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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Danone's First Quarterly Sales Conference Call. (Operator Instructions) I must also advise you that this conference is being recorded today.

I would now like to hand the conference over to your first speaker today, Nadia Ben Salem-Nicolas. Please go ahead.

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

Thank you very much. Good morning, everyone. This is Nadia speaking. Thanks for being with us today for Danone's Q1 sales. I'm here, if I can say so, with Chairman and CEO, Emmanuel Faber; and CFO, Cécile Cabanis.

We're meeting today in special conditions as you're probably all listening to this call from home maybe with your families around. So before the legal disclaimer, on behalf of all of us at Danone, we wish you well. We hope the technical conditions will be okay today despite the context. Cécile will go through the key messages for this quarter after an introduction by Emmanuel, and then we'll go through Q&A. (Operator Instructions)

And so now to start the meeting properly, here is the disclaimer in Slide 2 with forward-looking statements and definition of financial indicators. And then I pass you to Emmanuel. Good morning, Emmanuel.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you, Nadia. Good morning, everyone. Thank you very much for being with us this morning. And as Nadia said, I really hope that you're all safe and your families and loved ones the same. We're going through completely unprecedented times. And I think our health, -- personal health is also a matter of solidarity with the rest of the people now.

So with that, indeed, the first quarter of this year will long be remembered as one that has probably changed a number of ways in which we live together. It's too early to say, but the fact is that the entry into the many lockdowns now in more than twenty countries in which we operate has basically completely changed the way we had to operate and finally translated into sales growth that was beyond the expectations that we shared with you earlier in the year. That was on the 26th of February. It looks like a life-long time ago already. We do not see the Q2 as a replication of this, with lockdowns all over the place now, and gradually consumers setting into their new normal for a few weeks, months. After the pantry loading that we observed in March, we are unable to predict how this lockdown will affect both our ability to supply and the demand for us.

The result is that we have, with the Board, decided to withdraw our 2020 financial guidance for this year while we are obviously managing to protect and leverage our strong cash liquidity situation with a priority, which is on the health of our people, the business continuity and certainly our brand preference because we believe that in extraordinary times like these ones, it's a moment for brands to engage into a very particular, special way with their communities, and we are actively working on this. I'm pleased that very early in the crisis, we decided to also extend about EUR 300 million of cash-easing facility for our smaller business partners all around the world. We feel that's going to be much needed. And by the way, that's, in a way, a fast replication of what we created with our shareholder support 10 years ago after the 2008 crisis during the AGM of 2009 when 98% of our shareholders approved the creation of the Danone Ecosystem Fund. That EUR 400 has supported thousands and thousands of jobs around our ecosystem over the last 10 years.

Speaking about shareholders, I would also like to highlight that most of our largest shareholders and, in particular, the top largest shareholders have actually increased their shareholding in Danone since the road show after the 26th of February. I would like to thank them specifically in these difficult times. It's a time of volatility, uncertainty, and I certainly look at this and feel privileged of their confidence in the fact that the current valuations do not reflect the fundamental value of the company.

With that, we also believe and feel from our people a lot of support. There's tremendous engagement from our people all around the world. Nearly, still 2/3 of our people are on the road, in the shops, in the factories, in the logistic bases, in the farms, collecting and serving our customers, our consumers, our patients' needs. And with that, we believe that there is also a great traction behind the framework of action that we have created with One Planet. One Health, where everyone now can feel how important it is, how urgent it is, and that probably adds to the morale and the engagement of our people.

So, I'm proud and grateful of what they're doing every day. I'm confident that through this uncertain and volatile month, we are actually going to go and thrive, based on the culture of this company, its adaptative ability, its vision, One Planet. One Health, the commitment of its people and the support of our shareholders.

With that, I will give the mic to Cécile to review the performance. Thank you, and welcome again.

Cécile Cabanis - *Danone S.A. - Executive VP of Technology, Data, Cycles & Procurement, CFO and Director*

Thank you, Emmanuel. Good morning, everyone. Thank you for joining us in circumstances where we are all getting used to new daily life routines. And I hope that on the call, every one of you and your loved ones are safe and well.

Before I cover the detail of the Q1 performance, I'd like to reinforce the significant shift that we've been seeing with respect to the COVID-19 virus outbreak on our industry. But first, and to join Emmanuel, I would like to tell you the tireless efforts and contribution of all our people and teams around the globe. They've done an outstanding job and with an outstanding commitment to ensure business continuity and to ensure that product supply is going through to consumers as well as support to our ecosystem.

So moving to Slide 4, which summarizes how COVID-19 has impacted our industry in recent weeks. If we look from a macro standpoint, we are now operating in very different world from what it was at the end of February when we last engaged with you. We talked to you then about the likely impact from the virus on our business in China. Since then, the virus has spread globally, whereas, in China, we started to see lockdown measures easing. And to date, if we look at countries impacted by sanitary measures, it represents more than 70% of our revenues.

If we look from a demand standpoint, we have gone through unprecedented swings in demand in March from one week to another but also sometimes from one day to another, which is reducing visibility and predictability. We have seen away-from-home and on-the-go consumption drop sharply with business in the foodservice sector significantly impacted. This impacts primarily our Waters business, which is the most exposed, with an estimated 40% of sales out-of-home against less than 5% for Essential Dairy and Plant-Based and Specialized Nutrition. At the same time, we've seen also greater demand for food at home, primarily impacting our Essential Dairy and Plant-Based and Specialized Nutrition businesses, both in Europe and North America. The grocery channel has been up by 30% to 70% in the first weeks following governments' advice to stay at home. And obviously, e-commerce sales have been significantly higher than usual, whereas sales to physical store have been impacted by lower traffic while experiencing growing baskets and a shift to larger packsizes.

From a supply chain standpoint, maintaining service levels has been a challenge for the industry. We've been able to satisfy the vast majority of customer demand to date, and our supply chain has been operating effectively around the world since the beginning of the crisis, although not in an optimal manner, given the fact that we've been having some shifts in portfolio leading to inefficiency and inefficiency also from sanitary requirements and other logistic constraints.

Finally, on the brands, and although it's too early to have a definitive view on what's going to happen, we observe a resurgence of consumer preference in big brands. And in addition, retailers are refocusing their ranges, whilst there are greater expectations for brands to help address societal change posed by the COVID-19 with safety and trust emerging as popular purchase motivations. So this definitely bodes well for the steps we've been taking to build our brands.

Moving to the Slide 5. Before I go into detail in how we respond to the crisis and the framework of action, it's important for you to understand what has been our guiding principles in addressing COVID-19 and the prime motivations behind the decisions and the resources we allocate.

It is clear to us that whilst we may have to do things differently, none of what's happening changes our mid- and long-term long-held vision and mission, as Emmanuel mentioned. Danone's mission is to bring health through food to as many people as possible. And I can tell you, I'm very proud of how the people at Danone have worked in recent weeks, being able to continue serving our customers and consumers worldwide while maintaining the health and safety of our employees. Our brands' responsibility is to address their local community, and the success of companies will depend more than ever on the strength of their business ecosystem. We have announced radical measures to strengthen the robustness of our entire value chain, including what Emmanuel mentioned in his introduction, the EUR 300 million financial support envelope to extend payment terms and credit to suppliers and small customers.

So on that note, I'm joining Emmanuel to thank our shareholders who nearly unanimously voted their support in [2009] (corrected by company after the call) to the creation of the Danone Ecosystem Fund for EUR 400 million.

Let me now move to Slide 6 with our key messages on the performance, both for Q1 and for the remaining of the year. Looking back at the first quarter, it's been a good quarter. Sales has been up 3.7% on a like-for-like basis. This is ahead of the expectations that we set earlier in the year, and it includes especially a sharp increase of sales in March at a high-single-digit rate, given the short-term boost from both a shift to at-home consumption as well as pantry loading, both in Europe and North America.

For 2020, we have limited visibility for the coming months, given the multitude of business factors that are impacted and given also how fast things are changing I mentioned from one day to another, from one week to another. So given this uncertainty, we think it's sensible to withdraw our financial guidance for the full year. However, I want to reassure you that we are more agile and disciplined than ever in the way we allocate our resources to ensure business continuity, to ensure efficient operations while maintaining a strong balance sheet.

Longer term, we remain fully committed to our vision and strategic priorities that we articulated notably around Climate, Localized food systems and End-to-end connected supply chains. And it goes almost without saying that we view the current situation as increasing the urgency of our 2030 Goals.

Let me now deep dive in the details of the performance for Q1, starting with the sales bridge in Slide 8. Reported sales reached EUR 6.2 billion, up 1.7% in reported terms, reflecting a like-for-like sales growth of 3.7%, offset by some negative scope effect, minus 1.7%, from the divestiture of Earthbound Farm last April and by a negative currency impact of 0.9%, reflecting a large currency fluctuation in Latin America and in Turkey since the beginning of the year.

On organic growth, the 3.7% growth is a combination of 2.9% growth in volumes and 0.8% growth in value, excluding any impact from Argentina, which contributed 50bps to this quarter's sales growth. On the volume side, growth was driven by a strong rise in Essential Dairy and Plant-Based and Specialized Nutrition, which were boosted by lockdown measures in Europe and North America in March. And value growth was positive but lower than in previous quarters, mainly impacted by Waters and notably the slowdown in China. In addition, we observed an overall decrease in demand for high-value small-price formats in out-of-home for both Waters and Essential Dairy and Plant-Based, while people are going for bigger formats and regular ranges.

Moving to Slide 9. If we look at the businesses and the regions, Essential Dairy and Plant-Based and Specialized Nutrition, our largest businesses and also the least exposed to out-of-home consumption, posted strong growth in Q1, driven by a strong rise in volumes, while Waters like-for-like sales declined minus 6.8% with the loss of demand in Europe for high-value small formats in out-of-home and further exacerbated by the expected impact of the sale loss in China that we flagged earlier this year.

In terms of regional dynamics, the growth was driven by Europe and North America, which represent 55% of our sales with both regions posting mid-single-digit sales growth, led by volumes. In Rest of the World, we posted 2.6% sales growth with slightly positive volumes but with different dynamics within this, including a sustained momentum in Southeast Asia and an improvement in Russia, which more than offset the expected sales decline in China.

Entering now into the business. Moving on Slide 10 and starting with Specialized Nutrition with a 7.9% like-for-like sales growth in Q1, ahead of expectations that we set at the beginning of the year and helped by loading effects in Europe in the second part of the quarter. It's good to note that all regions contributed to this growth.

If I start with China. So China represents almost 30% of Specialized Nutrition sales, posted solid growth, resulting from a combination of a double-digit growth in Advanced Medical Nutrition and a solid growth for Early Life Nutrition. Market demand remains sustained in China, benefiting from some stock loading as well. Performance was mixed across channels, as you can imagine, with, on one side, negative sales in Hong Kong and through, what we call, the "Friends and Family" channel that was impacted by travel bans. And on the other side, a strong shift to e-commerce. Our brand, Aptamil, gained share over the period, supported by strong positioning on immunity benefits and high presence in e-commerce. It's interesting to underline that in the COVID-19 context, we have not seen any slowdown on premiumization, and actually, it has accelerated. Also, on channels, we have to take into account that half of mom-and-baby stores were closed during the period.

In domestic Europe, which represents around 1/3 of Specialized Nutrition revenues, the sales rose by around 10% in the quarter with almost all the growth coming in the last month. We had a growth rate that was more than 30% in March, 3-0. In all countries entering in lockdown phase, the demand for milk formula and baby food followed more or less the same pattern with a very sharp peak in the first week, reflecting increased stocks across the distribution chain that we think is equivalent to around 2 weeks of consumption. In addition, there has been a very strong demand for advanced medical's tube feeding solutions on the back of a higher hospitalization rate across countries.

Moving to other geographies. We delivered also a very strong growth, led by double-digit growth in South East Asia and the U.S. and some very first visible pantry loading in Latin America and CIS.

So all in all, when we look at Specialized Nutrition sales, the uplift in Q1 was related to stockpiling, and the performance for the next quarter and the rest of the year will be highly dependent on the pace at which destocking will occur.

Moving to Slide 11. Essential Dairy and Plant-Based sales grew at 4.6% on a like-for-like basis in Q1, where it benefited from a triple effect. The first one is growing at-home food consumption in Europe and North America in March, with lockdown forcing people to take their meals at home. Second, low exposure to closed out-of-home channels. And third, also some stockpiling benefit although to a much less extent than in Specialized Nutrition, given the shelf life of the products.

If I go through the regions, starting with Europe. Europe posted mid-single-digit growth with a balanced geographical contribution, all countries experiencing a surge in demand in March. And in order to secure the manufacturing and availability on shelf of our products, we adjusted our portfolio to make sure that we were meeting consumers' demand and needs. In this context, the Essential Dairy products posted low-single-digit growth with some of our key brands such as Actimel, Danone and Danette performing very well in the quarter. On Plant-Based, Alpro posted another quarter of exceptional performance, delivering high-teen growth rate.

Moving to Noram. Noram delivered mid-single-digit growth over the quarter with a good performance across brands and categories, led, as in Europe, by a sharp rise in demand in March. The surge in demand was particularly visible in some segments like Premium Dairy with Horizon organic milk brand growing at a double-digit rate, and on Plant-Based, which posted a high single-digit rate in the quarter, including a mid-teen growth rate for Silk brand and still a negative performance for Vega. Finally, U.S. Yogurt delivered moderate growth over the quarter, while Coffee Creamers posted mid-single-digit growth with foodservice channel closure impacting the sales at the end of March.

Rest of the world: CIS, I mentioned, improved compared to previous quarter, thanks to the stabilization in traditional dairy. Latin America posted solid growth over the quarter, driven by sustained performance of Essential Dairy segment and a continued double-digit growth on Plant-Based. We need to acknowledge that, so far, COVID-19 has had a rather limited impact on consumer demand in these 2 regions. And for Latin America, it's the start and it's still to come. Our business in Africa posted flat sales in the quarter, negatively impacted by sanitary measures authorities to fight COVID-19 and especially on traditional proxy channels and out-of-home consumption.

Going forward, EDP performance in volume will depend on the net impact of the wide and multifaceted effects of the lockdown measures with still a big uncertainty about their length and their depth. We expect that mix will deteriorate on the back of evolving consumer preferences.

Moving now to Slide 12. Waters is our business which has been seeing the biggest impact from the COVID-19 outbreak, given its greater exposure to out-of-home consumption. The sales declined by 6.8% in the quarter with a slight negative volume, 0.9% versus last year, and a big negative impact in value from the shifts of consumption, which reached minus 5.9% versus last year. China and Europe were strongly impacted.

In China, we already discussed with you at the end of February, Mizone experienced, as expected, a steep double-digit decline, approximately 40% versus last year. The country is now progressively going back to normal with distributors resuming business, convenience and traditional stores slowly reopening across the country and on-the-go consumer demand slowly improving. Even though the new Mizone proposition we discussed with you will be available on shelf from the end of April with adapted marketing plans; we remain very cautious and continue to closely monitor the evolution of demand, especially as we are entering now the high consumption season.

In Europe, sales declined at mid-single-digit rate with a strong drag on March from the sanitary measures taken across many countries and leading to closures of hotels, restaurants, cafes and impulse outlets, all of which have significantly impacted both Aquadrinks and small on-the-go formats in France, Spain, Germany and the U.K. On the positive side, we observed some pantry loading on plain water large-formats that are sold, both in modern trade and through e-commerce. We managed to address this surge in demand by keeping all our factories open and operating, although with a less level of efficiency considering the security measures that we took to protect the health of the employees. We also had to adapt logistics and supply chain to each country's situation, which led to some extra costs over the quarter.

Other geographies posted, overall, a quarter of solid growth, particularly Indonesia and Mexico, where our large reusable formats continued to perform very well, while Aquadrinks performance continues to be a drag in Latin America. It is, again, worth to mention that on this region, we saw, at this stage and in Q1, a very small impact from the COVID outbreak.

So if we look forward and regarding volumes, we expect that market conditions will continue to be difficult for Waters with continued strong disruptions, both on the supply and demand for Europe as we are entering into the summer season with greater downside from out-of-home decline and for Indonesia and Latin America as they go through the COVID-19-related limitations. This will have a negative impact on mix. China remains a question mark, and the entity's performance in Q2 will highly depend also on the speed of recovery for Mizone.

So this was the review for the different businesses. With that, I'm moving to Page 14. At the end of February, we set a guidance for the full year of mid-single-digit recurring EPS growth. This was assuming a like-for-like sales growth between 2% and 4% and a recurring operating margin above 15%. This factored in an estimated impact from COVID-19 on the company's sales and margin for the first quarter at a time when the outbreak was largely just impacting China. One month later, half of the global population is living in lockdown, and beyond the initial pantry-loading trends that we observed in March and that I just commented, we are unable to predict how this will affect both supply and demand for the short term in our three businesses. It is likely that there will be significant differences depending on food habits, lifestyles and restoring measures, but also the speed at which they will be exiting the lockdowns.

Q2 will be impacted negatively by destocking. This will be true for Specialized Nutrition. And Waters will continue to be heavily impacted as we enter in the high season. Beyond the lack of clarity around the mid-term macroeconomic consequences, including the large currency fluctuations in some emerging markets that we have started to see and combining this with unclear impacts on people behavior and income, this adds further complexity and uncertainty. So as a result, we expect both global supply and demand to be very volatile and unpredictable in the weeks and months to come with a likely material impact on both the revenue and the cost base. And in this context, we expect our margin to be significantly impacted in H1 by a change of mix and additional costs as we are ensuring business continuity and continue to invest behind brands to make sure that our service level corresponds to the people needs and as we ensure the resilience of our overall business ecosystem.

So as a result of that, the Board of Directors has decided to withdraw our financial guidance for the year to reflect the increased uncertainty resulting from the COVID outbreak for our 2020 outlook. We are very confident and demonstrating every day the resilience of our business, and we are fully convinced that we will emerge after this crisis stronger than before, given our portfolio of healthy categories, our strong brands, the engagement of our people and brands and our framework of action behind One Planet.One Health. We will navigate these uncertain times with continued agility and discipline in resource allocation in order to make sure that we focus on clear priorities and also continue to drive profitable growth. And we will come back with more guidance when we come at the end of Q2, probably with more insights.

Moving to Page 15. I think it's important against this backdrop to set the message with you on what are and what will remain to be, in the coming weeks, the priorities, especially when it comes to resource allocation. We have 5. The first one is ensuring all our employees can work safely for those who can't work at home. And in addition to the measures already discussed, it means allocating funds to secure employee protection with masks and additional sanitization products.

The second is to ensure our products continue to be provided to consumers, and this comes with extra costs around incentives for frontline staff, increased inventory, rising transportation costs, delays in productions.

The third one is to ensure that our portfolio serves the evolving need of people locally, revisiting product ranges and also revisiting innovation pipelines for the weeks and months to come.

The fourth one is to maintain a full agility in the way we work and discipline in our resource allocation to make sure we continue to invest behind brands, adjusting this investment to the most effective channels and formats and making our brands more engaged and even stronger as well as our overall business more resilient.

And the fifth one, very important one, is to keep a very tight focus on cash management to safely navigate through these times and also maintain our full ability to invest for the short, mid- and long term.

So finally, for my part on 2020, Slide 16. I felt it was important in the current environment to touch on the strength of our balance sheet and liquidity position. We are a very resilient, cash-generative business with significant liquidity. We have around EUR 3 billion of cash equivalents in hand and an additional EUR 3 billion of committed facility secured, undrawn and no covenants attached. And we have proven the attractiveness of our debt last month when we very successfully accessed to EUR 800 million bond issuance at very attractive interest rate and long maturity. We have strong investment grade. We managed successfully to reduce our net debt-to-EBITDA ratio since we acquired WhiteWave 3 years ago, reaching 2.8x at the end of last year, thanks to a very strong free cash flow delivery over last years.

With this balance sheet strength in mind, I think we are very well placed in the short term to support people and partners and brands through the current very challenging times and, again, with the EUR 300 million cash easing facility that we put in place.

And with that, I will turn to Emmanuel to talk about the strategic priorities and conclude before Q&A.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you, Cécile. Before we go to Page 17, I suggest we go directly to Page 18, which is an update of what we shared with you on the 26th of February about our strategic priorities for the transformation road map of the company.

First of all, on the left, the Danone One Planet.One Health words that you see here, as I highlighted during my introduction, are really the North Star that we are looking at. And I could say, and I have to say that I'm amazed by how much having a North Star in the kind of situation that we have and the uncertainty for the shorter term, et cetera, is making a difference in how we align the priorities and how our people engage behind what they do every day.

On the right side of this Page 18, you have a list of words basically that you're familiar with in the Danone context, and that is the list that we shared with you, which described by 2020 with the color codes, where we felt we were and where we thought we needed to catch up with the announcement of the EUR 2 billion plan of investment that we shared with you on the 26th of February.

If I make it simple, if you look at the right-hand column, we believe COVID is basically accelerating the need for all these transformations and that continuation of transformation. Going quickly one by one. The first block, the first 2 ones, we absolutely believe that the trust in brands' health, ethos, fairness is going to be very important, increasingly important in the future, both through and post the COVID crisis that we have today. Obviously, to tackle that, efficiency and discipline will be fundamental, and Cécile highlighted that in terms of how much we are at this stage, very disciplined more than ever in how we allocate our resources.

The next 3 greens are all needed in terms of exit strategies for COVID, and I can come back to that if you need to, but we are very, very clear on the fact that regenerative agriculture, biodiversity, leverage and natural and planetary diets are there because they also are going to be fundamental of how people are going to be concerned about their health through food, and we believe that there are, therefore, fundamentals.

The last 3, as you can see, we believe, are also accelerated by COVID. So omnichannel, no doubt, end-to-end value chain, transparency, traceability is critical, and digital and data, even more, of course. The one thing that is there in the middle is packaging on which, frankly, the situation today, if we are looking at the amount of PET virgin oil-based plastic that we're using, it's actually decreasing for all the reasons that Cécile has explained. So our impact is actually decreasing without even us making the changes or radical changes by using rPET or moving out of virgin oil plastic, as we explained and plan to do, as we explained in February. So we believe it's way too early today to have a finalized strategy of what our packaging strategy is going to be. But I have to say that the objective of reducing by half, from 50% to 25%, the fossil origin of our packaging at the company level by 25% is there and should actually be accelerated, whether it is a direct consequence of channel and changing formats, et cetera and/or it is about the cadence and the speed at which we move on our packaging strategy, which we are currently adjusting, obviously, including because there is a lack of rPET availability with all the recycling units that in our key markets are not operating today at full speed, if any.

I'll go back directly to Page 17, and I will finish with that because I think the final block on the bottom, strategic priorities, summarize it well. We maintain our commitment to the long-term frame of action and goals, the One Planet. One Health vision and framework of action, because we believe that the localized food supply chain and regenerative agricultural strategies will be fully relevant. We confirm our data related and digital investments. And finally, we believe that our business model, including the B Corp business model, is uniquely fit to emerge as the most attractive food platform for all stakeholders. And I have to say in one word before I finish that the number of stakeholders that are going to be important to take into account in the way our food businesses operate through the crisis have increased and will continue to increase, whether this is multilateral authorities, NGOs, governments. So I think -- and again, the B Corp journey of Danone is extremely important to continue to secure our superior ability to leverage and manage this overall ecosystem.

And with that, I will finish and we will turn to your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we have a first question coming from the line of Warren Ackerman.

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

It's Warren here from Barclays. I hope you're all safe and well, and I hope you can hear me as well. Can you hear me?

Cécile Cabanis - *Danone S.A. - Executive VP of Technology, Data, Cycles & Procurement, CFO and Director*

Yes, we can.

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

Good. Okay, great. So 2 for me. The first one is for Cécile. I know it's hard, Cécile, but if you could help us on the amount of inventory loading in each category so we can try and calculate the underlying growth. I mean it seems that at EDP, there is sustained consumption gains, but Specialized Nutrition is more stocking. So I guess would you agree, therefore, at EDP, you shouldn't see that much destocking in Q2, given its short shelf life? Maybe specifically, you can touch on Russia as well because that did improve. That's the first one.

And then secondly, on margins. Again, I appreciate there's lots of moving parts, Cécile. I mean if you could maybe just help us a little bit discuss the interplay with much lower input costs. Obviously, we saw negative oil prices yesterday. Milk powder cost down, what, 30% in the last few weeks versus negative category mix. How should we think about that interplay? And any kind of numbers around that interplay would help, appreciating there's a lot of volatility.

Cécile Cabanis - *Danone S.A. - Executive VP of Technology, Data, Cycles & Procurement, CFO and Director*

Sure. Thank you, Warren, for your questions. So to help you, I appreciate the Q1 impact from what could be the exceptional impact from the pantry loading. So yes, there was a tailwind. For EDP, you're right that loading is not the major factor because of the shelf life of the products. But you have to remember that half of the population is in lockdown where most meals are consumed at home. So there has been an increase of consumption there. And it will really depend on the way the lockdowns are easing and countries returning to normal, that we will see this impact phasing out.

Where I can probably help you is that if we look at the different levels of impact on pantry loading when it comes to Specialized Nutrition, extra consumption when it comes to Essential Dairy and Plant-Based and also the negative impact as it comes to Water, we estimate that in terms of growth for the company, the impact of COVID is between 1.5% and 2% of the growth. So overall, for EDP, which was an underlying part of your question, the growth would have been aligned with what we've seen in Q4 and what I said at February without the COVID impact. So that's for the sales.

Now to your question on margin. So on margin, there are several moving parts, as you said. There are some tailwinds and some headwinds. The tailwinds that you mentioned in terms of commodity price is not so much visible because remember that, on PET, we were hedged quite for a large part of the year. And second one, on milk, we are having a long-term contract with the farmers at a cost-plus formula. So the commodity prices have not given that much [tailwind] (corrected by company after the call) to our business. On the contrary, what we've been seeing is that, given both sanitary measures, given also disruption in terms of the supply chain from our suppliers, disruption in transportation costs, we have had significant additional costs that are bearing in order to make sure for us that we can continue to drive the business properly. And this will have an impact on our H1 margin negatively.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Maybe, Warren, I will add a couple of more points, less granular within the categories of Danone. But the fact that there was stocking in the pipe for Q1 with SN will likely make a negative mix impact on the margin if you expect the destocking coming in the next quarters for SN because of the relative profitability of SN, obviously, as they would be a less bigger part of the growth.

And the second aspect I would mention also is that with people at lockdown, as Cécile mentioned, and she mentioned that during the presentation, we see people moving to bigger formats, which obviously have less mix, as you know. It's not as a good mix for us in terms of overall profitability at this stage.

The final comment I would make is that we have had people spending in March with no budgetary constraints. The panic buying that we've seen meant what people could buy, they would. The economic impact of the lockdown situation and on the exit strategies of governments is going to create constraints on the income of people. They are currently saving more, first of all. So even through the lockdown, we've seen that in China, for instance. We see that in a number of European countries. People are saving, basically, for not bad reasons. And therefore, we could see, overall, a slowdown in consumption, which may not be specific to our categories, but overall, in terms of how people allocate their budget.

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

Next question is from David Hayes at Societe Generale. Good morning, David. (Operator Instructions). Thank you very much.

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

Two questions from me, as you say. So just following up a little bit on Warren's question, I guess, in terms of the margin outlook for the full year. As you say, many moving parts. But is the message here that we should expect, net-net, probability-wise, that the margin will be below just above 15% level that you guided to previously? Or is the message that you just don't know, and it's a 50-50, and we'll have to wait and see how the elements play through?

And then the second question, just in terms of sort of underlying demand and expectations. Chobani's CEO about a week or so ago was on record saying that after the end of March surge in demand, they still expected growth in U.S. dairy to be around the 10% level, given some of the dynamics you talked about in terms of people being at home. Is that a number that you think is there is an underlying uplift in growth? Or is that something you've got no visibility on?

Cécile Cabanis - *Danone S.A. - Executive VP of Technology, Data, Cycles & Procurement, CFO and Director*

So I'll start with your question on margin, David. I will not go back to the context, but what we've said is that we are withdrawing the guidance for 2020, given the fact that there will continue to be very high uncertainty and volatility, both in supply and demand and in the way we can effectively operate in terms of business continuity. So what I can tell you already from what we've seen, and on top of what we commented, having a mix deterioration and extra cost to the supply chain, overall, if I look at H1, we are talking about dozens of millions of euros cost that will come and increase our COGS for the H1. So there will be a negative impact on margin in H1, and what needs to really reassure you is the fact that we are very disciplined in how we allocate resources. We've been delaying investments. And especially in CapEx expenditure, we've been refocusing everything on business continuity. And this is also what led us to the Q1 that you have today at 3.7% growth. But there are inefficiencies in the supply chain. There are mix impacts. And today, we are making sure that we continue to allocate the right resources in order, first, for our business continuity and to drive our product to the needs of people; and second, that we continue to be able to drive after the crisis a profitable growth equation.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

And so, David, if I can complement here Cécile. The second half of the year, as you were speaking about full year, is really anyone's guess in terms of what the exit strategies will be after the lockdown and what the social and economic crisis will be. I continue to see V-scenarios. I do not believe in this scenarii, and we are not planning for that. And therefore, I would advise everyone around this call to be very cautious about the expectations that can be created about an H2 rebound. While during this period, there is no doubt that social distanciation will continue, that people will continue to have to be cautious about the way they behave with each other. And therefore, the overall system will continue to operate under constraints, even though maybe not as big and hopefully not as big as the ones that we are going to experiment in the Q2, which is sort of overall lockdown.

In terms of your question about fresh dairy consumption, I think, frankly, I have no idea for the short term. And again, it so much depends on how the post lockdown strategy will be for governments and how the stimuli will be working against the demand and supply. What's quite clear is that protein is going to be up. Immunity and probiotics are going to be up. And fresh is likely to be up if the supply chain and the cold chain works properly and is seen as being safe for everyone to trade and buy. So this is probably a plus, including actually what Cécile mentioned about Plant-Based that's been doing very well for us in the Q1. But this is beyond the current turmoil and very poor overall supply and demand system.

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

Thank you very much. Thank you, David. Next question is from Celine Pannuti at JPMorgan.

Celine A.H. Pannuti - *JP Morgan Chase & Co, Research Division - Head of European Food, Home & Personal Care and Tobacco and Senior Analyst*

Yes. My first question is on China. Specialized Nutrition, you said that you had solid growth, and there was pantry-loading benefits overall. So can you explain a bit the moving parts? I understand that you had a benefit on mainland consumption and then indirect was hit. But I would like to understand a bit more, if you could tell us the big parts there and then what's the market growth you said that you see continued premiumization. Have you seen a ramp-up in March or April? It would be helpful to understand this important part of the Specialized Nutrition division.

And then my second question is on EDP, and I would like to look at after the lockdown. You said that consumer will be constrained. If I remember, in the past 2008, 2010 period, we saw a lot of down-trading. And at the time, your portfolio was quite heavily reliant on premium positioning in terms of price point. So my question is how do you think you enter the next 1 to 2-3 years with the portfolio in EDP. And what is it that you can do also to play on people's willingness for more healthy food on that?

Cécile Cabanis - *Danone S.A. - Executive VP of Technology, Data, Cycles & Procurement, CFO and Director*

Thank you, Celine. So I will take your first one on the COVID impact for Specialized Nutrition in China, focusing on Early Life Nutrition where the sales, as you mentioned, grew solidly. Overall, we estimate that the COVID impact was slightly negative, around EUR 10 million, and it was the result of different dynamics by channel. If we start with direct sales, they were hit by the closure of roughly half of the mom-and-baby stores in China, but compensated by extraordinary growth in e-commerce that allowed, as I mentioned on the call, for Aptamil also to gain market share.

On the indirect sales, we had different dynamics. The first one that suffers from the travel ban disrupting the friends and family channel. However, the Daigous have increased their stock as soon as they realized that the virus was spreading outside China and they feel the potential shrink in supply. So we believe that all of that has led to a negative EUR 10 million impact for Q1 in China for ELN.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

So I will continue on your question on what's going to come next, Celine, and I think you have to take what I'm going to say with a huge grain of salt because it's really hard to say. But the elements of thinking, I think, could be the following. One is there is likely to be a polarization of the market. So everyone that has the disposable income will be looking at safer, healthier food. There are, unfortunately, very clear, although unproven at this stage, but clear correlations between noncommunicable diseases, obesity, overweight, diabetes and severe symptoms of COVID in Europe and in the U.S. So we believe the One Health part of our agenda is going to be even more relevant for these people.

The other polarization is going to be on value for money, which doesn't mean junk food, but it means certainly trade down, and therefore, for us, the need to focus like we do in Russia, that was a question to Cécile earlier, Russia is stabilizing right now because of Prostokvashino, which is a very solid, traditional, value-for-money brand that is there. So I think polarization on that end will be.

Another one will be health and indulgence. You will have both. Maybe not in the same time. But if you have to spend more time, you have less disposable income overall. Indulgence will be there. And again, it doesn't mean junk food but indulgence, and we need to take care of that.

And the last thing I would say is that this is a time for big brands if we act properly. The simplification of SKU assortments and ranges in the trade is very significant. They need reliable partners. They need partners that can act at scale. And this is where large brands, large companies can operate in an advantage. And maybe for the first time, the food revolution that propelled all these small, nice brands on the shelves maybe put on hold for some time or may transform actually in the coming periods. We see assortment reduction literally all over the place. And so that, I think, is the mix of things that we are going to look at, but frankly, very, very early days.

Celine A.H. Pannuti - *JP Morgan Chase & Co, Research Division - Head of European Food, Home & Personal Care and Tobacco and Senior Analyst*

And can you just comment on how you feel you are positioned on a value standpoint compared to where you were in 2008, 2010?

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

I don't think there is much difference because the overall trend of consumers for premiumization has increased, and we have increased with the market. The balance of our categories is different, though. And specifically, SN has grown significantly in terms of the overall profit pool and sales pool for the company, including valorized markets. So I would say that I wouldn't see us at a disadvantage nor a significant advantage from where we were in 2009.

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

Thank you. Thank you, Celine. We have time for one last question for this Q&A. And obviously, we're available with the rest of IR team to follow-ups for the rest of the day. The last question from Jeff Stent at Exane.

Jeffrey Patrick Stent - *Exane BNP Paribas, Research Division - Research Analyst*

Just a quick one. You mentioned in the prepared remarks that you believe the valuation does not reflect the fundamental value in the company. I'd just be interested in your perspective why you don't think that is.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Well, I think, fundamentally, that there is a very difficult job for you and the financial community to price these events that are totally unprecedented. And do we believe that an oil price, which is negative, is reflecting the fundamental value of what oil is likely to be in the next years in our economies? I don't think so. And so my reflection is that if we look at the very long term and what we've been building for the company in terms of the strategy, the portfolio, the geographies, the approach to health and the planet, the localization already, we believe that this will be fundamental assets and, relative to competition, assets that we have that I don't think the market is able to price. I'm not saying I am able to price. I'm simply saying that I don't think that the conditions are met for the share prices to reflect the long-term value of companies and solely for Danone.

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

Okay. Maybe we can take a last question from Martin Deboo at Jefferies.

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

Can you hear me?

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

Yes.

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

Okay. Two very quick ones. Plant-based, ahead mid-teens, which was quite an impressive result. Is that a country mix issue that it's more U.S.-centric and there's been more pantry loading in the U.S.? Or is it something inherent to the Plant-Based category, you think? That's my first question.

Secondly, just what are you saying on the dividend? The announcement before the results caused a bit of consternation in the market. Are you saying there is a risk that you don't pay the dividend? Or is it purely a procedural issue because you can't have an AGM to authorize it, you're just legally unable to pay it? Just which is it? Those are the questions.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you, Martin. So I'll take the first one. Definitely, there is a bias, Europe and Noram, on our Plant-Based. I think that it speaks for the strength of this category compared to others through the pantry loading. It's too early to say how much the overperformance will remain, although we continue to be very clear on the attractiveness of that category and the fact that people will continue to adjust and using that flexibility and maybe even more now that they spend more time at home. But it's too early to say. So unfortunately, I won't guide you much on that.

Cécile Cabanis - *Danone S.A. - Executive VP of Technology, Data, Cycles & Procurement, CFO and Director*

And on your question related to the AGM and the dividend. The Board decision was to postpone the AGM, and it was taken, given the exceptional circumstances that were created by COVID-19 outbreak. If there is any need to change the dividend, it will be a Board decision, and it will have to be held before the AGM: that would be before end of June. And I remind you that, today, we are really focused on the health and the safety of our employees, the support of our ecosystem in order to make sure that business continuity is happening and that our consumers and customers are served with what they need every day. Thank you.

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

Thank you very much, everyone. This will close today's call. And as I said previously, we're available with the rest of the team to follow-up. We wish you a very good day, and thank you again, Emmanuel and Cécile.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you. Have a good day, everyone, and stay safe.

Cécile Cabanis - *Danone S.A. - Executive VP of Technology, Data, Cycles & Procurement, CFO and Director*

Thank you. Bye-bye.

Operator

Thank you, everyone. That does conclude our conference for today. You may all disconnect now. Please take care.