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PRESENTATION

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

My name is Gerry Gallagher. I'm one of the consumer team at Deutsche Bank working out at London.

It's my very great pleasure to introduce Danone to you this morning. Cécile Cabanis, the CFO of Danone, will give you a presentation this morning; hopefully, followed by a little bit of time for some questions.

So with that, over to you, Cécile.

Cécile Cabanis ***Danone SA - Executive Vice President, Chief Financial Officer, IS/IT, Cycles & Procurement***

Thank you. Hello, everybody. It's good to be here with you. And happy to see quite many women in the room, not like yesterday. So it's good.

So today, what I would like to do even if there are some familiar faces who heard me already many times is go through how we've been driving the portfolio transformation. Danone has always been a pioneer in term of vision. The last one was when we bought WhiteWave, believing very strongly in the plant-based trend. So I will go back on how we are driving the portfolio transformation, how we manage to make sure that we are maintaining the right tension between delivery and transformation to ensure a balanced value creation delivery in a sustainable manner; and finally, reiterate our confidence in the acceleration of the progress towards our objectives.

I will step back first to start with our vision. Our vision is One Planet. One Health. And the dot is here to say that we strongly believe that the health of the people and the health of the planet are interdependent, and it's to a large extent linked to what we eat and drink every day. Coming from that vision, we published our 2030 Goals, which you have on the chart. It's very important to say that it is integrated goals. So we don't have the financials on one side then the business, then the sustainability at corporate, but everything is embedded and integrated together in everything we do.

So it's based on 3 pillars. The first one is the business model. The business model is around making sure that we are offering a superior food experience to the people. It's about making sure that we deliver a superior, sustainable, profitable growth equation but not in any way; but as a B Corp; as a B Corp because fundamentally B Corp is what we've been choosing in order to make sure that we keep on having the highest social and environmental standard in what we do. Then the brand model, which is in green: Today, the consumers want to change the way they look at food. Food is an imperative, but it's also a choice that everyone makes for the world he wants to live in. So the brands need to take that. And the brands need to be activists, making sure that they are both having a health impact locally because food is about local habits and cultures but also preserving the planet. So for us, Manifesto brand is really back to the local brand that can embrace both having an influence on healthier dietary habits and protecting the planet.

Finally, the trust model, the people model, is to make sure that there is the right level of empowerment because future will be created by the people, especially the millennials; and as well that we grow in a way that is inclusive to ensure that we preserve diversity, not only biodiversity but also human diversity.

I said Danone has always been a pioneer and unique.

First, on health. More than 10 years ago, Franck Riboud designed a mission, which is bringing health through food to as many people as possible. We started from a European food conglomerate more than 20 years ago. And we moved the portfolio in a way that it's now a unique, healthy brand and category portfolio. Today, around 90% of the volume are recommended for daily consumption, and this didn't happen by chance. It was a work not over last year but over 20 years of transformation.

Local. I said local is important. It's very key to be locally relevant because food is not a global thing. Food is very much related to where you live; what are your habits, both cultural and daily. In Danone we've built our business with 56% of our sales being made through local brands. Now that doesn't mean that global brands need to disappear because the topic is to be locally relevant, and you can be locally relevant with a global brand. And if you do so, then the impacts will be even greater.

Leader. In the category that we have, we are either #1 or #2: #1 in dairy and plant-based; #2 in early life nutrition; #2 in packaged water in term of volumes. And it's important because it give us the muscle in order to really have the right impact.

Responsible. Responsible is not new at Danone. Antoine Riboud pioneered what everyone is calling now social responsibility. It was 50 years ago, 5-0, when he said that the responsibility of the business does not end at the factory gates but that healthy business will depend on a healthy and fair society, that we had only one life and one planet. Since then, it has been fully in the DNA of Danone with the dual social and economic project. It's now concretely translated by achieving B Corp --certification, sorry. I said we aim at being B Corp by 2030. Today, we have 30% of the sales being B Corp. And you -- some of you might have seen that, 2 days ago, we certified Danone Waters America.

And the last thing is to be very agile. Everything is going very fast. The consumers are very demanding for us to change the food system that we've been building for half a century. So agile is through organization and the way we work. It's also through innovation, and on that we've been really accelerating. We've been accelerating. We came from 16% of the sales in 2016 to 25% of the sales being on innovation, so it's an acceleration of 50%. And we did that by being much more agile in term of how we look at innovation and reducing significantly the time to market. You see that. You see here that we reduced it by 40%. It's important, when it comes to innovation, to change the paradigm. Historically, it was about scale and volume. Today, it's much more about agility, not being afraid to fail and being very relevant, so it's about ingredients. It's about formats. And we are achieving that, including valorization of the portfolio because innovations are coming with a premium that is significant versus the rest of the portfolio.

I talked about Manifesto brand, the green part of the goals. Today, the way consumers want to relate to a brand is looking at its benefits responsibility. There is a study by Edelman that says that 2/3 of the consumers are now seeking for brands that have benefits. We've been starting the journey of having 100% of Manifesto brands. We have now activated 25% of our sales, where our brands are standing for some values, social. For planet, you can see evian is embedding the 100% circularity. Bonafont in Mexico is fighting for gender equality. And we see that overall these brands are growing 3x faster than the rest of the portfolio. So we will continue this journey to make sure that every one of our brands is bearing both an impact on health, social and planet.

We have also transformed the way we talk and we engage with consumer. This is absolutely not new, but it's very important to learn and to transform the way we are activating the brands. Today, we have around 30% of the activation that is made on digital. Digital is very efficient because it enables you to be much more specific in term of content, depending on who you address. And it's also much less cost because you'll have 30% less cost per contact. And you are much more precise in what you say and to who you say it, with a superior sales uplift. So we will continue that. It's important also that we're all understanding the shift because we tend to look at the equation on the A&P line as if everything was linear. It's not. So it's important that everyone is embracing the shift and how we are now investing behind our brands.

Channel shift is going very quickly as well. We have what we've been calling, even still 1 year ago, uncomfortable channels because -- historically we were very good in hypermarkets. So the uncomfortable channels, they are convenience, discounters and e-commerce. They've been growing 3x faster than hypers. We are now working in adapting our portfolio. It's about formats mainly. The multipacks for hypermarkets is not the right format. People want immediacy. They want convenience, so we are working a lot in adapting the format; and upscaling capabilities, including in some areas having dedicated sales force for specific channels to make sure that we have the right capabilities and focus around these channels that are growing very fast.

At the investor seminar we said one of our big ambition is to take plant-based to EUR 5 billion by 2025, starting from EUR 1.7 billion in 2018. How do we do that? We do that by embracing the full range of ingredients. We started -- or WhiteWave started plant-based with mostly soy, but there is a full range of ingredients that we can leverage. The penetration of plant-based is still very low, especially when we compare it to dairy. In some countries in Europe it's 20%, when dairy is 90%. So there is a long way to go in leveraging our core categories and pushing it. We are also looking at -- when we say more categories, it's adjacencies. Some of you might have come across ice cream. There is ready-to-drink coffee, performance and sport nutrition, coffee creamers, so we can also really leverage the full range. What we see today versus what we had even a few years ago is that the categories are blurring. And it's back to what I said around the importance of the brand and what it stands for because the tribes are willing to follow their brand into adjacent categories. So it's very important that we are able to play with the blurring of the categories in order to get more opportunities.

More brands. We are going to launch an Activia plant-based because, for people who love Activia, they should have an alternative in plant-based. It's important that people are able to make choices on what they want to have. And finally, and a big opportunity, is more countries. When we bought WhiteWave, it was mainly Silk in the U.S. and Alpro in Europe. And in Europe it was fully distributed only in a few countries, so there is a lot to do on geographies, accelerating in the countries that we have now entered, Mexico, Brazil, France, Spain; and create new countries. We're just starting with Alpro in Russia, for example. So that will be part of the plan and that will enable to reach the EUR 5 billion in 2025.

We often have the question on where do we put the money. "You're reducing your investments." So on the chart, I wanted to reflect back on where our investment going to. So first, on research and innovation, we are spending more than EUR 300 million per year in order to explore the next frontiers and make sure that we have the right science and knowledge behind our brands. On CapEx, we've been always consistent in saying that overall we need 4% to 5%. It was a bit in the low part of the range in the recent year. It will accelerate. I just discussed about the plant-based acceleration plan. We will need capacity. This year, we just finished a factory for Early Life Nutrition, EUR 240 million investment to make sure that we can address the growing demand on early life nutrition.

Then in term of equity investment, M&A. We set up 2 years ago Danone Manifesto Venture fund that is really looking at the trends not for the growth of tomorrow but after tomorrow. So far, we invested EUR 100 million. It's really around very new trends around protein. It's also for new business model. We have invested in Farmer's Fridge; in Agricool, which is urban farming for strawberry; and also digital investments.

Finally, portfolio management. You know that we have just divested Earthbound Farm, which was the salad business in the U.S. that came with WhiteWave that we didn't integrate. And it's important to remind everyone that we didn't suddenly start portfolio management. If we look 4 years back: Every year, we made some divestment, starting with dairy China a few years back, where we realized that it would be too costly. And we partner with Mengniu in order to have them help us to grow the yogurt category in China. Then on Chile, we divested; Colombia. So it's something that we do in a very rigorous and continuous manner.

On value creation delivery, a little step back on the history. We are often challenged on the fact that Danone is coming often with surprise. And if we look at the last 4 years, we have been fully delivering our commitments. We've been having like-for-like sales growth around 3.5%, improving the margin by 190 basis points. And we did that in a context that, most of you will remember, was volatile and with some blocks on the road, but we've been able through discipline and through efficiency to make sure that we were delivering each year on our commitments.

In term of efficiency, what we've been doing? It's first about continuous improvement and change in organization. We are not announcing big restructuring plan, but every year, we are continuing to evolve our organization. We have fully redesigned the growth and innovation process and organization. We have created mutualized business services. We globalized and centralized part of the procurement, especially with some expertise center, around the key strategic resources of Danone. And we continue to rightsize. We are removing some level of management to make sure that we are directly connected to the local business.

On efficiency, you know that we continue our Protein program, EUR 1 billion saving by 2020 on our indirect spending. We continue to deliver the synergies of WhiteWave, $300 million by 2020. We are fully on track with that. And finally, something I commented several times is we change totally the way we manage the performance to be both more agile and more flexible. So instead of doing a budget once a year, we are doing quarterly rolling forecast, reassessing where we need to put the resources and making sure that we have always visibility on the next 4 quarters.

This came with a very strong improvement in free cash flow from EUR 1.2 billion to EUR 2.2 billion, so we almost doubled. It's important, especially these past years where we are in a deleveraging plan. And it's going very well and according to what we have planned in our forecasts, so we are really making sure that everything is translating in cash conversion at the proper rate. And thanks to that, we've been able to continuously increase dividend. It's a 5% CAGR. And this year, for last year, we pay the dividend in cash, acknowledging that we are really progressing well on the deleveraging plan and that we are confident in continuing to do so.

Confidence towards 2020 acceleration. What you have here is a reminder of objectives that some of you knows by heart, which are for 2020 sales growth like-for-like 4% to 5%, recurring operating margin more than 16%, deleveraging leading to a ratio of net debt-to-EBITDA less than 3x; and an ROIC of around 12% by 2022.

If we look at where we are. Yes, the year started slowly, but it was fully expected. We know that, in Q1, we had some mechanical comparable effects and some weather mechanical effects. We have set the guidance for 2019 at around 3%. How do we do that versus how we started the year? If we take Essential Dairy and Plant-based, it's around 3 main topics. The first one is the stabilization of Europe that has started for the past 2 quarters and that need to continue. The second one is that we expect Morocco to grow double digit since the boycott has lapped end of April. And the last one is obviously what I commented, on the acceleration of plant-based in order to be on track for our plan of EUR 5 billion by 2025.

On Specialized Nutrition it's a continuous dynamic growth for medical nutrition. On Early Life Nutrition, you know that 30% of the business is China; that given the volatility and the profile of growth of last year, the growth will be unbalanced, accelerating towards H2. The main drivers for ELN China, given that the birth rates are decelerating, is really to go deeper in Tier 2 and 3 cities, which is a main driver of growth. And we have some innovations in the pipe, especially to enter the ultra premium segment that we'll put in the market as soon as they are registered.

And finally, on Waters it's continuing exactly what we've been doing behind healthy hydration and, of course, accelerating fully in line with our packaging policy the circularity of our brands and the transformation of our packagings.

So these should lend to a growth around 3%, with an acceleration throughout the year, which mean that in Q4 we should exit the year with the rhythm that is consistent with what you see for 2020. So that's for growth.

On margin, we ended 2018 at 14.5% margin. We are aiming at more than 16% for 2020. 2019, we said we will reach more than 15%. It's mainly 3 things that are not rocket science. The first one is the growth and the value growth, because it's the value growth that is bringing value to the gross margin through the innovation, some targeted price increase, but mostly mix and trading up and making sure that we are very disciplined in the way we manage promotion and trade terms. Then it's all the efficiencies. And it's the one I described earlier, continuing the efficiency delivery of the Protein program on the indirect spend. The synergies of WhiteWave, continuous adaptation of organization. We are fully merging this year Specialized Nutrition locally in order to create more efficiency and both in sales and in costs. And we are continuing the transformation of our cycle and procurement organization.

So all these is really around how we will achieve the 15%. And it includes also the portfolio management that we have done or that we will be doing. Portfolio management is what I described around big assets, but it's also making sure that in -- granularly we are looking at each portfolio to keep what is relevant and what will bring value in the long run. So for example, this year, we have started to rationalize the premium dairy portfolio in the U.S., stopping some SKU that were not going to be value creation for Danone.

ROIC, from 9% in 2018 to 12%. Overall, it's really about increasing the NOPAT, which is the consequence of what I described earlier. And it's also about making sure that we are very disciplined in the way we allocate capital, which is also what I mentioned around M&A and where we want to focus, but also the discipline in the way we manage the portfolio.

So all of these is leaving us on the road towards the goals. What is absolutely key in the speed of the change that is going through the food industry and that we call food revolution is making sure every day that we are keeping the right tension between delivery of the short term and transformation in order to make sure that we can rebuild value in the food system and we can really ensure that we are walking towards the goals for 2030 under the One Planet. One Health vision.

Thank you. And I will take your questions.