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Half Year 2019 Danone SA Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to today's Danone 2019 First Half Results Conference Call. (Operator Instructions) I must advise you that this conference is being recorded today, Thursday, the 25th of July, 2019.

And I'd now like to turn the conference over to your speaker today, Nadia Ben Salem-Nicolas. Please go ahead.

Nadia Ben Salem-Nicolas ***Danone S.A. - Head of IR and Financial Communication***

Thank you, operator. Good morning, Nadia speaking. Thanks for joining us. We know it's a busy day for you, so we appreciate your attendance to this call. Hosting the conference today is CFO, Cécile Cabanis. Cécile will go through the presentation and will then turn the call over to your questions, and we'll try to end before 9:30. A few words before we start to first remind you that the half year financial report with full financial statements is available on Danone website. To also ask you to limit yourself during the Q&A session to a maximum of 2 questions please. And finally, draw your attention to the disclaimer on Page 2 related to forward-looking statements and financial indicators definition.

And with that, let me hand it over to Cécile.

Cécile Cabanis ***Danone S.A. - Executive VP CFO IS/IT, Cycles & Procurement,***

Thank you, Nadia. Hello, everyone. Thanks a lot for joining Danone's first half earnings call. I know it's a day with a lot of traffic, so we'll try to be very sharp. And overall if we had to summarize H1, it's really about the title of the press release meaning that this half is a story of strong levels of execution, which have led to us being able to continue to drive profitable growth and acceleration again this quarter. And thanks to this, we continued to be fully on track with our short-term and longer-term road map, and I would like to start this call by saying a big thank you to all the teams for their great work and commitment to drive this semester and the rest on the results

So let's jump into -- directly into Page 3 with the key figures. We are pleased to see top line accelerating in Q2, in line with what we shared in Q1, 2.5% on a like-for-like basis. The recurring operating margin improved again, and it makes now seven consecutive semesters of positive margin momentum. We landed in H1 at 14.69%, up 68 basis points on a like-for-like basis and up more than 40 basis points in total. This balanced combination of top line growth and margin delivery resulted into another semester of strong EPS -- recurring EPS growth delivery 6%, EUR 1.87 per share.

Moving to the next page. A bit of qualitative comments on how we obtained these results. First on our top line growth. The first thing to note is that it's broad based in Q2, so it doesn't rely only on 1 region or 1 entity. All the 3 entities have been growing more than 2%. We continue to have a strong innovation momentum with innovation representing, in H1, around 30% of net sales. Of course, you have also the launches of last year that continued to ramp up, so the momentum continued to be strong. Essential Dairy and Plant-based has delivered a growth in every regions and, above all, in Europe. In Europe, Q1 was stabilization, it's now growing. I'm pleased to say that all the transformation that was started has really resulted in Europe returning to growth after many years of decline.

On Early Life Nutrition, we also had positive growth in Q2, higher than expected, and I will come back on that. We've been able to bring

China back to growth, one quarter ahead of our initial expectation and this is, again, thanks to a strong execution. Waters sales in Europe were drew back this quarter, impacted by poor weather conditions and not like today, but if you remember, in May, the temperature was particularly cold compared to the average of normal in the season.

Moving to efficiency. We continued to unlock value across the P&L and the organization. We delivered around EUR 400 million in total savings in the first semester, with Protein that keeps on delivering sustainable saving around EUR 150 million in the first semester, and this came mainly from implementing new ways of working, mainly from the operations part and adaptation of sales and marketing model. We have also invested around EUR 150 million in nonrecurring costs for adjusting the organization in different parts. It includes the first part of the cost on the merge between Early Life Nutrition and Advanced Medical Nutrition and some other actions in local market to reduce the cost base notably Morocco.

Finally, we remain highly disciplined when it comes to invested capital, and we are well on track to improve our ROIC this year. The progress against our priorities leads me to reaffirm our 2019 guidance of like-for-like sales growth around 3% and recurring margin -- operating margin above 15%. This means that as we said, the acceleration of growth will continue in H2.

Moving on Page 5. You can see in more detail the first semester performance by entity. So not only as I just said, all of our business have been growing top line in excess of 2% and actually when you look at this more than 3% for Specialized Nutrition, but also all of them having been stepping up in margin between 50 and 100 basis points on a like-for-like basis. Volumes remain negative, minus 1%, but if you look at this materially improving versus Q1, which was minus 2.2%. On EDP, volumes improved a lot from minus 3.8% in Q1 to minus 1.2%, thanks to Morocco and Europe now stable in volume. However, our focus on valorized products in CIS as well as the overall strategy of portfolio premiumization and channel shift which increase in single serve across the business and also in Brazil kept driving volume decrease in the entity.

In Specialized Nutrition, the basis of comparison in Q2 in ELN China remained challenging as we explained in the past. And this is what is driving the negative volume of minus 1.3%.

Finally, Waters volumes were down 0.4%, which is mainly linked to the cold temperatures in Europe that drove volumes down in the region, while in the rest of the world we registered positive volumes.

More generally, we need to remind everyone that we have been prioritizing a mix of the volumes, and this is driving another quarter of improvement when we look at the value part of the growth

Moving now to Page 7, which is the classical sales bridge. So reported sales stood at EUR 6.5 billion up 1.3% on a reported basis. If we look at the different effects, we have 1.4% negative Scope effect, which is linked to the deconsolidation from April 1st of Earthbound Farm, our organic salad business in the U.S. that we sold in April. We have a very minor currency effect of minus 0.1%. You know that since the beginning of the year, we are reporting Argentina performance outside of the like-for-like performance, given the hyperinflationary environment to better qualitatively measure of the performance. So we've put Argentina aside and this is plus 0.3% like-for-like growth impact for Argentina.

Moving to the like-for-like performance, as we said, sales grew 2.5%, driven mostly by value 3.5% with volume down 1%, but driving almost all the acceleration in like-for-like revenues versus Q1.

If we move now to the detail for each entity, and I will start with the Specialized Nutrition. H1 sales growth was 1.8% supported by strong fundamentals that continue in Advanced Medical Nutrition and a return to growth of Early Life Nutrition in Q2.

Looking at the margin, H1 margin stood at 25.3% for Specialized Nutrition, up 55 basis points on a like-for-like basis on the back of valorization of the top line and efficiencies in term of costs.

Going into the next page and going through the Q2 levels of growth. Advanced Medical Nutrition generated mid-single-digit sales growth, overall in H1, with growing volume. As I said, driven by strong fundamentals in all segments both adult and pediatric and all regions. China remained a key contributor of growth growing at double-digit rate, and we have also a robust market in Europe in term of growth and in rest of the world.

Early Life Nutrition posted this quarter a moderate sales growth, including slight growth in China and solid growth in the rest of the regions. Going through China, overall, there is no change in the category dynamic. We said that growth would be at mid-single-digit rate and this is what we continued to observe where we have higher demand for growing-up milks and the ultra premium specialty products that are more than offsetting the declining volume impact from lower number of births since 2017. After 3 quarters of decline, also linked to the high base of comparison of the previous quarters, our business posted a slight growth with declining volume. This performance was better than anticipated, especially in the direct channel. I remind you that this is around 70% of the total China business, and this is thanks to the faster execution of our growth plan and, in particular, in lower-tier cities on which I will zoom in a minute. In the indirect channels, while the C2C segment continued to decline as a result of the additional pressure on smaller daigous from the new CBEC regulation, the business through friends and family and social e-commerce platform like WeChat kept growing and performed well.

Outside China, the solid growth included continued strong performance in Asia, notably southeast Asia, India and Indonesia with our brand Bebelac being among one of the best-performing brand in the portfolio since it relaunched last year, and we have promising result on the recent launch of hi-Q Super Gold +, which is a formula for a post c-section mum.

In the Americas, double-digit growth rate, both in U.S. and Brazil, and still negative but improving performance in Europe, notable improvements in France with positive results from the last pipeline of innovation that were launched under the brand Bledina, notably around organic milk, low sugar 1st spoon dairy and some recipes on food diet. And in Poland, BoboVita, baby food pouches are starting well. We finally just launched a new Aptamil range in the U.K. called Sensavia where the milk protein has been broken down into smaller pieces.

Moving to the next slide and to deep dive on what I was mentioning around China to show how we achieved return to slight growth. So first, we've continued the deployment of our direct to store route-to-market model, which is specific for independent mum and baby stores in lower-tier cities, which remember represent the fastest-growing market in China and where our weighted distribution is progressively increasing. Now you have it -- on the left part of the chart, you have the overall market weight between A/B cities and C/D cities and then our weighted distribution in each part of it. So you see that they're still potential, and we're increasing our weighted distribution in lower-tier cities.

On the right part of the chart, we continued to invest in innovation and renovation to increase presence in ultra-premium segments from our sourcing countries through cross-border e-commerce channel, and this includes renovated brand equity platform for Karicare and upgraded Aptamil Profutura. The launch of the new Aptamil Allecure PeptiSyneo for dietary management of cow milk protein allergy and recent launch of an A2 milk based formula under Cow and Gate brand in Hong Kong. In term of outlook, we continue to expect 2019 to be unbalanced in growth as we longly discussed last time. We have now closed H1 at 1.8% growth for Specialized Nutrition overall, and we expect a strong second half in line with our previous guidance.

Page 11, Essential Dairy and Plant-Based. Essential Dairy and Plant-Based posted 1.2% like-for-like growth in H2, here again accelerating between Q1 and Q2 with improving volumes from minus 3.8% in Q1 to minus 1.2% in Q2. In term of margin, the recurring operating margin stood at 9.4% in H1, posting 58 basis points of improvement on a like-for-like basis, thanks to cost efficiencies and, again, the work on our positive mix evolution.

Moving to the detailed performance for Q2 by regions and by segment. Q2 was an important quarter for EDP because there are several elements that support both our confidence in the dairy business strategic transformation, which has now stabilized at global level, and also our excitement on the WhiteWave addition to our business and the potential of plant-based where plant-based activity continued to deliver strong growth.

If we look at the main regions, so as I said, previously, Europe delivered slightly positive growth this quarter, including good performance in southern Europe. We have Spain and France stabilized for the first time since 7 years. In France, the yogurt category is growing again, driven by valorized alternative offerings that are matching new consumer aspiration and new channel shift around naturality and nutritional profile. Organic is now accounting to 5% of the market. New consumers are joining our innovation around probiotic shots targeting on the go-consumption habit, drive sales and increase our reach in specific urban impulse channel.

Alpro continued to post double-digit growth with a good balance between the core performance and new geographies. North America delivered moderate growth. The performance is mixed across segments with former WhiteWave growing mid-single-digit on one hand, but flat dairy yogurt on the other hand. Plant-based posted solid growth, including a sustained high single-digit growth in almond base beverage and double-digit growth in adjacent categories like yogurt, desserts, ice cream and creamers. Vega performance was still negative but improving sequentially, giving us good signs of sequential recovery. Coffee Creamers growth continued to be strong supported by a buoyant demand & market share gains in ready-to-drink products.

Coming back to Yogurt, the sales growth was robust in Canada, slightly negative in the U.S., impacted mostly by the intense promo activity, from competition in all segments that have driven some distribution losses mostly in greek. We have the right portfolio and very solid plan to recover distribution in the second half, so we are confident on that.

If we look at other regions, performance in CIS slowed down this quarter with core segment that has been impacted by a softer consumer environment. While kids and indulgence offerings keeps -- really growing very well, and we have launched a new brand for hyper indulgence that is called Versa and it's giving good signs of start.

In LatAm, Mexico posted solid growth supported by growing plant-based penetration. Brazil is growing again with good performance of Danonino, which is the kids brand.

Looking forward, growth should continue to improve for EDP entity at around 3% in H2.

Moving to the next slide, one word on Morocco, we are now more than 1 year after the start of the boycott. We are progressing very well against our agenda of both rebuilding growth momentum and adapting the cost base. The noise on social networks is behind us for now. If you look at the graph of market share, it's back to almost 40%, and we are again #1 in the market. Building on the success of what we have been doing last year, which is a unique process of reengagement with the people through local consultation that we handled in summer of last year. And you'll remember that as an outcome of these interactions, we reshaped our milk portfolio in term of price positioning, but also with the launch of half skimmed milk pouch that didn't exist on the market and it's now representing about 1/3 of our milk sales. And we also launched a slate of innovations that now accounts for more than 20% of net sales locally, such as Danette max. Morocco grew in Q2 at around 10%, and we expect this trend to continue for the remaining of the year. The portfolio transformation is also enabling to improve the mix and, in parallel, we are adjusting the cost base, streamlining the sourcing of milk and adapting our sales force.

Moving to Waters. Page 14. The Waters division delivered solid growth in H1 around 3% and the margin close to 13%. This was possible, thanks to a strong execution and delivery on valorization of our offer through positive mix driving from innovation and from price increase, and above the average, in term of efficiency especially returns on protein products

Moving to Q2 details, Page 15. Waters posted 2.1% sales growth, while emerging market delivered growth around 5%, Europe, to a lesser extent North America has been impacted by poor weather conditions and declined by around minus 1%. In Europe and in particular, Western Europe, the water category was severely impacted by temperature below the average of the season and exceptional rainfall. While Q2 had been particularly warm in 2018. In May, the Waters category was double-digit negative in U.K. and Germany, for example, and in the last few weeks, weather condition improved significantly, as I'm sure you're living through them. And sales in Europe were up, again, in June.

In term of innovation, Volvic Infusions and Badoit Bulles de Fruits keep going very good, and we are also launching recipes now without sugar across Europe, and we made the first step into coffee infusion under the Volvic brand in Germany. In Asia, growth was solid led by a strong performance of Aqua in Indonesia. Aqua keeps increasing its reach across the country and benefits also for some -- from some targeted price increases. Turkey registered strong growth as well with the combination of our 2 brands in the country Hayat and Sirma that are gaining market share.

In China, Mizone was not growing and we are working, as I said to you last time, on repositioning the brand to adapt to the new dynamics of the beverage category in China. It will take some time.

Finally, in Latin America, Bonafont registered strong growth supported by very good plain water performance.

In term of outlook, looking forward, the outlook remains unchanged, expecting solid growth for the full year with the second half that will be more Q4 weighted than Q3.

Next page, very critical and important topic on the waters category is the roadmap toward circular packaging, what we have put on this chart is a few example of actions that we have done locally in order to continue to advance on the road map. So you have a few examples. We've launched bottles fully made of recycled PET for iconic water brands like Volvic and Evian in France, Aquador in Denmark and Bonafont in Mexico. This initiative has been supported by very powerful activation campaigns like what you might have seen on the partnership between evian and Wimbledon, which is really building on the circularity stewardship of the brand. We are also creating new business opportunity by proposing disruptive consumption options. We've launched evian (re) new, which is evian first-in-home water appliance made of a 5-liter, 100% recycled PET skin and still fully recyclable. It brings a significant reduction in plastic packaging, minus 66% versus our iconic 1.5-liter bottle. It is being currently rolled out in the U.K. and in France. We are confident that our focus on circular packaging will continue to support the category and the growth of the Waters business.

Moving now to margin and before the classical margin bridge, a few words on where we stand in Protein. Page 18. So we have, as I said earlier, EUR 150 million savings that were generated this first semester, which is bringing the total savings since the launch of the program to EUR 450 million cumulated. After having started with SG&A costs last year, the main driver of this semester has been operations, industry and logistics and sales and marketing. In operations, you have here 2 examples of digitally driven initiatives that were launched. We started to produce spare parts for maintenance through 3D printing, generating savings both on cost of material and transportation cost. This is really a game changer that is also shortening the lead times. We have also launched a logistic control tower cross categories to optimize the truck fill rate and opening the door to cross-selling synergies opportunities.

In sales and marketing, we began to see the first result of our internal center of expertise in advertising content production, which brought 20% to 30% savings on a panel of commercials on which it was applied. We aim to progressively deploy it to all our campaign films. We expect the second semester to bring around EUR 200 million more to fuel growth and support margin and development.

Let's go through the margin bridge another semester of strong like-for-like margin improvement, 68 basis points, an improvement of 42 basis points in reported term. Absolute margins stood at 14.69%, progressing towards the 15% guidance for this year. And this performance is, if you look first at the like-for-like margin development, you can see that margin from operation is increasing 34 basis points, which is really the result despite an inflation of around 6% of both the valorisation in our portfolio and the big effort on cost efficiency. And I think this is really showing the quality of the margin improvement. We've also, as a result of both protein and the fact that we are now moving towards more efficient digital advertising been able to have a positive impact from the sales and marketing expenses at 26 basis points.

And finally, green again, the overheads and the rest, which is also continuing to illustrate the efforts on efficiency. Moving back to the rest of the margin A scope that is driven an accretion of 10 basis points and it's the sale of Earthbound Farm. The currencies had a negative impact, 9 bps, overall on the margin and entirely generated by IAS 29 hyperinflation accounting standard. Then as I was referring in the sales bridge, we have here, the Argentinian impact on like-for-like margin of Argentina, 27 basis points in margin, it's really the result of deterioration of margin because of the huge inflation that we're getting in the P&L, so this is costing 27 bps. And the rest I described. Overall, I think it's a very strong result to have been able to make this performance in terms of like-for-like margin, especially on margin from operations where we had to face an inflation of 6%.

Moving to the EPS, Page 21. Recurring EPS was up 6.3%, EUR 1.87, driven by the operational performance of the company in the first semester. You see the plus 4.8% in the first box, which is the translation of the profitable growth for H1. The cost of net debt and scope effects were broadly neutral, while tax associate and minorities brought another 4% EPS accretion. The underlying tax rate in H1 stood at

27% decreasing versus last year, supported by a favourable tax rate evolution in some of our largest countries as well as a positive country mix.

Finally, currencies had a negative impact of 3% driven by the appreciation of the U.S. dollar on our financing cost and by the effect of the depreciation of the Argentinian peso.

Moving to Page 22, I thought it was important to look at the reported EPS and look at the different nonrecurring elements because we have 2 elements. We have the elements of this year, and the exceptional positive impact of last year from the sale of Yakult. To comment on this year, so 2 elements mostly in exceptional. The first one is the impact of the sale of Earthbound Farm completed in April that triggered a loss of around EUR 50 million at net income level.

As part of restructuring, the first part of restructuring costs that I was commenting earlier, which are linked to the adaptation of the organization around EUR 150 million, which include a first start of the cost of integration between Early Life Nutrition and Medical Nutrition. The savings will start to come in H2, and rightsizing of some organization locally. I mentioned, Morocco especially.

This combined with a positive impact in 2018 of the capital gain on Yakult, which was EUR 700 million drove mechanically a decrease of around 15% of our reported EPS to EUR 1.58. We expect the second portion of restructuring cost in H2 bringing the total cost for this year at around EUR 300 million, and we expect savings to support margin expansion going forward.

Moving to cash flow. Free cash flow in the first semester was strong, EUR 1.1 billion. Confirming the sustained cash delivery level of the company, the main driver of the performance was, of course, the strong delivery of profit after tax. Working capital was impacted in H1 by an increase in inventories to seize some opportunities, especially on the PET prebuying and to protect our operations in the U.K. against potential Hard Brexit, but it remains negative. Working capital was around minus 3.5% for the semester.

Change in net debt, next Page 24. Net debt at the end of June stood at EUR 13.9 billion, up EUR 1.2 billion compared to the end of 2018. This was totally expected. The main driver of the increase is the application of IFRS 16, which is adding around EUR 700 million of debt from operating leases that are now treated into net debt. Apart from this, very simple equation, EUR 1.1 billion free cash flow delivery of this semester has financed the cash dividend that is -- that has been paid in May. With this, the net debt-to-EBITDA ratio is standing slightly above 3x at the end of H1 and we remain fully on track with our deleverage plan and process and target for 2020.

We close the first semester completely in line with our expectations, again, thanks to great work from the team on execution. And we enter the second half with a lot of confidence around accelerating top line to exit the year consistent with the 2020 objective and continue to expand margin. So no new priorities. It is really the continuity of our 3 priorities around top line acceleration, maximizing efficiencies and continue to be very disciplined in capital allocation.

We expect that in H2, the volume will improve and the growth will further accelerate through, of course, an easier base of comp but also, and most importantly, the continued stabilization of dairy, the sustained expansion of plant-based on which I will come back in a second, the increased presence in fast-growing channels and the further development in China smaller cities and premium IMF segment.

Protein will continue to deliver savings to fuel the brands and improve margin that will also benefit from the first results as I mentioned of the adaptation that we started earlier this year. As far as capital allocation is concerned, in H2, we will step up our CapEx to invest, in particular, in capacity increase and innovation production lines for EDP in North America. Our investments in H1 was close to last year in terms of volume but we are going to increase them in the second half, given the plan on plant-based.

The combination of the resilience of our operating model and all of these activated initiative puts us fully on track towards our 2019 guidance, again. 3% like-for-like growth and at least 15% of recurring operating margin and we're also fully on track to deliver our 2020 objectives.

A few words on plant-based on Page 26. An important milestone that we set is to reach EUR 5 billion in plant-based in 2025. Today, it's really a very promising source of acceleration in the portfolio. The momentum is building up as we execute our growth strategy.

Plant-based sales, as I said, continue to post strong growth, sequentially accelerating in Q2 with 3 main drivers. The first driver of growth is, of course, continue to focus on developing plant-based beverage, which is the core of the portfolio, today, 70% of our global plant-based sales, with value-added innovation, including organic, protein-added plant-based beverage and playing the full scope of ingredients. There is new ingredients with fast start which is oat. So we've launched the Silk Oatmilk in Q2, and it has become now #2 in oat in the U.S.

The second driver of development is around revenue synergies and geographical expansion building on our existing fresh road to market and leadership position in some of the markets. It is the start of the journey, you have some examples on the chart, which I will not describe in details, but it's really a plan that is rolling out and working very well, fully part of the expansion and acceleration of growth.

Finally, we are feeding robust innovation pipeline, investing in attractive adjacencies like ready-to-drink coffee, stretching the existing dairy brands as well. We planned to launch a plant based version of Activia in Europe before the end of the year, combining probiotic offerings with plant-based recipe.

This exciting developments make us fully confident that we have the right strategy and plans and that we are progressing well towards our ambitious target of EUR 5 billion plant-based sales. Next page to end and to -- before opening to Q&A, of course, our roadmapis not ending in 2020. We continue to have our eye totally fixed on our 2030 goals, which is ultimately our compass. It's about integrated goals. I commented the quarter, so we talked mostly about short-term financial performance, but what we're driving as an agenda is much broader than that and it's because of this integrated agenda that we are fully confident that beyond 2020, we can really create sustainable value creation and share it in a proper way, with responsible business practice.

I will stop there because I know your agenda is very busy and open for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Jon Cox from Kepler Cheuvreux.

Jon Cox ***Kepler Cheuvreux, Research Division - Head of Swiss Equities and Head of European Consumer Equities***

Jon Cox, Kepler Cheuvreux. Just two questions and one is on China. I wonder if you can just -- you mentioned 70% is now, direct 30% is indirect. I wonder what the split was, you said the daigous proportion was under pressure, but you said on the other social platforms, it's actually doing okay. I wonder what the split of that 30% is between the sort of daigous which is falling apart and the other part? And you mentioned, you're getting strong growth in the second half in line with previous guidance. Just remind me what the previous guidance was there on China?

Second question, just on the restructuring, which I can see why we've done it, but I'm just wondering what were the financial cash charges beyond that for the full year? It doesn't look like there's anything in H1, but obviously you're increasing it for H2. Is it going to be all the EUR 300 million? Or will it be something less? And related to that, is this just going to be incremental to the 2020 targets? Or is it really new as part of the 2020 targets for the operating margin goal above 16% next year?

Cécile Cabanis ***Danone S.A. - Executive VP CFO IS/IT, Cycles & Procurement,***

Thank you for these two quick questions. So I will try to remember everything. So the first question that you asked was on China indirect/direct repartition that we mentioned. What was, in the indirect, the part of c2c versus social platform like friends and families, it's overall half half.

Then regarding the growth -- the reason of growth for China in H2, I have nothing more to add than what we said, which was the year in China will be unbalanced with first semester that will be negative and growth in the second semester. There is this good news that we have been able to be faster to recover growth, given the strong execution of our plans in the direct part. But overall, the outcome -- the outlook of the second half has not changed. We will be back in a strong growth in China.

Then on the restructuring charges, yes, we have the cash impacts, which is in the free cash flow in H1 and overall everything we are doing is really supporting the agenda of margin improvement. We have a very clear guidance for '19, objective for '20. Everything we're doing is nourishing that.

Jon Cox ***Kepler Cheuvreux, Research Division - Head of Swiss Equities and Head of European Consumer Equities***

Okay. So we shouldn't read it as a start pumping in more margin expectations from 2021 so, at this point?

Cécile Cabanis ***Danone S.A. - Executive VP CFO IS/IT, Cycles & Procurement,***

No.

Operator

The next question comes from Warren Ackerman from Barclays.

Warren Lester Ackerman ***Barclays Bank PLC, Research Division - Head of European Consumer Equity Research***

Warren Ackerman here from Barclays. Two questions for me also. The first one is on EDP. Obviously good news around Europe, but I want to ask you a bit more around EDP, the old Noram business. I was quite encouraged to hear about the old WhiteWave business growing mid-single digit, there's been pluses and minuses. Could you maybe discuss a little bit deeper into what's going on in EDP North America and what your outlook is for the back half, I mean you said the EDP is 3% overall, just wondering whether you expect North America -- what contribution North America to make to the second half number, 3%.?

And then second one is just around the same old question on price mix, which was higher than consensus for the Q2. I think it was almost 100 bps higher than the consensus with volumes a bit light. Are you able to split out the price mix between mix and price? And ideally, if you can give to us for the 3 divisions, and so the examples of where you're premiumizing the portfolio most because, obviously, it always looks like your volumes are light because the mix is booked into price rather than volume. So just interested if you can give any color on that will be super.

Cécile Cabanis ***Danone S.A. - Executive VP CFO IS/IT, Cycles & Procurement,***

Thank you, Warren. So on EDP, overall the improvement is really around, indeed a good news, in Europe, but when it comes to the segment, it's both as I said, there is dairy stabilization overall and continued --great momentum in plant-based. On Noram, it's what I described, meaning that we have solid growth in plant-based and there is a mix growth in terms of how it's split because we continue, you remember we had issues on Vega relaunch last year. It's improving but still negative, so it's weighing in the performance of plant-based America. And then on Yogurt, I mentioned we are minus 1% in the U.S., plus 4% in Canada. It's mostly the legacy traditional Greek segment, which is going down as it was the case in Q1 driven by strong promotion from competition. But overall, what I said, we should improve in H2, so you will see Noram improving in H2 and especially on yogurt, which is the main driver of lower performance in Noram. And then coffee creamers continue to grow very strongly, as I said, with particular success of ready-to-drink coffee.

And then price mix, sorry. So on price mix, we have both, we have positive price and mix. In EDP, it's fully balanced between both. In Waters and in SN, we have some negative country mix, but in term of products, we have positive product mix. And because of what I said around innovation and premiumization, every innovation in SN is going into premiumization. I mentioned a certain number in China. And Waters is the same, we had the opportunity to comment last year that the Volvic infusions and other innovations in Aquadrinks were pricing 50% more than the classical range. And we made some tactical price increase in some countries given the PET inflation of last year. So it's really value-driven, which is sustainable in terms of each key constituents and its balance between mix and price.

Warren Lester Ackerman ***Barclays Bank PLC, Research Division - Head of European Consumer Equity Research***

So around 2/3 overall or what's -- 60 to 2/3 overall of price/mix being mix?

Cécile Cabanis ***Danone S.A. - Executive VP CFO IS/IT, Cycles & Procurement,***

It's balanced.

Warren Lester Ackerman ***Barclays Bank PLC, Research Division - Head of European Consumer Equity Research***

Balanced. Okay. Overall. Okay.

Operator

Your next question comes from the line of Alain Oberhuber from MainFirst.

Alain-Sebastian Oberhuber ***MainFirst Bank AG, Research Division - Head of Equity Research Switzerland & MD***

So two questions. Just regarding the organic growth for the rest of the year. You gave some kind of indication last time of about 4%. Is it geared more to Q4 or is it balanced Q3 and Q4? And within that question, could we expect that the acceleration will mainly come from volume and value remains more or less stable? And the last -- the second question is just about the Water business in China with Mizone, how much is Mizone now in sales and when do you expect an improvement? Could we see that already this year or we will see next year?

Cécile Cabanis ***Danone S.A. - Executive VP CFO IS/IT, Cycles & Procurement,***

Thank you for the question. So in term of the growth development into H2, it will be driven by volume improvement mostly. So this is what you can count on. And then in terms of weight between Q3 and Q4, it really depends on the activities. For Waters, it will be more Q4 weighted because Q3 last year was exceptional. So even if we have a very good weather this year, last year was the same, so it will be more Q4 weighted. And then, on the rest, it should be fairly balanced with an acceleration on EDP. And Early Life Nutrition will also depend on the volatility.

On your question -- and maybe to add on that because it's true that this year, we are facing a number of base of comparison. If you were to calculate the underlying growth without the impact of the base of comparison for this quarter, it would be at 3.5%, around 3.5%. So this is what you can have in mind in terms of underlying dynamic.

Regarding Mizone in China, I don't want to give a date, I don't want to be caught in a situation on which we were caughtfor Activia in Europe. We need to take the time to review how we want to play the brand in an environment that is changing very fast in term of beverage in China. We need to modernize it. So we will take the time we need. And in Q2 overall, Mizone sales were down.

Operator

Your next question comes from the line of David Hayes from SG.

David Hayes ***Societe Generale Cross Asset Research - Equity Analyst***

Two questions from me. So first is on Morocco. If you do the math because obviously the first month of the quarter, you still have the boycott issue before you lapped it. So just doing the math, it looks like broadly you must have been doing about 30% growth in May and June. I just wanted to see where that's logical and then why you expected to slow down to more like 10% on an ongoing basis for the rest of the year?

And then, secondly, there's been a couple of articles in the last few weeks or so talking about Danone on potentially reviewing its African assets with a view to a joint venture or sale. I just wonder whether there's enough chance you can comment on that, please.

Cécile Cabanis ***Danone S.A. - Executive VP CFO IS/IT, Cycles & Procurement,***

Thank you, David. So on Morocco, I let you do your calculation. It's true that -- in H2, it should be more than 10%. It should accelerate because as you said, the boycott has still 1 month's impact in Q2, which will not happen in Q3, Q4. And then, on the rumors, first we don't comment on rumors. Second I've been spending some time to show you that we are really working on rebounding and working hard on executing the agenda to make sure that we'll rebuild the momentum of growth in Morocco as well as adapting the cost base. The rest of Africa is doing quite well in a number of countries and we are really focusing. And the Africa team is doing really great job to make sure that we drive Africa as part of our value creation agenda for the next years.

Operator

Your next question comes from the line of Richard Taylor from Morgan Stanley.

Richard Taylor ***Morgan Stanley, Research Division - Equity Analyst***

Rich Taylor here from Morgan Stanley. Just one question from me to be efficient. The trend in plant-based nutrition is clearly continuing to accelerate. Could you give us some color on which segments and regions are most dynamic for you, and perhaps how you think about your positioning versus meat alternatives?

Cécile Cabanis ***Danone S.A. - Executive VP CFO IS/IT, Cycles & Procurement,***

So in term of plant-based, we have double-digit growth for the brand Alpro. This is very balanced between the increase of growth in the core portfolio and existing base as well as new geographies and it's well -- I think on Page 26, you have the different territories of expansion. And then the other part is around U.S. around plant-based beverage mostly in almonds and new ingredients like oat that continues to be very dynamic. And of course, adjacencies, we have very, very good performance in yogurt in the U.S. as well as ice cream. And in Europe, we launched coffee. So it's really these 3 buckets that are driving the overall growth. I think what we see on meat, for me what it shows is that in 2016, when we decided to go for plant-based because we had this conviction that it was going to be the next driver of growth, it shows that we were right. Also we were challenged because we were pioneer as -- it's the case in some actions that we do, but for me, it's the best sign of the plant-based potential and avenue for growth in the future.

Operator

Your next question comes from the line of Martin Deboo from Jefferies.

Martin John Deboo ***Jefferies LLC, Research Division - Equity Analyst***

It's Martin Deboo, Jefferies. I'll do it as brief as I can, both questions on margins and really underlying sort of trying to establish where the margin momentum is in the business at the moment. So the 2 questions are, Cécile, why the Waters LFL margin is so good in H1, I think there were down 80 bps LFL last year. So there is hell of a margin turn around there. And I guess, the question is can you carry that sort of momentum into H2?

Second question is why is there such a big gap between reported and LFL margin progress in Specialized Nutrition? You said explanation at group level of that is very good from my say-so, but I can't quite understand

in SN because there's no Earthbound effects, and I wouldn't thought there's much of an Argentina effect, so why is there a big gap between reported and LFL? So those are the 2 questions.

Cécile Cabanis ***Danone S.A. - Executive VP CFO IS/IT, Cycles & Procurement,***

Okay. So on the overall margin improvement and turnaround for Waters. So last year, you remember we were facing very high inflation in PET. There are three elements and yes, it's true that it is extraordinary and the team did really a great job, and I want to pay a tribute to the team because it's really on all elements. So you have some carry over of the price increases that we had last year second part of the year to compensate and mitigate part of the inflation in some countries. Then you have what I said around valorization of the portfolio, aquadrinks momentum especially the new innovations, which are really bringing accretion to the gross margin and huge work on efficiencies. They've been really ahead of the group in some of deploying on Protein initiatives and operations and also doing very disciplined work on overheads and fixed cost. So it's really not a coincidence, but it's very disciplined management and conscious management of the different elements of the P&L.

Your question on SN reported versus like-for-like, we had some negative currency effect of which is linked to the geographical mix, which is not always offset and hedged through valorization and efficiency, the translation effect. And overall, we have an appreciation of the USD and Happy Family is mainly food business, which is less profitable than the IMF. And we have the impact of the Argentinian peso depreciation. So it's really the way the mix of profit pool and growth played in H1, but we shouldn't have the same impact in H2. It should be lower.

Operator

Our final question for today comes from the line of Guillaume Delmas from Bank of America.

Guillaume Gerard Vincent Delmas ***BofA Merrill Lynch, Research Division - Director***

So 2 questions on the plant-based business because you mentioned that growth accelerated in the second quarter. If I remember well, you're expanding by 7% to 8% in Q1. So should we conclude you are now in double-digit territory, but still below your long-term targeted run rate of 16%-plus? And if so above and beyond the continued turnaround of the Vega brand in the U.S., where do you think the main sources of growth acceleration are for your plant-based business? And secondly, still on plant-based. I mean you are one year now into the rollout of Alpro in France and Spain, what have been the key learnings so far particularly in terms of repeat purchase and market share development?

Cécile Cabanis ***Danone S.A. - Executive VP CFO IS/IT, Cycles & Procurement,***

Thank you, 3 questions. Overall, on plant-based, Q2 was not yet double-digit, it was double-digit for Alpro, but overall for the full plant-based category, it's high single digit. Then on your second question, which is the main acceleration, it's really what I said around -- in Alpro, so which is today mostly Europe you have a good balance between growing the core, continue to gain market share and expansion in new territories as well as adjacencies you have an example on my Page 26 of the presentation on Coffee for Alpro, you have ice cream also for Alpro. And the driver, it's really for the long term, it's really what I said, it is continue to grow the core and keep the key battles on the important segment like plant-based beverage, which is 70% of the total business today. It is the brand Alpro in Europe and Silk in the U.S. that we are expanding, Silk is expanding in LatAm Brazil in Q2 and Mexico. And in Europe, we're expanding Alpro. We have also just started in Russia. In term of learnings, everywhere we launched Alpro it's going very well both in term of building the distribution, but also in term of repeat trade so we're very confident of all the potential on plant-based. It's a matter of right execution and making sure we're pushing it to the max.

Nadia Ben Salem-Nicolas ***Danone S.A. - Head of IR and Financial Communication***

Thank you. Thank you, Cécile. Thanks, everyone, for your attendance. And we are available with the rest of the team to follow up today. Enjoy the day. Bye-bye.

Operator

That does conclude our conference call today.

Cécile Cabanis ***Danone S.A. - Executive VP CFO IS/IT, Cycles & Procurement,***

Bye. Thanks a lot. Good luck for your tough day .

Operator

Thank you for participating. You may now disconnect.