REFINITIV STREETEVENTS

EDITED TRANSCRIPT

DANO.PA - Full Year 2021 Danone SA Earnings Call

EVENT DATE/TIME: FEBRUARY 23, 2022 / 8:00AM GMT

CORPORATE PARTICIPANTS

Antoine de Saint-Affrique *Danone S.A. - CEO*

Juergen Esser *Danone S.A. - Chief Financial, Technology & Data Officer*

Mathilde Rodie *Danone S.A. - Head of IR & Financial Communication*

CONFERENCE CALL PARTICIPANTS

Bruno Monteyne *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Celine Pannuti *JPMorgan Chase & Co, Research Division - Head of European Food, Home, Personal Care & Tobacco and Senior Analyst*

Guillaume Delmas *UBS Investment Bank, Research Division - Analyst*

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

Jeremy Fialko *HSBC, Research Division - Head of Consumer Staples Research of Europe*

John Ennis *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

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

Pascal Boll *Stifel Europe, Research Division - Analyst*

Pinar Ergun *Morgan Stanley, Research Division - Equity Analyst*

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

PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the 2021 annual results conference call. (Operator Instructions)

Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Mathilde Rodie, Head of Investor Relations. Please go ahead.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Good morning, everyone. Mathilde Rodie, Head of Investor Relations at Danone. Thank you for being with us this morning for Danone's Full-Year 2021 Results Presentation. I'm here with our CEO, Antoine de Saint-Affrique; and our CFO, Juergen Esser. They will go through some prepared remarks before taking your questions in the second set.

And before we start, I draw your attention on the disclaimer on Page 2 related to forward-looking statements and definitions of financial indicators that we will refer to during the presentation.

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

Antoine de Saint-Affrique - *Danone S.A. - CEO*

Thank you, Mathilde. Good morning, everyone, and welcome to our Full-Year '21 call. I'm delighted to be back with a number of you. I'm certainly looking forward to meeting many of you in person in not too long.

Before we turn to the presentation, let me flag 2 things. Firstly, we will be focusing today purely on our reported results for '21. We will be speaking to you again in less than 2 weeks about our future strategy and our guidance at our CME, which I hope most of you will be attending, either virtually or in person.

Secondly, you will see that we have changed the format of our presentation. It is simpler and hopefully easier to read and understand, giving more room to our brands, our innovations and our products. It is still work in progress and we will keep improving on it. But I'm sure you get a sense of what I am saying.

This is obviously my first set of results as Danone's CEO. And I want to be clear from the start that I will always aim to be upfront, transparent and clear. Those of you who know me will know that I'm someone who wants to gather a team, set a plan and then focus endlessly on execution and delivery. So, we will celebrate the wins, but we won't hide also from outlining where we need to perform better.

Since September, we have done a lot of listening as a company and we have done lots of internal assessments. We've also completed assembling a strong leadership team that will ensure that the right capabilities and conversation can happen at ComEx level. We have been spending time together to then work through what the plan for the company should be for the next cycle. But all of this is for when we meet again at our CME on March 8.

Now, back to the results. As you will have seen from the press release this morning, Danone delivered in '21 what is a good set of results in a context that could hardly have been more challenging: challenging externally with the COVID-19 crisis continuing to impact people's life, mobility, but also supply chain in almost all geographies; challenging internally with a very public governance crisis in the first half of the year and with a significant reorganization, local first, touching almost all quarters of our organization.

Against this backdrop, we saw true leadership and dedication from our management team. There, I want to start thanking 3 people in particular: Véronique, Shane and Juergen for the way they led the company through the storm, and together with the team, managed to deliver a year in line with what we have promised. This is, if anything, a proof of the resilience of Danone and of the quality of talents we have within the company.

Now moving to Page 4. We delivered a solid top line performance in '21 at +3.4%. And we closed the year with a very strong fourth quarter, up +6.7% on a like-for-like basis. Beyond the number itself, I am particularly pleased with the composition of this quarter for performance with volumes back to growth at +0.4% while mix remained the main contributor and pricing stepped up to +2.5%.

I'm also happy that all categories are contributing to the full-year solid performance. EDP delivered broad-based growth and sustained solid momentum in Europe and Noram, resulting in a +3.7% like-for-like sales growth in '21. SN produced a +1% like-for-like growth with a sequential improvement quarter after quarter to end at +6.4% in quarter 4. This reflects notably the progressive recovery of our Chinese business. As for Waters, we saw an acceleration at the end of the year to reach a total of +7.2% like-for-like for the year. This confirmed our continued recovery in Europe and LatAm, in addition to a return to positive growth in China and Southeast Asia in the last quarter.

Now moving to Page 5. Over the last 5 months, since I've joined, I have been digging into what works and what needs to change. And I will give my unfettered view on both at the upcoming CME. But I can already tell you that there are a few things we can be proud of in '21. Juergen will come back later in more details on the performance by category but let me say that I'm very pleased with the performance of our Dairy business. It delivered sequential improvement quarter-after-quarter in '21, led notably by a strong performance in Noram. This clearly demonstrates the potential of the category.

What is also pleasing with this performance is that it comes with a mix of factors. Firstly, we have been developing our core brands' equities like Actimel, which maintained a strong leadership position and delivered low double-digit growth in '21.

Secondly, we have been catching up where we were late, and there, I'm pleased with the very strong performance of our Greek platform in the U.S. We successfully restaged the Oikos brand. We drove real innovation at scale with protein brands, YoPRO and HiPRO delivered another great year of performance.

Thirdly, another source of pride is the continued strength of our IMF brand, Aptamil, globally. This is especially true in China, where Aptamil market shares remained resilient in both domestic and international labels and where the brand ranked the #1 in the IMF category during the 11:11 online sales. The brand's recognition and strengths, its ability to renovate and innovate based on our distinctive research and development capabilities in that field, is one of our major assets on the Chinese market.

Last, but not least, Waters as well delivered a strong year of recovery, especially in Europe, where Q4 was ahead of our 2019 levels and where all countries registered another year of market share gains. Evian and Volvic delivered a strong performance in '21, driven by small formats recovery, but also by a strong pipeline of renovation and innovation. And there, there is more to come.

I'm now on Slide 6. As I mentioned in my opening remarks, '21 was also for us a year of major transformation with the rollout of our Local First program. Let me start with something I've said to the teams the day I joined the company, something which has been a guiding principle as we execute our transformation with discipline, but also with pragmatism. Local First doesn't mean local only. As we deploy Local First, we have been looking for the right balance between local-centricity, which gives us agility and speed of execution, but also cost efficiency and global scale and expertise, where leverage gives us a benefit.

Social consultations now have been closed and Local First is in place. North America was the first region to switch in April '21, and we are already seeing the benefits of it. The new organization enabled us to put in place a consumer- and customer-focused culture and allowed the team there, under Shane's leadership, to deploy a cross-category growth strategy, which is starting to deliver. Our North America platform grew +4.7% in '21. We switched Europe progressively over quarter 4 to end with France at the very beginning of this year.

In parallel to what is happening in the countries, we have also started strengthening functional expertise on some core capabilities, such as HR, research and innovation and operations where you have seen new ComEx appointments over the last 5 months.

So, things are moving, and there are a number of things Danoners should be proud of, starting with a solid set of numbers in especially challenging context. But it doesn't end there, and there is also a lot we must still improve on.

Moving to Slide 7. While we delivered solid growth with good mix contribution, our growth model remained somewhat unbalanced as our volume were down again this year at -0.6%. While short-term market shares are looking better, we continued to lose market shares in too many places. In other words, we do not fully capture the potentials of our markets.

As for quality of execution, we are not yet where we should be. In the context where global supply chains are disrupted, we ensured overall business continuity but we have suffered from service level issues that prevented us from serving customers and consumers demand in key geographies and categories, translating in revenue loss and sometimes market share erosion. With higher inflation, we've shown pricing power and we managed to progressively step-up productivity during '21 to reach more than 5% in H2. But, and Juergen will dwell into it in a few minutes, our margin from operations is down -81 bps in '21.

Finally, when it comes to A&P, we maintained our absolute level of spending. We were more selective in our allocation. We put on air some really good campaigns. But as a percentage of sales, we were down -22 basis points versus last year, which means that, even if we stop the bleeding, we kept underfunding our brands. We are not spending what we should. We keep not supporting our brands at the level needed, and there are growth opportunities we are not seeing.

So, all in all, a solid set of numbers and plenty to be proud of. Movement and progress on a number of fronts, but still a lot of improvement opportunities. And as I said, I will update you on our plans to address this gap, also the opportunities at the upcoming CME in a few weeks' time.

So, for now, let me hand it over to Juergen for the '21 financial review. Juergen, over to you.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Thank you, Antoine, and good morning to all of you. I hope you are all safe and well.

Let me start the financial review with our net sales bridge on Slide #9. As Antoine was saying, we are very pleased with the strong finish of the year '21. Very pleased with the +6.7% like-for-like net sales growth in Q4.

Looking at the building blocks of this Q4, volumes have been contributing positively, by +0.4%, notably led by positive volumes for EDP in Europe and North America, by the continued volume recovery in Waters as well as by positive volume dynamics for Specialized Nutrition in China. Having said that, value was obviously the main contributor to growth with +6.3%, reflecting a step-up of our pricing initiatives to around +2.5% in this Q4, where we were benefiting from a continuously solid geographic and product mix, something I will come back to later on.

Outside of the like-for-like, currency and others had a positive impact of +4.2%, mostly driven by a +2.6% tailwind from currency effects, reflecting the appreciation of several currencies versus the euro, including the U.S. dollar and the British pound. Hyperinflation geographies also had a positive organic contribution to growth of +1% in this quarter.

All in all, reported growth stood at +10.9% for the quarter, bringing our quarterly net sales to roughly EUR 6.2 billion, up from EUR 5.6 billion last year.

On next page, Page 10 gives a bit more perspective on the quarterly sequence, which is resulting into our +3.4% full-year net sales growth, reminding that we are indeed back to solid growth since Q2 of last year. Being back to growth is obviously important for us, especially the fact that we have been back to like-for-like growth also versus the pre-COVID year 2019 base for each of the last 3 quarters.

Looking at the drivers of our full-year performance, we want to recognize that our growth was driven by important mix effects of +2.4%, the majority coming from product mix that was benefiting from our premium innovations in Specialized Nutrition, but also from the recovery of small formats in the Water division as well as from our premium more functional Dairy ranges. And on the other side, the geographical mix, especially driven by the relative outperformance of our China business in this Q4.

Pricing contributed by adding +1.6% to the full-year numbers with the shift for the year from rather selective to more broad-based pricing actions with price increases and revenue growth management initiatives across all geographies notably to manage the impact of an accelerated COGS inflation in the second semester.

And finally, and despite the recovery in the fourth quarter, we need to recognize that our volumes were negative for another year, in year 2021 with -0.6%. They have been down especially in more developing markets in the rest of the world while volumes were overall positive in Europe as well as North America.

Let's go a bit deeper into the performance by division and I will start on the next page, Page 11, with Essential Dairy and Plant-based. Our EDP business closed the year with revenues up +3.7% on a like-for-like basis with recurring operating margin slightly down at 9.8% in a very challenging supply and cost environment.

Zooming into the fourth quarter, EDP maintained its solid momentum, growing at +4.3% with a similar growth composition as in the previous quarter. First, the Dairy part of our portfolio, which has delivered sustained solid growth led by Probiotics, Protein and Indulgence platforms. Even if there is still a lot to do, it demonstrates the rejuvenated attractivity of this category, the relevance of our brands and platforms also in a post-COVID context.

And secondly, Plant-based that registered solid mid-single-digit growth like in Q3. We are operating here in a continuously dynamic even though momentarily slower category context that is recycling the consumption peaks of year 2020. This segment is for us exposed to a strongly challenged supply chain, particularly in North America, but recently also in Europe, which has prevented us in some instances from servicing customer and consumer demand.

Looking at geographies. Europe and North America posted another quarter of solid sales growth with positive volumes. In Europe, let me highlight particularly the performance of Actimel, that delivered another quarter of double-digit growth, translating into market share gains, while Activia pursued its good momentum in the U.K. and Germany with resilient market shares. Also to mention the high protein part of our portfolio with

YoPRO and HiPRO that posted both, again, a stellar performance, thanks to an impactful rollout across geographies and channels. And finally, Alpro, that posted high single-digit growth in Q4, protecting its leading market share position in Europe.

In North America, we delivered another record quarter of net sales, sustaining mid-single-digit top line growth momentum and accelerating competitiveness. Sales were driven by a stellar performance of yogurt, led by our Oikos range, Antoine was mentioning it before, but also by Activia and Two Good, leveraging their winning positions in the Protein and Probiotics segment. Our Coffee Creamers brand, International Delight, posted another quarter of very solid growth and share gains.

Plant-based sales started to sequentially recover from previous quarter. This recovery was enabled by a conscious prioritization of core SKUs, meaning that we still have some catching up to do before fully recovering from supply and logistic disruptions.

Platforms in the Rest of the World posted strong sales growth, led by price and mix while volumes were down. The CIS region grew low single-digit entirely driven by price and mix in a macroeconomic context that continues to be challenging, while Latin America and Africa continued to show further sales recovery.

Moving to Specialized Nutrition on Page 12. Specialized Nutrition closed the year with organic growth up 1% on a like-for-like basis, while recurring operating margin decreased by -105 bps to 23.5%. While you will remember that H1 was strongly penalized by negative country mix and lower volumes, H2 margin sequentially improved notably led by strong product and geo mix as well as volume recovery in the last quarter.

Looking at the fourth quarter, sales sequentially improved versus the previous quarter, reaching +6.4% on a like-for-like basis with slightly positive volumes.

Going through the segments. Infant Nutrition posted very strong growth this quarter, driven by China and the Rest of the World. China delivered mid-teens growth with resilient market shares. Our Domestic and International Labels, which are sold through controlled cross-border platforms, maintained their growth and market share momentum. And here, I would like to emphasize again the outstanding performance of our Aptamil brands during the 11:11 Chinese online event, where we were ranking again the #1 brand in both leading e-commerce platforms. Our sales of International Labels sold through indirect noncontrolled cross-border platforms were slightly negative against the low base of last year with travel as well as trade activities still very limited with Mainland China.

In Europe, growth was slightly negative, and the category still penalized by decreasing birth rates and working from home, where, however, we saw recently some first encouraging signs of stabilization.

And finally, in the Rest of the World, you remember that Q3 was negatively impacted by some phasing effects. As expected, growth was back to strong mid-single digits in Q4, led by both volume and value as well as global market share gains.

Moving to Adult Nutrition. Sales were weak in the fourth quarter due to some inventory management amid supply challenges while demand and sell out dynamics remained very solid. It will be back to the usual growth dynamics as soon as from the first quarter of this year.

Finally, on Page 13, our Waters division. Sales increased here by +7.2% in the Full-Year 2021, while recurring operating margin was up +194 bps to 8.9%. This margin recovery was driven by the operating leverage as well as a strong product mix improvement, combined with record high productivities.

Looking at the fourth quarter more specifically, sales were up +17.3% on a like-for-like basis. This great performance was led by the sequential recovery of small formats as well as a good continued momentum of large formats for in-home consumption.

It's also worth noting that all geographies contributed to this growth. In Europe, sales reached mid-teens growth on a like-for-like basis closing the quarter above 2019 levels. In addition to the sequential recovery of mobility, we are very happy to report that we are consistently winning market shares across all key markets, including in France, the U.K., Germany, Spain and Poland.

Moving to the Rest of the World. Latin America registered another quarter of recovery, led by plant bottled water as well as our home and office delivery business. And in China, Mizone was back to positive growth, with stable market shares. Finally, Southeast Asia posted low single-digit growth, sequentially improving compared to Q3 with mobility showing first signs of recovery.

Before diving into our margin bridge, let me quickly come back on Slide 14 on the current supply and cost environment. 2021 has been clearly a year of strong inflationary pressure for our sector. We experienced in the second half of '21 an acceleration, which was exactly in line with the expectations we shared with you a few months ago. We mentioned back in October that we expected input cost inflation to sequentially accelerate from 7% in H1 to 9% in H2. The second half of '21 confirmed indeed those assumptions with a further increase of raw materials, logistics and transportation costs as well as an increasing challenge to some parts of our supply chain, especially in North America, but also in Europe. This finally led our input cost inflation to reach around 8% on a full-year basis.

In that very challenging context, we put a greater focus in the second half of the year on the delivery of additional productivity and pricing. On productivity, we accelerated the already initiated cross-category synergy programs, delivering another record of more than 5% productivity in H2. And on pricing, we sequentially moved from a rather selective pricing in H1 into a much more broad-based pricing and revenue growth management leading to a full-year impact of +1.6% while we posted, as mentioned earlier, a price increase in Q4 of as much as +2.5%.

Let's now move on to the margin bridge on Slide 15. We closed the year '21 with a recurring operating margin at 13.7%. Looking at the building blocks of the year, it was mostly impacted by the decrease in margin from operations, down -81 bps, and I will come back to the drivers of this decrease in the next slide. This decline in margin from operations was partially offset by a positive contribution from investments and overheads, but we also benefited from a reversal of some of the COVID-related costs which we incurred last year.

The +31 bps from overheads are reflecting both a strong discipline in fixed cost management as well as the deferred benefits from the Local First implementation, a program which is fully on track in delivering the expected savings over the next 2 years.

The +22 bps from investments reflect the fact that we spent in '21 the same absolute A&P as in previous year, translating into a positive relative contribution. We were more selective in our allocations, increased support behind our winning brands and segments, which indeed translated into market share expansions in those areas. But while this means that we stopped the bleeding, we kept underfunding our brands, something we can't be happy about.

Let me now zoom a little further on the building blocks on our margin from operations on Page #16. As you saw in the previous chart, it decreased by -81 bps in '21. The top line acceleration in '21 had a significantly positive impact of +120 bps, led by mix and price. However, despite a very agile management by our teams around the world, this could not totally offset the incremental net inflation, which we had to face on raw materials, manufacturing and logistics throughout the year.

Gross inflation had a negative impact of as much as -480 bps on our margin, representing a gross negative impact of around EUR -1.2 billion on our P&L. This was partially offset by a new record in COGS productivities, which had a positive impact of around +280 bps, representing around EUR 700 million.

Now looking forward to year 2022. We see another year of challenge and disruptions and expect input cost inflation to sequentially accelerate in the low to mid-teens range compared to the 8% we experienced in 2021. To navigate these headwinds, we will further step up our productivity and we will leverage broad-based pricing.

Moving now on to the EPS bridge on Slide 17. Recurring EPS reached EUR 3.31, slightly down by -1.1% versus last year. The improvement of our operational performance had a positive impact of +4.3% on EPS. This was notably offset by a negative effect of -3.1% from scope, mainly due to the disposal of our stakes in Mengniu and Yakult and the negative impact of -4.1% from currencies. It's worth noting here the positive contribution of the financing book with +0.7% reflecting the continued decrease of our net debt position.

And finally, reported EPS decreased by -1.7% to EUR 2.94.

And let's move to the next page, Page 18, to delve into the key explanation factors. The evolution of our reported EPS has been impacted by 2 important nonrecurring events. On one hand, the one-off costs related to the implementation of Local First, which impacted our earnings with EUR -0.7 billion in 2021. As Antoine was already sharing, this project is on track and the metrics in terms of costs and savings are confirmed, right. Some of the cost bookings and cash-outs moved from Q4 '21 into early this year.

The reported EPS was, on the other side, positively impacted by the capital gain of around EUR 0.6 billion, arising from the disposal of our stake in China, Mengniu Dairy, finalized in Q2 last year. Those 2 elements are almost offsetting each other, which leads to a reported EPS of EUR 2.94, relatively close to the recurring EPS of EUR 3.31.

Let's now move on to the next page, Slide 19. Free cash flow reached EUR 2.5 billion in 2021, reflecting a disciplined capital allocation as well as our reinforced focus on cash generation. Also, and as mentioned before, Local First did finally impact our free cash flow 2021 to a lesser extent than initially foreseen, moving some of the cash-outs into early this year without changing the phasing of the P&L savings.

Working capital stood at -4.8% of net sales, showing great progress in the context of sequential normalization of channel mix and payment terms. While CapEx stood at EUR 1 billion, representing about 4.3% of net sales.

Moving to the next page, it's worth noting that our net debt closed at EUR 10.5 billion, down EUR -1.4 billion from the end of 2020, thanks to our strong cash flow generation. This translates into a healthy 3x net debt-on-EBITDA ratio. At the same moment, we are reporting our ROIC at 8.7%, a slight improvement versus the 8.5% reported end of year 2020, certainly not the level where we want it to be. And finally, we will propose a dividend of EUR 1.94 per share in cash at the next AGM in April '22, which means a stable dividend compared to last year in absolute value.

Before handing the mic back to Antoine, let me remind some of the highlights of our ESG achievements in year 2021. And here, let me start with our health and nutrition ambition as we are ranking #1 in the product profile assessment according to ATNI, rewarding that 90% of our volumes are sold in healthy categories and this is for the third year in a row, and with 83% of our volumes sold without any added sugar.

On environment, we are proud to have been awarded for the third year in a row also the AAA scoring by the CDP, highlighting our continued progress on the fight against climate change, preserving our forests and driving water security. We reduced our full scope carbon emissions by around 3% in '21, down -0.8 million tonnes of CO_2 equivalent on a like-for-like basis, which results into our carbon-adjusted EPS growing by +2% versus year ago.

On our social ambition, Danone has been recognized for the fourth time in a row by the Bloomberg Gender-Equality Index, which distinguishes companies committed to transparency in gender reporting and advancing women's equality. And we are also very proud of having fully deployed our FutureSkills program, which aims to better prepare our employees who require new skills for the jobs of tomorrow.

Last but not least, we are making great progress on our B Corp journey with now 62% of our revenues covered by the B Corp certification, fully on track towards our 2025 ambition to become a global B Corp.

This is concluding the financial section of our full year presentation, and I'm now handing it back to Antoine for the conclusion.

Antoine de Saint-Affrique - *Danone S.A. - CEO*

Thank you, Juergen. Before we open the line to questions, let me conclude with a few key messages. The first one, and I hope you share our views, is that there is a lot to be happy with this '21 performance. We delivered better growth dynamic, we reached our productivity targets and delivered a good level of cash.

The second, and we are clear about this, is that there is still plenty we can improve from our growth model to the quality of our execution and investment model. This will require greater discipline on the basics, greater focus on execution, strengthening step-by-step some of our capabilities and driving what Danone was known for: a consumer-centric and brand and innovation-driven model. I look forward to developing more on the topic during our CME in a few days' time.

Moving to the next chart and on Chart 23. Having said that, and I'm sure all of you noticed, we have not been standing still in the last months and have already moved into action. I have been with the Executive Committee hitting the ground, visiting many countries despite COVID and meeting with hundreds of Danoners, with customers and with consumers. We intend to keep this rhythm with an Executive Committee that will spend much more time on the ground, close to the markets and the teams and less in the headquarter.

As I told you earlier, we closed the social consultation process and implemented Local First. The new organization is now in place. At our Board level, you will have seen the appointment of Valérie Chapoulaud-Floquet, who brings with her extended and undisputed FMCG and CEO expertise. There is obviously more to come, and Gilles will address the topic at the CME.

At our company level, we have been focusing at strengthening core capabilities, bringing to the team a number of internationally recognized leaders. Late last year, we split the roles of General Secretary and Chief HR Officer and recruited Roberto Di Bernardini, a top-class professional, to become our new Chief Human Resource Officer. Another top-class professional, Vikram Agarwal, joined Danone in January as Chief Operation Officer and will help us raise the performance of Danone's operations and make it future ready.

As I said, Danone is about brand and innovation. We decided to bring innovation back at the core of what we do, creating a position of Chief Research, Innovation, Quality and Food Safety Officer that Isabelle Esser will assume starting from April. We also entrusted the sustainability functions to a business person with strong experience in Danone. Henri Bruxelles has become our new Chief Sustainability and Strategic Business Development Officer with the objective to bring sustainability back to the heart of Danone's business delivery and performance.

So, as you see from this and from the results, we are moving forward with space and we do intend to keep doing so. And with that, let me hand over back to Mathilde, who will introduce our questions and answers. Mathilde, over to you.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you, Antoine. Thank you, everyone. So, we are now opening the floor for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you. So the first question comes from Guillaume Delmas from UBS.

Guillaume Delmas - *UBS Investment Bank, Research Division - Analyst*

Two questions for me, please. The first one is on your volumes in EDP in the fourth quarter. It seems the volume decline was entirely driven by emerging markets. Probably I'm getting to volumes down mid-single digits in the quarter for emerging markets. So my question on this is was the price elasticity there higher than you anticipated in the quarter or not? And how should we think, I guess, more importantly, about the volume development going forward as you will probably have to implement additional pricing actions over the coming months there?

And then my second question is on Plant-based. Second consecutive quarter of mid-single-digit like-for-like sales growth. Seems to imply flat to low single-digit like-for-like in North America. Now at the time of your Q3 trading update, you sounded relatively upbeat about the supply chain issues being resolved. So wondering, wasn't it the case? And are these issues -- are they lingering? Are these issues also affecting your shelf space, market shares? And if so, how long do you think it will take before you can get back all your shelf space there?

Antoine de Saint-Affrique - *Danone S.A. - CEO*

Thank you, Guillaume. We'll do a duet with Juergen on that. On volumes in EDP in Q4, it is, in some ways, a tale of 2 cities. I mean, as we said, we are very happy with our premium ranges that are growing pretty fast. On the more commoditized ranges, we went on for price and are making clear trade-offs between profitability and volumes. So this is partly what you're seeing.

Moving forward, obviously, we will have to go for a broader pricing, I mean, given what Juergen said about the inflation. And the elasticity will depend also from what everybody around us is doing. But Juergen, maybe you want to complement on that.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Yes. As you were saying, we have been doing broad-based pricing across all geographies. And what we have been observing in 2021, including in the last quarter, is that, for example, in North America, the vast majority of our portfolio has seen pricing. Our volumes were holding very well.

To the point of Antoine, in other more emerging geographies, we had a more mixed picture. Russia, I was describing, we have been growing in Q4 in net sales where volumes were down. And this is really the effect of 2 realities, where our modern Dairy portfolio has been holding very varied volumes, but we are more low-priced. Traditional Dairy portfolio has seen short-term volume impact, which has not been a surprise to us.

And so moving forward, as Antoine was saying, as we are going to more broad-based pricing also in Europe, we can see here and there also some volume elasticities in the short term.

Antoine de Saint-Affrique - *Danone S.A. - CEO*

So on Plant-based, we see a number of things that work. We've seen our markets are slowing down and probably a bit of balancing between plant-based and dairy-based. And this is where, by the way, playing on 2 legs is a good new because we offer the choice to the consumer. So that's one dimension.

We kept having service issues, and I think we will keep seeing some of it in the coming quarters. So not totally out of the woods. If you talk of service in general and not only on our Plant-based, what you see is a number of dynamics at work. I mean you see an overall perturbation that remains on everything that has to do with ship transportation; with issues, obviously, in the China harbours; with issue, in particular, in North American harbours where there are not enough dockers. So you have people that are queuing to unload the containers. You see a huge pressure on trucking in the U.S., in the U.K., and to some extent, in Europe.

And you see as a result of that and as a result of increased demand quite a bit of pressure on the supply chain. I was in the U.S. a couple of weeks ago. You see holes in the shelves from about everybody as there is pressure on our transportation and availability of materials.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you very much. The next question comes from Warren Ackerman from Barclays.

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

Warren here at Barclays. I also got 2 questions. The first one is, can we perhaps dig into the strong performance of China infant formula and market share of Aptamil? I'm particularly interested in the Q4 growth by channel. If you were able to give it to us between direct, indirect and cross-border, that would be useful.

And was there any kind of stocking benefits or one-off distribution gains that benefited the quarter? I'm just trying to get a sense of what you think the Chinese infant formula growth could do in your budgeting for 2022? That's the first question.

And the second one is just on this topic of inflation versus productivity. I know you'll give us more at the CMD. But I think, Juergen, you said that you expect low to mid-teens inflation for '22, if I heard that correctly. I was wondering whether you can give some of the components of that, maybe between Dairy and packaging. And maybe what visibility do you have on that in terms of hedging cover?

And then related on the productivity side, it does seem like the productivities did actually slow a little bit in the second half versus the first half. I'm just trying to understand the phasing of design to delivery maybe rolling off and Local First savings coming in, that would be helpful.

Antoine de Saint-Affrique - *Danone S.A. - CEO*

So Juergen will take the bulk of the answer. But I mean just to start with, I mean, there was no stocking benefit in China, to be honest, and we are seeing good performance overall in China. I mean we saw it with consumer offtake on 11:11. We see it with the distinctiveness of our brands. We'll talk a little bit about it at the CME.

The China team is actually at the forefront of good practices when it comes to direct-to-consumer, digital marketing and those kinds of things. So, there is real pockets of excellence that have discovered in the last couple of months, really impressive. But Juergen, go for it.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Look, you're obviously right. I think a stellar performance of our China business in IMF delivering mid-teens in Q4. Of course, important to remember that last year Q4 was significantly down. So we are running on a relatively low base. But when you step back and look more at the fundamentals, there's probably a few dimensions.

Dimension number one, yes, the category in the moment is low, as we all know, impacted by birth rates and the baby pool decrease. However, and that's the good news within an overall difficult context, is that we see continuously per capita consumption and premiumization continuing, which is not totally offsetting the birth rate pressure, but still helping a little bit to mitigate part of it.

You were talking about channel performance, Warren. You're absolutely right what we are calling our control channels, which is for China Labels as much as for International Labels, is now making up for slightly more than 80%. And here, we are seeing very good competitive growth. So, we are winning share on the China Labels part. We are winning share on the International Labels part. Antoine was mentioning the outstanding performance of Aptamil during the 11:11 e-commerce event. So, I think we are well set from a competitive stance.

Our uncontrolled channels represent now below 20% of our Chinese IMF business. So it's getting smaller and smaller. It has been declining also in Q4. And as we have been discussing at several moments already, we believe that this is a structurally declining channel. And so, we are putting all our emphasis on the controlled channel where we are seeing very good progress.

Last but not least, to mention that we saw in Q4 good momentum of our core milks, but an even greater momentum of our special paediatrics, which has been outperforming. When we talk product mix in Specialized Nutrition, it's not only about the premium ranges, but it's really also about this special paediatrics on Allergy but also increasingly on challenged costs. So overall, I would say a good set of results. But let's remember that Q4 was also on a low base.

On the second point, on inflation, yes, I confirm we expect inflation to be in the low to mid-teens, so quite up vis-a-vis the average 8% which we saw in 2021. We do expect broad-based inflation on various dimensions. First, we see a high level of inflation in all geographies, a little bit more in emerging markets, but still also there's very strong impact in developed markets, in North America and Europe.

We see inflation also broad-based when we talk materials, logistics or manufacturing. Having said that, we have the strongest impacts coming from materials, and here especially from packaging, including plastics and paper, but also milk and milk ingredients. We have still also strong inflation, which we are seeing on logistics for all the reasons Antoine was describing on sea and land transport capacity shortages, and on manufacturing with energy prices continuing to increase. So really a broad-based set.

Now visibility is low, and this is why we are today discussing that range of low to mid-teens. And probably the actual inflation will be a function of the duration of global supply chain disruptions, especially on before-mentioned land and sea transport as well as on the evolution of the cost of the barrel of oil, which has been recently very, very volatile.

And maybe Warren, you were saying on hedging. Yes, we have been hedging in 2021, part of our packaging exposure. We are continuing to do hedging, but obviously it will have a lesser impact, a lesser protection than in 2021.

And finally, on productivity, I want to confirm that productivity in the second half of the year '21 has been higher than in the first half of the year. And we are targeting to increase our level of productivity also in year '22, going for a new record.

So basically leveraging all the good works, which the team have started in '21, leveraging the cost category synergies, taking benefit of the carryover of the SKU rationalization program. We were saying that we want to cut 20% of our SKUs and this is where we are today. But also maximizing all the other synergies we see on cross-category, procurement of services and goods, as much as driving our digital supply chain programs to the market.

Antoine de Saint-Affrique - *Danone S.A. - CEO*

So we will double down on productivity. We will do what it takes on pricing, but also within the reason because we will have to manage the balance between competitiveness and pricing. And we intend to keep supporting our brands, so not at the expense of investing behind our brands, which is important.

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

I mean, quickly, the reason for the question was productivity was 320 bps in H1, but only 280 for the full-year. So, it looked like in the second half the productivity was lower in basis points compared to H1. That was why I was asking the question.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

No, no. That's the correct reading, but as our productivities on cost of goods sold is indeed that we had almost 5% in H1 and more than 5% in H2, so we saw a sequential acceleration, Warren. And we do expect a good step-up in 2022. Of course, not at the amplitude of the step-up we are seeing in the level of inflation, which goes from 8% well into the teens.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you, Warren. The next question is from Celine Pannuti from JPMorgan.

Celine Pannuti - *JPMorgan Chase & Co, Research Division - Head of European Food, Home, Personal Care & Tobacco and Senior Analyst*

Yes. First of all, I wanted to thank you for the added disclosure on volume, mix and pricing and I do hope that this will be a recurring disclosure. My first question is on your point about underfunding of your brands. I presume that may be a topic of the CMD, but I just wanted to know where you see that you are underfunding maybe by divisions or brands, if you can say that? And why is it that you have not yet started to correct that in 2021?

My second question is on Waters. I was a bit surprised that Southeast Asia did not rebound more in H2 and I saw that Mizone at flattish volume. Can you talk about what do you expect or what is the situation as we look into 2022? And would it be fair to say that you have an easy comparative in the first quarter? Anything that you can tell us about how the quarter has started for the group as a whole?

Antoine de Saint-Affrique - *Danone S.A. - CEO*

Thank you, Celine. Juergen will take the questions on Waters and I'll take the one on brands. Just a reminder, I've been there 3.5 months or 4.5 months in '21. So, I'm trying to move as fast as possible. But you don't change the brand plans in the last minutes or in the last moment. The reality is, to the heart of your question, the reality is if you look at our share of voice with share of market, I know you've done the exercise, we are structurally underfunding our brands. So the work that we are currently doing is of 2 natures.

First thing that was done actually this year in '21 was to make choices and to invest where we thought we had strong assets from a brand standpoint, strong assets from a communication standpoint, and therefore, fuelling the fire. And you've seen that, in a number of instances in Europe, you've seen that on Waters, you've seen that on Actimel, for instance. So we started making some selective choices and making sure we invest where we think we have the assets and the dynamic and putting through to the fire.

The second thing is obviously making sure that we have the quality of assets on which we invest, be it on advertising, be it on our innovation. And there, we will work in a very disciplined way, and we'll share a bit more of it in 10 days' time. But we work in a very disciplined way.

And you don't invest in the same way when you are trying to push your winners, when you are trying to protect your core, and we need to do more on the core, by the way, while there are things that need to be fixed and the fix is not necessarily or doesn't start necessarily with advertising. It can start with the mix. It can start with the distribution. It can start with a number of things.

So under-invested structurally, choices made in the short term, also choices in the long term, and raising the floor in keeping the good discipline between working, nonworking, but also focused on the places we're going to invest.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

First, thank you for your comments on disclosure. It's sure that, for us, being vocal also about the mix component we see and the product mix component we see is important and important to share with you guys because you have seen that product mix has been delivering very well in Q4. But this is not only Q4, it has been consistently over the 4 quarters. And looking forward, obviously, that's also an important element of our toolbox in front of the very important inflationary pressure we see.

When it comes to Waters, maybe first, on Mizone. What I was saying on Mizone, in fact, is that we have seen a good growth in Mizone in Q4, in fact, a pretty strong growth in Mizone in Q4. But you also know that, and this is true for volume and value with market shares, which continued to be stabilized, which is very good new. Knowing that Q4 is a smaller quarter, but still, I think it's a reassuring component here, which confirms what we have seen over the last 2 quarters.

When it comes to Southeast Asia, the reality is that the teams are, just as we speak, coming back to office. So many of the lockdowns implemented, especially in Indonesia, are just about to be released. And so, in that sense, only over the last 2 weeks we saw a rebound in terms of mobility. And so, as we have seen quite a bit of stop and go over the last couple of months, we are careful with the outlook. I think what is important, Celine, is that as soon as mobility is coming back, and I think that Europe is a very good example of that, we see also that consumption of small format is coming back. So, then all the rest, the visibility is and is remaining low.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you, Celine. So next question is from Bruno Monteyne from Bernstein.

Bruno Monteyne - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

My question is sort of coming back to your low to mid-teens cost inflation and sort of what's offsetting that. I mean, already in 2021, you had 31 basis points of the Local First benefit. Could you just quantify in basis points how much more Local First you would expect in 2022 is the first question.

And the second one is coming back on the productivity. I remember from H1 you made it clear that the productivity seemed to have gone faster than expected. The SKUs actually went faster. You have an impressive 5% productivity gain this year, and I hear you saying you're going to do more. But clearly, given the sort of early quick wins, you'd expect the additional rate of productivity to slow down. I mean if you did continue that rate, you would have 10% productivity by 2022. Am I right to expect that the additional level of productivity gains won't be of the order of another 5%, possibly still an impressive 2% to 3%?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Thank you, Bruno. I would wish that our teams had the capability to double the level of productivity. So, I confirm your reading that we did 5% of productivity in 2021, which was a record in our company. We will continue to post a record also in 2022. So, we make the next step in the journey, but I think doubling it will not be possible, unfortunately.

What do we put in front of this, I would say, unprecedented inflationary context we see in 2022 is not only the COGS productivity, but it's also all what we have been describing in terms of price where we want to be ambitious, but at the same moment also be pragmatic, which means, yes, we will go for important list price increases. But we will be extremely careful to make sure it doesn't hurt our level of competitiveness and we maintain the necessary flexibility to promote back whenever we see that our competitiveness is at risk or when we see that inflation should plateau at a certain moment as we go through the year 2022.

Beyond price and productivity, we have mix and I was talking about it. We want to continue the journey on product mix momentum, and this is across all our categories and geographies.

Local First will be a contributor in 2022, definitely. I confirm what we have said consistently since the launch of the program is that the majority of these savings will come into the P&L of 2022. But we have also said that we want to use part of those savings to reinvest into our brands. This will be, as you can imagine, exactly the topic of the CME discussions and the midterm guidance and outlook and the way we want to set the strategy for the next years to come.

I think that's probably the main components of the way we're going to treat the inflationary context.

Antoine de Saint-Affrique - *Danone S.A. - CEO*

Thank you.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you, Bruno. The next question comes from Pascal Boll from Stifel.

Pascal Boll - *Stifel Europe, Research Division - Analyst*

Yes. My first question touches on Russia. In 2020, Danone generated roughly 6% in the country and it's important for the EDP business. What risks do you see there? Do you more or less produce locally and sell locally or do you also export/import? What are the risks there?

And then my second question is on market shares. You mentioned some of the products that won market shares. What are products or categories where you have seen declining market shares? And what percentage of total portfolio saw market share gains in 2021?

Antoine de Saint-Affrique - *Danone S.A. - CEO*

Pascal, let me start with Russia and on shares we'll do probably a duet. On Russia, as you said, Russia is slightly above 5% of our sales. The vast majority of the business is local for local. So, it's Dairy business. We source locally, we make locally, we sell locally. So, we will be on the vast majority of our business impacted as any other Russian company. But there are no things that are going across borders. We have been obviously managing the thing for quite a while, taking care of our teams, making sure that the people are safe, making sure that all the measures are in place so that we can navigate the crisis. But once again, it's the majority of the business is local for local in a local setup.

On our market shares, we have seen a number of good news. I mean certainly good news in Waters where we are gaining shares in Europe, where we have stabilized our shares in China with Mizone. So, a dynamic there that is overall positive.

We saw certainly also in the last quarter a good dynamic in SN. I think our shares in Dairy are fine. I think one of the sour points is plant-based, where we have been losing shares. You remember that we were late on the ball on oat. We are regaining, but our mix is there playing against us. So, if you look at the last 3 months all together, the share picture is heading in the right direction. Is it where we'd like it to be? No. Will we be looking internally at the market shares, yes, in permanence. And obviously, you look at it externally. So, I'll leave it to you.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Okay. Thank you, Pascal. The next question is from Martin Deboo from Jefferies.

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

Martin Deboo from Jefferies. Want to come back to Specialized Nutrition complementing some of Warren's questions, but this time more from a bottom-line point of view. You've delivered 23.5% margins for the year, I think 24% in H2, big improvement in H2. And obviously, you don't need me to tell you that there was extremely bearish sentiment playing out in the market in the second half about your ability to sustain these margins, which is a cornerstone of the profit of the whole company.

So, I'd just like to take a step back and maybe ask maybe Juergen just are you confident you can sustain well into 20% margins in Specialized Nutrition as a division?

Secondly, why you have that confidence? What sets you apart from a Reckitt who are earning mid-teens margins in their residual infant formula business?

And just a very specific one. Can you just explain to me why the reported margin change is a lot bigger than the like-for-like? I assume it's something to do with FX in China versus everywhere else. But if you could just clarify that, Juergen, that would be helpful.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Yes. Martin, you're absolutely right. Our margins were holding well in SN throughout the year, down a bit more than 100 bps. But in like-for-like, 25 bps. And you're absolutely right that the gap is explained by currency. So, the teams are doing a stellar job.

You have also seen that as well S1 and S2 were very different dynamics where were significantly down in S1, which was a consequence of the volumes which were down in S1, but also the geographical mix. And we now have seen exactly as expected in reverse of this, so we were up by around 250 bps in H2 to come to what you were describing, which is a quite solid margin really.

When it comes to the, let's say, margin situation, including of our China business, I can just repeat what I said over the last couple of months, which is that we are continuously managing our prices in China across the channels with a very high level of discipline. And this is extremely important in the context where probably some of our competitors see some cost, channel price disruptions especially with a very strong shift quarter-by-quarter between e-commerce and off-line especially mom and baby stores in low-tier cities.

So, I think the fact that we have our proprietary B2B platform in China accessing directly to mom and baby stores and low-tier cities for us is really asset to make sure that we control prices in the past, but also in the future. And this for us is a big asset moving forward.

The second asset, and this is not neutral, as you can imagine, is the fact that we are growing. And so, defending our margins, obviously, is easier in a context where we are doing a very solid job in a competitive setting. And this is also what we will discuss in the CME on how we can make sure that also in 2022 and beyond, we defend and expand our competitive setting in China.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Okay. So, the next question is coming from Jeremy Fialko from HSBC.

Jeremy Fialko - *HSBC, Research Division - Head of Consumer Staples Research of Europe*

Jeremy Fialko, HSBC here. A couple of questions from my side. Could you just elaborate on the Adult Nutrition business? Give a bit more detail on some of the supply challenges there. Is that something that's quite temporary to this quarter? What was the hit on sales? And what might come back in the early part of next year?

And then just one other part, on the P&L. You mentioned in the bridge that some of the COVID costs came back in '21. What are the remaining COVID costs that might also come back during the course of '22?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Maybe starting with the COVID-related costs, Jeremy. Yes, you saw that we had a rebound of something like 80 bps, if you remember well, in 2021 from COVID-related costs. Look, I mean, as we are continuing to implement very important hygiene measures, especially in everything which is our supply chain, I would not expect a big improvement nor big extra costs in 2022. I think we are now operating in this new context, but this is probably a new reality we need to accept.

On the second question, on the Adult , you're absolutely right. I mean we have been posting quarter-by-quarter very decent performance of our Adult business. And you know that our Adult business we speak mainly about our Chinese and our European business. In Q4, we have been basically managing our inventory in order to make sure that we are maintaining a healthy inventory set, amidst, yes, some supply chain disruptions. Because you can imagine that whenever you have a delay in the material sourcing or transportation in a fast-growing segment, and Adult is a very fast-growing segment for us as much as Plant-based, it creates disruption in the supply chain.

So yes, Q4, we are impacted by it. We will see that as soon as Q1, we will be back to the usual growth pattern because what we are seeing is that the underlying demand from consumers is extremely strong. And we are so confident that we have been resolving by that moment the supply chain challenges.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you, Jeremy. The next question from John Ennis, Goldman Sachs.

John Ennis - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

My first question is on infant formula. There have been reports from the World Health Organization talking about a potential clamp down on marketing practice for these products. I guess, my question is what would you make of these reports? And do you see that as a risk or an opportunity if the marketing efforts become more level between international and local players?

And then my second question comes back to the supply chain disruption point. I think you've said a few times that this resulted in some market share erosion, which implies that you've been, I guess, more heavily impacted than peers in certain places. I mean why do you think that is the case?

And Antoine, as you look at the supply chain at Danone, what are your key learnings so far when you compare and contrast with some of the best practices you implemented at Barry Callebaut? I appreciate they are very different businesses, but interested in your thoughts.

Antoine de Saint-Affrique - *Danone S.A. - CEO*

So yes, I'll go for the first and the last, I'm sure Juergen will manage the middle. On IMF, as you may recall, as part of what we do in sustainability, we have been actually at the forefront of our taking commitments. We are supporting our breastfeeding as the most important option, and we were extraordinarily clear about that. We have a strict policy where we do not advertise or promote for children aged 0 to 6 months. And we extend the restriction to 12 months in countries with high rates of acute malnutrition. So, legislation that would align everybody to the good practices that we have would be rather good news than bad news, if I may say. And this is, by the way, one of the places where you see that if you leverage sustainability in the proper way, it becomes a competitive advantage because we are better prepared than other people on that one. So, to be followed, but we feel quite comfortable with that. And we'd be happy to see a level playing field across all geographies.

On your last question, I'll leave the middle to Juergen on supply chain. I think one of the thing I learned all over my career, not only in Barry Callebaut, but especially in Barry Callebaut, is you need to be absolutely obsessive with a few things. One is the quality of your products day in and day out. And we're not bad at all at our quality, but competitive quality, so making sure that you have repeat purchase because you are better than competition. And have it, I mean, literally in your genes is something we will put more focus on.

The second thing is customer service. If you don't deliver then there to your customers, you are simply not competitive. You miss some opportunities, you let down customers and you get into a productive discussion. And there, to be honest, we are not where we should be. And then it's a game of permanent improvement of factory after factory. And it's not only a matter of network, but it's also what you do from the start, so from the planning to the source to the make to the delivery, which is why I've brought in Vikram and which is why we're going to have a significant drive for our capabilities in this part of the business as if we are not bad, we are not either the best, in turn, by a distance.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

And so Antoine was already describing the action plan moving forward when it comes to the situation of the last 2 quarters. It's true that on the Plant-based segment, and especially in North America, in some instances, we have been losing some sales and here and there also a bit of shares as a result of that. The reality is that we have a very large portfolio of Plant-based, especially in the U.S. You know that we are not only having milk, but also yogurt and ice cream and others. And so, what we have been doing in order to mitigate the situation we're having is really to prioritize our, what we call, hero SKU. So, the largest product SKUs, which are rotating the most on the shelf in order to make sure that we are limiting the disruption factor in our supply chain and at the shelf. That starts to show the first good signs, and so we will continue to do so. But I would also expect that it will take us another couple of weeks before we are back to business-as-usual situation because we still see supply chain disruptions on both, on some of the material availability and here we speak really about packaging and particularly paper, but also especially in U.S. on some of the trucking capacity availability. So, we are not yet out of the woods.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you, John. The next question from Pinar Ergun from Morgan Stanley.

Pinar Ergun - *Morgan Stanley, Research Division - Equity Analyst*

Are you seeing any signs of down-trading as your pricing accelerates? And what are some of the actions you're taking to preserve volume momentum in the quarters to come given the relatively high private labels presence in some of your categories like yogurt?

Antoine de Saint-Affrique - *Danone S.A. - CEO*

Pinar, I mean the answer to that, it depends knowing in a number of categories we don't see down trading. We've seen actually a relatively little impact in places like North America. And it goes back to our differentiation of product. It goes back to unicity of the product. It goes back to the strength of the brands.

On some things that are more commoditized, we go much stronger on our prices to preserve as much as possible our margins. And there, you see a volume impact, and in some cases, a down-trading.

But once again so far, what we've seen in America is no down-trading, and America was a bit ahead of the curve. We do see volume impact on things that are more commoditized, but it is also a choice that we are making.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Okay. Thanks, Pinar. The next question from Jeff Stent from Exane.

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

Just a question for Juergen. I realized that you're not giving guidance for '22 at this juncture. But can I assume that if your view on profit was materially addressed from the consensus, you would have a sort of regulatory duty to come to the market at this moment?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

So, it's true that today, we are not giving guidance '22 for, as we said, is the reason which is that we will be together in 2 weeks from now. And I hope physically in 2 weeks from now, we'll share with you the midterm strategy, and of course, '22 is the first year within this midyear strategy. And so, this is why today we are refraining from giving a clear outlook.

I think what is very clear is that in the end, when we talk 2022 and you look at the key variables are all the elements we have been discussing, which is input cost inflation, low to mid-teens. This is productivity, which is going to step up versus 2021, which is about pricing where we will continue to accelerate on the base of the 2.5% we did in Q4. And finally, volumes, as Antoine was discussing it. Then there's obviously the big topic of how we are going to drive the portfolio and the reinvestment, thanks to the savings of Local First. And all of this basically will be the discussion points of2 weeks from now. So, I will ask you a little bit of patience on that one.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Okay. Okay. Thank you very much. So, I think this comes to the end of the Q&A.

Antoine de Saint-Affrique - *Danone S.A. - CEO*

Thanks, everyone. Thanks for a good set of questions and from all your interactions. Very much looking forward to seeing hopefully as many as you as possible in Evian in less than 2 weeks' time and looking forward to, well, to fruitful discussion. Also looking forward of you meeting a large chunk of the management team. I think it's very important that you, as analysts, get a sense of the people that are around the table and will drive the business to the next stage.

On that, be safe, very good day to everyone. And we'll talk soon.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

See you soon, buys. Bye.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.
