REFINITIV STREETEVENTS

EDITED TRANSCRIPT

DANO.PA - Q1 2023 Danone SA Corporate Sales Call

EVENT DATE/TIME: APRIL 26, 2023 / 6:30AM GMT

CORPORATE PARTICIPANTS

Juergen Esser *Danone S.A. - Group Deputy CEO*

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*

Charlie Higgs *Redburn (Europe) Limited, Research Division - Research Analyst*

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

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

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

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

Thomas Sykes *Deutsche Bank AG, Research Division - Head of Business Svcs Co. Research & Industry & Leisure & Transport Research*

Warren Lester 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 Danone First Quarter 2023 Sales Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

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. Thank you for being with us this morning for our Q1 call results. I'm with Juergen Esser, the CFO who will go through some prepared remarks before taking your questions in a second step.

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

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

Juergen Esser - *Danone S.A. - Group Deputy CEO*

Thank you, Mathilde, and good to all of you. Welcome to our Q1 sales update. I hope you are all well.

Let me jump straight into the presentation and let's start with the highlights of this first quarter on Page #4. The headline of this quarter is that we delivered a strong start to the year, reporting plus 10.5% like-for-like net sales growth with all our geographies contributing. I will come back to the highlights by zone in a minute, but let me mention here already the continued competitive and resilient performance of our North American platform as well as the exceptional delivery this quarter of our China, North Asia and Oceania Zone.

Looking at the performance by category, the momentum in this first quarter was supported by the solid contribution of our EDP platform at plus 9.3% net sales growth, with double-digit growth of High Protein, Indulgence as well as of our Coffee Creations platforms.

At the same moment, our Specialized Nutrition category is sustaining its strong growth momentum with plus 12%, led by further competitive growth across most geographies. And finally, our Waters category, that delivered broad-based growth with plus 12%, notably driven by a strong quarter of the evian and Volvic brands in Europe as well as by an encouraging start of the year for our Mizone brand in China.

Let's now move on to the next page, Page #5. And here, let me reiterate our focus on the execution of our Renew Danone agenda and the confidence we have in our ability to drive sequential and sustainable value creation. 3 elements I would like to highlight here. First, the progress we make on winning in our strongholds, making the most of our Core portfolio. The combination of higher investments, a much more agile resource allocation and improving execution is delivering results as we speak. I use here the example of our SGM brands in Indonesia andour Medical Nutrition portfolio in China, but I could have used a number of other examples like the one of Aptamil across many of our geographies.

Second element to highlight is that we are making good progress on the transformation of our EDP portfolio in Europe. We are executing our plan with discipline and consistency along the lines we shared with you just a few weeks ago.

On the slide, we put an illustration of the segmentation work, which the team is currently deploying across Europe. The example is showing our Spanish case where we have revised our portfolio architecture refocusing on the displayed 5 brands, with the Danone brand serving everyday nutritional needs. Since we started to streamline our portfolio and to intentionally position our brands, we have seen first encouraging results in terms of household penetration and offtake. We are laser focused to make this transformation happen and remain confident that we will start delivering improved volume dynamics in EDP Europe from the second semester onwards.

Third point and as recently discussed, we have also been making progress on seeding the future for our company. While we are investing into bringing our R&D and innovation capabilities to the next level, as you could see from the opening of our R&D center in Paris-Saclay in February this year, we've also started to look at value creative bolt-ons and minority investments. We have, over the last few weeks, invested into a number of projects like the acquisition of the Homecare business in Poland, which is complementing our existing SN business in this country.We've also done some minority investments into young companies developing interesting food technologies for the future around precision fermentation as well as around cell-based dairy solutions.

All of these elements will help us to start shaping the future of our company by keeping the focus of the organization on delivering competitive performance in the short and medium term.

And with that, let's now move on to the financial review, starting with the Q1 sales bridge on Page #7. As I mentioned, we delivered in this Q1 plus 10.5% growth on a like-for-like basis, with price up plus 10.3% and volume/mix up plus 0.2%. When excluding EDP Russia, like-for-like was up plus 11.1%, supported by plus 10.1% price, mostly made of carryover from last year, while we also posted a positive contribution from volume/mix up plus 1.1%.

Outside of the like-for-like, we benefited from a slightly positive ForEx impact of plus 0.7%, mainly driven by the appreciation of the U.S. dollar and the Mexican peso against the euro. And finally, scope that had a negative contribution of minus 0.6% due to the deconsolidation of our Waters business in Argentina.

In total, reported growth reached plus 11.6% for the quarter, bringing our quarterly net sales to EUR 6.9 billion, up from EUR 6.2 billion in Q1 last year.

Let's now have a look at the performance of each zone in more details, starting with Europe on Page #8. Europe delivered solid growth of plus 6.2% with all categories contributing. Price was up plus 10.2% while volume/mix declined minus 4%, reflecting the progress we are making on the transformation of the EDP portfolio.

Growth this quarter was driven by France, the U.K. and Poland, with key brands like Danone, Actimel, Aptamil, evian and Alpro performing well. From a category perspective, the portfolio transformation on EDP is progressing in line with the plan, which we shared just a few weeks ago during the full year release, and we expect further progress in Q2.

Beyond EDP, Specialized Nutrition delivered another quarter of sound growth, supported by the Aptamil brand, while the Waters category grew plus 16% this quarter, reflecting the strength of our brands while also leveraging early stock build of many of our customers ahead of the season.

Moving to North America on Page #9, where we posted a strong like-for-like growth of plus 11.8%, driven by price up at plus 11% and positive volume/mix at plus 0.8%. This continued momentum is supported by the consistent execution the team delivers against our strategy, but also by continued investments behind our winning platforms and brands.

In EDP, sales were up double digits, led by Oikos, Activia and Light & Fit in Yogurt as well as by International Delight and our Stok brand in Coffee Creations.

In both Yogurt and Coffee Creations, we are seeing the benefits of the work done on portfolio architecture, which also allows for reinvestments that are more efficient, serving on a clear brand positioning.

In this first quarter, we also saw Plant-Based more moderately growing, recycling a high base of Q1 2022 while the Waters category was growing competitively at a very fast pace well into the double digits.

Moving on to the next page, Page #10 into our China, North Asia and Oceania Zone. Here, like-for-like growth reached plus 16% in the quarter, driven by a very strong volume/mix at plus 14.3%.

Let me start with a few comments on China, where all our categories grew double digits. In Specialized Nutrition, Infant Milk Formula delivered a strong start to the year, led by Aptamil, which continues to grow and to gain market shares.

And while we are pleased to see Aptamil maintaining its competitive growth momentum, it's worth noting that this first quarter benefited also from the normalization of inventory levels after we closed year 2022 with minimum stock.

Beyond IMF, our two medical businesses grew well into the double digits in Adult led by our tube feeding portfolio under the Nutrison brand and in Paediatric with our allergy portfolio under the Neocate brand.

While Medical Nutrition benefits from strong category fundamentals, our performance also reflects the superiority of our product proposition and the strength of our market access capabilities.

On Waters, our Mizone brand had an encouraging start to the year amid improving operating conditions as outdoor activities and travel resumed in China.

With the summer season in front of us, the Mizone team is now starting to activate the rejuvenated brand marketing mix, which was developed during COVID times.

Beyond China, our Japan business posted again double-digit growth this quarter, led by Danone as well as by the Oikos brands, improving our competitive position quarter after quarter.

Let's now move on to the Latin America Zone that was previously part of the Rest of the World Zone and that we have now disclosed separately on Page #11. LatAm registered sales growth of plus 12.6% in Q1 on a like-for-like basis with a price up of plus 12.7% and a resilient volume/mix at minus 0.1%.

Our 2 main countries, Mexico and Brazil, both contributed to the strong growth. Volumes remained resilient in the context where the price component was lower than in previous quarters.

EDP posted double-digit growth in our main dairy brands, Danone, Activia, Danette and YoPro, all of them contributing.

In Waters, our Bonafont brands drove growth, thanks to the good performance of small formats and Aquadrinks.

Finally, moving on to the Rest of the World Zone on Page #12, which since the exclusion of Latin America consists in Africa, Middle East, Asia as well as our Russian and CIS platforms.

The Zone posted sales growth of plus 11.7% on a like-for-like basis this quarter, with price up plus 12.9% and resilient volume/mix at minus 1.1%. In fact, the volume/mix component was positive as much as plus 3.6% when excluding EDP Russia. This good performance was notably driven by our South-East Asian business, which have grown mid-teens over the quarter. Growth was, as mentioned earlier, also dynamic in Indonesia, thanks to a strong performance of our SGM and Bebelac brands.

The calendar effect of an earlier Ramadan which compared to last year was moving into the first quarter did positively impact our sell-in activities in a number of countries in this Zone, something which you will see unwinding in the coming second quarter.

And final comment for this Zone is that we continue to make good progress on the portfolio transformation of our dairy business in Africa, creating the conditions for profitable growth and value creation.

Let me now wrap it up with the update on the full year outlook on Page #14. Taking stock of our growth, our strong performance over the first 3 months of the year, we are today upgrading our like-for-like guidance for year 2023 to net sales growth between plus 4% and plus 6%. At the same moment, confirming our full year guidance for recurring operating margin, delivering a moderate margin increase versus previous year. This outlook reflects our confidence in the journey we are engaged in but also our continued commitment to reinvest into our brands and commercial activities. The objective remains to sequentially improve the quality and the balance of our growth as we progress into the year 2023.

And with that, let me hand it back to Mathilde to start the Q&A session.

QUESTIONS AND ANSWERS

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

Thank you, Juergen. So now we open the Q&A session, and we will start with Guillaume Delmas from UBS.

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

A couple of questions for me, please. The first one is on your comment that Q1 like-for-like was supported by favorable phasing in the quarter. So I was wondering if you could quantify this benefit for both the timing of Ramadan and the IMF refill in the quarter? And whether we should expect -- I mean, clearly, some normalization, but maybe some reversal as early as Q2 from this.

And then my second question is on your volume growth or volume/mix development in Europe because sequentially, it improved a little bit from 5.9%, I think, in Q4 to minus 4% this quarter. But within this, I would assume that Waters was a strong driver because there was a significant acceleration there. So has there been any deterioration in volume/mix in Europe for EDP or the SN division in the quarter?

Juergen Esser - *Danone S.A. - Group Deputy CEO*

Maybe starting with your second question. So you saw that Europe posted a solid performance in Q1, slightly better than in the last quarter in Q4. It is a mix of different components. EDP came out a bit stronger which is a combination of 2 elements. One, we are continuing and progressing with the transformation of our portfolio. We have seen the same underlying dynamics in Q1 as in Q4. However, as we exit the Q1, we didn't see any significant shipment disruptions or delistings in Q1 versus Q4, which brought us an upside here.

And on the other side, we have a different phasing for our SN business between Q4 and Q1, which is, I would say, compensating for the better news on EDP. So overall, net-net, not a lot of variance, which is a little bit the way I would answer to your first question.

The reality being that when you look at our SN business, in particularity, the business where from quarter-to-quarter, you can have some differences between shipments and sell-out or offtake. You look at the last 4 quarters in the end, you see is going up and down a little bit. In Q1, it went up because particularly the Ramadan effect, which we benefited from in a number of countries in South-East Asia and namely in Indonesia. That will normalize in Q2, but this is just the normal course of business. And when you look at the underlying trend of SN over 3 or 4 quarters, you see that the trend is very, very robust and will stay robust as we are moving forward.

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

Next question is from Jon Cox of Kepler Cheuvreux.

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

A couple of questions on my side. Maybe linked to what you're saying about potentially a bit of a slowdown in Q2. Just wondering, looking at your guidance for this 4% to 6%, your 10.5% in Q1 excluding Russia you're above 11%, so if at some point, you get rid of Russia during this year, it implies you'd have to sort of grow at 0 for the rest of the year to get to the minimum 4% more or less. I'm just wondering why you've come out with 4% to 6% and rather than increase that a little bit. That's the first question.

Second question on the moderate improvement in operating profit, we all get the picture in terms of reinvestments and the rest of it. But again, you can see that the China and the Specialized Nutrition business is growing faster and just as a result of mix, this would improve profitability.

And as just an add, just in terms of the reviews, you have of Russia and the organic milk business in the U.S., et cetera, when do you think that could be concluded?

Juergen Esser - *Danone S.A. - Group Deputy CEO*

Thank you, Jon. Look, on the guidance, it's true that we have good and strong start into the year. We are taking stock of that, clearly. And at the same moment, we are staying very consistent with our mid-term guidance and the way we are designing our outlook. And you know our mid-term guidance is plus 3% to plus 5%. What is also important is that the way we look at Q2 and the rest of the year is pretty much unchanged vis-a-vis what we said just a few weeks ago in the full year. And so what you will see is that, as you mentioned, in Q2, we see unwinding of some of the calendar effects we benefited from in Q1. It means that in the first semester, we'll remain focused on the transformation of our EDP portfolio, and hence, we continue to expect the volume/mix in this first semester to be in the negative territory.

And then we will see a sequential improvement in the course of the second semester as we are delivering better results in EDP Europe. So the sequence is exactly the same as what we have shared with you in the full year results conference.

When it comes to the profit picture, I confirm what you say, which is that we go for moderate margin improvement. Any upside we see coming from growth or any upside we see coming from better inflation, we are going to reinvest into our business. Know that we are looking at building a value-creative sustainable growth model, which is coming through a balanced top line, where volume plays an important role. In order to get the volumes where they need to be we need to reinvest and to reinvest what we are -- all the additional fuel we can generate from the business of this year, and we have started to reinvest into this first quarter.

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

And the review?

Juergen Esser - *Danone S.A. - Group Deputy CEO*

And on the review, look, I mean both reviews you were mentioning, the one on Russia, and the one on organic milk in the U.S. are large projects. They take time. So I would not count on a significant impact for year 2023.

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

Thank you, Jon. So next question from Bruno Monteyne from Bernstein.

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

Just trying to follow up because there were 3 calendar effects that as you said a few times is volume building: Water Europe, the China Nutrition and Ramadan. But I don't think you really answered the first question about if you had to quantify the total impact on volume of those 3 calendar effects? Is it 100 basis points? Is it 200 basis points? Can you help us ballpark what the size of that is?

And the second question is, could you sort of comment on your competitiveness? I mean, I can clearly see good improvements in many parts of the business you're doing. But in those market share gains in EDP, can you comment on what number of your markets are you gaining or losing market share in and the same for the other divisions?

Juergen Esser - *Danone S.A. - Group Deputy CEO*

Yes. So look, on the market share part, think we are doing consistently good over the last very few quarters in a number of businesses, namely North America, where we are delivering competitive growth, namely in China, and here across all the portfolio in IMF, as you know, but also in Medical Nutrition, and now in Waters.

It's true that the portfolio rationalization, which we are undergoing in a number of geographies, is also contributing to our market share performance moving forward. Today, it's having a negative impact in the reading which you're having when you look at EDP Europe.

Moving forward, it will be a key contributor in order to get the market shares where they need to be. When you look at it from a category standpoint, Specialized Nutrition across the board is strong in market shares. Waters in many geographies, growing its market share and Dairy, where we are in the midst of the transformation, but where our objective is to get it back to market share growth and equally important, to make sure that the category gets back into a sustainable growth momentum.

So I would say it's -- we are exactly where we wanted to be. And for now, the key objective is now to get the EDP category and our position within the EDP category at the right level as we continue to progress into the year.

When it comes to quantifying the different phasing effects, look, I mean, that's just part of our business that in some of our categories one quarter is up, one quarter is down. You can say, in Europe SN is a bit down this quarter, but Waters is a bit up, okay, that's part of our European business model.

I think the most important element is really to look at the phasing and the calendar effects we have in our Specialized Nutrition business: I would invite you to look at the last quarter and performance. And when you look at the average, I think it gives you a good idea of the underlying trends, which we should expect moving forward. So overall accretive sound delivery.

And net-net, it means, yes, in Q2, we see unwind of some of the positions. And this is why I said what I said, which is that the way we look at Q2 and the year-to-go is nothing different than what we shared with you just a few weeks back.

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

Thank you, Bruno. The next question from Celine Pannuti, JPMorgan.

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

Yes. So I have two questions. My first one is on Europe. I would like if you could share with us your outlook. First, your outlook on how you're seeing consumption and overall elasticity is ongoing in the face of what has been, I think, a recent raise in prices. But also, there has been news in France, at least from the government that they want to reopen the negotiation in terms of pricing in the midyear. And we've seen that some of the milk prices are off from the high. So could you as well comment on how you see the pricing dynamic in Europe unfolding, having presumed on just a new round of pricing in Q1.

And my second question is on China, where clearly, there's a lot of moving parts there. Could you comment on the Infant Formula market both for the IMF but as well as the Medical Nutrition. So what kind of market growth are you seeing was then? Of course, there was a specific rebuild stock in Q1, but what kind of -- and as well at the time, we also have the reopening in China. So yes, there's a lot of moving parts, if you can talk about what's your best guess on the market growth for these 2 subsegments in '23?

Juergen Esser - *Danone S.A. - Group Deputy CEO*

Yes. Celine. Look, first on pricing and maybe starting at even a higher level, you saw that pricing kicked in at a good level in Q1 at plus 10.1%. However, it was already lower than in Q4, so which means that we have probably seen as a company the peak in price in the last quarter. And from now on, we will see a gradual normalization of the pricing as we move forward as we either slow down our price initiatives or we go for less high pricing.

Important for us, and I will come back to the European comment in a second. Important for us that in that moment, where prices are still in the rise in a number of countries, we continue to put investments behind our brand initiatives and that we are reinjecting increasingly resources into consumer promotions in order to make sure that the consumer continues to go on the shelf. And this is also true for Europe. For Europe, in a number of countries, we have been increasing our prices in Q1 which, as you know, is never an easy process, but we implemented our price increases as we planned, and we were able to do so without any significant delisting or shipment disruption, as I stated before.

We have not seen any shift in consumer behaviors. And I would say we have been even more intentional with this last price increase on where we increase and how we increase focusing on where we feel that the demand is the most robust.

When it comes to the way we see the year-to-go, especially in Europe, I think what I can say is that we have a constant dialogue with our retail partners because, again, we have a mutual interest to bring value and rotation to the shelves. If and when inflation is going to slow down, I think that we have both an interest to support volume recovery. This is what I mentioned before. We are anyway planning and executing, as we speak, a higher promotional activity for the consumer, stronger in-store activations for our products but also stronger advertising support, which I believe bodes well with the perspectives of the next quarters to come. And so you need to see -- we need to stay pretty agile in the way we are reacting on any kind of volatility in inflation.

What we are continuing to see today, Celine, is that milk prices are still quite resistant in many of the countries, so not yet decreasing across the board.

When it comes to China, a good start into the year, as you said. I would say that when you look at the different components. In IMF, we are continuing to win share, which is true for both China labels as well as for international labels. Interestingly, what we are calling our uncontrolled channels has now decreased below 10% or high single digits. In a category, Celine, which continues to be soft for all the reasons we know, including the birth rates. So there's no new news on this. The move to the new GB has started. It will be gradually implemented by the industry over the next 6 to 9 months as the old stocks will be replenished.

I believe and we continue to believe that we are well equipped and that we are definitely wanting to continue our market share expansion journey in the phase over the next 6 months, which may show some volatility as there is this transformation happening.

On Adult and on Paediatric, it is a different story because the underlying category trends are strong, especially in Adult as you can guess. In Adult, we have seen this quarter a stellar performance of our enteral tube feeding business, which the vast majority of our Adult business in China under the Nutrison brand. And there are many reasons to believe that the category will remain very strong. So here, we are obviously investing behind that growth momentum.

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

Thank you, Celine. Thank you. The next question is from Warren Ackerman, Barclays.

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

Mathilde, can you hear me okay?

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

Yes. We can hear you fine.

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

Yes. Sorry, I had a bit of a problem. I'm Warren here at Barclays. First one from me, just on plant-based growth in quarter, Juergen, you just maybe give us the number for what the plant-based growth was in the U.S. and Europe and specifically what the growth of Silk in the U.S. was and Alpro in Europe, that would be great.

And then secondly, on the China SN number, plus 15.3% organic growth in the quarter, can you maybe just split that out for us between vol/mix and price? Just trying to understand what's happening on the vol/mix and trying to sort of work out a little bit more on any kind of sort of phasing.

And then related to that, on Medical, you just mentioned it just now. What was the overall Medical Adult Nutrition growth in the quarter? You said double digit, but is it -- can you be a bit precise on that? And if you're able to split it between kind of the Adult piece versus the Paediatric Nutrition, that will be super helpful.

And then just finally, I know people have been having a go on the phasing and I'm going to have a third go (inaudible) on this. So I think it's still a little bit vague on this point. On the -- can you just maybe tell us a bit more precisely the Ramadan impact? I think a lot of people have been a bit confused by that timing. Obviously, it's earlier this year than last year. But what kind of benefits have you had in SN on Ramadan, I guess it's mainly Indonesia and possibly Middle East, just so that we can kind of try and figure out how much of that boost to vol/mix, specifically kind of, I guess, mostly all reverses in the second quarter, but it'll be really, really helpful, Juergen, if you could just be a bit more precise on that particular point.

Juergen Esser - *Danone S.A. - Group Deputy CEO*

Let me start with the plant-based question, plant-based in Europe and in North America, we're showing good underlying dynamics. When you look at it in Europe, growing at the same pace as Dairy, more or less, Alpro a little bit stronger with our Oat, and "this is not milk" variant which is the blend of ingredients leading the growth. While on the other side in Europe, we are cleaning the portfolio with some of the smaller brands, which don't play a strategic role on the shelves. So overall, good performance.

North America this quarter a bit softer: the underlying category and business dynamics remain in the mid-single-digit territory as you have seen over the last few quarters, but we are running on a bit an elevated base in Q1 as one of our major competitors had some supply disruptions last year in Q1, which we took benefit of at that particular moment. But for the underlying trend is what we have seen over the last few quarters in the mid-single digit territory with household penetration continuing to do well.

What we are doing in front of that is that we are focusing on developing our profitable growth model with Alpro and Silk and with So Delicious; and driving our plant-based beverages while developing strong adjacencies as you know, in Yogurt, Ice-Cream and so on.

When it comes to China SN, as you say, stellar performance in this Q1, very little price effects. As a matter of fact, the vast majority is driven by volumes. Some contribution of, I would say, restocking as we ended last year with the minimum stock, but the overall, I would say, dynamics are sound. As you have seen it over the last quarters, as we are winning share on Infant Milk Nutrition and growing fast in a growing category in everything which is Medical.

Qualifying the growth in Adult and in Paediatric, what I can tell you is that Adult is doing stellar in that, I would say, overall category environment because we have really superior products, and we have also superior market access capabilities, as I mentioned earlier, in the presentation. This is what we are driving. But it's also good to see that our Paediatric business is doing very well, especially with our allergy focus, which continues to be an increasing need also in China and beyond.

When it comes to Ramadan phasing, look, I mean, the way that works is basically that shipments during Ramadan are a little bit more constrained. And so what we are doing is that we are shipping ahead of Ramadan at least a couple of days of extra stock. This is something which is explaining the phasing between Q1 and Q2. So that in a way is going to unwind in Q2. When you look at the absolute size of our business in Specialized Nutrition in the Zone and if you look at the overall trend, it will give you a glimpse of how much we are talking about.

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

Just quickly on that. I mean, what percentage of your markets then are Ramadan markets? Maybe could you help us that way because I'm still not clear on what the impact will be.

Juergen Esser - *Danone S.A. - Group Deputy CEO*

Look, I mean, when you look at the Rest of the World, there is a big part which is linked to it. But at the same moment, you know that also our Africa Middle East Zone is part of Rest of the World. So it's an important part, but still there's also other parts, which are not linked to it.

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

So next question from Martin Deboo, Jefferies.

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

(inaudible) and how that interacts with your margin picture and margin guide. So how much commodity inflation are you now expecting in FY '23? How is that moving relative to what you were expecting? And what are the sort of big factors in that? So that's the question.

Juergen Esser - *Danone S.A. - Group Deputy CEO*

It was a bit difficult. And you talked about the inflation outlook for the year, right?

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

Commodity inflation outlook, again.

Juergen Esser - *Danone S.A. - Group Deputy CEO*

All right. Okay. Look, wWhen I look at the overall cost inflation, we are expecting for the year forward, there is little change, in fact, to what we said at the full year results. Overall, inflation for us this year will be driven by cost of labor, it will be driven by liquid milk prices which in many markets today are still pretty resistant and well higher than last year, as well as some very specific parts within the ingredients, namely sugar.

At the same moment, it's true that there's a number of other commodity indexes plateauing or going down. So it's pretty much a mixed bag. But the net net of it, when you look at full year '23 versus full year '22 is that we are still exposed to inflation. We continue to expect it to decrease as we go through the year.

Hence, the focus we take on productivity to keep it at the very elevated level above 5%, which is to become more and more an asset in the moment that the inflation shall sequentially normalize.

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

Thank you, Martin. So next question from David Hayes from Societe Generale.

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

So there are 2 for me. One on China IMF and one on the SKU rationalization. So just on China IMF, just to see whether you've got any kind of visibility now -- better visibility after the recertifications on the sort of market share impact that might present? And I guess, to pick up on your earlier comment, it sounds like you're not getting any benefit at the moment because those producers are still going until mid-February. So is that fair to say you're not getting any share gains that could come over the next 3 to 6 months? Is that the way it works?

And then the second question on the, just going again to the SKU rationalization project, just like 3 bits, I guess. Firstly, is it all margin accretive in terms of the SKU rationalization net effect? The second bit, if I use a term one of your peers uses, you have just kind of the tail to squeeze the head. Are you seeing squeezing heads so benefits as you're reinvesting already? Or is that something that really comes through in the second half or into next year?

And then the third piece on this, sorry. Just in terms of -- is there a little bit of addiction here, I guess, the risk that you do this process and as you do it, you find more opportunities and then you end up having another project of the same kind of ilk that goes into 2024? Or do you think it is done by the end of this year?

Juergen Esser - *Danone S.A. - Group Deputy CEO*

David, look, on China and the overall category and share situation, I mean we are progressing well with our share performance. You see us increasing our shares quarter-by-quarter, which is so far really a result of the great job the teams are doing, leveraging our unique brand with its unique benefits and its unique route-to-market.

The new GB, the new registration, so far has had limited impact to what we could see on the overall category for a simple reason, which is that all the producers are still selling their stocks even those who did not renew their recipes -- which means that at the moment, at least to what we can see, we see very little change. This is why I said that in the next 6 to 9 months, we will probably progressively see this transformation happen as the old stocks are depleted from those guys who have been able to renew and from those guys who have not been able to renew. So probably safe to say that as we finish this year, we will have a good reading of the market share shift.

When it goes to the SKU rationalization program, the benefits we are looking for are multiple, but overall, yes, it should be margin accretive for all of it. But it's true that it will help us to really refocus our investments.

And when I was saying that we are reinforcing our promotional activities, we are reinforcing our promotional activities in absolute as we go through the year, but also in relative because we are refocusing on lesser brands and so we should have an over proportional impact from it.

These reinvestments will mostly happen in the second semester. We will start to do a little bit in Europe in Q2 where we are ready, but the teams are very busy doing the portfolio repositioning. So the true, I would say, reinvestments moment will really start from the second semester onwards. And this is where we should see then sequentially the benefits of it.

When you say is there a risk that you will continue SKU rationalization as you move forward? The reality is that SKU rationalization is a day-to-day job, it is business as usual. What we are doing today goes beyond, I would say, the hygiene aspect of SKU rationalization. What we are doing today is really a strategic repositioning of our portfolio. We are doing it with a lot of determination and focus. That project will come to an end over the next couple of months as we are entering in the third quarter. And then we will continue to fine-tune our portfolio as we speak, but I think that's just normal business life I would say.

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

Thank you, David. The next question is from Tom Sykes from Deutsche Bank.

Thomas Sykes - *Deutsche Bank AG, Research Division - Head of Business Svcs Co. Research & Industry & Leisure & Transport Research*

Just I had a question on FX, please. In the products or categories where you're exporting and you've got your Euro cost, I suppose, especially in Infant Nutrition. Are you -- just are you invoicing and calculating the organic growth, please, in the same currency? So I guess do you use an example of China and your importing Infant formula into China? Can you just be clear about the organic growth effects of the strength of the euro, please? And I guess there'll be other countries. Are you selling in euros and calculating the organic growth in CNY, or are they both invoiced and organic growth in the same currency, please?

And I suppose just any other FX effects to bring about, I guess, especially on your cost base, given the strength of the euro again, particularly against obviously, against the dollar, is that something that we would expect to have a greater negative impact on costs in the second half, please?

Juergen Esser - *Danone S.A. - Group Deputy CEO*

So first, you are absolutely right to say that in most of our categories, we produce where we sell, which is in dairy, in plant-based, in Waters, the vast majority of our sales are happening in the same region as where we are selling, so there's very little currency, I would say, impact.

For Specialized Nutrition, it's a mixed bag. For some of our products, we are indeed producing in Europe, especially for our IMF base and sending it to China and other parts of the world. The reality being that the way we register our sales is where the sales are happening. So when we are selling in China, we are registering it in Chinese renminbi. When we are selling in Thailand, we are registering in the Thailand currency. So in that sense, the like-for-like performance is absolutely reflecting where we are selling.

Currency volatility for us on that specific category is daily business life. So we are very used to handle it and to compensate for currency going up and down between the sourcing country and the selling country.

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

So thank you, Tom. Next question is from Charlie Higgs from Redburn.

Charlie Higgs - *Redburn (Europe) Limited, Research Division - Research Analyst*

I've got two questions, please. One on Mizone and then one on the interest rate expense. And on Mizone, you called out an encouraging start to the year. Could you maybe just provide a bit more color there? Was it across core Mizone, maybe some of the innovation you put into the market over the last few years? And was there any uplift there from pre-stocking ahead of the China reopening and the summer season?

And then the second one, just on interest rate expense. I think you said you've called that hybrid bond of EUR 750 million that has expense rate of 1.75%. Can you maybe just talk about how you see the interest rate and the interest expense trending over this year, but then also over the coming years where you've got some refinancing to do in a high rate world?

Juergen Esser - *Danone S.A. - Group Deputy CEO*

Yes. Look, for Mizone, as you say an encouraging start to the quarter. There is no stocking impact ahead of the season. But what we are really seeing is a dynamic start of the category in an environment where mobility and travel is really, I would say, going back to normal level. We are doing well in this first quarter from a market share performance standpoint. But as you say, we are not yet in the season. So the season is to come.

We are benefiting in terms of market share performance, not so much from innovations, but rather from the fact that we have been rationalizing our portfolio, refocusing our efforts on a very few hero SKUs, the ones who are rotating the most and the ones who are the most loved by our consumers. That is paying out because this is an on-the-go consumption product, which means it's very often in the fridge. And in the fridge, you have limited shelf space. We want to have your best product there. So that's something which seems to work for us. But again, the season is just in front of us, and we are looking forward to this.

When it comes to the interest rate and to the hybrid, you are right that we are redeeming our EUR 750 million hybrid bond which is due mid of the year, which is, I would say, a consequence of the fact that we have been improving our creditworthiness quite a bit since the moment that we launched the hybrid bond, but also, I would say, a result of the fact that we are in a quite disciplined deleverage approach. And you have seen that both Moody's and S&P have published communications, supporting the fact that the remaining hybrid continues to have its equity content.

It's for us a way to manage our financial cost in a moment and to keep flexibility in a moment where overall cost of debt are increasing undoubtedly, 2023 versus 2022, and that we want to make sure that we limited the impact on our results and EPS to the absolute minimum.

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

Thank you. Thank you. I think that was the last question. So thank you for your attention this morning, and speak to you soon.

Juergen Esser - *Danone S.A. - Group Deputy CEO*

Yes. Thank you, guys, for the call. Again, a good start to the year. The way we look at the rest of the year unchanged vis-a-vis what we have been saying just a few weeks back. Now most important thing is that we are making progress on our Renew Danone agenda, staying consistent and delivering. So looking forward to talk to you soon in the half-year results. Thank you, guys.

Operator

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.
