DANONE

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2:30 PM BST

Unidentified Participant: Good afternoon, everyone. Please, may I ask you to take your seats as our next session is about to begin.

Our next session features Juergen Esser, CFO of Danone, hosted by Bernstein analyst, Bruno Monteyne. And if you have any questions, you can scan the QR code on the second page of your pamphlet.

Thank you.

Bruno Monteyne: Thank you. Thank you, everybody, for being here. Thank you, Juergen, for joining us today to talk about Danone.

If somebody would scan the back screen with the QR code, because I know many of you will want to ask questions to Danone, as well, you can scan that, you can put your question in the pigeonhole, and I'll make sure we keep enough time for those at the end.

I think Juergen will open with some preprepared remarks. Is that correct? And then, we'll go into fireside chat.

Juergen Esser: Thank you, Bruno. Hello, everybody. Good afternoon.

I will not bore you with too many prepared remarks, but just wanted to give you the 60-second version of where we are as a company since we launched our strategy, which is kind of 18 months ago, last year in March.

What you have seen over the last 18 months basically is a new strategy. A new governance, with a board which has been entirely renewed, which is today probably one of the, I would say, best boards in the CAC 40, if I may say. A new executive committee, with a number of, I would say, world-class experts joining the executive committee on operations on R&I. A new operating model, with a better balance between categories and local insights.

And that all leading to the fact that we have been very intentionally in this focus managing our portfolio on the three dimensions. Managing what we are calling our underperformers. Selling a number of them. Starting to fix a number of them, including in China, Mizone. Boosting what we call our winners. Clinical nutrition becoming a bigger and bigger part of our business; but also everything – and I'm sure we'll talk about it today – our high-protein products.

And then, taking care of the core. And as we know, if you don't take care of the core, all the rest is meaningless. And so, we are making very good progress taking care of the core, and the core basically, especially being what we have in Europe, in Dairy.

Eighteen months down the road, a lot has happened, and now we are starting to see the benefits kicking in. For those of you who have been following us, in the first semester results you saw that gross margins started to rise gross margin up big time. We are walking the talk on reinvestments, a very important part of the gross margin upside, we are reinvesting into the business in order to get the flywheel really spinning.

And the second element which is just in front of us is to make sure that this reinvestment on the optimized portfolio is also delivering volume and mix growth.

So, that's the milestone in front of us, to get really into that value-creation model we are aiming for and which we have been describing 18 months ago.

Last sentence – and then I will go through your questions that you have – during those 18 months, the environment was not what we thought it would be, because we basically launched our strategy at the beginning of the Ukrainian war. We didn't expect necessarily the inflationary tsunami we had over the last 18 months. And we have been just consistent in execution, been walking the talk 18 months, executing on what we said in Evian in March of last year. And that's exactly what we want to do in the coming quarters and years: walking the talk.

So, we are very happy where we are today with the results and the way we want to progress.

Bruno Monteyne: Thank you, Juergen.

Now, if you think about the core brands as you talked about, I think you and Antoine have been quite clear in the past, it's all about repositioning the brands. And if I sort of use my own language, from two years ago, consumers consider Danone yogurt as just some mass-market fruity little box on the supermarket shelf. You're trying to reposition, though. With Activia, it's meant to be gut health. Actimel is for immunity. So, you're almost trying to – I think Antoine said the doctor should prescribe yogurt, your products.

And so, these are interesting ways to think about brands. And on paper, they can see how all of that works, but obviously it can be hard to make work. And I'm thinking about another one you did about the NotMilk. So, I think you explained a little while ago Alpro is too much focused on ingredients. It makes it sound very commoditized that one is almond and soy milk. So, we'll make NotMilk take away, I think with functional benefits.

So, that would have been, I think, the first version of your repositioning brands with an interesting concept. Did that Alpro rebrand launch of NotMilk, do you feel that's working, particularly in U.K. or in other places?

Juergen Esser: So, there's many questions in what you have said obviously. Maybe let me talk about dairy and plant-based in Europe, which I think is at the heart of many of the conversations we are having with the markets and with our investors.

On dairy, particularly in Europe, we are coming out of the decade-long that we have not been supporting our portfolio. Ten years ago, we stopped to claim the benefits of our portfolio. So, we became what you said: a yogurt on the shelf. Not very differentiated.

And so, with the portfolio repositioning of the last 18 months, what we have been doing is to refocus our portfolio, where we have truly differentiated offers to the consumer: which is true for Activia; which is true for Actimel; which is true for what we have been launching three weeks ago in U.K., which is a high-protein product which I really recommend you to try, 25 grams of protein with almost no calories. So, products which are really different from what the competition is doing and products which are really different from what private labels can do.

This is putting us in a position to, again, communicate on these products, and it's putting us in a position to demand a premium pricing. This is all nice on the paper, on the PowerPoint. It is all nice in storytelling. In the end, you want to see it translating into results, right?

So, as we are in the U.K., when you look at the U.K. shelf, today the U.K. shelf in dairy is not looking as it looked 12 months ago, and in 12 months it will not look like it is today. What I mean is that if you go as a consumer on the shelf, you don't know how to orientate yourself on the shelf, because you have a number of brands, the benefits are not clear. So, if you want something which helps you for immunity, you don't know where to find it. If you want something which is good for your gut health, you don't know where to find it.

So, we have been working with the retailers in the U.K. – but in all the European countries – to convince them to bring an order on the shelf, to make sure the consumer finds easier what the consumer is looking for. So, we did tests with different retailers – tests in U.K., tests in France, tests in Germany, tests in Spain – in order to demonstrate that in the moment that you segment the shelf by benefit, the rotation on the shelf is increasing.

Good news. All those tests were positive, which means that we are rolling out as we speak that segmentation of the shelf. Why are we able to do it? Because despite all what happened for many years in Danone, we are still the category captain in many of the markets. So, we have the right to propose that to the retailer, and the retailer is seeing it works.

So, the fact that they are now replicating what has been proven to be a success story is, I think, a first very important milestone for us. Because what it will deliver us is more distribution, more share of shelf. This are measurable elements . So, when I go back to the U.K. example, now since a couple of months distribution is increasing. Now since a couple of months, share of shelf is increasing. Now is the moment to put marketing money behind because you want to make sure that this shelf share also drives velocities.

The team is doing an excellent job with James and John, who are taking care of that execution in the U.K. Brilliant. And we are building the conditions to grow in volume and in share. And I think we will see that coming in the not-so-far future. That's one, and very important.

This was enabled – and then I'll go to the plant-based question – by the fact that we have been streamlining the portfolio, I may say, in a brutal manner over the last 12 months. We really took a very short period of time to take out of the portfolios where we are not competitive, where we were not profitable. Usually, you stretch that over many years. We took the decision to do it over 12 months.

And we are coming to the end of that story. So, Q3 is the last quarter you will see the impacts of that in our top line. So, from Q4 onwards, we will see that the baseline will be a much different baseline, the portfolio will be an optimized portfolio. So, we have everything in our hands to grow the portfolio.

That's on dairy.

Plant-based. Plant-based, Alpro, market leader in Europe. It's a category which has been extremely volatile, let's face it, throughout the last three, four years. It was a category which was booming over many years. It was even more booming during COVID, for a simple reason, which is people were home, they made their cappuccino at home. So, they bought their soy, their almonds, their oat milk, and they prepared their cappuccino at home or their latte at home. They went back to the office: less consumption. And this is a very mechanical element.

There's two elements of good news. First good news, penetration of households. So, the number of households consuming plant-based dairy alternatives is continuing to increase in the U.K., in Europe, in the U.S. So, the fundamentals of the category are very sound.

Frequency is now going back to growth. After this COVID peak, now it's going back to growth. So, the category is healthy.

What is important for us is to make a better job in that category. And I think we are walking the talk here – and now we come to the innovation point you were asking me – we are walking the talk on two different elements. One element is better execution. We need to be where the consumer is and where the consumer is looking for those products. First of all, in coffee shops, in coffee chains, because this is where the trends have been born. You go today to one of the four biggest coffee chains in the U.K., you will find Alpro. That was not the case 12 months ago. That's very important, brand-building awareness, because this is also what will be reflected in share in the supermarkets.

Second element, innovation. Today, the category is still very classic: an oat milk, a soy milk, an almond milk. We truly believe that we need to bring innovations into that space. Benefit-led innovations. We have been experimenting with a number of elements. We are not yet happy with it. There is still work to do. But we feel confident that it's in our hands. We are the largest player. We are by far the one who has the best technology in-house. Most of our competition is sourcing from third-party producers. And certainly, we have the marketing capabilities and science capabilities. So, we have everything in our hands to make sure that we are getting innovations into the market, which will truly step-change the category and make sure that we continue on a sustainable growth trend.

Bruno Monteyne: So, I'm going to dig a bit deeper on that NotMilk, because I can sort of see the overall point in the category. But NotMilk was meant to be an example of how you can rebrand, move away from the commodities. When I look at the shelf, you have three times more shelf space for competing NotMilk brands as even private-label NotMilk. So, I mean, if you were a bear, you would argue, "Look, even NotMilk, it gets copied faster than you can roll it out, and it's not strongly presented on the shelf." So, did NotMilk work? And if so, what did you learn from it?

Juergen Esser: I think there's a number of learnings we took over the last 18 months. Because NotMilk is a proposition which is not an oat milk. It is the best of our plant-based products, with the best taste, as close as possible to cow milk. An incredible proposition. Because what people are looking for is a milk which is tasting as cow milk, but giving you different benefits. Right?

So, you look at the U.K., I would say that we are at the average. We are not happy. If you look at Germany, it's working very well because we were able to better explain the product. So, we need now to replicate what works in those countries where it works to the other countries. I truly believe that the more benefit-led proposition vis-à-vis an ingredient-led proposition is the future of that market. So, we are looking in this confidence into that.

Bruno Monteyne: Now, gut health, as the key label for Activia, one of your biggest brands, what gives you the confidence that defining something as gut health will be the enabler? What data do you have, rather than calling it yogurt?

Juergen Esser: I think when you do some very basic statistical assessments and you look at social media and the noise which is around the fact that the health of your gut is the health of your body. It was a conversation which hardly existed five years ago or 10 years ago. Tied to their gut health, in social media the number of discussions and conversations around it is exploding. So, gut health is very high in the awareness of the consumer. And there's nothing better than yogurt for gut health.

So, how can we make sure that with Activia, particularly, we play a pioneering role in this? We were pioneers 10 years ago because we were the first ones talking about it and the first ones claiming around it. Then we stopped claiming. Then we became a fruit yogurt, like any other fruit yogurt. Now we are back to claiming, because we have science behind. And as we are claiming, we will advertise behind it. Because people need to be aware. If you don't talk about it, how can people know?

So, having succeeded with the fact that we have retailers now implementing the planograms for the shelf, creating a gut health section across all Europe, making sure that Activia is the most prominent brand in that element, and advertising behind it, will be the key to success. I have absolutely no doubt about it.

What is important and is in our own hands is to have perfect execution. And that means that we do not do what we did in the last couple of years, which is 10 different executions of marketing in 10 different countries in Europe. So, you were in Germany, you were looking at different advertising than in France and a different advertising in U.K. But having one expression of the brand, one design, one packaging, and one advertising so that you can create scale and consistency, scale and consistency. And retailers are very well receiving that. And so, we have all the support for that.

So, I think we have everything in our hands to make it happen. The reinvestment is important. Because we are a branded product player. We are not private label. Which means that we need to invest behind our brands. We had basically zero investments in dairy over the last years. Going back and putting significant money again behind our brands will change the dynamics in the dairy industry, on the shelf, and for us.

Bruno Monteyne: We talked previously about the U.K. supermarket. Pictures were recently published. We're not there yet. But I must admit, when I go to the U.S., the shelf execution is a lot more respectful to your brands, or competing brands, more respected while (inaudible). You've been able to communicate them. Is there any structural reason why it's easier and why you are able in the U.S. to get the retailers to adhere to what you want to say, rather than in Europe?

Juergen Esser: No. I mean, the short answer is no. The long answer is maybe that in the U.S., we started earlier. You know that already two years ago, we started in the U.S. the journey. We started only a bit less than one year ago in Europe. So, in that sense, we are again doing the same job.

What is important is that you want to be perfect in execution where the category is. And I'm saying that when you go to a U.K., you have thousands of supermarkets in the U.K. You have less than 2,000 where the dairy category is really present. So, if you want to play in dairy, you need to be in less than 2,000 supermarkets. This is what we perfect our execution. So, our strategy is to go to these less than 2,000 supermarkets and to implement what we call the PICOS, the Picture of Success. And we are going very fast on that. By the end of the year, we will have rolled out our Picture of Success in the U.K. across all of those a bit less than 2,000 supermarkets, which will be an incredible springboard for growth in the future.

Bruno Monteyne: You say there's no structural reason in the U.S. Let me try to push back. In the U.S., private label is not just smaller, but it plays a different role. Walmart isn't trying to compete by having the best yogurt. If I look at the U.K., Marks & Spencers, Sainsbury's, they develop yogurts; it's a part of their brand identity as a supermarket is to display through fresh (inaudible). So, clearly, European supermarkets have learned the art of yogurt, using it as a critical part of their competition with each other, and that might make it harder for Danone to compete. Wouldn't that be a structural reason why it's easier to land in the U.S. than in Europe?

Juergen Esser: I don't believe so. So, first, you are right that it's not a one-to-one comparison, for many reasons. First, the consumption is different in the U.S. than in Europe. In the U.S., yogurt is a snacking occasion. In Europe, it's more dessert, so, you take it after lunch, you take it after dinner. So, it's a very different way the consumer is looking at the category.

The second element is that the portfolio we are having in Europe and the U.S. is very different. And even inside of Europe, you have some differences. In the U.K., like in Germany, we focus on premium. We focus on truly functional benefits: Activia, Actimel, high-protein, Kids range. This is where we are focusing and which makes us truly different than the competitors of local dairy, which are mostly on the commoditized product edge. In markets like France and Spain, where we have been basically creating the category, we have a more complete portfolio.

What is similar in all of those cases in Europe is that we are the category captain. We are the category, confronted usually versus local players who do not invest into marketing, who do not have the expertise, who have not the science. Let me give you an example, and I take this beautiful bottle again. So, putting 25 grams of protein into that bottle, it's an art, because it means you need to be able to compact proteins. We can do this because we have a medical nutrition business, where Protein compactization is part of the proposition, when you are a cancer patient, when you are a stroke patient.

So, you will see that we will move more and more into a direction which is highly sophisticated products for certain benefits, which will not be easily copied by competition, which will make us truly unique in that space. And so, in that sense, I believe that in the U.S., where we are going exactly in that way, it's nothing different than in Europe. And in the end, it's about execution on the shelf with the retailer. And our conversations with the retailer today are not any more what it was 12 months ago, which was about price. Today we talk about innovation, brand investments, more share of shelf, and us proposing deployment of the shelf. So, it's a fundamental shift here.

Bruno Monteyne: Your shift to the functional benefits, the examples you gave, there's somewhat higher value-add than what you did before. Given that we're in a cost of living crisis, is this the worst possible moment to do this?

Juergen Esser: I agree and I disagree. What is interesting when you look at the consumer – and whether it's in Europe and in North America – the shopping behaviors are changing. The consumer is more careful and conscious on the way he's spending their money. Which are the channels today which are booming? And this is across the two continents. The channels today which are booming are discounters, club stores – so, in the U.S., you have Costco or Walmart; and surprise, away-from-home. The channel which is growing today the fastest in our portfolio is away-from-home. It's not the biggest channel today. It's growing very, very fast, which means that the consumer is willing to spend money in the right occasion, in the right channel.

When you go today to an airport, a train station, a gym, wherever, you will find our products. Very high price, super premium, fast growth. And at the same moment, we need to make sure that we are also where the consumer goes in order to manage his pocket: in discounters, with the right proposition; in club stores, with the right proposition. And I think we have been anticipating that in a good manner 18 months ago, and we have been adopting what we call our price-pack architecture to it. So, I believe that today we have a portfolio which is exactly addressing these two spectrums.

But it's not only about low price. People do not want to have private label only. They want to have a meaningful brand in front of them which gives them an extra benefit, and the benefit can be the functional benefit – food and health – or emotional benefits because they want to feel good. The reality is that when today – my wife, who loves *mousse au chocolat*, I mean, obviously when you have a proposition under HiPro which is almost zero fat, zero calories, but gives you all the pleasure of a *mousse au chocolat*, that is an incredible proposition.

So, how do you make sure that you have the right offers in front of the consumers on what he or she is looking for. And so, I believe that we need to play both spectrums, the low price and the high price.

Bruno Monteyne: You've always been quite clear that there's different phases – redesign the brand, range rationalization, get the shelves ready – and at some point, you were going to open the floodgates of A&P to drive consumers to it. Have things slipped? Because I feel like we've had Antoine here last year, we've had discussions before, and Antoine has been for quite a while. Is it on track? And is it anytime soon that you will see the new shelves and the floodgates of A&P driving us back to your products?

Juergen Esser: Well, I'm sure we will not flood it, because that sounds like an undisciplined allocation. But first semester, reinvestment, almost 100 bps – tell me one player in our industry who has been reinvesting 100 bps – the majority of it going into A&P. So, we are walking the talk. We have been starting to reinvest in the second semester of last year. Huge reinvestment first semester of this year. I think we are moving faster than even what we thought 18 months ago. Then in a very disciplined manner. Because it's not like just flooding the space with A&P. You need to do it in a manner which is return-oriented.

And so, what we have been doing over the last 12 months is to put the money where we are ready to put the money. We've been heavily reinvesting into Specialized Nutrition. And it's paying, because we are winning across the segments in Specialized Nutrition. We have been strongly reinvesting into the U.S. market, and it's paying. We have been strongly reinvesting into evian, into Mizone in China. It's paying. We are winning share. And we are now, as we speak, in the second semester investing in Europe in Dairy.

So, we are exactly walking the talk. And what you will see in the second semester is what you saw in the first semester: strong reinvestments, a lot of A&P focused. So, focused on a portfolio which is much more streamlined, and where we are making sure that we are getting a return. And just if I can expand on that 30 seconds more, because that's important. When you are in Spain, in a portfolio in dairy with thirteen brands, and you spend $1 million, and 12 months later you still spend $1 million, but on five brands because you have been optimizing the portfolio, by just spending the same amount, the impact you will have will be much higher.

So, what we have been making sure in Europe, first and foremost, is having the right portfolio and going where we have the highest return. And now we go to the next step. And I think that again that will trigger results. And when I talk about results, in the end, what is results? Results is not a good story. Results means, in the end, distribution, frequency, market shares, volumes. And we are walking exactly that talk, and that's very transparent. Distribution starts to go up. Frequency starts to go up. You will see market share following and volumes.

Bruno Monteyne: I'm trying to combine a few bits of your answers from the last 10 minutes. You sort of saying yogurt Europe is sort of the last one to get an investment. You've seen our pictures of the U.K. You're saying by the end of the year, we should see different shelves in the U.K. and a few more countries, supported by major A&P, and that's sort of the proof point…

Juergen Esser: Absolutely. But the good news, it's measurable. So, it's not storytelling, and we will have numbers. That's the beauty of execution. It is not subjective. It is really something you can measure with clear data points.

Bruno Monteyne: And would it be fair to say the clear data points are sustained volume, market share gains?

Juergen Esser: The objective is to go into a cycle of sustained market share gains which translates into volume growth. And this is exactly what we explained 18 months ago, that we want to go into that balanced growth profile – volume, mix, price – particularly for the dairy category, because it will change our life.

Bruno Monteyne: And from Q1 next year, you think that should be what we're looking forward?

Juergen Esser: Well, even better than that. Because we are here also walking the talk. What we said in February or March was that, what you will see is the first semester of this year where in EDP, in Europe, the volumes will be still down because we are cleaning the portfolio. And from the second semester onwards, you will see volume dynamics changing. So, we are exactly in line with what we said here and we have created the conditions to make it happen.

Bruno Monteyne: We have the evian sparkling water. You've been very clear you're trying to premiumize, getting the sparkling version. I see you more and more in train stations, the on-the-go that you were just mentioning before. If you think about premiumizing evian, what kind of price uplift are you aiming for? And how far are you in the process of premiumization of evian?

Juergen Esser: This is an amazing business. For those of you – and I need to do 20 seconds of marketing – for those of you who have never been to Evian, please come and visit us. Because once you have been to see the Impluvium of 30 square kilometers of protected landscape where 15 years after the water is coming out of the mountains, you will not drink anything else anymore than evian. And we're going to talk about that more and more.

After that teaser for the evian brand, yes, we are on a premiumization strategy, which is a premiumization strategy which is to go more and more to premium outlets. So, yes, we need to be in supermarkets. Yes, we need to be in modern retail. But much more important for us, it's to be in away-from-home, on-the-go, premium HORECA. And this is what you are seeing more and more because today we have the assets to do so. While in the past we had only a still water proposition, now we have an evian sparkling. So, we have now the couple which makes us enter premium HORECA.

We have started in export markets, as we call it, in U.K., in the U.S., in Asia. We had very good feedback, and you will see us now rolling it out. We will do it in a very intentional manner. Because what we want to do is to bring awareness from the consumer through these premium occasions, in hotels and restaurants, in order then to launch it into the supermarkets in a second phase, so that it's truly able to demand a premium price.

The beauty of it is that we can complement it with local offers, and this is why I put also the Harrogate water here, which those of you who are living in the U.K., you may be familiar with. An amazing brand, 100 years-plus heritage. We are already here in many of premium outlets. So, having a local proposition and an international proposition will help us manage the portfolio and to be at every occasion, at every outlet where we want to be. And we believe there's a big, big opportunity.

Bruno Monteyne: Before COVID, everybody would have asked you about challenger brands and niche brands that were gaining shares of all FMCG companies. They somewhat disappeared off the radar during COVID. When I was visiting your shelf recently, I did suddenly pick up loads of new brands I'd never heard of before. Do you notice a change in the resurgence of challenger brands again in the market? Or not?

Juergen Esser: Not really, to be honest. I believe that there's one important component which is bringing a bit of normality into the conversations, which is that you launch the new brands when you are a startup company, you cannot afford anymore to lose 10 years' money. It's true that in a number of spaces, including plant-based, we were competing with people who didn't need to make money, who were burning money every month, every quarter, every year. Those times are over. Which means that the way retailers are receiving you, they want to see innovations, but they want to see scalable innovations and they want to see scalable innovations where the producer is willing and able to put serious money behind. So, we are seeing a much more, I would say, healthy traction in the discussions with the retailers, which I think is good news. Good news for the consumer. It's good news for the retailer.

For us, if we talk about us, we have been also proliferating innovations for long. Putting meaningless innovations on the shelf, they were dying six or 12 months later. Nobody is winning from that. It's very exciting for the consumer because they will try once but they will not come back a second time. Nobody is winning in that.

We have been totally shifting our innovation focus. We've been cutting our innovation pipeline by 30%. We have been setting the bar much higher on what a good innovation looks like, because a good innovation means it has a clear position vis-à-vis the consumer and a meaningful impact on our P&L. And this is changing our life and also in the conversation with the retailer, because this is what the retailer is looking for.

And last point is, what does the retailer want? The retailer wants a product which gives a good absolute margin for every unit sold. This is what you need to come with, something which can grow and something which gives a good margin to us and to the retailer.

Bruno Monteyne: One of your areas of success is China Infant Nutrition, where there's competition. You've done extremely well for quite a few years. Now the only thing that doesn't look as good if I look at your margin development over the last five years, even excluding the kind of redefinition. It's been steadily declining by a few hundred basis points. What gives you confidence that the five-year decline in profitability of Specialized Nutrition has bottomed out?

Juergen Esser: I think we have a very good level of profitability in Specialized Nutrition, and I think it's on a sustainable level. We are in a very intentional way rebalancing the portfolio. You talk about China. In China, we have four legs, you can say, in China. We have an Early Life Nutrition business, a €23 billion category, a massive category, in which we have a 10% share today, where we've been growing share quarter by quarter, quarter by quarter. Not by coincidence, but because we've been very intentionally driving our portfolio, driving our business model, protecting our profitability in a category which is truly transforming.

In that category, five years ago you had 800 players. By the end of the year, probably a 100. Big consolidation happening in the market. We have an incredible portfolio today. We got all our innovations validated by the local regulator. We have an impressive portfolio moving on, which will make us win and which will make us win in a business model which I believe where we can sustain margins.

More important than that is the fact that we have an incredible clinical portfolio in China which is growing very fast: double digit quarter by quarter, quarter by quarter. Baby Medical Nutrition: with more and more people and babies born with certain needs, allergies, and so on, there is more and more need for these products. Much less competition. More sophisticated. More medical. Growing very fast. Beautiful business, at least as profitable as Early Life Nutrition.

Adult Clinical Nutrition: probably even a more beautiful business because we are spot-on on trends in China and outside of China. We are #1 in Enteral tube feeding. We are in 90% of Chinese tier one hospitals. We have an incredible road-to-market. We just got a drug license for oral nutrition, medical nutrition. And we are one of the few who can say that. So, we can now truly leverage this go-to-market in China. Profit margin, at least as high, if not more, interesting than in Early Life Nutrition, because it's more sophisticated as a product.

So, you will see us very fast rebalancing our profit pool within China between the Early Life Nutrition and the more medicalized products.

At the same moment, we will grow very fast our profitability outside of China. So, one is to build resilience structurally within China. But at the same moment, we are moving very fast on fixing the underperformers outside of China, especially in emerging markets, fixing a number of business models, all what we do in Europe, so that we will rebalance sequentially our profit pools away from what today many people talk about ELN China.

I think there's a misperception here also, because I think some people are of the impression that ELN China is like 25% of our profitability of this company. Absolutely not. We are closer to 15% than to 25%. And this is rebalancing in a very fast manner, not by decreasing profitability in China or in ELN, but by growing very fast to profit pools outside of this area.

Bruno Monteyne: But despite all the good news you've mentioned, the margins are going down. So, there's something missing in that story of success.

Juergen Esser: The margins are going down on Specialized Nutrition because of one important element, which is that in Specialized Nutrition we have two different channels. We have a prescribed channel and a non-prescribed channel. And these prescribed channels are different country by country depending on local regulations. When you look over the last 12 months where we've confronted this heavy inflation, getting a price increase on prescribed channels takes time. And it can take time between 6 months to 18 months. So, you will see margins bouncing very nicely back, especially in Europe where we have a lot of prescriptions, in Specialized Nutrition. I'm very confident on margin profile in Specialized Nutrition.

Bruno Monteyne: Danone has always been committed to sustainability from very early days. Now you have stringent targets. So, it was quite surprising to see an NGO – I think it's ClientEarth – suing you for not sticking to your plastics commitments. So, are you on track with the commitments you made on plastics packaging?

Juergen Esser: Yes, we are, and I think you have seen us, and that's very important to us, when we launched the strategy 18 months ago, we also took time to make sure that our sustainability ambitions go along with strategy. So, we launched at the beginning of the year what we called the Danone Impact Journey, with a couple of beliefs. The first belief, which is when you want to have a true impact on the planet, on nutrition, on health, you need to focus and you need to focus your impact. Because there's only so much resources you can invest, right? And we realized that we had too many commitments in too many areas where our impact as an industry and as a category leader was not where we thought it could be. So, we have been refocusing.

When it goes to plastic, to be very concrete, on plastic we have a number of commitments. First of all, you want to reduce the plastic used, right? Reducing virgin plastic. So, we do have a commitment to decrease by 30% by 2030, which is not in 30 years from now, but which is in seven years now. We are exactly on track. We reduced, I think, 70,000 tonnes our virgin plastic.

When you look at our Actimel, which was the latest innovation we brought, our Actimel bottle, we took out the sleeve. It had a hell of plastic. It makes it 100% recyclable. It's one of the examples where we're just walking the talk. So, the bottle is lighter, no sleeve, perfect contribution.

So, virgin plastic reduction on track.

The second element, probably equally important, making it 100% recyclable. Very important. Because if you don't make it recyclable, it cannot be truly circular. We are today at 83%, 84% of a level of recyclability. We go to 100%. We are walking the talk on that. I mean, we are already on Waters almost there, because when you drink today an evian or Volvic, you have 100% recyclable bottle. And by the way, recycled material bottle. On dairy, we still have a job to do, but this will go also really fast. We are walking the talk.

The third element is more complex, because it's not only in our hands. It's about really generating a circular model, which means you have a bottle which is recyclable, how do you get it back once it's consumed? And this is where in a number of countries like

Indonesia, like Mexico, we have been supporting, I would say, the setup of some informal collection systems, waste pickers. Taking the waste and bringing it back to collection centers so it can be recycled. In Europe, we have, I would say, a very scattered landscape. In Germany, for example, where you have a deposit return system; so, 97%, 98% of the PET bottles consumed are coming mechanically back into the system. Or countries like France, where this is today not the case.

So, how can we create a movement so that we have kind of deposit return systems everywhere in Europe and across the more mature markets? So, that's the challenge we are facing.

Now you are telling me that's a good story, but why have you been sued? How is this possible?" The reality is that this is the consequence of a French law which is only applicable to a company which is headquartered in France. So, obviously, there is, I would say – if you want to create a bit of noise on the topic, and I support the fact to create noise because we really need to change our business models to more sustainable practices – this is the way to do it.

Bruno Monteyne: Just as a reminder for the audience, please use the QR code if you want to get to your questions in a few seconds.

So, we talked about plastics...

Juergen Esser: And can I add one element, Bruno, to that one? Because sometimes we talk about plastics and making business models sustainable as a license to operate. Like, you need to do it to make a commitment. You need to do it because the community, the public opinion demands it. I believe it will also translate into competitive opportunities. When you look at what we did in Volvic in Germany, we went as first into 100% recycled material. We won market share, because consumer is looking for that.

So, how we can translate all these initiatives into something which the consumer really values. And this is where A&P spends, communicating on the things you do, talking about the fact that Actimel doesn't have a sleeve anymore in order to protect the environment, makes a difference. So, we need to better combine sustainable business models with product superiority in the eyes of the consumer.

Bruno Monteyne: On sustainability, you've talked about plastics, packaging. You have greenhouse gas emissions. There's 2030 targets. A lot of them coming. As the CFO, do you worry about the growing cost increases that it will put onto the business?

Juergen Esser: That's exactly the point. If you only look at sustainability as a cost, that's wrong. If you only try – if you have conversations which are on Monday, on Tuesday, on Wednesday, on Thursday on your P&L, outside of sustainability, on Friday you talk about sustainability investments, it's wrong.

Let's take the example of Morocco, where we have a large dairy business, where we are now transitioning to regenerative agricultural practices. Very important for us. Very important for the government. Very important for the communities. The fact that we are the pioneers, helping our farmers to move into regenerative agricultural practices, you can read every single day in the press – every single day in the press. It makes our brand in Morocco truly different and superior.

So, we need to find ways to invest into superiority, to invest into sustainability, but to make it seen. This is very important.

Second element, what is the cost for Danone to move to sustainable practices? It's about farming – because we are, in the end, we are consuming a lot of milk and agricultural ingredients – and about packaging, right? Good news, investments into the agrifood sector is one of the key priorities of governments around the world. It's one of the topics of the COP 28, which will happen in a couple of months. So, there will be flowing capital into that element. Because we know food is at the center of the sustainability of the world. I mean, that's just what it is. So, we will have a lot of support. The fact that we got a $70 million grant in the U.S. by the FDA to help us go into regenerative farming practices is a very good proof point that we are also able to attract external capital to help us moving into the right direction.

So, I don't see it as a cost. For me, it's really an element which we need to manage in a smart manner. But in the end, it needs to translate into stronger cash flows, and this is not only in 10 years from now; next year, in two years, in three years.

Bruno Monteyne: Just trying to put you on the spot five years from now, so you don't think in five years from now there will be discussions where people will say, "yes, there's margin pressure because the cost of sustainability (inaudible)."

Juergen Esser: I believe there will be pressure. I think there will be two set of companies. There will be companies who succeed because they will do it in a collective manner, like us. We do it with our farmers. We do it with the local governments. We do it with NGOs. We invest in a very targeted manner. And we translate it into better products which can demand a premium price. There will be companies which only see it as a cost and who will try to cut somewhere else their investments, maybe in A&P.

We want to belong to the first one, because I believe that financial performance without sustainability will not work. You need to invest into sustainability. But I also believe that sustainability without financial performance has no future. So, I truly believe that we can find both in a very meaningful manner.

Bruno Monteyne: Some of the investor questions. So, what was behind the portfolio management mistakes of the past? SKU bloat that is now being rationalized? And what will prevent them from recurring in the future?

Juergen Esser: I believe that that's at the core of what we have been doing over the last 12 months. For many, many years, especially in dairy, because this is where there was most pressure, there has been a real proliferation, trying to match what the small companies were doing. You were talking about all these startup companies bringing very innovative products on the shelf. We were trying to mimic this. We were trying to mimic it, which makes no sense. Because it means that you are coming with very small innovations on the shelf. You have hundreds and thousands of new SKUs. You bring complexity into your factories, complexity into your supply chain. You spread your A&P about many, many SKUs. In the end, you get nothing for it because things are dying. That's behind us.

The fact that we have been cutting the innovation pipeline by 30%, the fact that we are now setting the threshold very high on new innovation, the fact that we do not innovate anymore for Germany, then for U.K. another one, then for France another one, but we are looking at it in a more regional manner, it's changing our life. So, we will manage our portfolio in a much more narrowed and optimized manner because we believe that is a key to success.

Bruno Monteyne: What is the outlook for the Waters division given enhanced consumer concerns over disposable plastics?

Juergen Esser: That's a very, very good question because – maybe back to 2019, before COVID. There was a lot of discussion about plastics, sustainability of plastics, and so on. When you today look at the consumption of mineral water in Europe, you look at consumption of mineral bottled water in U.K. we have the same level as five years ago. So, there has been a lot of debate. The reality is that people have not changing really their consumption habits. And I would say even the opposite. We see more and more away-from-home consumption, because more and more people are on the go. So, our small bottles in waters are booming.

What will happen in the future is the question. And I believe that there's two dynamics which will happen. People will be more and more conscious about the water they consume. At home if they consume mineral water, they will want the best mineral water. They will come to Evian, they will look at what we are doing there, they will only drink evian water. And they will go on-the-go, and this is where you need to be at the right location at the right price. That will make a difference. So, in that sense, we are looking with a lot of optimism into that category.

I would not say the same if I would play in the bottom part of that category: low price, competing against tap water, low level of differentiation. But this is not what we want to do.

Premium mineral water from a precious source, protected source, the best water in the world, sold at a good price, in the right location. This is our strategy.

Bruno Monteyne: I think, with that, we've run out of time. Juergen, thank you very much.

Juergen Esser: Thank you, Bruno. Thank you very much, guys, for coming. Thank you.