Danone Fireside chat with Pablo Perversi, Europe Zone President | Barclays | December 4, 2023

Warren Ackerman:

Hello, everybody. I'm Warren Ackerman, head of Barclays Consumer Staples research team. I'm here at Danone's Zurich headquarters with Pablo Perversi. Hello, Pablo. We're going to do a fireside chat format. I'm going to take the hour to do a bit of a Q&A. So thank you, Pablo, for your time. Very excited to spend some time with you and understand a little bit about your role. Before we kick off, Pablo, I think because it's the first time you're speaking to the market, can you tell us a little bit about yourself, your career history, why you chose to leave Barry Callebaut to join Danone? I imagine you've crossed over Antoine quite a bit, both Barry and Unilever. I think that'd be quite a nice space to start in terms of your career and why Danone.

Pablo Perversi:

Okay, so hi, Warren, and thanks for giving us the opportunity to talk to you. Hello, everybody else. I've been 30 years now, more than 30 years, in the food industry across the whole world, working in different functions. I started off in finance doing my CEBA exams at the time, and moved on to marketing, so I exercised the other side of my brain. And then moved on around the world, doing different commercial functions in sales, general management, VP at different regions. And yes, I've known Antoine for many years of all the different jobs that I've actually done. I've sat in board companies, I've sat in committees or board committees for the different execs. I've also got some position outside as a director.

The reality is that with Antoine, we've won many battles and many of those battles are big transformations where we've added a lot of value together and I have a huge respect for him. The reason why Danone, is because I feel that Danone is one of the biggest transformations that there is to be had in the food industry across the whole world, particularly, in Europe. And I can't find a better challenge than to be excited by that and to actually put Danone where it really could be, in terms of its potential.

Warren Ackerman:

Okay, perfect. But I think you've been with Danone for about 11 months, if I'm right.

Pablo Perversi:

Yeah.

Warren Ackerman:

It looks like you've been very active meeting the teams in different countries across Europe. Be very interested to know what your initial assessment of the business that you're inheriting, what you saw and the feedback you've received from those teams that you've met. What would be your two or three big takeaways?

Pablo Perversi:

I think it's nothing to hide that Danone has probably had a chronic underperformance. I think Antoine and Juergen have actually said it in other places, but when I came in, that chronic underperformance was very easily seen, particularly in the decline of volume that you actually get through the different last 10 years. I also have to say that I found great people in Danone, incredibly well-natured, but also willing to learn, passionate, super engaged with the business, wanting to make Danone a success, and at the same time, nurturing the good values of Danone. And I think that is actually a huge asset to the company, having this tremendous amount of people and teams that want to make a success. So yes, underperformance, but great people wanting to make a change. And the third thing is, a huge opportunity and fertile ground to actually go forward into the future.

I don't think Danone has probably told the outside world how many opportunities there are, how greatly they're placed towards the trends of the future and how the categories can play a leading role in that future. And I can just be honored to actually lead that transformation and that change that comes along with it.

Warren Ackerman:

In terms of the first changes you've made, can you maybe just touch a little bit on the organizational structure and your process around that, and particularly remuneration and how people get paid? As far as I can see, volume has been, it's obvious, it's been a problem for a long time. Is that now something that's been moved into remuneration. So organization and pay? Two quite key topics.

Pablo Perversi:

No, absolutely. I think you're touching on very important things. So there are some of the things that I tried to manage within my first ninety-day plan. Yeah, the first 30 days were very much about making sure that we have the behaviors in the business, and clearly, some of those behaviors are influenced by the bonus payments that you actually get. And what we did as a company, is to make sure that volume, and volume mix particularly, is actually at the top of everybody's agenda and therefore, bonus will include bonus on volume mix. And that is part of driving a much more sustainable business into the future and making absolutely sure that in driving the future, we have a much more balanced growth equation. You cannot just drive a business with price, especially looking into the future where pricing might be a little bit more challenging than it has been in the past years.

So that was an important part, behavior was my first 30 days. I think the second 30 days were very much about governance and making absolutely sure that we bring clarity to an organization that has had a lot of change and agility in decision making, so that we can move forward fast, we can actually gain momentum in the market and we can start moving in a way that really, leaves an imprint in the market in terms of results. And the last thing was organization, and I think that the most visible thing that we've actually done, is bring back the strength of a category organization because we really needed the balance between countries which are very good in operating and bringing the execution in the markets and capturing the opportunities, but at the same time, the muscle of a category organization that can develop portfolios and mixes to win in those markets. And that's pretty much, in those first 90 days, what we tried to structure. Still is a work in progress. I mean, nothing is actually totally finished yet, but I think that's the direction that we're heading.

Warren Ackerman:

And when you look at the different countries in Europe, when I'm thinking of EDP here, how would you categorize each of them in terms of competitiveness and how much work needs to be done? Obviously, Spain's different from Italy, it's different from France. Can you maybe spend a little bit of time when you meet the teams in local countries, how would you rank those countries in terms of ones that need more work and ones that are kind of further down the path? Is that the way that you're thinking about? I know every country's different with a different makeup portfolio in terms of where that real work needs to be done.

Pablo Perversi:

Let me just take a step back. Yeah, because obviously, not all countries are the same, but there's some commonalities between different countries. France and Spain have a lot more commonality than, for example, Germany and the UK, in the sense that, UK and Germany work together better from the portfolio mix that they have. If you look at it from a need-state point of view, everyday nutrition is the thing that differentiates those two groups of countries. Because in France, you will actually play to the full portfolio, the same as in Spain, with indulgence, with everyday nutrition, with functionals and active brands. Whereas in the UK, you're actually working on more functional portfolios and active brands, basically. Now what that does is, it puts you into a business model of working, which is a little bit different in the different ones, in order to extract the maximum value out of the two. And also to play a volume game where you actually have an accretion on margin, but also in terms of fixed cost leverage, that you get out the factories.

Warren Ackerman:

There's been a big debate raging with investors about whether EDP is just a commoditized mature category, lots of private label, no real pricing power, unattractive gross margin structure, or whether it's actually more of an execution issue. I've been arguing for some time, I think it's more of an execution issue, clearly there are some portfolio challenges, but it seemed to me, the execution was lacking. I'd love to get your perspective on that question and could you maybe share your thoughts on the fundamental attractiveness of EDP in Europe and what progress has been made to improve execution?

Pablo Perversi:

Okay. So again, let me just take a step back here. And I think that we haven't been good enough in actually saying how good is the company we have, in terms of positioning it towards the future because I think execution is important in any company you're with, particularly in these categories, like you say. But I think that when you have a company that is actually positioned for the trends of the future, you have aging, you have immunity, you have health, etc, etc, across this territory, then all of these are playing to EDP potential in its fullest of ways, actually. If, on top of that, you add the fact that we've got science, which is differentiating, unique and owned by us, both through patents and through lots of different ways of working, what you actually find is also that we're uniquely positioned to put that science into the portfolios that we have in a much better way as well.

So from that point of view of getting back to leadership, we have the potential in the markets and the trends that are actually helping us. We have the science to actually go in that direction in a very organic way, and that would bring us back to leadership. I think that being the number one dairy company in the world or having invented plant-based in Europe, we cannot afford not to be the leaders in the categories that we operate. And that's where also, execution becomes really important, particularly in the short term until you get all the engines actually wrapped up to the RPM that we want.

But execution becomes a crucial part of winning in the markets, taking every single space, deploying across all the different categories, being able to segment, being agile, responding to competition, and all the different things that you need to do to actually win in markets, which are very dynamic nowadays. But most importantly, completely focusing on consumers and the changes that consumers are making.

Because you see a lot of changes happening and if your execution machine can actually detect those easily, what you actually have is an equation to capture all these changes into opportunities and actually win. Which is probably what we haven't done very well in the past and what we're starting to ramp up and do much better right now.

Warren Ackerman:

Would you say that EDP could be a growth category? Would you go that far?

Pablo Perversi:

I definitely think that EDP can be a growth category into the future, and that's what we want to position ourselves towards.

Warren Ackerman:

Danone said, in the last results that Q3 will be the last quarter we would ever hear about SKU pruning. It's mostly done, maybe not completely done. You've cut 20% of your SKUs in Dairy Europe, and I know it's not all about SKUs, but are you happy with the SKU count and have you done now the work around creating those clear swim lanes for your big brands or do you still think there's more work to do? I mean, would it be fair to say that you've been playing defense for 18 months and now that the heavy lifting's been done, that you're more moving into playing offense in terms of increasing innovation and renovation and promo activity? I just want to understand how you're thinking about both the SKU side, but also the defense, the offense.

Pablo Perversi:

Look, it's very clearly that trying to move your house into a beautiful place to live without cleaning it, is actually not the very easy thing to do. So cleaning the house and making sure that we've pruned the SKUs that weren't profitable and the ones that weren't adding value for the future, was necessary for us. In actual fact, it made our life very complex because having to bridge that volume that you actually lose out of this is, a very brave decision that the company took.

Said that, the journey doesn't stop there. You still need to clean your house every month, and you still also need to make sure that you take the portfolios further in terms of simplification, reducing complexity, and improving your portfolios, so that every day you can delight consumers at a higher level. And I think that's exactly what we're doing. And in fact, if you actually, I'm very happy to show you this portfolio, for example, of Activia, where we're starting to get the claims back on packs. We're starting to actually leverage the benefits for the consumers in a much more visible way. And if you look at the packs inside, they're also much more harmonized so that we get the benefits of simplification in the process of doing that as well.

Warren Ackerman:

Okay. Can you talk a little bit about the out of home opportunity for EDP in Europe? I spent some time with the UK team. It seemed to me that it was quite a big opportunity for Danone to really tackle offices, gyms, coffee shops, train stations. Just interested to understand, from your point of view, how big of an opportunity is that? Has that been something that maybe has been underutilized previously? What percentage of European EDP is out of home and maybe how fast is it growing? It feels like it's growing fast. Are you able to put any numbers around that?

Pablo Perversi:

Yeah, so let me just say that it's more than 30+ that we're growing in away from home, but that's the number. Yeah. I think that doesn't explain why that is actually-

Warren Ackerman:

Is that EDP or across everything?

Pablo Perversi:

That's across the whole company. I can't give you exact numbers on EDP and all the rest of it, but I can tell you that we are actually growing very fast across the away from home. And that's actually because what we see is it's not just away from home, it's a number of different channels that are growing very fast from a marketing perspective. And we need to fish where the fish are. So if consumers are moving to those places, we need to be there with them. If our brands are relevant in those places, we need to make sure that our brands are getting the business model that when executed maximizes the potential of those brands in the way that it's actually executed. And obviously away from home was potentially underplayed in the past, still with lots of potential for us, and that's where we need to ramp up.

If you look at how that translates to EDP, you have in plant-based a super high growth in away from home. You actually start to see that we penetrate chains across the whole of Europe.

And our brand is the brand of choice in some of the chains where before you used to get milk. So what we're getting right now is that some of the people that used to ask for a latte with milk in the past in big chains in some countries, more than 50% of the people are looking for plant-based solutions with our brand. This is the type of big change that is happening out there in the market and that we're trying to really be the driver of it, both in terms of market development, but also in terms of channel development.

Warren Ackerman:

Innovation, obviously the lifeblood of all FMCG companies, and I think it's fair to say that, if I'm being honest, Danone's innovation track record, if I'm being kind, has been quite patchy in the past. But we've seen now GetPRO entering the UK recently. The protein platform has been so successful in the US, now coming to Europe. What has been a response to that launch? And should we expect to see more protein launches in other geographies? That's the first part of the innovation question.

And the second one is, what about the innovation plans for the other bigger brands? Actimel, Activia, Alpro, Danacol (cholesterol). If you had to isolate the biggest growth opportunities in European EDP from an innovation point of view, how would you size the opportunity? Sorry, I know there's a couple of things in there just around the UK GetPro, and then the big brands. What are the real big innovation things that you want to get behind?

Pablo Perversi:

So rather than me disclosing every single innovation done that we have as a company, let me try and explain it to you in a directional sense what we're trying to do. Because I think it will make more sense and also you will be able to then apply it on that logic that you normally use, yeah?

Warren Ackerman:

Yeah.

Pablo Perversi:

We said that we will do sequential improvement on EDP and we will try to actually be on the road of improvement. The first part of that sequential improvement is to make sure that the executional muscle of EDP is in place to deliver strongly in all the different markets. You use the UK example probably because you've been there with James and all the different teams over there, but I think that what you see in the UK can be seen in greater or less degree absolutely everywhere across the whole of Europe. I think in that sense, segmentation, promotion, on-shelf visibility, rotation of products, everything is ramping up as a result of that execution. As well as channel performance, which is the away from home discussion that we've had.

The second layer of ramping up EDP is to make sure that we have roll-outs and portfolio superiority and improvements all along the territories as well, with a harmonization or simplification of portfolios and complexity. That's really important because that will make us much more agile going into the future. But it means that when we have a proven repeatable model, we go and we go everywhere. So what we see in the UK is the start of something that will start to be very exciting in Europe, which is a much faster Europe in claiming the benefits of innovation before competitors are able to do it, yeah?

Warren Ackerman:

Yeah.

Pablo Perversi:

And that's actually the second phase of what we're doing and we started already.

The third phase of it is innovation. You can't just plug innovation and it comes, you have to work at it. And basically in what we're doing, we've already plugged it in. We are already excited about the number of innovations that we have for Europe, and that is something that will bring a lot into bringing us back into the credibility of leadership. Coupled with that, I think what we'll actually see is that we're really trying to address the consumers with a marketing equation of much, much better quality, much better targeted advertising, much better equation in terms of driving penetration of consumers that are going to improve the volumes of our brands. And at the same time, much higher quality of execution and marketing in terms of advertising on all the different things that we've got.

With all of that, we put the company back into the leadership of market development. This is what Danone was great with. It invented plant-based. It actually invented functionality with the yogurts, and this is where we got to go back to, which is basically driving a value add to the customers and to the market, and leading these markets into the future with things that are differentiated and difficult to copy.

Warren Ackerman:

Interesting. We touched on plant-based, can we spend a little bit of time on plant-based in Europe? We were talking primarily about Alpro. And Alpro has been struggling at retail, but doing very well out of home, as you discussed. In the Nielsen data, which obviously we look at pretty closely, it does look like there are some markets where the in-home plant-based seems to be struggling, I'd say Germany, where we do see some strength on the non plant-based, but weakness on plant-based. Can you discuss a little bit around the in-home challenges, so the retail challenges, with Alpro? What has been the issue? Is it been too much pricing relative to private label? Has it been not differentiating enough? Packaging not modern enough? Or is it flexitarian consumers going back to cheaper alternative? I'd love to know your diagnosis and why Alpro has struggled at retail. We have seen a slight tick-up in the November data, which is good. Do you think that uptick is sustainable? And I guess ultimately what we want to understand is do you actually think you can get plant-based at retail back into overall share growth as early as next year?

Pablo Perversi:

Okay, so let me just take this question from a higher perspective. I was looking at data last week that shows that consumers willing to consider a plant-based diet that they're not taking it today are 49% more than the consumers that are willing to take it today. That means basically that you have a huge potential for growth, and our market is stagnating in terms of penetration gain. Where Alpro has been a fantastic brand in the past is in growing the market, and creating the market, yeah?

Warren Ackerman:

Yeah.

Pablo Perversi:

But what happens is it has become an alternative, not for people that want to be flexitarian as a whole, but for people that have actually been looking for a lactose intolerant solution or other diagnosis that they might have actually had where they have bloated stomachs or whatever and they want an alternative. We need to move on from that. And the potential for penetration gain in a category which today has about 40% still is huge. The upside is very, very big.

So the game is market development for this category. It's not a pricing thing, it's not actually... That will develop in any category where you actually get private label and you'll be struggling a little bit more or less on the price indexes. But this category grows if we actually make the market grow. And this is where we have a lot of opportunities. Because with people wanting to be flexitarians, they want to adopt that way of being in different types of meals and things that they do. So we want to win breakfast. How do we actually do it so that with coffee we win with Alpro, with cereal we win with Alpro. And we can take it then also into some functional areas like protein and all these other places where the pricing is not so much of an issue. But we want to win through competitiveness and product superiority.

And I just want to give you an example of product superiority that we tackled this year. When you look at coffee, the lattes or the cappuccinos, which is now called the Alproccino by the way, I think what happens is foamability is super important. And the benchmark that a consumer will use is their normal cappuccino versus the plant-based one. Well, it turns out that in many machines when we were studying it, some people in the market were actually clogging up the machines. And this superiority is absolutely crucial for us to win in experience.

Now, what we're trying to do is design the portfolio in a way where that superiority actually shows through every single experience that consumers have. The experience of having cereal is better than if you would actually do it with milk because of the pairing and the flavors and the different things that we can do with our products. And that brings people into the market. And that in itself is already proving to work very, very well. You can see it in the away from home. But that's also why we're actually tying up with companies like Illy, like Kellogg's, like Lavazza, not just in the UK but across all the different territories.

Warren Ackerman:

Okay. But to push you a little bit on that, do you think plant-based in Europe will show a better performance next year than this year? And if so, what will be the main driver of that?

Pablo Perversi:

Look, we're starting to see some of the green shoots of the things that we're actually doing in terms of competitiveness and trying to make ourselves better in terms of the pricing equation. And what you actually see is that for the first month in a long time, we've already won share this month in the UK, and we're very, very close now also in Germany. So what you start to see is a change. We're winning share in other markets as well. And what's happened is yes, we've had a very big entry of some of the private labels, and that's why product superiority is absolutely crucial from a taste, from experience, from a delivery of texture, all the different things that are going to push that difference into a relevant space of price premiumness.

Warren Ackerman:

And related to that - innovation and product superiority - when we met with Isabelle Esser, your Head of Global R&D at Paris Saclay, your newly inaugurated R&D center in Paris, the big message from Isabelle was that Danone wanted R&D back at the heart of the proposition. And so my question is, what is your perspective on Danone's R&D capability? And what visibility alongside Isabelle do you have on future innovation? Not just talking about next quarter, but next two to three years, and specifically around the point of product superiority that you've mentioned a few times now. I know a few years ago, Danone weren't doing line tests, just weren't doing them. So now that's changing, do you feel like you've got a good handle on that? Are you doing enough tests to actually know a hundred percent that your products do indeed taste better than your nearest competitors?

Pablo Perversi:

So let me say, I know Isabelle for many, many years now actually, and I've worked very close with Isabelle on many different things. I have huge admiration for her as a leader and also to drive the scientific community that can actually bring the benefits of science into product. And what she's bringing to Danone is a rigor that actually not only brings about that difference in front of consumers, but actually makes it defendable in front of competitors as well.

So that said, I also believe that Danone has scientifically specific knowledge that puts us in a very good place versus our competitors because of the patents, because of the level at which we are in terms of some of the developments, and because of the applicability of that into products themselves. Because you have to remember that science on its own in a bubble will not actually work. It is when you bring the science to the product and the consumer notices it that actually you get the real difference, and that's where Isabelle is extremely strong. And we completely agree on driving that experience.

And then on top of that, when you look at the science that we have and the future trends, they play extremely well into the future trends as well. Because when you look at conditions of aging and aging and all the different things that people will need into the future, our science is extremely well-placed in terms of nurturing those trends. When I say nurturing, in a very biased way, but that's the way it actually is.

I think also it provides sustainable advantage for us because of the defendability of that science. We do have patents on a number of different things. We have a number of scientific papers written on different things, clinical studies, all sorts of stuff. And there's such a great combination between the SN portfolio, the dairy portfolio, the plant-based portfolio, because there's a huge amount of synergy in the type of things that we can actually leverage from the science of all of them into the future. And a good example of that, I think you've seen it in Saclay, when you were actually there, is the ferments, for example. The level at which we work in terms of ferments is huge in the way that they actually are starting to build AI to work with ferments to give you specific qualities

of product, and the way that the products actually react in terms of flavor, texture, all sorts of stuff, is absolutely amazing. Last but not least, Saclay has actually established that really strong platform for all that scientific base, and it's actually in Europe, so I feel very, very proud of the proximity that we have in Europe to that, and I'm very comfortable that consumers start to see it already.

Warren Ackerman:

Great. On a related topic, a decade ago, Danone felt power of the EFSA regulations regarding health claims, they weren't able to really get the methodology past this new pan-European body. Seems to me that Danone are taking a slightly more aggressive approach now with regards to claims on pack, in terms of where the line is. Would you agree with that assessment? And in that regard, I'm particularly interested in your move to have more kind of external partnerships. I saw that there was another partners' conference going on recently, I noticed, for example, that you have done a tie-up with Chr. Hansen on probiotics. I'm interested in that because that was something that was going on a decade ago, it seems to have gone full circle maybe. What do both parties want to get out of that kind of relationship? So it's a little bit around EFSA pack claims, and specifically on that specific relationship with Hansen, because they are a world leader in probiotic strains.

Pablo Perversi:

So we shouldn't focus on EFSA, because EFSA is a regulatory body that every country has, and every region has, and therefore, what we actually need is to work with EFSA. What we need to do is to make sure that we're differentiating our products and claims and benefits in the same way that consumers are actually appreciating it and to cover their needs.

Warren Ackerman:

Yeah.

Pablo Perversi:

And then that's why we're putting more money behind brands, to actually communicate that much better. And again, I mean, this Activia example that I just showed you is another example of how we can do it, and how those days where we were challenged are actually behind us. I have to say that creating partnerships, strategic partnerships, is part of a winning company, and that's why we actually have Partner for Growth, and Vikram and Isabelle are actually driving a very clear agenda of how we strategically partner for the future. Because we can't do some things alone, we have to actually pair up. And that's the way the world works today, you can't do everything alone.

So in many ways, if that's what is needed to be more aggressive, yes, but it's our duty to communicate better to our consumers, to make sure that they understand what our products are made of, and that our benefits are actually leading us to more consumers coming into our franchise of brands, also because we put more money behind them, and make it more clear. That's I think what you call swimlanes, and clarity of swimlanes, I think that's just a great marketing at its best.

Warren Ackerman:

Yeah, absolutely. Can we touch on the topic of pricing? You mentioned earlier that maybe pricing would sort of normalize, or get a bit tougher, I guess because you're pushing on the volume mix and dairy prices, depending on which country you look at, seem to be plateauing, maybe coming down. What would you expect on the topic of pricing? Because the pricing seems to have hung in there in quite more sticky than perhaps some people are looking in might have thought, are we expecting pricing to roll over a bit more quickly? Can you confirm, for example, that pricing will remain positive for EDP Europe next year if commodities, especially dairy, continue to roll over? Just love to get your perspective on that whole topic on pricing because that has been one of the bear points on Danone over a long period of time. Any reassurance on that I think would be helpful.

Pablo Perversi:

Let me say that companies have been over-reliant on pricing in order to actually make their P&L work.

Warren Ackerman:

Yeah.

Pablo Perversi:

And I think we need to move forward into a much more balanced equation of growth, that has volume at the heart of it, because that's what makes you sustainable, if you can continuously increase volume; mix, driving an important part, particularly accretive mix into the future, so that they actually drive your margins as well; and at the same time, price. Is the pricing equation going to be the same or as strong as it has actually been in the past? I don't think so. I think we actually need to balance that, because the world will change, volume will be much more important, and a sign of a company that is actually winning in the market is not just the price. I think it was Niall FitzGerald in Unilever that used to say, "Hey, the way that you're going with margarine, you will be selling less than one ton of gold in a pack of margarine, and that will be your total turnover."

Well, we don't want to go down that way. If our relevance is about tackling more people, giving nutrition to more people, we need to have a volume equation with it. And that actually is important in terms of making sure that that equation drives the company in a much better balanced way.

Warren Ackerman:

And then relating to that, promotion, which is another way of saying the same thing, but with a different tactic. I imagine that promo spend might have been quite low because of the fact that you were playing with the SKUs, and you probably don't want to be doing much on the promo when you're doing that heavy work. And maybe with the supply chain challenges going on as well, it didn't make much sense to do much on promotions, but I imagine that promo spend is part of the tactic as well. Can you maybe elaborate a little bit around how you think about promo in terms of ROI, and any color on where are we on promo versus a year ago, a couple of years ago, to orientate us in terms of what the level is, and to how you think about that?

Pablo Perversi:

So let me answer this from a consumer point of view, 32% of consumers are buying on promo. And as we actually go forward, what you find is that more people are concerned about value, and therefore, promo is growing another 3%, that to 35%. So what you then see is that the world of promo, if you choose not to play it, you're actually not fishing where the fish are at the end of the day. You need to recognize that consumers are buying from a pool which is actually under promotion, and if you don't want to do it, somebody else will, and you lose the volume.

Now losing the volume has a very painful effect on factories, on capacity, on a number of different things if you don't want to go there, and therefore, we choose to actually play the volume game, but play the volume game with a positive return on investment, play the volume game with a very targeted way of doing it, in an efficient way, play the volume game in a way where we are actually making sure that we're doing it in an accretive way.

Warren Ackerman:

Yeah.

Pablo Perversi:

So we are actually driving a promo equation that is important to the consumer, yet it's also good for us, and healthy in generating value.

Warren Ackerman:

Right. And maybe coming back to the data again, because obviously that's what we can see. Again, it looks like October, we saw the first positive volume month in Europe, also on EDP and across the portfolio, we saw another good month in November. So two months in a row, you have positive growth, but we're still seeing your share is still down versus private label. Is that just because there is some kind of post-COVID normalization of private label, we shouldn't necessarily look at the year-on-year, and we should be looking more the sequential improve in market share? I'm just trying to understand, when we look at the numbers, is that positive inflection? Is that real, or is it like there's some one-offs in there such as you've been relisted in Germany, whereas a year ago you were delisted, so you've kind of got this boost, which is not ongoing? Have we really seen already the inflection, or are we just seeing lack of SKU rationalization in there, and German relisting it? It doesn't look broad based yet in terms of the recovery.

Pablo Perversi:

I think the first thing to say is, we're equally excited as you to see some positive numbers on volume growth. I think this is actually a first for us in many months of decline. And I think that in that context, it's tremendous payoff for the amount of work that we've done, in the context of a rationalization, particularly in EDP, where it's been painful to recover that volume. So seeing growth is a huge amount of work, and it obviously ticks a lot of boxes in terms of becoming more competitive, in terms of delivering better, execution, et cetera. So don't look at it as something that we're going to go back on, but I think that the journey that we're on is a journey of sequential improvement. In the world of FMCG, you see it very rare that people just go up 15% in share, and they keep doing that all the time.

It's a world of sequential improvement, it's a world of improvement in a gradual way, but continuous improvement along the way. And that's why I talk about the different phases of the model that we're actually running, and how we can actually then do that in a continuous way to continue working. So direction of travel is to continue to gain volume, direction of travel is to continue to improve across all the different elements that we actually see in the business, until we position ourselves, or positioning ourselves as the leader in the categories that we actually work in, and retaining that leadership everywhere.

Warren Ackerman:

And just to follow on to that point, I mean crystal ball, 12 months forward, what would success look like in European EDP in 2024, from a volume mix, market share point of view? What's base case for you? What's good? What's the minimum

you want to deliver?

Pablo Perversi:

Look, I can't disclose the future. What I can say is what I've already said before, volume, mix and price equation much more balanced. In a way, we're working all the different elements to generate value, strong value generation across the whole company, trying to continue to improve our ROIC, trying to continue to improve the conversion of our cash flow, which is very important for us, and continue to contribute to Danone in a strong way.

Warren Ackerman:

Right.

Pablo Perversi:

And I think that if we take that into the categories, obviously that means starting to win in all the categories on volume, and making sure that we're driving that equation much better than we've actually done it before. Bringing back the panache for innovation, bringing it back the panache for execution, making sure that we're rolling out the different wins absolutely everywhere, making sure that we have superior products, and making sure that consumers are seeing us as the leaders, and bringing back value, particularly customers who are generating for the future, and obviously want to launch their future labels on the basis of the new products that we're launching.

Warren Ackerman:

And how does mix play into it? because I imagine that if you're cutting 20% of your SKUs in dairy, you're also by definition improving your mix.

Pablo Perversi:

Yeah.

Warren Ackerman:

Would it be fair to say the more that you do that, the more that you move away from private labels? So you are trying to actually create some space. And how bigger element... We talked about about volume, volume, volume, but actually is the other thing that's going on that you are really valorizing, or sweetening the mix of the portfolio at the same time?

Pablo Perversi:

Without being very specific on every single portfolio, but what I can say is, if you look at the channel game that we're actually starting to play right now, with away-from-home or discounters with pharma as the biggest growing channels, already, you have a mix effect from a channel point of view. When you look at the product portfolio, with functionals or active brands in the dairy products, with functionals now also coming into plant-based. Plant-based yogurt is actually starting to become very strong and growing tremendously. With Waters, where we're starting to actually do some things which we haven't seen before.

Warren Ackerman:

Yeah.

Pablo Perversi:

Even with tabs in Aptamil, where we're starting to do things that we haven't done before, what actually happens is you're starting to actually work your mix from different sides of the business, into a much more accretive equation at the end of the day.

Warren Ackerman:

The other thing I want to talk a little bit about is advertising spend, the marketing spend, because, to have you follow it down on a long time, I always got the impression that there was some frustration about the lack of relative marketing spend that the people at Danone got. Are you able to share a little bit about where EDP... Where is the marketing spend as a percentage of the revenue, even not a specific number, but in terms of how far are we towards spending competitively? Because I guess there's been a point where everything's going be reinvested, at some point, you're going to say, "We're spending competitively." And you're going to be able to allow to drop a bit more through to the margin. And then how do you actually measure ROI? Is it being measured correctly at Danone? I think about the marketing guys, and I know that you're consolidating your media agencies as well, are you getting benefit from that consolidation in the media agencies? So the whole topic around marketing, ROI, and the work that you're doing to get better returns on that would be helpful insight.

Pablo Perversi:

When you have a commitment for brands and you have brands as strong as the brands that Danone has, you need to invest behind them. They're a huge asset. And I think the starting point of the discussion is not about how much we save through media agencies or whatever. It has to be about the fact that we're committed to these brands. This year, we've put a lot extra money behind the brands. First year ever, where we don't actually cut A&P budget in Q4. And I think this is actually a great tribute to the fact that, because we're ramping up volume, we can actually hold the spend for the brands, and at the same time increase it.

So huge commitment to the development of brands to spending more, but to actually getting more out of the brands. Now part of that spend is not necessarily only coming from just more media, it also comes from better balance on the equation of non-working media to working media that you can pass from one to the other.

And that obviously comes from a number of different things. One is actually the fact that you have an operational model where you can leverage much more of the assets that you produce. You have agencies that are producing assets for many more countries. You have media that is better targeted. You have an organization that is actually working together much better than before, in a category way to actually give the ammunition to countries with which you win. So in many different ways you leverage much more your equation. I think to that, if you add the fact that the assets that we have as a result of working together are much better than the ones that you could have landed in the past by everybody doing their own stuff in their back garage. I think what we have is we have a much more powerful quality of engagement with consumers, much better targeted media as well as, we're really focusing on winning on penetration of different brands and different places. And that leads to a much better ROI. Now what is ROI? It's value generation at the end of the day. And what we do measure as a total and per categories in the plans and everything that we do, is whether that value generation is in place and at the heart of what we do, and much more so than before. And that then guides our capital investments, it guides our media investments, it guides a number of different things where we have to be able to look at for improvement of efficiency in the KPIs.

Warren Ackerman:

Could I ask you about supply chain in Europe? It's been a big issue in terms of the feeling of underutilization of capacity, and so you mentioned ROIC a few times, and so I imagine if the volume comes back then you should see that dropping through in terms of better assets. And coming into the business with Vikram's coming on the supply chain, can you maybe share with us a little bit your assessment of how the manufacturing footprint looks, what needs to be done? Can you actually combine medical and dairy or plant-based and EDP together, to actually and through the capacity utilization, and what would Vikram's priorities be in terms of actually really trying to improve those returns?

Pablo Perversi:

When you have a business that for 10 years has actually lost volume, it goes without saying that you will have over capacity in some places. Now, that doesn't mean that to become competitive the only thing you need to do is tackle that. You have to balance the equation out in terms of becoming competitive in a number of different areas. And I think Vikram and I are working very, very closely together on this, trying to make sure that we benchmark the organization, we understand what great looks like, and we drive an equation where we're really trying to make sure that we bring the volume back and we actually drive the costs to a good place, but obviously to a very good place.

If you look at our productivity programs over the last years, they've actually yielded very good numbers for us, which is the money that we actually use to re inject and invest into sustainability, into brands, into innovation or different things that we need to do in order to develop the market.

So, bottom line is that competitiveness is an essential part of what we do and with Vikram we're very close in trying to drive that equation, from all the way to the top of the P&L, from the gross-to-net to all the other elements of the P&L. And that, giving you the example of A&P, but obviously Vikram is driving that equation through factories just as well as we're driving it through A&P and through gross-to-net and through everything else that we do.

Warren Ackerman:

I could talk to you all there about EDP, but there are other categories in Danone. So can we maybe quickly touch on those, and I specifically want to ask you about the medical opportunity in Europe. I saw that you made recently an acquisition in medical in Poland, and when I met your UK team they talked about expanding capacity in medical in the UK.

Just what is behind those capacity expansions? How quickly is medical growing? I'm just trying to, it feels like the opportunity is much bigger than we are here in Danone. I don't know whether that's something that you share, and related separate but related in terms of the reimbursement model, there was a down on Specialized Nutrition margin because they're crazy on reimbursement. Can you just reassure us that that is just a timing issue and what's behind that? So really if you can maybe, sorry, that's a big question available, but sort of try to size the opportunity. How do you think about it, and any sort color on that reimbursement point margin would be probably super helpful.

Pablo Perversi:

Okay, so I think many people don't really know what the medical business that we have is and the scope of the medical business, but when you look at the medical business through nutrition, what we actually have, it's a business that can actually save the health services of Europe up to 17 billion. This is a huge number. It's a number that is very relevant, and it's not a number that we calculate on the back of an envelope. This is a number that has actually been done through clinical studies that all the teams with doctors around the whole of Europe have actually engaged on. Now this is hugely important because when you look at the potential, in terms of Europe, in countries where the health services are exploding of cost and they need to control that, it can only get worse because of the trends on the aging population that we have.

I think this is something that puts us in a very strong position to work within this remit, to really find the future which is very, very attractive. Now that future becomes really attractive the moment you actually split it into the different pathologies, which we actually help patients with, either it's oncology or allergy or keto or mets or whatever it is, Pediatrics. But the reality is that when you get into all of these things and you look at the penetration of the total pathology that we have today, versus the penetration that we could actually have in 10, 20, 30 years time, this is a hugely exciting category with lots of potential, and I always say to everybody, because of the way that these categories are actually set up, very, very interesting to play into the future.

With regards to the pricing and what you're asking me about the margin. I think what happens is, when there's very, very big shifts in terms of inflation in these categories, it's not as easy to recuperate because of the pricing mechanisms that they actually have. Don't forget that then is not uncommon knowledge that our governments are our biggest customer in Europe, from the whole of all the customers that we have. And with these customers you actually have maybe longer term contracts.

So our ability to actually change it in the shorter term is actually there's good and the long term is not an issue, it's an issue of phasing basically. So what happens is, that adjustment happens, and we are also getting good at how to adjust that in play by actually developing ways of moving the pricing within the contract, to maximize as much as we can. So in reality, is you have a category that has huge amount of potential in a very relevant way within trend, to driving penetration and at the same time a category where, yes, we've had maybe a little bit of a damper, but in reality is very adjustable with the phasing that we have.

Warren Ackerman:

The first part of your answer, how do you actually unlock that potential medical? What is the barrier to actually making that happen?

Pablo Perversi:

I think nutrition in the world of medicine is something that we feel is very old, but it's not as old as it actually feels. And we still learn with the doctors and with all the medical practitioners, what's the best way of positioning some of these solutions that we have? Is it better to talk to the nutritionist or to the lead doctor or to the nurse or to some of the associations, whatever it is.

What you find is that there is no common understanding of what's the best way. So we're helping everybody and we're helping the system in trying to understand the best formula for driving this. What's very clear from the scientific papers and the clinical studies that we actually have, is that our products are actually drivers of savings because of what they do. They accelerate your well-being, and as a result of that, they save the government's a lot of money. So from that, you actually have a very strong position of conviction that we can generate value into the future. Is the equation something that we know exactly how to work it? I think everybody's learning how to manage it going forward.

Warren Ackerman:

Time is running short, so I'll ask you two or three very quick questions. So I'm going to ask you just quickly on European Waters, what are the priorities for that position? What do you want do with stuff like this and evian and Volvic and Badoit?

Pablo Perversi:

I think in European waters you can see it: we're winning share, we're actually doing very well. We've had a tough year because of the climate, and the different effects of climate, in the different parts of the year. But in reality we have a good equation. We see the potential of growth, we see the potential acceleration of margin. We see, also, the innovation that can play a really strong role. We're investing in sustainability, and at the end of the day when you look at the equation that everybody was scared about, which is transportability of water, plastic continues to be the best solution that there is around the world for this and not very many alternatives. What you have to do is you have to make sure that you invest in the type of plastics that are fully recycled, and at the same time you're actually investing in an equation of plastic which will be different today from the future.

We've got that in our plans. I think we're actually making strong way forward with partners who are going to provide that technology for us. There's a big investment coming in Europe in that sense. But at the same time, I mean there's plenty of opportunities in away from home, plenty of opportunities in terms of different category place. Sparkling is actually growing tremendously well for the whole of the portfolio. Cans is an option for us to actually take it into a new space. Aquadrinks actually helps us play into an innovation field that we haven't been all that great, and obviously when you actually look at the hydration, we're actually becoming much more relevant in terms of the propositions that we have. I still feel there's a lot of opportunity and a recognition that the world is going to be different, but still something that we can win in.

Warren Ackerman:

I think we're on the buzzer, Pablo. In terms of what would be the one or two things that you want investors to take away from this? Obviously you've come into this organization, there's a lot of energy, there's obviously a lot going on in terms of actually trying to prioritize that. So what would be your two or three big takeaways in terms of how investors at this should think about, over the next short to midterm? Are we moving into that new phase now where we're going to start to see more of the delivery?

Pablo Perversi:

I think what you'll start to see is the company that is much more proud in terms of its own leadership and the ability to influence the future because there is a lot of potential out there to be had. I think you'll see a company that is going to be leading in the markets much more aggressively than we've actually seen and winning in the markets is actually fundamental. And you'll see a company that is much more competitive in terms of what it does, but at the same time that invests into the future in a right way. And that you will see through a sequential improvement year after year, month after month, which is hopefully what you will be seeing also this year in terms of some of the improvement that is already out in the numbers.

Warren Ackerman:

Thank you for your time. It's been very interesting. Thank you very much.

Pablo Perversi:

Thank you. Bye.