DANONE

2017 -2020

Shaping the growth model

Evian 2017 - Investor Seminar

Transcript

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Thank you and good afternoon everyone.

Let me start by extending a warm welcome to every one of you. We realise that your time is precious and you have the choice to come or not and I would like to thank you for coming as it gives us the opportunity of meeting and interacting with you directly over dinners, lunches, breakout sessions and questions. It is important in ensuring that we align everyone as much as we need in building what we want to build.

This is particularly important now as the world has never been as polarised as it is today, probably, since the fall of the Berlin Wall. The world has never been as fragmented as it is today, for generations; fragmenting civil society across generations, countries, urban dwellers and rural inhabitants, religions, politics and consumers. For a company that deals with 300 million or more consumers every month, you can imagine that this is a changing landscape and we cannot remain without taking action on it. It is for this reason that I have chosen to title this introduction, 'Fit today and tomorrow' and the most important word, the most challenging word in this short sentence is the word, 'And'. I would like to take you through this introduction that will lead you into this working session of 36 hours, coming out with a better understanding of how Danone is fitting the growth of today and the growth of tomorrow, through what we are doing.

In a sense, we started the Danone 2020 transformation, revolution, back in 2014 because we could see these early signs of change. There have been some revolution accelerators and my goal for this 36-hour working session with you is to openly share the magnitude that we see in these changes, the depth of our recognition, how seriously we take these changes and therefore how relevant overall I think our recrafted preparation agenda is for today and tomorrow.

We started two years ago with a new governance, a new team, a manifesto that we wrote to prepare ourselves for these changes. We started the streams of these changes, the alimentation revolution for Danone, the food and water cycles which are essential parts of our business models, and everything that we have been reworking, on both the people and the organisation side, which we will come back to later.

That has been our journey towards 2020. To be fair, this journey started two decades ago, because it is a journey that is pursued with the same underlying certainty that we needed to take this European food conglomerate to a global health focused company. Over the last 20 years we have sold two-thirds of the business we had in 1996 to arrive at the 2016 figures you see in terms of categories here. 100% healthy categories portfolio. The same applies to geographies, where we halved the weight of Europe from about 80% to less than 40% by the end of last year and growth markets tripled as a proportion of our total portfolio.

We have continued to build on the short-, mid- and long-term horizons. On the short-term horizon we have won a few battles on business: the US, CIS, the Middle East, the China direct ELN business and our Medical Nutrition business in China, to name a few and we will go back to a number of them. Also from an organisational standpoint; One Danone is fully in place after two years, our resource allocation process allows us to be very agile and we are working on the detail of some of the execution in our categories, for instance, there are particular areas of management organisation in Medical Nutrition, and Dairy and Waters is going through a very intense and productive revenue growth management.

We have worked relentlessly on some mid-term things that will ensure the success of this company in the future. Our nutritional/agricultural packaging policies have been published. We have disrupted ourselves with our Early Life Nutrition pledge to support breastfeeding. We have disrupted ourselves in the US supporting non-GMOs and labelling GMO presence. We have accelerated our R&D over the last two years and invested heavily in our factories. We built the future of Africa with four acquisitions to build the portfolio that Pierre-André is running in Africa.

For the long-term we have created our cycle's organisation for milk, water and plastic entering the circular economy for these key resources for us and we reached a global alliance with Veolia, which is multifunctional around these themes. During the COP 21, in Paris, we published our commitment to become a carbon-neutral company and, aligned with the UN scenery, we launched the fund to support family agriculture around the world, which is very important for the future. These are just a few examples.

As we were building these we also delivered. We delivered on growth; 4% like-for-like average sales over the last three years, 120 basis points cumulative margin improvement, one of our commitments to you that this growth would be profitable, which was a long-time discussion that the company had before that transformation started in 2014, and delivering recurring EPS on a consistent basis, nearly 9% CAGR for the last three years.

Next, I will detail three revolution accelerators; shifting consumer trends, politics are back and people want to live and work very differently. I will elaborate in detail on the three topics. Firstly, consumer trends. Increasingly, people have a different relationship with their food and the way they drink. In simple terms, 90% of prosumers, who are the people leading the way in changing the habits of the mainstream, today think that food is as effective as medicine in maintaining overall health. This global study shows six points more than four years ago, so food is becoming of interest. I hear many saying that it is a boring industry and that there is no growth. Well, the truth is, you do not see this growth because we do not see it. Let us look at where there is growth in food; 70% of prosumers say, 'What I eat says a lot about who I am' and 60% of mainstream would agree with that statement. The new generations are passionate about food. More than half of millennials define themselves as 'foodies'; they take pictures of the food they eat; they buy; they touch; they prepare; they cook; and they share. They are more willing than anybody else to pay a premium for quality food, healthy food and they are 30% of today's global wallet for food. We have reached an inflection point where health attributes are polarizing category growth. Global Nielsen numbers show 5% growth for healthy categories, 2% growth for indulgent, the two extremes, and -1% for all the rest. If you look at the Danone SKU portfolio as a total volume, we categorise 88% as healthy and I would say that half of the remaining 12% is Aquadrinks, where there is a bit of sugar, but two to three times less than in any CSD, so this red -1% is no surprise.

One of the key inflection points is that the old niche of vegetarians is becoming mainstream and people are becoming flexitarians, 26% of Americans are already flexitarians and there are many countries past that number.

It is no surprise that the food and beverage industry's sales growth is down in the US and the premium growth, the overgrowth delivered by plant-based beverages, one of our new categories, continues to be between 3-5% premium to the average food and beverage growth in the US. The same applies in the inflection point already reached in water and the way people drink in the Americas. In the US over the last 10 years, soft drinks are at -17% and bottled water at 55%, evian is one of them. Disruption in the inflection point, in 10 years, from 2008-2017, organic changed the retail from 5% market share to nearly 30% market share this year and Happy Family is one of the leaders of that revolution. Continuing with a broader point of infection, probiotics and microbiota, the biggest and most important metabolism of the human body, started to become a frantic subject of scientific publication with twice the number of scientific publications in 2015 compared to the previous year. New health is about Free-From and that is illustrated in the case of allergies. Look, look at Australia. The inflection point is in the past already and on the back, a brand like Neocate has quadrupled its global sales in 10 years, so there is growth in the health space. This is where the future of food is and it wouldn't be a surprise, we shared that many times with you but Danone is every day more equipped to face that daily.

Firstly, we have a mission. This is not a fad for us, it is not moving away from what we do every day, or trying to radically change what we do. We have been doing this for 20 years and our brands have been doing it for much longer. We wrote this into Danone's manifesto ambitions; how to support people in their adoption of healthier, more sustainable eating and drinking practices and this is what we are trying to do every day. We are doing it in a large and consistent way. Consistent because when you look at our portfolio, it is 100% healthy diet categories. We have recently added another to the plant-based and organic, which is number one globally now and this number one position is a reflection of the other positions we have. Not only do we participate but, because we are leaders we can, not only leverage the inflection points but, if we do it properly, we can create them.

I will briefly go through the categories. Dairy has grown globally by 2.7% in the past 10 years and we have a 25% market share. The key long-term growth driver of dairy is the fact that there will be an increasing number of fresh-snacking consumers. As I said, there is a passion for gut microbiota and probiotics in the science of nutrition now and that is growing daily, and fermentation is seen as the minimal process it is, an entirely natural process of transformation to create the great products we have. Plant-based is a more recent category with 12% growth over the last 10 years and we have a 46% market share where we operate in the US and Europe today. Key long-term growth drivers are increasing household penetration with the number of people converting to flexitarianism across the world daily, geographical footprint is an entirely new territory for us that we can open, the sustainability consumer trend, making sure that I understand what my impact on the planet is, and a huge open space for innovation that we will discuss with you, if we do this, which is introducing the new category. As of today, we will look at Essential Dairy and Plant-based as a single category. As you know, we will report DanoneWave, the Essential Dairy and Plant-based NORAM on one side and the International Essential Dairy and Plant-based on the other side.

The second category is Waters, with 9% historical growth and 24% market share where we play. Long-term growth drivers are: the global switch in trend to healthier beverages, public health recommendations on minimal hydration and Water Sustainability Stewardship, which is a critical driver for brands to grow.

Early Life Nutrition has 8% growth and we have a 22% market share where we play. One of the critical polarising factors I did not mention earlier is that inequalities are growing across the world. Therefore, although you do not see as much global GDP growth, the absolute number of people that are part of the affluent middle-class is growing and our category in Early Life Nutrition addresses their needs from the start, although we are paying a lot of attention on the accessibility of our products. The 1,000-day Awareness is growing amongst paediatricians, nutritionists and the World Health Organisation. It is actually a World Health Organisation topic and it is the mission of the Early Life Nutrition team at Danone. We saw journey management in Organic in the US, where if you start organic with your baby, continue as a toddler and as a kid, you will start organic as a family. This journey management, which ensures appropriate nutrition for kids, is one that will drive the category growth further by expanding its scope. I would also highlight allergies as a key public health issue that we, as a leader, can and will address.

In our Advanced Medical Nutrition business, we have a 37% market share, the leader by far in Europe but also in China. With 7% growth in the past 2 years and there are obvious key long-term drivers here; the aging population, prevalence of chronic disease, the growing investment in healthcare infrastructure and the rising importance of outpatient care. No one can afford to have people in hospitals and we need to make sure that nutrition keeps people out of hospitals and takes them out of hospitals as soon as it is possible. By adding WhiteWave to the portfolio, we took these global inflection points of health and sustainable food into account as being the area in the food space where there will be future growth. Our portfolio will be well balanced between categories to continue and accelerate the growth journey of Danone.

It is also interesting to look at how consumers, as shoppers, are disrupting retail. The top food brands are losing the battle for shelf-space; this is growth you do not see. Total food in the US has grown by 3% in the last two years, but the non-refrigerated dry food lost 3% sales space, which is an average of 35 feet. Refrigerated grew by 18%, adding 80 feet of aisle, and we will come back to how much sales and additional space there is for yogurt. In total, the food and beverage category has grown 3% in the last three years and in the US the top 10 DanoneWave categories have grown and increased shelf-space availability by nearly 20% in the last two years. So there is growth and customers realise this and why Costco is driving organic like mad, adding 33% to their organic business in two years and why CVS is overhauling 50% of their US stores just to fight against the fall in their sales, reigniting sales growth by offering a bigger, better portfolio of healthy food and moving that healthy food towards the cash-counter, replacing less healthy food.

Danone-WhiteWave is already recognised by our customers. This is a customer enquiry ranking the best manufacturing partners to grow. Danone is number one, number two, or one ex-aequo, Chobani and number three, WhiteWave. Overall, we are the number one refrigerated manufacturer, based on 20% growth in the last two years and number one in category development. This is also true outside of the US. In Europe, Tesco is running, for the first time, a promotion they call Helpful Little Swaps and they selected May as the healthy month. Obesity is a big problem in the UK, sugar is a big topic and food is a big topic in the coming elections and with Brexit, about how much the UK will be self-sufficient in food and what that means for public policy and agriculture, etc. Tesco has a 30% market share and is taking action by launching this promotion, where they will not only measure the pound value of each purchase at the cash-counter, but they will also measure the decline in calorie-counts thanks to the Helpful Little Swaps, and we are one of their top partners with our categories to do that. The same is true of Auchan who are one of our top clients and we are one of their biggest suppliers. Three weeks ago they launched a new corporate policy and strategy to become ‘Activists for good, healthy and local’.

Small, local becoming the new big is a big trend, so why does local matter? If we look at the percentage of dinners prepared and eaten at home in the US between 1984 and 2014, you can see a decline, but between 2002 and 2012 the time spent and the percentage of dinners prepared at home has increased. This means that there are different ways of looking at reality. Men participate an additional eight minutes in preparing and cooking over the last three decades, which is an increase from 35% to 43%, that means 15 million American, male consumers have engaged in a cooking and eating activity that they did not do before. Is that growth or not? In France, time spent eating is +13 minutes. This is also a function of demographics because as societies age, more time is spent cooking and eating at home. Senior people have more time and money in many ways. The truth is there is no one size which fits all; on one side you have the millennials and on the other you have the reality of the more senior people. Going into more detail in France, in '86, we lunched a lot and we dined at around eight o'clock but in 2010, 15 years later, we dine about 30 minutes later, which is 30 minutes out of two hours spent before going to bed and is a big switch in terms of activity after work. A few million people are having less lunch than before and you might expect that, potentially, there would be more snacking in the afternoon but there is not, in fact, there is less snacking than before in France so you could look at this as an opportunity and we have a few ideas about this. Papers report that this is the end of the breakfast, but in France, this is not the end, because people do not take lunch as much as they did before, they take more breakfast. There are actually 3 million more French people having breakfast than 15 years ago, this is also growth. Of course, this is not the case in the US, so it is important that if you want to know about France you have to understand France and if you want to know about the US, you have to understand the US because they are different paradigms. This is why local matters. This is where the granularity of where food growth is and this is difficult for global brands to get that; in 2016 average category growth is 4% and average growth of the top 100 brands is 1% so the big multinational brands are growing four times slower than the category today. If you are one of these big brands, because these guys eat 1% a year, you do not grow unless your category grows by 2%, so there is growth but we do not see it. Growing local brands therefore becomes a necessity, an expertise that you need to have and this is something we have been doing for a long time. After the acquisition of Unimilk, CIS still has 50% growth in the incredibly complex Russian environment. In 10 years, Mizone in China has gone from zero to EUR 1 billion and AQUA has multiplied by five and Egypt has increased by five in seven years. Brazil is not an example I am proud to share because of the circumstances in Brazil, but we will look at the distance: we started Dairy in 1983 with a franchise and between 2010 and now we have found nearly 50% growth, water has grown by four times, Medical Nutrition has doubled and Early Life Nutrition has multiplied by five in Brazil. Growing new or local heritage brands is something that Danone has been doing for a very long time.

Prosumers and mainstream consumers say that they are ready to pay more for local brands because it is an insurance policy for them because today they trust local brands more than global brands. This means that not only do we need to continue to grow our heritage brands we also need to nurture more of our young offshoots and brands. You know that Dairy is difficult these days, yet in Q1 of this year, these brands together grew by 10% because they are on trend, either young or local, and all our local brands in our global portfolio. We want to take this beyond marketing and Danone is trying to invent corporate capabilities to fit the shift to local, starting with the backbone of our organisation, One Danone, 30 clusters of a small number of countries around the globe. It is against centralisations. It is the fact that local decide locally on many things and with mutual expertise in finance, HR and transactional as much as possible. We have a tight and very international team. It is actually the tightest team of all top 40 FMCGs, with eight people in the Danone ExCom in July, the next tightest was 10, the highest was 25 and an average of 15. There are eight of us running this business, with six different nationalities and I think this is essential to drive the local understanding that we want to create. The new team comprised of 15 regional leaders is the new essential level of subsidiarity that we want to create, where these people at the regional level are going to make decisions that were previously made by the Executive Committee and myself before. We are lowering the point of leverage within the organisation at which the decisions are being made to address consumers of society and growth opportunities. By choosing seven, we have more granularity in regional organisation than 90% of the food business that you regularly talk to. We are not proud of the first part of the Activia transformation but we are working hard on that now, but let me tell you how quickly we addressed that point. Previously the Activia marketing team was a global brand team, an EU brand team, a cluster-brand team with country marketing that was connected to the consumer and customer. We unfolded the global brand team into EU, so today, in Dairy, the global brands are run by regions with an overlay of responsibility. We changed the marketing in the country from marketing to activation, so we put marketing at the cluster-brand level and by doing this we divided the number of discussions and processes that were needed to agree on the positioning of the brand locally by three. On top of that, we aggregated a few clusters in Europe, ending up with about half the number of clusters we had before. This shows that we are constantly adjusting the level of granularity that we think is appropriate to make sure we have the right leverage in our organisations to address the challenges and seize the opportunities.

I shared earlier about the need for transparency, that people are ready to pay for local brands because they are an insurance policy for them and they trust them more. Transparency is a huge consumer topic today, with 60% of consumers saying it is essential. That is the majority of people saying, 'It is essential that I know what is in my food'. Minimal processing is the best way for them to trust that this is natural and 50% say they often eat and drink products that are minimally processed because they consider it improves wellbeing. You can see the relationship and I do not know any other large company that can say that so many of its products are minimally processed and untouched by man. We are back to the fermentation topic, what is fermentation other than a natural process that uses time to get to the product you want? In the natural non-GMO organic space, as we're growing, and as we did through the acquisition of WhiteWave, we are gaining leadership positions in these fields. We have our specialised nutrition business which has the Baby food grade on one side and medical science-based ingredients on the other, which makes some of these products reimbursed because of their relevance to the health of our consumers. All of this works because we are driving our nutritional agenda and I would like to share one example with you in Danonino. Over the last couple of years, we have taken out all preservatives, artificial colouring and artificial flavouring from Danonino. The calcium is directly sourced from milk from the cows and we reduced the sugar by up to 30% or more in three or four years. We are really driving this agenda and this is what makes what I tell you credible for the brand.

Ingredients are back on the front of the pack. Mars started that. Mars is full of great calories, but they are still calories so what they decided to do in 2008, before this became an industry practice, was not to put the calories on the back in the small print somewhere but on the front of the pack and that became a real trend. Actually today, the word natural is all over the place, you see it on chips, beverages, yogurts, it is great but, in a way it, is too easy because people now ask, 'What do you actually mean when you say, natural? What are you really saying and can I be sure that this is serious? ' This leads me to an interesting case, where people want to make sure that companies tell them the truth. They do not like it when companies tell them, 'You do not need to know, it is too complex for you to understand. Leave that to the technicians and do not worry about that, we will put it on the back of the pack. You have a nice brand that that is all you need' and I will look at this in the case of GMO labelling in the US.

Growth in non-GMO sales has grown 64% and actually five times more products launched as non-GMOs between 2011 and 2015, which means that today, one out of five new SKUs launched is a non-GMO SKU. The reason for that is because 93% of Americans are saying, 'We want labelling on GMOs. Actually there was a discussion a year ago in Congress and so there was an initiative called 'Just Label It' that was pushing for the labelling environment for GMOs and beyond. USD 400 million was spent by the industry to fight that, to make sure that GMO labelling would not happen. We decided not to sign that GMA petition and we endorsed the Just Label It campaign and we made a commitment that by 2018, whatever the regulation, we would label GMOs present on our products in the US. We are not afraid of GMOs, so if there are GMOs, we will put them and if consumers prefer not to have GMOs, we will remove them. I will come back to that because it is about, consumers expect brand activism and they will increasingly base their consumer preference on the activism of the brands; 'Does this brand share my point of view of the world? Does this brand defend my interests in what has become a very important topic for me, my family, my kids and my neighbours? ' Food and drinks that were given are not given any more, 'I do not trust what is in there. I want a brand that helps me understand and drive that'.

This is why the last revolution factor for us, on the consumer trends, is the people behind the brand. People and founders are becoming even more important than brands, for example, Shazi, founder and CEO of Our Happy Family business, or Michel & Augustin, or Brendan Brazier, the founder of Vega in Canada, he used to be an ultra-marathon champion in Canada, turned nutritionist for performance, so he is fully legitimate for his community and now a broader community about what it means to formulate a product that is good for you and your performance, or the Wallaby pair, Jerry and Faith, coming back from Australia and committing to bring the greatness of Australian recipe yogurts to American consumers. Consumers love these people because they are authentic activists; they speak as a person not as a website. Interestingly, this extends beyond the founders; it extends to the people in the companies.

The Edelman 2017 Global Trust Barometer, a huge study asks, who is most trusted spokesperson to speak to? This is the CEO. About 20-25% of people, thousands of people around the world, consumers and citizens, human beings, said I am well placed to speak about employees, customers, ethics, CSR, innovation and financials. The same question was asked about consumer activists, they are more credible than the CEO on any item, even innovation and financials. Employees are three times more credible to speak about customers than the CEO and twice as much about ethics, CSR and financials. Of course, if you speak to an operator on the line here in Evian, he knows exactly what the volumes are, he knows what the quality is, he knows if we have taken a bit of powder here or added a bit of cream or changed the recipe, he knows that, and people trust these people because they are like them, they are them. They do not trust us, the elite; they trust these guys, so employees are by far the most trusted source of information, the people behind the brands. Edelman's Barometer said, this is the largest ever drop in trust that we have seen across the four institutions of government, business, media and NGOs. The good news for us is, if we react, is that business is viewed as the only one that can make a difference.

For big businesses like us, there is a clear risk of being the ones responsible for the burden. The estimated global direct economic impact of climate change, food waste, alcoholism, obesity and biodiversity impact on global GDP growth says that if we do not do anything against obesity, this is 3% off the global GDP growth in the next 20 years. On the other hand, there is an opportunity and we should embrace these opportunities; these are huge additional new markets, new growth avenues and new value creation.

Food loss and waste is at USD 700 billion, with healthy lifestyle at eight, so there is a case for taking action here, not just for CSR good reasons or because I want to be nice. I'll put it this way, you don't want that. You will not like that, Pepsi will not like it and neither did Patagonia in November 2011. Patagonia said in many newspapers, 'Do not buy our jackets. You should firstly reduce your usage of jackets; they are not good for the environment. You should repair, reuse and recycle them'. They shot themselves in the foot saying this, disrupting themselves. North Face, Patagonia's competitor, notes that Patagonia's annual sales grew by 40% in the following two years because they entirely changed the dialogue, the trust, the preference and the bond between their brand and their users. An example a little closer to home; a year ago Chobani profitably disrupted us and the category in the US by advertising that our products were artificial and included stuff that consumers do not like. The first thing is this is not legal, so we blocked it; we got a legal injunction to ban the ad, as did Yoplait, who were also attacked. We could have just stopped there but we decided that we would change the paradigm. We supported Just Label It, not a lot of large companies did that, and we announced that we would label GMOs by the end of 2017. We then went a step further. Two months later, in April in the middle of the Just Label It vote, we introduced the Danonn Pledge on Sustainable Agriculture, Naturality and Transparency, which is a pledge where we talk openly about what sustainable agriculture is. We pledged for naturalities which goes for fewer, more natural, non-GMO ingredients and non-GMO fed cows' milk and we pledged transparency with the labelling that I was talking about. We are unique in the scale and we self-disrupted a whole industry by doing so. Taking the three flagship brands, with a total of USD 1 billion, we reformulated 75% of the products. This is not just a CSR SKU that we did to gain publicity, we did not make a lot of publicity but 75% of the products have been or are being reformulated because of that pledge. We drastically changed many ingredients to make sure that we were true to our pledge. We changed the way we work or the way our farmers are working with their seed suppliers and in their own fields, converting 65,000 acres of fields in the Mid-West and North-East to non-GMOs, in a country where you have 97% GMOs and 3% organic. We are introducing something new in the middle that is cheaper than organic and that is seen as a great consumer expectation on transparency and that touches 15% of our volumes. That means that by 2019 we will have brands that are all-natural, with milk coming from entirely non-GMO fed cows' milk which will be protected and certified, verified by the non-GMO Project, using a little butterfly that, actually, WhiteWave currently uses on a number of their brands.

Interestingly it turned us into an activist brand. Vance Crowe, Director of the Millennial Engagement at Monsanto said, 'The only way this will stop, the only way to keep companies from going in the wrong direction is to react with disdain towards Danone' and not surprisingly, 'Monsanto-funded groups object to Danone's move'. I was at the summit in Washington DC with the CEO of Cargill and we discussed all this and they decided to go with us and unsurprisingly there have been attacks on Cargill about non-GMO moves based on fear. We started a movement about an open discussion between these big companies that can change and move the needles about GMO labelling. The question at the end of the day is, you are a leading brand in the US, in the health and sustainability space, do you want to be on Monsanto's side or do you want to be on the consumers' choice side? That is the question that we had to answer ourselves and I think the answer is clear. Where it is interesting is that we are only just making progress with that, the first of these products are going to be on shelves in July but we are building a unique competitive advantage because we could do this now, not in 10 years but in two years, because we buy our milk entirely directly from the farmers. We do not go through the spot market, we do not go through corporations so we know exactly where the milk is coming from, each of the farms, but why were they ready to convert so quickly? This is because of our cost-plus model, where we protect the margins, so we pay for that and they change the ways they grow the feed and 75% of the pledge farms use that model. That sustainable model of collecting milk is the reason why we were able to make that move and why nobody else is able to come close to that scale. By averaging this across the total portfolio we are making life very difficult for other large Greek competitors because the conversion cost on the feed is three times more than in yogurt. We are giving value to the consumer in a tremendous manner in our Oikos brands; it is as simple as that. We are aligning with the shift, with the inflection point, of transparency.

You have heard talk of climate-friendly brands and you will hear more as we approach the date of Evian becoming carbon-neutral brand and we actually got a few of these brands as part of the portfolio of WhiteWave and Alpro. Provamel is the European organic brand of Alpro, and it has been CO2-neutral for seven years already and this is what bonds this brand with its communities. Another example is Early Life Nutrition and the Support to Breastfeeding. I know that when some of our competitors present to you they show graphs of breastfeeding rates growing and they say, 'This is a risk to the category' but we decided this was not a risk but a responsibility for us to support breastfeeding and this is what we have written in our pledge, and we are the only company today that does not do any advertising in any country below six months of age. This may make us less efficient to start with, but we believe this is what has won our right to work with the Romanian government in an incredible programme, which has been extremely helpful for our business going forward.

This is based on the fact that more and more of the brand preference, the brand reputation, is about behaviours, ethics, values and view of the world, nearly 50% of the constituents of brand reputation is now in these fields. We decided to take it even further, creating, with DanoneWave, the largest public benefit corporation in the world. A company that has a mission, on top of delivering money to Danone so we can deliver money to you too; encouraging dietary practices in line with our mission, measuring our impact on the environment and creating a model that is good for all our stakeholders. The board of that company will be responsible for this dual purpose, which is aligned with what you have heard us say about the dual project of Danone but has a true other dimension in the US. Doug McMillon's first reaction was, 'Congratulate Danone on announcing their intention to become certified as a B-corps. Companies should continue to make thoughtful and sustainable decisions. I hope your work inspires others' and it is worth something when Wal-Mart says that. That sentiment travelled to France and Michel-Edouard Leclerc, who has a great blog said, 'They have created this public benefit corporation; I am aligned with that'.

The public benefit corporation is a US topic but beyond that there is a global movement called B-Corps, which is a movement of companies that are certified on the broader impact they have. This movement is populated with brands, and you will know a number of them. The movement has been around for 10 years and has accelerated recently, nearly doubling the number of companies accredited. They are mostly small and medium sized companies, 50 countries and 25,000 companies using their assessment tool and a unique partnership with Danone, which led me to say that the next step in the roadmap of our agreement with them will be to design an agenda for Danone to be accredited as a B-Corps, as a global entity, one day. The immediate next stage will be in Berlin, in the Consumer Goods Forum where we will express, through a new corporate signature, the role that we want to play in changing the paradigm for future food growth.

Related to that is that politics are back in the game. The facts say that business and brands need to act as citizens in today's world. It is not by chance that Danone is a preferred brand in France; it is because we are number one in social responsibility and in quality products and Michel-Edouard Leclerc says, 'Top five brands are French'. It is about politics. The same is true in Indonesia where AQUA has 50% of the market share and for several years we have run campaigns, 'I am Indonesia' and 'Discover your own Indonesia'. We work with young designers to bring the values of Indonesia on the pack. This is about the same thing; we are playing a game of being a citizen. We behave like citizens of Indonesia, valorising that Indonesia has something unique to bring to the world. We have been building businesses and acquisitions and partnerships with local partners for a long time; with the Abraaj Group when we entered West Africa or Unimilk, when we doubled down in Russia with Russian partners, or COFCO in China, where we now have a significant alliance, aligning government strategies and policies with what we do in China, or families, established families like the Utomo family in Indonesia or the ruling family in Kenya, the Kenyatta family, with Brookside. Even the public sector, EBRD have committed capital with us for the last 20 years to grow in Eastern Europe or Sari Husada, which was created as a joint venture between UNICEF and the Indonesian government and we gradually took over when both of them handed it over to Numico before we bought Numico. All of this is building a unique approach about becoming a citizen and I think we have a unique toolbox to design this; the clusters, talking locally to governments, the incredibly innovative funds that we have created and the B-Corps agenda that now brings it to a totally new place.

The last point of revolution I will address to you is that people want to live and work differently; millennials want to work differently. They want to work for companies that have a purpose and they want to understand why they work. It is no surprise then that we feel legitimate running an employer branding campaign.

One of our most important internal management tools is about making business a reality and a success. Every two years, Danone runs a people survey, interviewing 95,000 people around the world and here are a few of the answers: 'I fully support the values of the company', 92%, plus 4 points against the average of FMCGs. 'I recommend Danone as a great place to work'; 'My team is able to meet effectively, the work challenges', 5 points above the average. 'The morale in my team is generally high'. We particularly follow engagement, where we are nearly as high as the highest performing companies, empowerment, where we are higher than the high performing companies, energy, where we are way beyond our competitors and 'My CBU has established a positive climate where people can challenge our traditional ways of working', where we are 10 points above the average and way beyond the high performing companies. When I talk to you about change happening at Danone, this is supported by and through the 95,000 people that answered this survey. I feel that this is so important that this is going to be part of the long-term incentive programmes that we have put in place for the next two years, making sure that there is sustainable engagement within the people of Danone and Facebook is helping us take the collaboration to another level.

One population I want to pay specific attention to is the Executives because they are really the ones driving the change. There was a cloud of work that came out of the 2015 survey at the beginning of the change. They see many opportunities in the changes that are being driven from the top of the company but they also feel many of the risks, so the pace of change is essential to our success.

I said last time that it was high time that we grew from an adolescent company to an adult company; I think we were a tribe of business-focused, purpose-driven entrepreneurs. The national way of evolving would be where everything pushes us but, I think big pyramids, with the revolution accelerators I have just described are doomed to failure. We are going to try to create an entirely unique organisation that will be deeply networked and yet self-disciplined and I think this is one of the key elements and levels to succeed in what we want to do.

I am confident that the recent decisions that we have made, including organisation, are going to deliver on a re-crafted, solid agenda that will be fit for today and fit for tomorrow. This means that the next three years are going to be about profitable, sustainable growth, de-coupling the growth and the efficiency programmes for Danone is key and that will help us support our confidence in delivering consistent EPS growth. It starts with 2017, a transition year, where the challenges we have in several business transitions, delivering only moderate sales growth, especially in the first part of this year yet sustain recurring operating margin improvement because of our discipline in allocating capital and resources, and a double-digit recurring EPS growth at a constant exchange rate. That is the starting point. I am confident because our key three enablers are in place, each of which are individually essential for the success. I am confident because we have created this new organisation, which is a huge change. We have changed the roles of more than 200 top leaders of the company since January to adapt and create this team and to adapt and create these two new big roles, the Resource Efficiency function and the Growth & Innovation function.

Many people find food boring, that there is no growth but the reality is that there is growth and the Danone categories are growing faster than the average, but part of that future growth is going to be eaten by the small brands if we are not able to be one of these self-disruptors. You could also say that Euromonitor has always been over optimistic yet when you look at our portfolio we still have very decent growth

I would like to finish by taking you through seven reasons why I think that we are uniquely placed to embrace that revolution. We have a passion for our business, alimentation, for our business impact and for growth; it is a company-wide passion. We have leading brands in healthy categories and a well-balanced geographical portfolio. We have self-disrupting, reinventing DNA, which has been the case for a long time and we continue to apply that relentlessly, and we believe that with that, we can have a more agile and more adaptive organisation. I am committed, as I have been for the past two years, to collective efficiency. We have prepared pioneering innovative, sustainability platforms that will serve to reconnect our brands with people, governments, stakeholders and consumers that will fit the future of food for the next 10 years. We have a people-centric culture, fitting the new ways to work, live and engage for brands and companies in that food space and finally we are finding this thin balance of managing the time horizons making sure that we execute and prepare for tomorrow.

To do all of this we need to overcome seven challenges and I want you to be convinced that we can. There are elements in our business where we should not be proud of what we do and how we execute and we need to address that quickly, and so executing current competitive challenges to return to our growth leadership, is the short-term priority. We need to further accelerate our play on small, local brands as opposed to global multi-national brands. We need to accelerate our shift on new channels impulse and moments of consumption, which goes with the previous points. We need to continue the journey for our brands. I spoke about the ELN pledge, about evian and about the Danonn pledge in the US, we call it our manifesto and we need to align our brands with our manifesto. It is unique, no one else is doing that but if we do not do it, we will not succeed.

We need to be ready because emerging countries are pausing but they will be back, certainly not 30% growth, but they will be back and we need to be ready to seize the opportunity when emerging countries are back on growth. We need to execute on our commitment on efficiencies to fuel growth and the consistent EPS growth I was talking about. Finally, we need to continue to self-disrupt the organisation to fit the full addressable growth opportunity because, as I said to start with, there is growth, you do not see it because we do not see it and it is only because we do not deliver it. The only way we can really deliver on addressing this is by disrupting the organisation to the point that we will be able, as a collection of brands, to grow as fast as the category is growing and not as slow as the top 100 brands in the world are growing.

The agenda for the two days is really about more details and evidence about this.

Paco will follow me talking about growth today and tomorrow, then we will have Gustavo and Susanne discuss Protein our programme of EUR 1 billion savings and we will have a Q&A.

Tomorrow morning will be about DanoneWave with Lorna and Blaine, there will be a Q&A about this. We will have workshops about some of the transformative work that Danone is concretely doing to address this food revolution, on-board the revolution, the US pledge, the B-Corps, the healthier nutrition work that we are doing. Then we will address a critical point, the dairy growth agenda, so we will have Gustavo again talking about this. To conclude on Business, Bridgette will take us through the Specialized Nutrition business both ELN and Medical Nutrition and we will finish with Cécile, who will update us on the quantitative horizon of 2020 and I will have conclusions.

As you can see, we have chosen a focused agenda, we are not going to discuss everything on stage but we are open to all other sorts of questions and the team is fully available. I would like to thank you for supporting me in being with our investors and analysts today and I will hand it over to Paco.

Thank you.

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May 18, 2017

Emmanuel FABER, CEO, Danone

In conclusion, I started my presentation with the words, ‘Fit today and tomorrow’, and I would like to start again from there. After the last 24 hours, I can only say that the way we have manoeuvred our strategic position from 20 years, two years and since a few months, is putting us in a situation with extraordinarily strong tailwinds for our growth. Let us be realistic and recognise this. I shared all the category growth, the fundamentals, the portfolio choices made many years ago, as well as a few months ago etc. and we continue to do that. When you go through the new DanoneWave, the new Essential Dairy and Plant-based category we are putting together, I can feel and even more so after what my colleagues have shared, the power of what we are creating. These two visions of the world uniting for healthier and more sustainable eating and drinking practices for all of us. I can see the power of that and this is a white space for growth.

You have been through very important workshops this morning on Public Benefit Corporation and B Corp and about how we are driving our nutritional agenda very concretely with the recipes, consumers and authorities. You have deep dived into the Pledge for more naturality, more natural ingredients, non-GMO, sustainable agriculture in the US, concretely with a team that is doing it as we speak. These are examples of how we are addressing the revolution accelerator factors that we see and connect with in our everyday life as a business. Are we up for strong, profitable sustainable growth? The answer is, of course, yes. This is a fact. However, we are very far from being there. We must be realistic too. It starts with the Q2 right now where we construct the New Danone, that is the Q2 that starts this adventure. This is in many ways a transition, putting the portfolio together and only a few weeks ago acquiring effectively WhiteWave, putting the teams and the organisations together, the integration team that you have heard of, now the sales teams at DanoneWave and the same with supporting Alpro’s accelerated development in a number of geographies outside of the North American territory. You have seen Paco, Gustavo on efficiency and growth, all of this is happening right now. Since the first of January this year, we have changed the job definitions, organisation, connections that work, of the top 200 people at Danone; there has never been such a change at Danone. This is what we are installing right now.

You did not like the growth in Q1 and neither did I. You will not like the growth in Q2 and neither will I. As Cécile said, we are in the middle of creating this. In Q3 and Q4, you will see an acceleration, a sequential acceleration of our growth. If we accelerate, this is a good indication that this is a bridge to what I said earlier, there is a bridge to what these categories and brands should deliver for the company and the value creation with you guys. It will be a sign that we have been able to address the executional issues on which we are not happy today. Let me name a couple of them. One of them, as Blaine said, is that we will reignite the growth. There are acceleration plans for DanoneWave with customers, innovation and sales force, all together, reigniting the growth of the two combined companies in the US. If we accelerate and deliver higher growth in Q3 and Q4, we cannot do that without them doing this. The same way I turn to their European colleagues. Accelerating in Q3 and Q4 for Danone means that we have been able to turn a few of the red traffic lights on legacy Dairy Europe into orange, and maybe some into green. You heard me say that you would not see the results of the relaunch of Activia in the numbers until next year. I maintain that, but I think that we will see sequentially an improvement, turning from red to orange, orange to yellow and yellow to green. If we grow in the third and fourth quarter, it will be a sign that we are addressing these very important execution topics. The same goes for China related topics. You have heard us say for some time that Mizone, this great brand has been through transition. We will not accelerate our growth without finally landing Mizone in China in the new normal of China, back to the growth with the category. The same with ELN in China. Bridgette shared that we are number two with Aptamil in China and on our way to becoming number one. Maybe we will have good news to share in Q3, because we are launching now a premium version of Aptamil that we have executed in Q1, that is doing very well. We are going to roll it out nationally starting from the back-end of this quarter. We will not accelerate as Danone, unless the balance of the speed at which indirect is declining and we build on the mum and baby stores direct presence, does not balance favourably or us in total. Lastly, going back to a comment you have heard from a lot of us about Brazil. I chose Brazil as an example of a country where we have been able to grow local brands, for decades for some and a few years for others. We have been multiplying sales there by 1, 2, 3, 4 and 5 in some cases and yet Brazil is struggling hard in Q1 and continues to be difficult in Q2. It will not be easy in Q3, but I think you should expect an improvement of the Brazilian situation as we go into the second half of this year. Again, if you see growth acceleration for Danone, it will mean that Brazil will improve.

These are the main reasons why we are not growing where our category, our positioning, our brand should take us. You have also heard us say that we do not rely on this growth agenda to deliver a disciplined financial policy, where we balance the equation of growth, margin and EPS. The commitment of the team in the front row and myself, to you is consistent EPS growth through 2020, which will happen because we will not rely only on these accelerations, we will rely on a very disciplined resource allocation process, a very disciplined Protein programme, that has just started to deliver this consistent EPS growth that we have put in our commitment from now to 2020. I would like to repeat that I do not see Protein as a trade-off for growth, I see it as an enabler for growth for the reasons I mentioned. It will also free-up many hours of work annually for many people who today are doing stuff that they will not be doing tomorrow. They will be able to go back to focusing on the real efficiency and the real growth, to produce that growth. Think about Protein as an enabler of growth and not something, for a company that has this growth potential, is going to hurt growth. We have underlying growth, but the problem is that we are not yet executing to the level that we should to be releading the category growth, as we have done in the past in many ways. This is the topline revolution that we have started and that I shared with you to start with.

In a nutshell, I am back to this point, the most difficult thing for me is the word 'and' in the title of my introduction. It is not being fit for today or tomorrow, the point of balance is 'and' tomorrow. To deliver today and be prepared in such a transforming environment for tomorrow, in a unique way. I am sure, and you have heard us say that we are building a unique model. This is where I have to acknowledge that I realise that this is a demanding equity story, because it is a unique equity story, a unique model that we are building. You believe me when I talk about these revolution accelerators or you do not. Sometimes it is much easier not to. The only thing I could say is that we absolutely know we are not perfect and there are many things in the model that do not work and that is the fault of this VUCA world, just because things do not work properly. We are not perfect, but I want you to know that we are not complacent either. There is no complacency in this team. We are taking action relentlessly to transform this company into what it can become and turning every stone. We are shooting on big elephants in the room, that most of our competitors do not even name or look at. This is the constant tension we live with. Facing that reality and delivering at the same time, reassuring, consistent EPS growth, because I think we need that. We need to deliver in the short term, to make sure that we stay abreast with the reality, rather than just dreaming about the future. That is the tension and the energy of the team at Danone. That is the way the team is working. I am confident that we are going through this transformation successfully, because of what I shared yesterday about the Danone People Survey and the sustainable engagement of people at Danone. There is tremendous engagement from the executives, the 150 people who are driving this with us. They see a lot of opportunities, but they also see risks and downsides to these changes, so it is our responsibility to shift and to balance the way we are working and the speed at which it goes. I am proud to lead this transformation. I can tell you that we are really doing our best, and I can tell you that we need your support. Thank you for having been with us and there is a full commitment by the team to the agenda described here. Thank you.

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DANONE

2017 -2020

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May 18, 2017

Cécile CABANIS, Chief Financial Officer, Danone

After all this rich discussion, in this session I will focus on sharing with you how we would like between 2017 and 2020 to continue to strengthen our economic model, the agenda and the actions, and finish with the metrics for 2020.

Before I do that, I think it is important to come back on our ambition for strong, profitable sustainable growth and that this should lead into EPS sustainable growth. We are continuing exactly on this same agenda. In 2015, I shared with you that the journey included some steps. The first step was to make sure we were delivering profitable growth. The level of the margin was not satisfactory and neither was the imbalance of the model towards growth. We said we would make sure as the first step that our growth is profitable and that we focus on rebalancing the model between growth and profitability to ensure that we build a more robust model. I will share with you the results of what we delivered on that first step.

The second step will start this year and is about sustainability. It is about making sure that while we are accelerating on growth, the profitable growth equation is delivered in a sustainable manner year after year. I will spend most of my presentation on that. In addition, continuing to prepare for strong profitable growth.

Let us come back to 2014 to 2016, which were a very major transformation and important progress was made to build a more resilient growth model. There has been a consistent year after year improvement in margin, 120 basis point cumulative. It has translated to consistent recurring EPS growth with a CAGR of 8.8%. When we stood there and said that we needed growth to be more profitable and the model to be more resilient, this is what we have delivered. We have also improved returns. We had a discussion in New York 2014, on the level of ROIC, where Emmanuel said that we were not satisfied by the level and would make sure that we improved it continuously. We said that the reason why the ROIC had deleveraged was about the dairy performance of the past years. Dairy ROIC has now stabilised around 10% and we have improved ROIC 110 basis points at constant exchange rate, or excluding the FX impact. On cash, when I started my journey with you, the first year of guidance was 2015 and we did not guide on cash. Some of you were very worried that it was not a priority on our agenda any more. I think that the results here show that has always been a very strong priority and we have always focused in making sure that the NOPAT was converting into cash and that we were keeping a best in class level of working capital. Therefore, despite not having it in the yearly guidance, we have delivered a strong improvement in cash delivery in this year's. How did we do that? We continued the agenda that had started and on top of that, we started to transform.

We have discussed the One Danone organisation before but hearing some of the comments in the corridor, I will take a few minutes to explain because I am not sure it is totally clear for everyone. Before we set up the One Danone organisation, in each country where we operated, each category had a full business unit with, for example full HR and finance functions. At the end of 2014, we decided to mutualise these functions, together with ISIT, and not only mutualise them in each country but decide very precisely on the good point of leverage to have this good service unit. We decided on about 30 clusters of country. It is not by chance that we picked three locations, it is to make sure that we were balancing the efficiency of the model, which is about mutualising four functions in our operations to be more efficient, to get senior competencies and capabilities, but also that we always kept a view on the markets, category management team serving the business. This is what we did and it is now fully in place.

Beyond organisation we had another major transformation, which is the way we monitor performance and allocate resources. We went from a typical and classical 12-month budget exercise, into a dynamic process that includes three times horizons. The first one is a three-year mandate for each business unit, including strategic priorities and KPIs. The second one is that translates into rolling forecasts where we make sure at any point that at every quarter, we had another quarter to ensure permanent visibility over a four-quarter horizon. Third, supported by this rolling forecast, we have introduced resource allocation conversations every quarter where we start by looking at the performance and then we share relocation of resources, allocation of new resource, behind what initiatives and make sure that we balance the time horizons. It is not only allocating resources to secure short term, it is allocating resources on building the model for Danone. It is about agility, because we do it regularly and strong discipline to ensure that we invest behind initiatives with the right return and impact and sustainability of impact.

We are prepared for 2017 to 2020. You have seen the progress we have made. We are prepared to go to the second step of the journey and I will take you through it. Before I do that, I would just like to acknowledge where we are today, starting with 2017, which you know about because we shared that with you yesterday. First, is no news. We operate in a VUCA world, we shared that in Evian last time. We did not say it is a problem, it is a fact and we need to make sure that we live with it. There will be bumps on the road, but we need to be resilient enough to absorb them and continue our journey safely. The second thing is the accelerated transformation of our industry that you heard about yesterday, with numerous disruptions. These two things are creating a short-term transition in growth, which is led by a transition in some emerging markets and a short term slow-down of the food industry growth. It will recycle and start a new cycle and be back again. It is important to go through the short-term transition, because this is our starting point to ensure that we build and recraft the right journey for 2017 to 2020.

Danone is impacted short term because 40% of our revenues are in ALMA and from those revenues we have two big markets, China which is in transition in two of our categories and Brazil, which we have been hearing even more today. Excluding these two, the 2.9 of 2016 would have been 3.4, but for me this is not the most interesting message it is just to say that we are in markets we are forgetting that they were growing double digits for a long time and that they enabled us to build very strong platforms, that there is a transition, but they will come back.

The slow down and turnaround of Dairy Europe is taking more time. We need to be careful to make sure when we talk about Dairy Europe, there is Activia but there have also been successes in the way we have done our agenda. Remember that when we started this Dairy Europe turnaround, everyone was very focused on delivering the level of margin that was not satisfactory. We have been able to improve the margin in dairy outside the milk impact by 225 business points. We have been adapting our business model a lot to make sure we were on track with that business commitment and improving the level of margin of Europe Dairy. However, because this is the starting point of 2017, I acknowledge that the turnaround of Dairy Europe will take longer.

Two things, first we have what it takes in terms of portfolio, categories and geographies to reaccelerate. You have seen the categories. We have a very well balanced portfolio of geographies, which will increase our resilience further so we are geared to accelerate. However, today in Q1 we were on 0.7% growth and that is why when we issued our 2016 full year results we said that we were going for this short term and while we are taking the time to reaccelerate, we were going to decouple our agenda to maximise and accelerate efficiencies while accelerating growth to ensure that we secured our result and continued to improve margin and as a result, deliver consistent EPS growth. In addition, that we would unlock additional resources to fuel the transformation and the growth.

I will now focus on efficiency. Efficiency is a key part of going through that journey to make sure that we will continue to build a stronger model, deliver the results and have the right path for acceleration of growth towards strong, profitable and sustainable growth. When we talk about that it is first unlock efficiencies. It is not that suddenly we have started to look at efficiencies, it is first to continue and enhance the things we do every day in our business in terms of efficiencies. Second, it is about Protein programme. The reason we are very comfortable that we can do it and be sustainable is about what I showed you that we are fully organised and going about our process to allocate resources. Of course, a key pillar in starting the new Danone journey, is to make sure that we have a successful integration of WhiteWave and that we deliver the value creation plan. All that is to make sure that every year of 2017 to 2020 delivers the sustainability of profitable growth and consistent EPS growth.

On efficiencies, I would like to discuss three topics. First, there is the continuing improvement of productivities in gross margin. Second, is how we have always had and continue to have initiatives to optimise the fixed cost base and ensure that we adapt our organisation locally. Third, is about Protein programme.

Growth margin productivity is about three buckets: sourcing, manufacturing and supply chain. We have discussed many of these initiatives in the past. I just wanted to clarify the order of magnitude and make sure that you are clear that it exists, because we have not talked about it much recently and I heard that some of you were confused about what we were doing. We are delivering 600 million in savings in 2016; 4.8% on the total cost of goods sold base; increasing versus the previous year. This is productivities that are increasing year on year and that we extract in our growth margin. It is allocated to mitigate inflation, to reinvest in products and growth and in 2016 the 50 business point extra improvement in growth margin came from the extra net savings in that field.

Fixed cost base and organisation, has both global and local organisation and I have examples of both. First, when we presented one Danone in 2014, your first question was how much saving and where is it going. We said that one Danone is not about saving it is about efficiency and investment. Efficiency coming from the mutualisation of functions and investment, because of the model of One Danone we structured and built a very strong GS function that was not yet fully structured. There are saving to One Danone and annually from 2017 to 2020 it will generate 50 million.

The second bucket is everything the teams are doing every day in their own businesses. For example, in Russia you have the European organisation and everything that the Chinese teams have done in my zone, to ensure that despite the slow-down in growth they were keeping up the margin level. We probably do not share this enough with you. You do not see it in restructuring costs, because most of the restructuring costs are going into the recurring part of the margin and these examples will generate more than 70 million yearly from 2017 to 2020.

I will not come back to how we do protein, I just want to say that is not about getting the 1 billion, it is about getting the 1 billion and making sure that it is an efficiency that is sustainable in our model. Again, it is about making our model more resilient.

There is only one thing that you want to know and that is what we do with the 1 billion. First, we have decided to keep EUR 300 million to put in the recurring operating margin, at about EUR 100 million per year, starting in 2018. As you know, we have said that 2017 is about the pilots, learning and making sure that we are fully ready, so that we can go full blast in 2018. The EUR 700 million we will invest in our growth and continued efficiency, to secure at any point of time our sustainable profitable growth, through our resource allocation process. All that will contribute to secure the sustainable profitable growth and consistent EPS growth, while we are preparing for strong, profitable, sustainable growth.

Yesterday, one of the questions was why now? Why are you clear that you can do it now? On top of what Susanne shared in terms of the way we are going for it and the organisation and the processes we have put in place to do it and to track it, again it will be about the fact that we have One Danone organisation in place, with support functions and business services unified for 30 clusters of country. They will run the processes, make sure that everything is done in a sustainable manner and then in re-implementing the regional organisation we make sure that all the businesses have the same region, which will also help in looking for more cross-growth and efficiency opportunities.

How do we allocate the extra resources that we would get beyond what we put into the margin? We will leverage our budget process to the maximum to make sure that we maximise the investment efficiency and the quality of execution. When we talk about resource allocation, we talk about any type and nature of resource that we put to work. It is promotion, A&P, talents, R&D and quality. The objective is to build an activate our brands and having the right product, in the right place, at the right price and the right promo. It is also about continuing to build our capex for future growth. We prioritise on business impact, sustainability of business impact on returns. For example, if you look at our capex plans for extra capacity in 2016, we decreased capacity investment for dairy and increased it for ELN. Beyond operational resources there is also the question of how we make sure we use our capital and set up our business models in countries with the right discipline. We are looking, adapting our business models very regularly, if we believe that the balance between the capital intensity and the business impact and what it will create as impact for Danone in terms of value creation, is not the right one. For example, recently we divested our investments in Columbia and Chile because of capital versus the business size impact and time of return was not the right one for us. When it comes to acquisition, Emmanuel told us that we have made four acquisitions in Africa. We have also looked at two assets in Nigeria, which in the end we did not pursue because the price was too high. Capital discipline is important to us and I wanted to make sure that we are not only looking at P&L, but we are allocating capital with the same discipline as the same of the resources.

WhiteWave is now part of new Danone and an important part of the agenda is to start it efficiently and, of course, deliver the value creation plan that we put to you last year and that we confirmed. That started with the EUR 300 million synergies, but that is not all. I will not go back to that because we spent the whole morning on WhiteWave, but I would like to show you why we are confident that we will do it, because we have already done it with Numico, 2007 to 2016. This is ELN plus Advanced Medical Nutrition, with an operating margin plus 500 basis points, working capital from positive level to minus 5% and we multiplied cash by two, EUR 900 million last year, which is more than dairy.

We have done it. We are committed on WhiteWave. You have seen the synergy plans. Then I took another example, which is a different acquisition and integration we carried out, which was Unimilk in Russia. In the recent past the context has been volatile and complex, however, since the acquisition the margin has gone from 0% to 9% and working capital from plus 6% to minus 9%. I will not elaborate more on WhiteWave, which was covered this morning, but illustrates why we are comfortable that we can make it.

All this will ensure two things. First, now that we have delivered the first step, we will make sure that this is sustainable. We will make sure that we deliver on our commitments every year and at the same time, accelerate our growth.

What does this mean in terms of numbers? Starting with no news 2017. In 2017, I used an illustration that I think I shared with you in Q1. For 2017 there are three major things. The transition in growth in some of our emerging markets. It is the start of the decoupling agenda and the start of protein programme and, of course, the year of New Danone with the integration of WhiteWave. In terms of guidance, no news, moderate sales growth like for like, a sustained recurring operating margin improvement and double digit recurring EPS growth at constant exchange rate.

Let us now go to the rest of the journey and the objectives and metrics we are setting for 2020. Growth will accelerate. We are going for strong, profitable sustainable growth. We are going for strong growth. We acknowledge where we are. We have decoupled. We need to take the right time to make the right change and adaptation to accelerate, so we have an objective of 4% to 5%. If you look at this objective, there will be three strong categories with more than 5% and one will be 3% to 4%. To be precise, the first one will be ELN plus Advanced Medical Nutrition, the second is water and the third Dairy and Plant-based in NORAM, Danone, Dairy and WhiteWave. These are the three categories that have strong growth of 5%. Then there is plant-based international, outside NORAM, growing 3% to 4% and I will take the opportunity to answer a previous question, in that 3% to 4% the old dairy part will be a bit less than 2%. Overall, the pillars for this second acceleration are what we shared with you. That is, a unique and completed portfolio, now with WhiteWave in terms of 100% health categories well-positioned for growth. It is the continuation of making sure we choose reason and sustainability over speed. In the end, it is sustainability that will enable us to have long-term value creation. It is important that we make sure that we have a reason that will fit with safely reaching our journey.

Margin: margin improvement is a strong commitment. We have made the first part of the journey and started the second step. We are taking a recurring operating margin of more than 16% as our objective in 2020, equivalent to a 300-basis point improvement on a like for like basis. That will be built by everything that I shared before and was shared in the last two days. To clarify, the 200-basis point commitment for Dairy made in 2014 is part of that. We are not changing this objective, remember at the end of 2016 we were plus 82 and we will continue to drive the journey to improve to 200-basis points and it is part of the objective for 2020.

Deleverage: when we acquired WhiteWave we increased the debt on our balance sheet, which we had at optimised and great conditions. However, it increased the debt on the balance sheet and we have a strong commitment to deleverage. We have made an objective for 2020, to have a net debt to EBITDA ratio that is less than three times, acknowledging that one of the commitments is that we maintain a strong investment grade raging and for that there will be milestones along the way, which we are committed to reach. We will make it happen mostly through free cash flow from the model, making sure that we continue to improve and deliver fully on our free cash flow. It is about discipline in investment and there is no change in dividend policy to make this deleverage plan.

ROIC: when we announced the WhiteWave transaction, we said it would have an impact on ROIC of around 200 basis points. It will be in fact 150 basis points over two years, linked mostly to the time-lag of the closing and we continue to have a very firm commitment to improving our ROIC yearly. We have an objective of ROIC at 12% in 2020.

To recap on the 2020 metrics: like-for-like sales growth 4 to 5%; recurring operating margin above 16%; net debt to EBITDA ration less than three times; ROIC around 12%; making sure that we deliver consistent EPS growth each year.

To finish I would like to return to our journey. I know that some of you will say that we have changed the numbers and others that it does not change, at the end of the day we have not changed. That is, we are keeping our agenda, it is the same route that we shared in 2015 and we have made the first steps. We are in 2017 and have acknowledged the starting point. We have decided to decouple the agenda, going stronger on efficiencies and we have put a milestone in 2020 on metrics towards strong profitable sustainable growth. We are focused, committed and equipped to drive this journey safely. I am sure you now have many questions.

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DANONE
2017 -2020
Shaping the growth model

Evian 2017 - Investor Seminar

Transcript

May 18, 2017

Question and Answer Session

Participant

Thank you very much for the granularity, which I think will be much appreciated. On the topline guidance, I see it has come down. What are your thoughts on that? Initially, you were saying that WhiteWave would add 50 basis points or more to the topline growth and you were talking about at least 5% growth from 2020. I am just wondering, on the dynamics.

Emmanuel FABER

I guess that Cécile, in a way, has indirectly answered that. The comment that she made about the fact that in the fourth category, Essential Dairy and Plant-based international, the growth of 4% was made from an ex-dairy business growing only short of 2%. If you remember the way we built the above 5% number in our 2015 guidance, this was 3% to 5% for dairy. This is the recognition that reigniting growth in our existing dairy business is taking more time. Fundamentally, there is no other change than this that has moved the needle, in a space of time that has halved since we gave that guidance, because we are now three years into reaching 2020.

Participant

Could you share with us the reasons why it would have been very hard, long and expensive to build a WhiteWave business, instead of spending USD 9 billion, if we exclude the net asset value of the synergies? It is a big amount and I know you have probably had a deeper look at WhiteWave and what they have built. It is probably much more tangible for you, although it is early. Could you share with us, how much more convinced you are than you were nine months ago about spending this USD 9 billion, if we strike the synergies?

Participant

In a way Pierre, there are two points in your question: why we could not have done that; and what is it worth? On the first part of the question, we tried. I think most of you have been with us for long enough know, and I have heard say, that we have made very interesting inroads in fermenting protein. Today, we even have a few SKUs, with one in Spain, one in India and we had one in Poland, where we mixed cereral and dairy. As Gustavo and the Dairy team said, this is a great way to lower the cost overall and create different taste profiles. With wheat, you get a sort of an interesting, biscuit texture. The fact is, that after five years of trials, we were still at the infancy of this and spending money, R&D, without reaching any skill. It is a little bit like, you are the leader in an industry that is disrupted, can you also be the leader that completely disrupts itself, at scale and fast enough? The answer to that was no. We could and would have continued to explore all of these. The fact that we created the Africa strategic business unit was obviously one of the avenues that we were looking at to continue that. However, we were convinced of what I said, when I said that there have been revolution accelerators, consumer shifts, trends that are really points of inflection. These points of inflection were there. Alpro had multiplied by three in size in five years and as, Koen said this morning, they are seven times the number two. We know the number two quite well, it is a French company. It was clear that we could have done that but we would not have led the way, because the trend has gone from a niche to a mass, household penetration, number of flexetarians, etc. WhiteWave is bringing us immediate access to a leadership position in this second generation or future of food. On the second point, we did our maths and our maths have not changed. We believe they are right for what we are creating here. You heard Cécile and myself repeat that we have not changed anything in our value-creation plans. The one qualitative point I would add to this question is something that Lorna hinted at in her presentation, there are a number of untapped opportunities. Most of the synergies, as you know, are focused on cost synergies and there are quite low hanging fruits in distribution gains, leveraging our sales forces, beyond the numbers that we have in the plan. There may be a case for us to accelerate those. Do not take them in the numbers in your models in any way. The point I would add is that it is a huge white space for innovation, but instead of having 500 researchers worldwide in Danone, coming from one view of the world and 20 guys somewhere between India, Africa and Spain, working in a little lab trying to develop vegetal, we have the whole slate of expertise. You have tried these products. Alpro and International Delight are delicious and incredible products. As the EDP team said this morning, we can now mix the two together and instead of the two companies fighting each other, as they have done in the past, we can turn to the broader perspective of how we create the food of the future. This is not in the number. This is value that we may see in five or 10 years and that frankly, we could never have had without the acquisition of WhiteWave. It is really an inflection point.

Participant

On the operating margin you said above 300 basis points. You have told us that there is no change on the dairy, which is still 200 basis points, so obviously there is quite a big margin expansion coming from DanoneWave. Can you tell us what the margin is for DanoneWave and what the margins will go to? How much margin is coming from the other divisions of Water and ELN? Could you give us an idea of the phasing of the margin in terms of trying to model this? You have said above 16%, but there is obviously no upper threshold. On the topline, I get the point on 2020, but getting from here to 2020 in terms of volatility is very high. I know that you do not want to give any numbers around 2017, but is it all going to be jam tomorrow, back-end loaded in 2019 and 2020, or do we already get some improvement on the topline in 2018? It would be quite useful just in terms of helping us a bit on the phasing of the margin and the topline.

Cécile CABANIS

I will start with the margin, which is really everything I have said. There is an immediate dilution impact, given that the level of WhiteWave's margin when we acquired it was lower than the average of the company and we said that it would be dilutive as of year two. The margin of WhiteWave will improve and we have the synergies. We have the protein impact that I gave you, which will start kicking-off in 2018 at around 100 million per year. If you look at the rest of the categories, it is mainly Specialised Nutrition, which is already a very high margin business, so we will make sure that it grows strongly to ensure that it brings a positive mix impact into the margin. It will probably not improve the margin that much because it is already very high. In water, we have a good margin, especially compared to our competitors and again it is a matter of the sustainability of the margin and growing faster.

Emmanuel FABER

I will do the growth part. The short answer about whether it will be back-loaded to 2018, is no. As far as I can predict in our current environment, it will be a gradual improvement of the sales growth. You heard some of my colleagues and you heard Régis and Cécile, on how the reason we are guiding for moderate growth is essentially related to what is happening in the first half of this year. We will see in Q3 a sequential improvement from where we are, which neither I nor the team are happy about and which we would like to get out of as soon as possible. You will see a growth reacceleration. Cécile hinted at x this or x that, etc. just for you to understand what the key engines are that are not firing on all cylinders today. Gradually dealing with what are, most of the time, execution issues, will create a ramp-up into the growth of Danone from 2017, through 2018, 2019 and 2020.

Participant

In the presentation you talked before about local brands performing better. I think part of the reason is that local players can pick up local trends and adapt faster, and tailor more specifically. When I listened to the Protein presentation, the big theme was about simplicity, which I guess is another term for standardisation and actually negating the ability to tailor. Would you accept that there is a trade-off between driving for margin and delivering growth? I know it is too simplistic to say today that you have given us a little bit more margin at the expense of a little less sales, but do you think there is a trade-off? To the extent that there is a trade-off, who is policing that? Clearly, there is a target out there for savings which people will be remunerated for achieving, so who is policing the trade-off if there is one?

Emmanuel FABER

I do not think there is a trade-off over time but obviously there is one every day. The trade- off every day is that you do not get anything without investment. You do not get any result without an effort. The question is how big and how long for? I will come to who is policing that and how. Your specific point about Protein is a very important one, because we have started to build a model where we believe we have more granularity than 90% of our large competitors, even organisationally. We already have a portfolio of very local brands, so we are going to double down on developing those and we have this ability. A number of our businesses are local, fresh dairy is 90% local and a lot of our Water business are national brands, except for things like Evian, and they stay in the country and some of them in the regions. Then, we have Specialised Nutrition, which is about special care that can travel around the world, given how specific these products are. We could discuss whether they will continue to travel, or whether other things, like political forces, will lead us to continue to localise production. We have some very important production in WuXi, near Shanghai in China, to serve the Chinese market as being the Chinese leaders in that market, but we also import a lot in medical nutrition. We have designed an organisation and strategy that is much more relevant to local than that global picture of the food industry would lead you to believe. Protein is not about this, it is about indirect spend. It is nothing that the consumer touches or experiences. It is not the packaging, water, milk, ingredient. It is nothing of that. It is about our ways of working, my way of travelling, my office, the way we run space and cars, the way we pay consultants, the organisation of logistics. This is absolutely not against the idea that you design your products, your brands in a way that is relevant to the local reality of where consumers are. It is serving with simplicity and simplification, the ability of the teams to be efficient and, as Cécile said, to reinvest part of that into growing any global or local brand. I want to insist on the fact that Protein will simplify. We had this question about the cost of all of this, but getting Protein right will make our lives simpler. We have already told you that we have gone from 34 travel agencies to one and it is just a simplification. It will not prevent people from travelling or meeting consumers or governments, they will simply have to go through one process and not renegotiate so many times with so many different agencies. We will just have one. I think you can really be reassured that the efficiency we are talking about is not going to prevent us from being adaptive to the local reality in any way. Cécile, do you want to talk about how we are policing the margin versus sales when there is a need to, the trade-off?

Cécile CABANIS

The trade-off is about what I said on the resource allocation process. Every quarter we look at where we are, the outlook for the rolling forecast for the next four quarters, what we want to build and the strategic mandate on the three years. Are we there and on track? Are we delivering against our commitments and results? Do we have initiatives that could accelerate or have a business impact? Do we have risks to mitigate on the business side? We have two days of conversation on each category and at the end we prioritise and decide. That is why I say it is both about agility, to make sure that we control the agenda and the right pace, the right balance in managing growth and profitability, and it is about discipline, ensuring the delivery of the results.

Participant

Just to add to my initial comment that you cannot get a return without investment to start with. One very important aspect of the process that Cécile has just described, is time horizons. Every quarter we have a spreadsheet that we share, where the resource allocations that come from the business and that we discuss are classified into short-term, mid-term and long-term buckets. Depending on where we think we should be going and building the short, mid and long-term horizons, it could be about allocating to the very short-term, such as a very important promotion that we could double down. This was the case when we decided to put more money on Oikos in the US, supporting the NFL promotion and everything else. Doubling down on this was very short-term and a few dozen million dollars and it paid-off a lot. At the same time the American Medical Nutrition people wanted more money to start a clinical trial that would probably support the authorisation from an important government three-years from now. That is how we are looking at this, really looking at the time horizons and managing that risk and the horizon of how we allocate our resources.

Cécile CABANIS

Lastly, there is efficiency as well. Local organisation adaptation costs money and it is something we put in the margin. It is an investment for sustainable efficiency, so this is also the type of resource in this conversation that we discuss allocating.

Participant

On your deleveraging target, could you not be more aggressive on that? You still have an over 20% stake in Yakult and we do not know if it is core or non-core for you. Is there the potential for you to deliver quickly on that? You said that your underlying Dairy business like for like growth is up 2%. The maths suggests that the underlying implication for volume growth invested in Europe is likely to be subdued over the next few years. Am I right in that deduction?

Cécile CABANISOn the deleveraging and the three times, when we announced the acquisition in July we said that we had one objective, which was to retain our strong investment grade rating, because we think it is the right level to ensure both discipline and flexibility in the investment we continue to want to build. Yes, we could be more aggressive. We have set a ratio of three times and we have milestones to deliver since then and we will deliver through free cash flow generation. Yakult is not on the agenda. It is a strategic stake. We have some R&D alliances in Japan. The deleveraging is really about cash flow generation from the model, continuing to ensure that NOPAT converts into cash and that we keep our level of best in class in working capital.

Participant

You say that you will continue to pay dividends as always, no change in policy. Could you elaborate a bit more between cash payment and scrip dividend? What is in your mind for the next four years? Will you be happy to see big players entering the organic dairy category? That is a very open question.

Cécile CABANISOn dividends, we have in the past used the option of scrip dividends. We do not always use it; we used it two years ago, but not last year. It is an option, but we have not fixed whether we do it next year or the year after. It is certainly very important for us to show that the deleveraging plan is according to the objective we have to reach. We are comfortable on the cash flow generation and we will be disciplined in terms of investment, but we will make sure that we do make the investment we need to make. It will be an option, not a certainty.

Emmanuel FABER

On whether I am happy that big players enter the organic category, provide they pay a big price, I would love it and as soon as possible. If this is a real open and longer-term question then where is Stonyfield going at the end of today? The answer is still yes. I think this category is completely under developed and needs more recognition than it has today. When it comes to fighting against larger players than today populating the organic dairy space, I think that probably not only today, but through the transformation we have been talking about, Danone would be pretty well-placed to face that competition. The answer is yes, we need more people to go into the category and make it more mainstream, to spend the dollars in advertising why organic is important and push customers to bet on the category themselves. You still have a price gap that is anywhere between 30% and 50% and sometimes more, depending on how big the raw material, and particularly the milk, is in the formula. It is a real barrier, which is why we started this non-GMO option in the US, which is a great way of creating a mid-way, which is really convincing about naturality. You heard me say that everyone is using the word 'natural' and consumers do not understand what that means any more. You have been through the breakouts on non-GMO today and it is a way for us to get into the mainstream the organic concept, ingredient concept, soil and farming behind it. If the same could happen on organic, I would welcome it.

Participant

Can I just come back to the revised topline guidance, specifically on the original Dairy business, where you are looking at growth now of less than 2% versus 3% to 5%? I am just trying to understand what has changed in the last 18 months. I appreciate that Spain is clearly more difficult. It feels as if Activia is an execution issue, by all accounts you have a plan to turn that around. You have 700 million in incremental investment and presumably some of that is going to go into the original Dairy business. What has really changed in the last 18 months to come out with a significantly lower target for three to five years? You are a global leader in dairy but it feels as if you under index in Asia. What is your strategy for Asia? I think I saw that you exited your business in Indonesia, though I am not sure that was the right interpretation.

Cécile CABANIS

On Dairy and what has changed, 2016 Dairy grew by 2% and in Q1 Dairy was slightly negative. What has changed is that the turnaround of Europe that we expected to happen and stabilise sales by the end of last year, did not happen and will take longer. We have also been impacted by the Brazilian macroeconomics, you saw Mariano's presentation. We are in 2017 and have a starting point where the Dairy former perimeter will probably be flat. Deceleration will happen but it will be under control and just about acknowledging where we are and that we have three years to accelerate the growth.

Emmanuel FABER

I do not see us prioritising the further development of our presence in Asia in dairy. We have a small Indian business and I could, what Cécile said about Nigeria, where we passed on two great opportunities because we believed the price was not right for us. The same happened in India a couple of years ago. I think we need to fix the fundamentals first of our core countries in dairy, as we are doing now, before thinking about growing the business on an organic basis across Asia. In China, which is by far the largest market, we already have a structuring alliance with COFCO on Mengniu, in a joint venture on dairy, with sales already over EUR 1billion and a more than 25% share of the Chinese market. Mengniu itself is a EUR 7 billion company, so for us China is Mengniu or nothing. We have a strategic partnership with Yakult and two joint venture with them in India and Vietnam. Yakult has a great presence, in China in particular; they have been growing a great business, but also in Indonesia, Korea, Thailand, etc. We are keen partners of Yakult and we think the partnership is where it should be today. We have no urgency in moving things. In a nutshell, I agree there is an opportunity but we have to make choices and these are the choices for the next few years.

Participant

On the 3% to 4% growth you gave on international dairy and plant-based, you said less than 2% for dairy. Does that imply double-digit growth for plant-based and how do you get to that assumption for 2020? On the margin side, if when we get to 2020 and growth is below the 4% you are looking for, would you be willing to invest more of the Protein savings to get to that 4%?

Cécile CABANIS

On international dairy and plant-based, we have an assumption that Alpro will continue to grow strongly and this is the base of the objective until 2020. Resource allocation is what we do every quarter, as I told you. It is not something we look at and then address in 2020. We need to have the right initiatives to make sure that they have a sustainable business impact and that are right in terms of value creation for Danone. If we have the right initiative our delivery agenda is secure and we will accelerate growth.

Participant

I may not have understood about the margin and the question about where it will be driven. Did you say that most of the margin improvement, 200 business point Dairy, ELN, Water is more or less where we are? That means implicitly that everything comes from WhiteWave, which would mean that WhiteWave would have to go to 20 plus margin. Could you clarify if I am right in understanding that? Emmanuel you said that with WhiteWave you took a leap forward in the food of the future and with so much description mentioned by yourself and snacking, changing, what is your inner comfort that plant-based is there to stay and that smoothies, beverages or other forms of protein-based snacks will not come in?

Cécile CABANIS

On the margin, you forgot Protein, which will be back in the margin of the businesses, so that once you have looked ELN, Specialised Nutrition and Water, the business has a very strong margin, but the Protein impact the core point cost and the margin of the businesses. Yes, a big part of it will also come because we have 300 million synergies at every level from WhiteWave.

Emmanuel FABER

On the question of whether plant-based is going to stay or be replaced by another fad or fashion, I think our point of view is based on rational analysis and consumer understanding that we undertook and accelerated before discussions and the conclusion of the deal with WhiteWave. They say that there are inflection points. Vegans are about 3% or 4%, but the penetration in households, as Blaine explained, is 30%, which makes it mainstream. That is a rational analysis. There is of course an element of point of view. Do you believe that there will be renewable energy long-term? Do you believe that you will have driverless cars? Do you believe that there will be more electric cars than fuel cars in large cities 20 years from now? It is a judgement call at some point and making a decision like this one is a combination of both. For me, the reality is that it will be either animal or plant-based. I do not know any other source of protein. We have animal with milk and we are gaining global leadership in soy, almond, cashew, nuts and tomorrow we could add others. You heard me say on other occasions that we have been fermenting lentils as a trial in India and millet in Africa. With all the taste profiling, the technology of our friends at Alpro and Silk in the US, we would now be able to bring this to another level. We are buying a company that has a broad array of protein sources for the customers and, as Blaine said, Silk is not seen as a specialist on one, but a broad company that through the Silk Man is bringing the nutrition benefits of plants. This is an anchor for more product development and there is a whole white or green space, that probably none of will see for up to 10 years, but there are truly embedded in the value of this acquisition.

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