



# **Danone Investor Seminar 2018**

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## Concluding Remarks

Emmanuel Faber

*Chairman and CEO*

What can I tell you beyond what Cécile has just said? Maybe add a few personal comments on what we have been through for the day. Thank you for attending this day. I hope that you have found it productive, intense and informative, at least that is the way we wanted it to be, touching the products and seeing and meeting with the teams here. It is a privilege to have you for one day.

If I think there is one word that I would like to keep to describe the last four years and a half, nearly five now, is 'deliver'. We have consistently delivered, year after year, the commitments that we have taken for any given year. I think this is very important, talking about discipline. There have been many headwinds, many unpredictabilities, many volatilities that we have been discussing with you for the last five years. Yet, we have done that, and in the same time, not sacrificing the future of the company, its transformation. We are on a transformation journey that is truly unparalleled, as an organisation, as a team. I think some of what you have seen today shows that we are succeeding in accelerating the pace of both the growth agenda that we have created and described to you and the efficiency agenda. I think this balance is very important, balancing both growth and efficiency, and balancing delivery and transformation.

So, where does that take us for the future? Well, first of all, I would start with the 5 billion plant-based plan. Clearly, this is beyond the horizon that we had described for the WhiteWave acquisition. Cécile just reminded us of the synergies numbers, \$300 million. You know that \$75 million of that \$300 million is going to come from the EBIT derived from superior growth, so topline synergies. The 5 billion plan that Paco is sharing with us is way beyond that number. This is nothing that I want to speak about in terms of 2018, 2019 or 2020. It simply tells now that, very consistent with what I personally shared with you at the time of the acquisition, we knew that there would be more. There is more, and we are going to get that more in an accelerated and now organised and resourced manner, over the next several years.

This ability that we have to master these three Ps of plant-based, probiotics and protein is clearly creating an unparalleled ability for Danone to seize what is the future of human nutrition. I am really serious about this. So, it is now about executing that in a way that will create the value that we aspire to create as a company, and that we aspire to create through the WhiteWave acquisition. I am personally absolutely convinced that this is transformational for Danone, transformational way beyond Danone, and certainly a very value-accretive acquisition over time. So, that is one thing.

The second is Specialized Nutrition in China. That is obviously a big topic for discussion, as we get it from you and in our dialogue with you recently. We have been growing, as Bridgette shared with us, for the last at least three, four years, 20% per annum in China, now a leading brand in the IMF space. So, we know that the demographics, the basis of comparison, the changes in the channel dynamics, the complexities in the registration processes and the administration of innovation in China, going forward, is going to create a pause in that growth, for at least the next several quarters. This is very clear. Yet, we are

fully confident about the ability of Danone to continue to make China a highly successful story for us and for you.

This is based on what we have in terms of the assets that we have with the IMF global category and our ability to innovate there. As Bridgette said as well, increasingly, there is allergy issue prevalences in China that we are already the largest brand to be able to address. There are increasingly functional nutrition being sought for, and we are already the largest medical nutrition business in China. There is a huge mid, long-term opportunity with healthy aging in China. The government is already speaking about it. For two years in a row, the international council of the mayor of Shanghai, which we are participating in, has been asking advice from the outside world about how to address, for a city like Shanghai, the aging population, the opportunity that it creates. Nutrition is there, in at least three of the ten topics that they have chosen to address.

So, China will be volatile in the next coming quarters. Yet, China is going to continue to be a big value creator for Danone. One of the reasons is because, as I shared with you on the socio-demographics, the upper middle class there is going to grow even higher than what it is, double in terms of number of households, in only five to six years. This will mean there will be more valorised innovation.

So, that leads me to innovation overall. Cécile said it all, I think, and many of my colleagues, Véronique and others, shared that. We have made innovation a new weapon for Danone. Taking the innovation plus break-through renovation, from 16% to more than 20%, in less than three years, with a company that is €25 billion sales per year, means creating an additional €1 billion of innovation, in only 18–24 months. This is what the team has done. It is truly something that we have never done before. That innovation is achieved at a cost which is lower than the previous model. Not all will work, because many barriers to entry have actually lowered with the food revolution.

Some of you were asking about launching new brands and how we architecture our brands. That is a very good question, but it has never been a better time in the history of the food industry to launch new brands, because with digital, with social media, we have a very low cost of launch, so we need a very low cost of failure, as well, and this is what we developed through our innovation model: faster success, faster failure, and move. This innovation drive is radically new for us, and for me, it is very important, because back to a question that has been floating around: the food industry is not commoditising. All these innovations, the growing parts of the market, are 20% more valorised than the products that they replace. There is price provided, there is value in the innovations, and this is what we see.

The important aspect is, it goes beyond the categories. The blurring of the categories is a big, big lesson that not so many companies agree to look at, because it is very difficult from an organisational standpoint. Brands are travelling. You have seen some of the brands travelling from one category to the other, of course, one country to the other, but one category to the other. This brand-travelling is a great asset that we can have, in particular for Manifesto brands. Our Manifesto brands can travel longer, further than others, because they are rooted in a purpose that travels with the tribe and the audience that they address. Our Manifesto brands as shared are growing several points faster than the others. They are also over-indexed in our initiative to double our e-business by 2020.

These Manifesto brands rely on assets that Danone has developed uniquely, for the society at large. Speaking about people: I am back to the externality topics. The relevance of my point about externalities for your audience is the following. Take plastic. We do not know yet: the jury is still out on plastic. We are going to issue our packaging policy in a few days. It will be full of very interesting commitments. We will be with the Ellen MacArthur Foundation for the Our Ocean initiative in a week from now, as a key partner of this initiative. Already, every time we have invested with our Danone Ecosystem Fund, in the scavengers, the waste pickers initiative that I described before in Mexico, Brazil, Argentina, Jakarta, China, all over the place, now in France, we are preparing the future as we get our bales of recycled PET at a discount from the spot market. My story about Kenya might just look anecdotal. It is not, because we are collapsing the cost of the meal collection in Kenya by 80%, by doing this.

We are collecting carbon credits from the Fund at €4 a ton instead of buying it at €15 or €14 on the market. Then I shared how it changes the perspective on the brand attributes in France, or on the brand attributes with the non-GMO pledge for its animals. The Manifesto brands that are looking at the purpose that they serve, with a broader perspective than just their functionality, are building on that strength. We are looking at these externalities because this is the way to maximise the levers on which we create value, in a world like we have as a food and beverage company.

It takes me back to the article which I started with, the Economist, and I will finish with that as a comment. This article concludes that, 'I concede to be judged on the share price, personally', and I said I fully endorse that; I embrace that. The reason is because there would not be any proof of our model about looking at a bigger purpose if that was not convincing you, because without you, there is no business. It is as simple as that. The proof will be in how much you, in the alpha, in the beta, in the profit of the company, see value over time in the way we are able to build a more resilient business, more resilient brands, brands that travel faster, longer, and that ultimately are creating value. This is why we have gone in unprecedented initiatives to make sure that we at Danone, all of us, we share an owner's mindset. I shared about the 100,000 Danoners becoming shareholders by some time next year. It is a key initiative to make sure that they think also as owners of the company. You know, it is true for 1,500 managers at Danone, which is conditioned by what Cécile has just explained in terms of compensation.

Let me finish with my own position, as Chairman and CEO of this company. My compensation is a fixed salary. Then I double this every year with a short-term bonus, which is based on both financial metrics and non-financial metrics. Then I double that new number with performance shares, fully related to the performance of Danone shares over a couple of years. It means that 50% of my compensation is directly related with the share price of Danone.

Two aspects I would like to raise with you personally, because it is important to the dialogue that we have alongside these topics. One is, I do not own personally any other stock in any other company than Danone. Not directly, not indirectly, and I am very happy about it. The second is, these Danone shares, they account for 80% of my personal net worth. I intend these both topics to remain the same as long as I will serve this company in my capacity, because I truly believe that you need, we need, an owner's mindset when we are making

decisions along the road, paving the road of superior, sustainable, profitable growth for Danone, for the success of the company and for your success. Thank you.