational efficiency and financial discipline. We are fully convinced that the proper combination of growth, efficiency and the rhythm at which we are pacing the investments will enable to deliver year-after-year a consistent growth in recurring earnings.

As part of 2020 efficiency, we have set an objective to have EUR 1 billion savings from our indirect spend, which will start to deliver this year -- has already actually started to deliver in Q1 -- and will continue to grow until 2020 until we achieve the EUR 1 billion.



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At the same time, we have successfully integrated WhiteWave. And collectively, we have made all of this through more discipline and efficiency in our organization, a full transformation of the process and the way we are managing performance and allocating resources for short-, mid- and long-term. And we have done that in a very consistent way with our vision of One Planet. One Health, because, again, this is the combination of delivery, efficiency and the way we do it that will create a value that will be sustainable.

Why agility and discipline are key is because we are living in a world that is volatile. It's not new. I think I started to say in 2014 that volatility would be the norm, that we needed to be more balanced and more solid in order to make sure that we would absorb the shock, but the shock would be there. I put here 3 examples.

The first one is China. We've been talking a lot about China, especially Early Life Nutrition, which is bearing some volatility since the change in regulation has been announced, especially on the indirect part. There is also some volatility in the rhythm of births. You know that there was a very high peak in birth growth in H2 2016. And in 2017, the growth of births was slightly negative, minus 4%. This is putting volatility in our Early Life Nutrition growth model. And we continue to make sure that we are fully focused on executing the plan behind the brands in order to build a very sustainable model. And we are fully clear that China still has a very strong potential going forward for this business.

Brazil, very different, but also putting volatility from one quarter to another. It's more around political uncertainty, consumer purchase power. Recently, there has been a trucker strike that has impacted the whole industry and especially the fresh part of the industry, so for us, the Dairy part. And there will be more political uncertainties. There might be some in Mexico; it might have an impact, so we need to continue to be really agile and disciplined to be able to absorb this.

And then last part, which is Morocco; Centrale Danone has been adversely impacted by a boycott, together with some other brands. Since the movement started on April 20, we've lost around 50% of the sales versus last year, and the boycott is not over yet.

So we are working on mitigation plan in order to make sure that we are protecting the business as a whole. But this is typically a situation where, in Q2 and for Essential Dairy and Plant-Based International, there will be an impact on both sales and margin, given the magnitude of the loss in Morocco. And in Q2, you should expect that EDP International, even if progressing on every other battle, will be impacted, and the growth will be around low-digit negative for Q2 in EDP International.

So all this volatility, it's not new. It's not something we cannot manage. But we need to make sure that we continue to build the right resilience in the model, that we continue to not react to short-term volatility, but really build strategically our model of growth, making sure we do the right choices, we don't react to short-term volatility and we continue to properly manage the rhythm of sales, margin expansion and investment.

So with all that, our agenda remains unchanged towards our 2020 commitment that you have here, again, on the chart. We are continuing to work behind our 3 strategic priorities to accelerate growth, maximize efficiencies and make sure we allocate capital with discipline. And I confirm our 2018 guidance, which is a double-digit recurring EPS growth at constant exchange rates, excluding the impact of the Yakult transaction.

And with that, I call Bernard.

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**Bernard Ducros** - Danone SA - VP Essential Dairy & Plant-Based Europe

Good morning, ladies and gentlemen. Thank you for your attention. Actually, I'm pretty passionate about the subject I'm going to talk about because, as you see on this chart, we're getting surrounded by all these ingredients: oat, coco, almond, walnut, lentils, peas. We're changing the way we look at our alimentation, and I think, for most of us, for a very simple reason, we are looking for authenticity and naturality, and we like to understand what we eat.

So what I'm going to talk about this morning is very much not only about the wonderful opportunity that this Alpro brand represents for Danone, but also, as you see, it is 15% of our portfolio in Europe. It impacts the transformation of Europe just by what we do with these 15%, but also we get very inspired by the way we are developing this business to also transform the way we are running the majority of our business, the Essential Dairy business.



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The reason for my commitment to see this moving is just facts. In the last 5 years, this category, which was only EUR 800 million in 2012, became a category of EUR 1.6 billion in 2017. In 5 years, you create an extra EUR 800 million business, and this is just a growing wave. The rate of growth of this category, you can easily project that in the next 5 years you get an extra EUR 1 billion, at least. And for us, this is critical because we have 40% of this business.

Alpro represents 40% of this business in Europe, a very fast-growing business. And it's, particularly for Alpro, which is another feature I will comment upon, a business which has been developed in 4 countries, which are really the core country of this Alpro brand, which are the U.K., Germany and Benelux, and less present today in the rest of Europe where Danone has a strong footprint.

Everyone is talking about plant-based, but we are not newcomers to plant-based. And there is an element of goodwill in the DNA of Alpro, which we have to understand. Alpro was founded in 1980, but you have to know that Mr. Vandemoortele started working on soy and was a creator of edible table oil in the 1920s. I insist on this because this element of goodwill has allowed us to really bring product superiority in our range and which is really delivering today.

The range of product, of course, is no more just the ambient soy milk you can see and know. It has extended across ingredients because the wave I was referring to is that now the plant-based ambient milk is more on other ingredients than the originally soy-based. And the other thing is that, I mean, this category is just exploding across the shelf as alternatives to yogurts, alternatives to desserts. Now you see fabulous alternatives to ice cream, and we get into the caffè chains by our offering, which really is creating nice cappuccino, if I may say so.

The speed of extension across categories is accelerated by the, let's say, the key element. You see, this is a pretty classical chart about innovation. You see Alpro moving into organic. You see Alpro moving into more fruits, no sugar. And you see Alpro moving to ice cream and to this caffè proposition I was referring to.

The thing I would like to draw your attention to is: this is Q1 innovation, executed in the market in Q1. It's not only category which is growing, it's a category we activate through innovation and we really are on the edge of this, to just not miss this wave.

And it's easy, to some extent, for the people operating because there is appeal to the consumers. Consumers, they -- first of all, it's also not just finished products, sometimes just you want to assemble your breakfast. So you take a bit of oat, you take a coco milk, you add your yogurt, you put a bit of honey and fresh fruits. And on the other hand, on convenience, you would like an on-the-go product. And Alpro is meeting these just simple things we, as consumers, like to do in our journey, daily journey.

But where Danone has to bring something to the party, this is the key thing. As I said at the beginning, Alpro is very strong because it was created in this North Europe market: U.K., Belgium, Netherlands and Germany. And on these 4 markets, Alpro has its own organization. It's a fully fledged organization in these 4 markets.

In the rest of Europe, the big markets of Danone, Spain, France, for example, Alpro has been operating only on the ambient shelf and via distributors. We do a great job. We continue to work with them.

But what we do now, we are really extending in these 2 countries, which exiting just the ambient to extend into the fresh shelf. So my point is just the footprint complementary, between what has been the origin of Alpro, very well grown in 4 markets, and the footprint of Danone across Europe is an element of acceleration to leverage the goodwill of this brand and the appeal of this brand.

And actually, this is very recent because where in May, we started to move into the fresh shelf in France, and Spain early January. Today, in these 2 countries, we are number 2. And it's 2 different market environments. Spain, we are co-creating the category, so it's not just growing the share, it's growing the category on the shelf, on the chilled part.

In France, it was already rather crowded. And what we are demonstrating, and back to the organolepsy, the quality of the product, the innovation, we get very good rotation on shelf. We get a share, which is number 2 and it is so important because vis-à-vis our distributors, we bring products with high rotation, and that's going to be decisive on running the assortment, longterm.



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The other thing we're learning, you can say, "Okay, yes, but you go plant, what about the impact on dairy?" And there is no more border, that's the learning we got. There is no more border.

We, as consumers, we move. We like this freedom. So we will get a yogurt, we will get a plant-based dessert. We will get a plant-based ambient milk. We will get a plant-based ice cream. We go for a full, good dairy gourmandise and indulgence.

The fact that, actually, the people who consume plant-based remain very active on the shelf. And more than this, the story we see now is the innovation we have on the chilled shelf, on the ambient, what we call the plant-based alternative to the dairy products, is bringing people to the shelf, is bringing back people to the shelf. And the reason for that, actually, this is a category which inspires young generations. And you see where I want to come actually.

It's inspiring young generations. It's something which is very much enjoying the digital world. And it's important because as it is highly innovative, digital remains the best way to promote innovation in a way which is affordable because the intensity of innovation is there.

And the other thing is we discover that the people who are in this category, they are very more in more fluid lifestyles. And this is really the thing which matters because this element is really very much the way we are transforming the overall business we have in Europe, either in plant-based or in Dairy.

First of all, as I say, this category is very attractive for our customers. On the other hand, on both sides, I can tell you when we activate Alpro in Costa chain in London, you immediately see our sales in Tesco reacting positively.

These activities are just media, it's not just a business, it's a media. And as I say, when we activate the plant-based yogurt, we see the people going back to the ambient plant-based milk. This is constant transformation.

But at the same time, the activities we are on the overall European business is very much to take into account that, yes, our markets are different, our consumers are different. Within a market we need to de-average, and we tend to really very much accept that an Activia brand has an equity, which has to be respected, but the way you propose Activia in the U.K. has nothing to do with the way you do it in Italy. In Italy, you go probiotics because they have space to talk about probiotics. In the U.K., you go double zero because they like this. And we see that this sort of fine-tuning is really transforming the relevance of our portfolio.

The next step is just coming. Activia will have a plant-based option and Actimel will go nuts. And the same way we bring Activia into organic, we bring Danone into organic, the same way the Activia, Actimel will have a plant-based leg. And this is so important because the problem here, our consumers were becoming old, look at me.

So now, at least, with this plant-based, we keep, we engage, we reconnect with younger generations. It's really, for long term, very good news for this portfolio and this brand. And you see that offering, which was very much a sort of multipack end-of-meal classic, nothing to do with it anymore. Yes, we need to continue with this type of offering. But life, as I say, is on the go.

This year, we have an unprecedented wave of single-serve innovation. And you've seen with Les Danone du Monde, which are the symbol of how fermentation has been traveling across the world and how people understand the fermentation and the role in alimentation. But it's also products which are more and more on the go, you find on the station, you find in new outlets. It's very much an encouragement for the overall portfolio to find a better capillarity, a better relevance.

I like this, because, first of all, I find the Alpro brand fits perfectly this environment. This is a world of ingredients, this is a world of sustainability, and the Alpro brand is very much inspiring us to reconnect with younger consumers to surf the wave of ingredients across our brands and to develop fully all the channels of access of this brand to the consumers in Europe.

Thank you very much for your attention.



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