

Danone

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07:30 AM EDT**

Unidentified Participant: Good morning, everybody. Welcome to day two. It's my absolute pleasure this morning to welcome Danone back to the Global Staples Conference again here in Boston, and in particular CFO Cecile Cabanis, Executive Vice President of Essential Dairy and Plant-Based, Paco Camacho, as well, as well as the IR team.

Danone, as you'll be aware, is a world leader with a health-based food and beverage portfolio, in particular in Specialized Nutrition and Water, but also the Essential Dairy and Plant-based, which Paco leads and has restored to growth in the first six months of this year. The company is on track to deliver their €1 billion savings from the Protein, cost-saving program by 2020, €200 million of which this year. And despite the impact in the first half from Brazil, input such as freight and oil now inflating over 20%, they delivered over 12% earnings growth.

Today's presentation will take up I think the full 40 minutes, so with that we'll hand over and then we'll move to take Q&A around the corner in the breakout room. Cecile.

Cecile Cabanis: Thank you for the introduction and the opening joke on my name. It's a very usual one. Thank you everyone, so we are very happy to be back here, Back to School. We never miss it. We always seem to get the early slot. It's French time, probably. So thank you for all of you who wake up early and join us for these minutes together. I'm here with Paco Camacho, who is heading our Essential Dairy and Plant-Based business, and I will go through an introduction of where we are in terms of business update and the transformation of the model, and he will go through a more extensive view on how the context is changing fast and how Essential Dairy and Plant-Based is accelerating and transforming itself, especially with the plant-based business where we see a huge potential for acceleration in the future.

To start, as you know, the context and the overall food and beverage industry is transforming very fast. The consumer is expecting a lot more from food than he used to be, especially for the young generation. People want to know where the food comes from, how the ingredients have been sourced, what it's made of. They want to understand what the brand stands for in terms of environmental and social impact and commitment,

and, at Danone, we've been pioneering this. It's in our genes, in the way we've been doing business for a very long time, and we continue to transform ourselves to make sure that we embrace what we call the Food Revolution, and that we are fully able and uniquely able to serve it.

So to start with, I will start with this chart. It summarizes who we are and what we stand for, and it's around two things: it's around health and it's around responsibility. And it's all embedded in the vision that we put forward under the One Planet. One Health vision, including the goals that we presented for 2030. They all embed the vision of how we see the portfolio, the role of the brands, and how we want to do business in the future. And all that is not because we like it, it's in order to make sure that we are creating and sharing sustainable value for all.

Health. We didn't start to have a healthy portfolio a short time ago. Over a decade ago already we stood for a mission that was bringing health through food to as many people as possible, and since a very long time Danone has transformed its portfolio to go from a conglomerate of food into very focused dedicated health category and very strong healthy brands. So this is what we do and what we stand for.

Responsibility. Responsibility, it's about resilience. It's about sustainability. It's about making sure that whatever we do, however we are using resources, whether it's human, financial, natural, this is done in a responsible way so that it can be sustained. And with all of that we've decided to go and call for our ambition to become certified B-Corp, which is really measuring the standard in terms of environmental and social way on doing business. We've been having our North American business certified not so long ago. We are now about 30% of our sales certified B-Corp. This is a very strong trust mark also vis-à-vis the people and the consumer, and we believe it's going to create a very important competitive advantage in order to continue on our mission and on our ambition to both be able to deliver superior sustainable profitable growth, one of our nine goals for 2030, and meaning that, for the very long term, we are able to create and share value sustainably for all.

If I go into a bit more concrete details, so first the portfolio. I was talking about how we transformed the portfolio and how we came from a food conglomerate into very focused healthy category. You have here our portfolio, which is split in four reporting lines, how we report the business to the market. So on the left, around 30% of global sales is Specialized Nutrition. Specialized Nutrition is both Early Life Nutrition and Advanced Medical Nutrition. On the right you have the Water business, which is around 20% of global sales; and in the middle our major part of the business, which is Essential Dairy and Plant-Based, North America and International, which we report separately. And it's the combination of what used to be our Dairy business and our new acquired segments, through the WhiteWave acquisition that we did last year, which is another good example and latest big step in how we are transforming our portfolio to go where the consumer is going in terms of healthier food and being more meaningful to what it does. When you see that, you see that we are offering food for the full lifespan, from baby to elderly, so we can really have an impact and be a meaningful actor in this Food Revolution.

Also, on the bottom of the chart you see that around 90% of our products are recommended for daily consumption, and this is based on public health studies, which is

another proof point of the way we've built the business and the competitive advantage that we can have to be uniquely positioned in this revolution.

Here, again, it's about being in the healthy and right categories supported by the secular trend that we see. It's about being superior in growth, which is one of our nine goals. You see on that chart that the categories in which we play are highlighted in color, while the other categories of food and beverage are in gray. So you can see the Waters category in blue, the Essential Dairy and Plant-Based, that have been enriched by the acquisition of WhiteWave, in green, and Specialized Nutrition in pink. All research shows that in our categories, growth outlook is between 5% and 9%, and in any case, is superior to the average growth of the overall food and beverage industry, and you can see that in each of these categories we have very strong or leader positions.

At the introduction I said that the environment is changing fast. The consumer is transforming fast, and so it's important to make sure that we are adapting at the right pace and in the right part of the business. If I take the environment, today when you look, especially at new generations, first you see that people are willing to pay more for healthier and quality food. You see that most of the growth is now coming from local brands. More and more purchases are taken online or on-the-go, and the majority of purchase decision is made through recommendation. So that's why, and you have it on the right part of the chart and it's probably an area where Paco will focus much more, taking the example of the Essential Dairy and Plant-Based business.

We are transforming our portfolio of product to be more local, more authentic, more natural, and you will see that we've been doing a major step up into innovation and the way we innovate much more locally, with more small size. The time where massive volumes were, the rule is gone. Now you have to adapt, you have to be locally relevant, you have to be much more flexible in the way you go and much faster in the way you go to market.

In terms of brands, we continue to be, and that is not new with Danone, very demanding on what the brands stand for and the kind of standard that they put behind them. We need to have activist brands. We are investing a lot and we are doubling down in terms of what we do regarding e-commerce, e-business overall, and what we call uncomfortable channels, so on-the-go and convenience. And we are also making sure that we are setting up the organization, especially in innovation, at the right point of leverage to be both very agile and efficient, and we are also making sure that innovation is not a closed process, but it's made through partnerships with customers and suppliers.

In terms of the overall model, when Emmanuel became CEO and I joined him as CFO, the first time we talked to you guys, we said that we needed to rebalance the model of growth to make it stronger and more resilient. And when you look at the operating performance, you see that we have been indeed delivering a combination of growth and margin where we've been accelerating margin improvement and continuing to make sure that growth was what it should be, and we said at that time that we will make sure growth is profitable before we accelerate growth. And that's what you see here: we've been delivering with an EPS growth, continuously accelerating. H1 was another strong delivery of results with a good combination of a 4% acceleration in growth and a strong improvement in recurring operating margin, 51 basis points, delivering in line with our

full-year guidance more than 12% EPS growth, 13.4% if you exclude the impact of the Yakult transaction. So this is another illustration that the way we've been transforming has been both agile in order to set the foundations and the conditions to re-accelerate in growth, but also disciplined and efficient in order to make sure that we were improving margin and becoming more resilient. And we did that especially in H1, and I will come back on that in a context where the environment and the headwinds were really strong.

In term of balance sheet, given the acquisition of WhiteWave, we have one priority which is to deleverage, which we've been doing. We delivered in H1 more than €1 billion free cash flow, which is fully participating to that. The sale of our partial stake in Yakult is also participating to the deleverage agenda, so we continue on that path and we are very confident.

Second, it's about being very disciplined and targeted in terms of where we invest our money. So you have here the CapEx, but it applies also to the way we allocate any resources that we have with discipline and regularly. And finally, it's about shareholder returns and dividends, dividends that have been increasing consistently over the past 10 years.

If I come back to the businesses, and maybe I will focus a bit more on the most recent results, I said that H1 was a very strong performance with a combination of a strong growth and very strong improvement in margin, and this is the results of progresses that we have made in all our business lines. I will start with the Essential Dairy and Plant-Based, because for me it's very important, the progress that we are making there, because it also enables to rebalance the growth profile of Danone on more engines of growth.

So in North America, we've been back to positive. It has been a rolling year of progress and acceleration. H2 will confirm this trend. If you see here, 1.4% in Q2, but if we exclude the Fresh Foods business, it would be actually 3%. And it's important to note that from the acquisition of WhiteWave, around 75% of the portfolio of WhiteWave that we acquired is growing more than 5%. So in terms of the strategic choice that we've made here, again it illustrates that it's a good one and this continuous progress are also showing that we are on the right track in term of rebuilding and re-accelerating the growth there.

Then in EDP international, growth is negative but the real underlying performance is that we continue to progress. Excluding the Moroccan boycott, we would have been positive, and again showing progress against the trend. So here again, this has been enabled by a gradual stabilization and a solid growth in some countries, especially on valorized portfolio, in Europe, in Russia, but also in Latin America, and we are very confident that this progress will continue to materialize. Also, we do expect that - as you know we've been having an impact from Morocco and Moroccan sales by -40% in Q2 - and we do expect that this impact will continue in H2.

On our two other reporting lines, so Specialized Nutrition has been delivering a fourth quarter of double-digit growth. You know that it's partly given Chinese exceptional growth that has started in Q3 last year, and also about the execution of our plans around Ultra-Premium in China, but there has been also a very solid growth in Advanced Medical Nutrition in all our platforms.

In terms of Waters, it's another good strong quarter of growth which is in all segments and all regions, and we are continuing to expect that this will continue, and you know that we expect to have around the same growth for this year as for last year. So it's a very healthy and sustainable growth that we have there.

I mentioned in the beginning that we were looking at innovation a different way. You have here on the left part of the chart an illustration of our most successful innovations from the recent past, and in H1 in particular. We've been having a major step up in innovation, which I said was to be faster to market, to be also more flexible in the way we are able to put our innovation in terms of formats and in terms of size on the market. And today or in H1, the weight of innovation in our net sale has been increasing by 40% versus 2017, and this is about valorized innovation. So it's driving the mix, and you know that when we look at the growth profile of Danone between volume and value, most of the value is driven by mix. It's country mix but it's also mostly product mix that comes from innovation and from valorization of the portfolio.

Growth is very important. Accelerating growth is part of our commitment and strategic priorities as maximizing efficiencies. So we have been very focused in terms of making sure that we were maximizing efficiencies. We started to make a step up on productivities and cost optimization in 2014, especially entering into organizational efficiencies with the OneDanone organization, with some new organization in term of procurement. Also with changing fully the way we look at resource allocation by cancelling the budget and making sure that we were adopting a measurement of performance that would allow more agility but also more discipline and focus on where we put our resources.

And as part of our 2020 commitments, we've been adding to these efficiencies that are ongoing, what we call ongoing productivity, a program to have €1 billion saving from our indirect spend, which is the Protein program. We started in H1 to see the first savings. We've put last year the foundation before we were deploying the different initiatives. They started to deploy. We made around €75 million savings in H1. We are on track for the full year to continue to be as we said in terms of plan. And of course we continue to successfully integrate WhiteWave and get the synergies out of the integration according to plan to be fully in line with our value creation plan and deliver the \$300 million synergies.

One word on the context, because it's true that it's not an easy one. Volatility is not new. Volatility, complexity, fragmentation is increasing. It's everywhere. It's not an excuse for not delivering, but it's a fact that we need to take into account and that's where we need to be really mindful in being more agile but also very disciplined in order to be able to answer to this and address these headwinds in a very efficient manner. If we take maybe this year as an example, which is what you have more specifically on this chart, we've been having very important inflation in crude oil price, leading to PET inflation of 20%. You know, and we're hearing in the US, that transportation costs in the US have been getting very important inflation. We've been hit by currencies. You see that in our H1 numbers, we had an impact of 8%. We will continue to have quite a strong impact also. It will be to a lesser extent than in H1, but it will continue to be an important one for H2. And finally, we've been caught in a boycott in Morocco that started on the 27th

of April, where we lost in Q2 40% of our sales. We started a consultation at the end of July with the people on the ground to understand and respond to their needs in order to rebuild the trust and restore progressively the growth for this business. Emmanuel Faber is there right now and we will be making some announcements of measures that are derived from this important consultation that has been taking place on the ground.

It's very important to understand that there will continue to be headwinds and volatility, and it's really for us a key focus to make sure that we continue to monitor the rhythm of growth and efficiency to be agile but also disciplined in the way we can deliver the performance in the short term.

So as a summary and before I hand over to Paco, we are on track with our strategic priorities as I show you, accelerating the growth. Overall, we made 4% in H1. We will deliver growth in 2018 that will be greater than 2017. Maximizing efficiency, it's everything I shared about ongoing focus on efficiencies, program Protein, and WhiteWave synergies, allocating capital with discipline. We are fully progressing towards our ambitious agenda and commitments for 2020, and with what we've done in H1 and the overall progress of the agenda we have reiterated the full-year guidance, which is double-digit recurring EPS growth at constant exchange rate excluding Yakult Transaction Impact. Thank you and I hand over to Paco to go in more details on the Essential Dairy and Plant-Based acceleration.

Francisco Camacho:

Thank you, Cecile. Hello everyone. Good morning. I have a lot to cover, not a lot of time, so buckle up and let's start. So the purpose of this slide is for you to have the real and the Photoshop version of me. Basically, I asked Cecile why don't you have a picture, and she said because everybody knows me. So I guess that you guys, not all of you know me, but I have been in Danone for 18 years. Probably last time some of you saw me, I was responsible for the Water business and also the Growth and Innovation part of the company.

So just you know our business well, but just to give you a few highlights, it is €13 billion business, accounts for about 53% of the company sales out of which about 25% is made of the former WhiteWave brands. We have a very strong portfolio - that's what makes us very unique - composed of both regional, global, and local brands. As it is, we make about 56% of our business in local brands, and we'll talk more about that.

Lots of things that I could say about our business, but I will focus on two things. First, what are we doing to revamp our performance and to capture the transformation that is happening out there in terms of consumer trends; and second, what are we doing to accelerate our Plant-Based business.

Let's just start with the part number one. Reality is that change is happening everywhere, particularly in the way consumers are behaving. We know that, you know that. We are seeing it even in our own houses. But consumers are eating healthier than before. I had a 15-minute conversation with my 60-year-old taxi driver from Logan International Airport to the hotel about how he was eating healthy and what he was planning to do in the years to come to continue eating healthy, because he said 70s is the new 50s. And he said that the reason that was the case is because he was eating healthier, more like his grandparents were doing it. And we know that that's the way not only 60-year-old taxi drivers think,

but also is the way the younger generations are thinking. And that is creating a number of changes not only in consumption, but also in the way they are buying it, because immediacy is the name of the game, and that means that the places where they are buying it are also changing, and what we're expecting is in the years to come, channels such as convenience, such as e-commerce, such as discounters will be growing at a rate three times faster than the traditional hypermarkets and supermarkets.

And what all this is creating is that the categories are behaving differently, and the fundamentals are changing, which is good news because frankly, this is allowing for healthy growth in categories that existed, have existed for some time such as probiotics, and also strong growth in categories that are newer such as plant-based. You can see here that probiotics is growing about 6%, plant-based about 8%. Protein, which we will talk about that, is growing about 10%. And the other things that in the past consumers were not so much willing to eat such as fuller type of products, are also on the rise.

What this is creating and the way we're looking at it is that in the past, we used to look at the categories as boxes, individual boxes that didn't touch each other, when the reality of what is happening is that today it is a much more fluid environment in which the boxes mix with each other. So if today we're selling cold brew coffee with probiotics and high in protein, what is that? Is that a probiotic product or is that a coffee, ready to drink? And that only proves that all the categories are mixing with each other, and we need to find the right combination to look for those places and those spots in which the growth is going to be stronger and the value creation for everybody is going to be better, and that's what we're trying to do. And then this is the way our portfolio is going to be managed and is being managed today.

And to accomplish this, well, of course, what this generates, has implications. On one hand, we of course instead of being in individual boxes growing between zero and 3%, we'll be having a lot of boxes that are growing about 5%, which is great news. Of course, the competitive landscape will change, because if in the past we were competing against one or two people, now we're going to be competing against a number of competitors, large, small, medium-sized, local players. But that's okay. I mean, it's part of finding the growth out there.

To accomplish this, we have established a new strategic platform which is composed of six growth levers. I'm going to walk you guys through each of them, but very fast, in the way we're activating them, so let's just start with the first one which is winning with the younger consumer. There are a number of ways to do that, but frankly we need to do this in an orderly fashion so that we capture the young consumers but at the same time we're attractive to the existing consumers. So one way to do that is rejuvenating existing brands and launching new brands. Here is an illustration of both cases. Light & Free is a brand that we introduced recently in the UK and we're expanding rapidly into other European markets. It's growing double-digit for us. So Delicious is an existing brand from the WhiteWave portfolio that we are revamping and making it look younger.

On this middle part of the chart, we have a new set of products under the Danone brand name that we introduced in Europe and we are also expanding, and it basically is allowing us to tap into some fast-growing categories such as Skyr, such as Laban, such as ethnic types of products in which consumers are navigating.

Kids are important for us. You see here what we're doing with Danimals in the US and the license of the Incredibles. Danonino pouch, which we launched in several geographies and it's allowing these brands to grow double digit. And clearly, if we want to connect with consumers, younger generations, we have to do it differently. Touch points are different. So we have to do the true precision marketing which we are becoming very active and very good at doing it, and obviously with different types of partners such as Spotify. And as you know, these younger generation also want to be told what their product does in a different manner. Storytelling is very important, how the packaging looks, what the product does, where it comes from as Cecile said, and all this part of the storytelling is important. Here is an example of something that we're doing with Left Field, a brand that we introduced in the US, but it's something that we're doing consistently across our portfolio.

Second growth lever is owning probiotics, dealing with protein and soft functionals. Let me walk you through it. Here is something that we did in the US, Activia Shot. We introduced it in February in 2018. It has allowed the brand not only to capture new consumers into the franchise, younger consumers, but it has also allowed us to restart growth in this very important brand for us in the US. We're also introducing it in several other markets in Brazil as we speak, but it will come into Europe in the next few months.

Plant-based, and it's important: we are expanding it and we have yogurt with high content of protein. Protein is something that is not exclusive to the US, and we're taking it into other places fast and deploying it so that we catch up with this. Same with yogurts. We have a number of extensions that we can exploit in different markets, and we are doing that. Same with soft functionality. Soft functionality is something that is happening today. It's undeniable that when we go to the stores, when we go to the market, people are looking for different ingredients which will add a benefit into the product that they are buying.

So here you see something that we're doing. We're launching a new version of Actimel with soft functionality. We're going to do that in Germany in the next few weeks. We have Activia. You see some Activia there that we are doing in the US with also this type of ingredient. And a new brand, which is the beauty of our portfolio, it's that we can do this in global brands, local brands, regional brands. But importantly also we are not afraid of launching new brands. So you see here's a new brand that we're launching in Japan, which is also playing with this soft functionality that is so trendy today.

Next, and in sake of time I will skip this slide and I will talk about acceleration of plant-based in the second part of our presentation. So I will skip this slide so just stay with me.

Next strategic growth lever is driving indulgence. So consumers are eating healthy, but that means that they also want healthier options when it comes to indulgence. And we can provide them with that and we have been doing that for years. So here are a few examples of these. There is white indulgence, which is a big trend in Europe. We have Oikos, which is positioned differently in Europe versus what we have in the US. This is an example of Spain, which is growing double digit for us. But consumers are buying this product because of its indulgence and because of the pleasure they get out of it. We're doing this with new brands such as Oikos, such as other brands that we launched in

Eastern Europe, but also with well-known, older, existing brands such as Danette. So this example that you see here is the new look and feel of Danette in Spain, which we are revamping and sophisticating and once again bringing into the new generation of product creation. And importantly also, impulse is extremely important when it comes to indulgence, so we have on-the-go packagings for most of our brands around the world.

Next is innovation. Hopefully you have seen in the last few slides how much innovation we're doing. Cecile also spoke about how important innovation is and how important it is also to do it differently versus the way we were doing it in the past. So it's very easy to innovate. What is difficult is to do it in a disciplined manner and in a way which captures this fluidity and this way in which the categories are behaving today. And what we're doing is we're saying, all right, first there is innovation that will allow us to align with trends that are happening. That is the case of organic, for example. As we speak today, most of our largest brands will have an organic version available for consumers in most of our markets where organic is relevant.

High protein, as I said, is not only something that is exclusive to the US, it's something that consumers are looking for. It's not only exclusive for yogurts. People are looking for high protein content in other types of products and we're offering that for them. Indulgence, I spoke just about it. See, a plain yogurt, plain yogurt is a category that's growing double digit in most markets. Why? Because consumers want to personalize their experience. So we're offering that for them in a number of brands.

The second way of innovating is owning the trends in which we are strong. That's the case with probiotics, that's the case of plant-based yogurts. We are very strong there. We're the first ones. So we are obviously aiming to modernize and accelerate the performance in these segments. And next is foster the creation of new trends. We need to capture trends early, we need to make sure that we are keeping them, and this is where we're trying to go here.

I spoke about soft functionality. Impulse and on-the-go. Obviously, consumers, as we said, are looking for immediacy. Convenience channels are going to be delivering more than 50% of growth. We have to have the right portfolio. In the past we used to have a lot of multipacks. We have multipacks but we are now offering also individual packaging. We are innovating a lot, and you can see some here in single serve, in spoonable single-serving cups, single-serving pouches, single-serving bottles, and of course these backed up by a revamped way of looking at the route to market, how we are organizing ourselves. We are very good in some markets tackling this channel and we are taking all these learnings into the rest of the world.

Second element that I said that I was going to talk to you about is how we are accelerating plant-based. So needless to say that this is a very strong growth opportunity. Every single category related to plant-based is growing strongly and is forecasted to continue growing strongly. You can see here the growth trends expected in the next three years with these different segments in this category, all of them extremely strong. So obviously this is because there is still a lot of growth penetration opportunities for both the beverages and also plant-based yogurt. You can see here that even in the strongest market like the US and Belgium, the penetration of beverages is way behind that of milk, and when it comes to yogurts, you can see that the penetration gap between dairy yogurts

and plant-based yogurts is still huge. So obviously, the opportunity is out there.

People are eating in a different manner. One-third of people declare themselves as flexitarians. And importantly, 80% of households that buy plant-based products, they also buy dairy-based products. So to accomplish and to grab the opportunity that is out there for us, what we will do is first we will make sure that we exploit the fullest spectrum of ingredients as consumers demand. We know that we are very strong in the market, the categories are very strong in soy and in almond, but the reality is that oat, coconut, cashew, rice, chickpea are also categories that are growing, and we are participating in all of them and we plan to continue doing that by staying close to consumer needs.

We are expanding aggressively into adjacencies such as coffee, coffee creamers, ice creams, cheese, and evidently these will provide for further growth potential. We are rolling out aggressively geographically behind Danone's backbone. Alpro, we're accelerating rapidly in Europe. Silk, we're primarily using it for Latin America. And then, of course, as I said, we're not afraid of launching new brands, so here is an example of a probiotic shot plant-based that we are launching in the UK in the next few months.

So I think that it's very important to talk about plant-based yogurt, because this it's benefiting from a very strong growth rate, over 50% in the US, over nearly 40% in the UK, and we are the first one in this category, so we command a very strong share. We are the market leaders, we're the first ones out there, and we plan to stay that way.

Ice cream and mousses, obviously you can try them. They are across the hall. But it's an adjacency that we believe is consistent with what I said before in terms of desserts and what people are looking for when it comes to these types of products. And here, an example of So Delicious, which we are also revamping and premiumizing because as consumers moving to plant-based, one of the things that happens first is that some of the categories start to commoditize, so a way to start creating differentiation is by premiumizing, and this is an example that we're doing with So Delicious.

To finish, I would like to share with you news on Silk. I know that probably last time you heard, one of the objectives that we had was to ensure that Silk came back to growth. I'm happy to report to you that the first half of 2018, we have high-single-digit growth in Silk. This was behind a number of actions that we took, including a new positioning and a new campaign, and I would like to share a couple of commercials of this company with you as we close this presentation.

(Two commercials played)

Unidentified Participant: Thank you very much, Cecile, Paco, for your presentations. I suggest we repair as quick as we can to the breakout room for Q&A. Thank you.