DANONE FIRST SEMESTER RESULTS 2024 CONFERENCE CALL TRANSCRIPT

July 31, 2024 – 08:00 AM CEST

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CEO INTRODUCTION

SLIDE 1 – COVER SLIDE

Mathilde Rodié, *Head of IR*

Good morning, everyone. Mathilde Rodié speaking, Head of Investor Relations. Thank you for being with us this morning for Danone's 2024 H1 results call. I'm here with our CEO, Antoine de Saint-Affrique, and our CFO, Juergen Esser, who will go through some prepared remarks before taking your questions.

And before we start, I draw your attention to the disclaimer on Slide 32 of the presentation 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 Antoine.

SLIDE 2 – CEO INTRODUCTION

Antoine de Saint-Affrique, *CEO*

Thank you, Mathilde, and good morning, everyone. A warm welcome to our half year '24 conference call. Juergen and I are pleased to be with you today to share what is, yet again, a strong, consistent, and broad-based set of quality results. And for this, I would like to start this call by thanking all the Danoners. They make it happen day in, day out.

It has only been 1 month since we held our Capital Market Event in Amsterdam. And I'm very pleased that so many of you were able to join us at that event. Our progress in the first half of '24 has been very much in line with our Renew strategy and with what we shared in Amsterdam. As we said then, we have been on a journey of radical transformation over the past 2 years, driving a major cultural shift, shaping a performance-orientated organization, rebuilding distinctive capabilities, refocusing our strategy, and sharpening our execution. It has been reflecting on the results of the last 2 years as we delivered consistently on strategy and our 24 H1 results show further progress in the right direction.

So let me dive into the results, starting with Slide 3.

SLIDE 3 – A STRONG FIRST HALF

As you may have seen from the press release this morning, we closed a strong first half of the year with like-for-like revenue up +4% and broad-based growth across geographies and categories. As we have said before, volume mix is key for the resilience of a value creation model, and this semester, we have stepped up this contribution to +2.1%, showing progress for the fourth consecutive quarter.

Price contributed +1.9% to net sales growth in H1, normalizing as anticipated, with inflation slowing down. Higher quality growth combined with consistent productivity and a focus on efficiency, is allowing us to leverage our assets better and deliver an improved margin from operation up +257 bps. And as we did since the beginning of Renew Danone, we reinvested in our brands in product superiority and our capabilities, driving our competitiveness, while allowing our recurring operating margin to improve by +45 bps to 12.69%. The results of this fall through, along with our continued strict management of CapEx and control over working capital, has allowed us to deliver €1.2 billion in cash in H1, an improvement of +11% over the same period in '23.
Moving now to Slide 4.

SLIDE 4 – FURTHER FUELING OUR GROWTH ENGINES

Our H1 performance demonstrates the results from focusing our efforts on consistently deploying our Renew model. We shared at the CME how we are winning through fueling our growth engine, but also driving our core and taking ownership of our category growth. And here, let me confirm what I told you in Amsterdam, there is growth in our categories. As a matter of fact, they keep growing faster than the average of food and beverage.

Our renewed focus on, and investment in science, delivering strong product superiority and differentiating technology, expressed in a consumer-relevant way, keeps paying off. In High Protein, we keep deploying our growth model with discipline through YoPRO and Oikos.

Most recently, in Europe, we launched YoPRO in Germany. While expanding our footprint, we keep a high pace in the markets where we are already present, leveraging our science around Protein and Nutrition to roll out more advanced variants, which further strengthened the claims we can make around performance and recovery.

In Medical Nutrition, we have delivered very strong growth in both Adult and Paediatrics across the globe. We are playing at scale and driving our global science and formulas to further expand our reach, such as in the post-discharge space in China, where Adult Oral is growing very fast. And Coffee Creations, our sizable, profitable, and fast-growing platform in Noram, continues to win and to grow share.

For those who attended the CME, you will have heard us speak of the continued success of our International Delight and Stok brands. The launch of our latest innovation cold foam is showing promising early results with consumers, allowing them to take the coffeehouse experience home and recreate their favourite drinks. If you haven't tried it, please try it, it's worth it.

And as discussed in the CME, we keep broadening the way we reach out to consumers by further expanding our channel reach in Away-from-Home. We are consolidating our position in coffee shops, and are developing, where needed, specific formats for the Away-from-Home channel.

I hope you have seen what we did in Wimbledon, and here in Paris, we are full on with the Olympic and Paralympic Games with our very visible Yoghurt Kiosks in strategic venues and an active and visible involvement in 13 million meals served to those competing in, and attending the events. So, we have an overall good momentum, but we still have plenty of things on which we can do better. It is back to the constructive dissatisfaction mindset I mentioned in Amsterdam. Moving now to Slide 5.

SLIDE 5 – WHILE FOCUSING ON CONTINUOUS IMPROVEMENT

As I'm sure you would expect me to say, we have a mindset where we think the job is never finished. We have, as category leaders, the responsibility to continuously fuel the growth of our categories, making sure they remain relevant to consumers and exciting to customers, with a mix of our continuous focus on the core and relevant innovation.

What was done in the U.S. on yogurt, with the FDA accredited claims for yogurt category related to Diabetes, is a great example of nourishing category relevance. And as category leaders, we obviously benefit from it.

As I have previously said, there is no long-term value creation model without systematically building future-looking capabilities. This year, we have announced two major partnerships, one with Microsoft on AI and another with Michelin on precision fermentation. These partnerships, each in their own way, are about projecting our company forward, making it future-ready. The same goes for DanSkills, a pioneering company-wide upskilling and reskilling program, which we announced earlier this year.

And as always, there are a number of things that do not yet work the way we'd like them to work. There we go deep, we go systematic, and we make sure that we improve, step by step. In the U.S., we are making progress with turning around our Plant-Based Beverages business. We took some pricing actions earlier in the year and are starting to see some green shoots of regaining competitiveness.

As already shared with you, we now focus on driving differentiation and usage through occasions rather than ingredients, which we believe will shift the needle, as it has for Alpro in Europe. So, some progress, but obviously, still lots of work to be done.
Similarly, and while we are making consistent and encouraging progress, and have made significant transformation in places such as Morocco and Brazil, there is still work to be done in fully transforming the business model of Dairy in Emerging Markets. So, I'm overall happy with the strong, consistent and broad-based performance, but certainly not complacent, as we see further opportunities to progress.

And with this, I'm happy to hand over to Juergen to provide more details on the financial results. Juergen, over to you.

CFO PRESENTATION

SLIDE 6 – FINANCIAL HIGHLIGHTS

Juergen Esser, *CFO:*

Thank you, Antoine, and good morning to all of you. Let's get immediately into the financial review with Slide 7 and our top line performance for the second quarter of the year.

SLIDE 7 – STRONG SECOND QUARTER

We are reporting a strong Q2 performance, posting like-for-like net sales growth of +4% with again, all our geographies and all our categories positively contributing.

Before deep diving into the performance by zone, just a few comments on the performance by category. The growth in the second quarter was broad-based and supported by the good contribution of our EDP category and +3.3% like-for-like sales growth.

We are seeing strong volume-led growth in our functional segments particularly in our High Protein and Immunity platforms, while also Coffee Creations continue its market share winning growth journey. Worth mentioning that we're at the same moment restoring Plant-Based growth dynamics in Europe, with our Alpro brand delivering competitive, mid-single-digit growth in Q2.

In parallel, our Specialized Nutrition category sustained its competitive and broad-based growth at +4.7% led by continued market share gains across the world, including in China and in Europe. Our Medical Nutrition business is again posting double-digit growth, confirming the great growth potential, which we just discussed a few weeks ago in our Capital Market Event. And finally, our Waters category that delivered another quarter of solid growth with +4.4%, with continued momentum of our Mizone brand in China, resilient growth in Europe despite poor weather conditions at the beginning of this season.

Those Q2 results demonstrate that we are making good progress in building a powerful, and at the same time resilient portfolio, which is probably best explained by looking at the next page, which is Page 8.

SLIDE 8 – FURTHER STRENGHTENING OUR GROWTH MODEL

And here, let me stress especially the sequential improvement of our volume mix delivery reaching as much as +2.9% in this quarter. It's not only our fourth quarter of sequential improvement, but also our third consecutive quarter of positive volume mix.

And importantly, we can report good volume mix dynamics across all our categories, with EDP up +2.6%, our best performance since a long time, as well as for Specialized Nutrition up +3.6%. Waters also delivered a solid volume mix in the quarter at +2.6%.

And I'm sure looking at that, you will agree that these are strong top line results, which create a solid entry point for the coming second semester. And, so I suggest we move on and get into our Q2 sales bridge with more details on Slide 9, please.

SLIDE 9 – LFL SALES GROWTH UP +4.0% IN Q2

As discussed, our Q2 like-for-like net sales growth of +4% was composed of a volume mix effect of +2.9%, complemented by sequentially normalizing pricing effect of +1%.

Outside of the like-for-like, ForEx had a negative effect of -2.4%, as a result of a number of currencies depreciating against the euro, but this was partially offset by the impact of hyperinflation. And finally, scope effect that had a negative contribution of -7.2%, due to the deconsolidation of EDP Russia, Horizon Organic and the Michel & Augustin business. The deconsolidation effect of Russia is, with the closing of this first semester 2024, behind us, meaning we will report a significantly lower scope impact for the second half of the year. In total, reported sales were down 4.1% for the quarter, bringing our quarterly net sales to €6.9 billion.

Let's now have a look at the performance of each zone in more detail, starting with Europe on Slide 10.

SLIDE 10 – EUROPE – FURTHER PROGRESS IN THE TRANSFORMATION

Europe delivered like-for-like sales growth of +0.7% in quarter 2, with the third constituted quarter of positive volume mix, reflecting the progress we have made in transforming our European portfolio. The reported results for this quarter were, however, impacted by retailer negotiations resulting into short-term delivery disruptions. Those negotiations are now behind us, making us again 100% focused on working with our retail partners to grow our categories.

In EDP, we are pleased with the underlying quality of our growth. Our mix continues to improve as we see strong traction for our more differentiated segments. We are particularly happy with the performance of brand platforms like YoPRO as well as Actimel, but see also promising dynamics in big brands like Activia, and especially for this quarter, Alpro, as already mentioned.

On Waters, we can report a solid underlying performance despite the rather poor weather conditions, with our evian brand benefiting in this quarter from a great visibility boost, Antoine was mentioning it, and certainly also many of you have seen during the Wimbledon, but also the evian Golf Masters event.

Looking at the entire first semester, Europe closed with like-for-like sales growth of +1.7% and positive volume mix. The recurring operating margin improved by +87 bps versus last year to reach 11.5%, as a result of strong gross margin improvement, reflecting the quality of our growth.

Let's now move on to North America on Page 11 please.

SLIDE 11 – NORTH AMERICA – STRONG QUARTER LED BY OUR WINNING PLATFORMS

North America delivered a very strong +5% like-for-like sales growth in the second quarter, led by volume mix and supported by resilient pricing. The growth in North America was notably led by our yogurt business with another stellar performance of the high-protein range, under the Oikos brand. In parallel, our Coffee Creations business is posting again a strong growth in this quarter, with continued market share gains for both brands International delight, as well as Stok.

At the same moment, we can report a similar competitive momentum also for our Waters business, with our evian brand enjoying a strong momentum in this quarter. Overall, this brings our first semester like-for-like net sales growth to +3.7%. The recurring operating margin continues to expand, and this is up by 33 bps compared to last year, driven by strong gross margin expansion.

Another demonstration that quality growth is driving value creation, which is actually a very good transition to the next page Page 12, which is our China, North Asia and Oceania zone.

SLIDE 12 – CHINA, NORTH ASIA & OCEANIA – SUSTAINED COMPETITIVE GROWTH

The zone registered a very strong +8.4% like-for-like sales growth in the second quarter, driven by volume mix up +9.4%. We have seen continued competitive momentum in Specialized Nutrition, with notably Medical Nutrition continuing its double-digit trajectory, driven by both Adult and Paediatric solutions. At the same moment, our IMF business is further winning market shares also in the second quarter and is contributing again positively to the growth of the zone.

In Waters, we confirmed that Mizone had a strong start to the season, growing net sales by around +10% with continued market share gains. In Japan, our EDP business is now since many quarters on a strong growth trajectory, and is also in the second quarter, again posting double-digit growth, led again by the Oikos and Activia brands.

Looking at the entire first semester, the zone registered great like-for-like sales growth of as much as +8.6%, recurring operating margin stood at 30.6%, with deliberate investments behind this consistent and competitive growth, making us confident for the coming quarters. Let me suggest to move on to Slide 13, reviewing together the results of Latin America.

SLIDE 13 – LATIN AMERICA – PROGRESSING WITH BUSINESS MODEL TRANSFORMATION

Latin America registered a solid +5% like-for-like sales growth in Q2 with volume mix up +1.8% and price up +3.2%. We are particularly pleased with the solid performance of Waters in Mexico, as well as of Specialized Nutrition across all the zone. We also see a solid underlying performance of EDP, which, as you know, is currently impacted by the effect of licensing out of the Paulista milk brand in Brazil.

As we report first semester P&L results, it's important to acknowledge that there is a disconnect between another semester of strong like-for-like profit margin expansion, which was momentarily overcompensated by a very negative hyperinflation and currency effect from the Argentinian peso. At like-for-like rates, profit margin of the zone would have increased by as much as 150 points compared to the reported margin decline of -62 bps.

This one-off shall disappear over the next quarters as the underlying drivers will balance off each other. Finally, let's have a look at the Rest of the World Zone made of Africa, Middle East, Asia and CIS on Slide 14.

SLIDE 14 – REST OF THE WORLD (AMEA) – SOLID QUARTER LED BY SPECIALIZED NUTRITION

Like-for-like sales growth of this zone increased by +5.3% in the second quarter with positive volume mix of +1.8% and price of +3.5%.

Looking at the quarter more in detail, the Specialized Nutrition business posted a good quarter across Asia and the Middle East in particular, because our Aptamil, but also our Bebelac brands saw double-digit growth. In parallel, our Dairy business in Africa continues to make good progress, positively contributing to quality growth also during this second quarter.

Looking at first semester performance of the zone, sales increased by plu+ 5.6% on a like-for-like basis. Recurring operating margin stood at 10.8%, increasing by +44 bps versus last year, particularly driven by the progress we are making in our Africa transformation, but also by the solid growth of our accretive Specialized Nutrition business in the region.

I suggest we concluded zone review, then move on to the margin bridge for the first semester of 2024 on Slide 15.

SLIDE 15 – RECURRING OPERATING MARGIN UP +45 BPS IN H1 2024

Recurring operating margin stood at 12.69% in the first semester of 2024, an improvement of +45 bps compared to last year. Our focus on quality growth, our focus on operating leverage, combined with above-industry average productivity have been important drivers to get the margin from operations up by altogether +257 bps.

Important to acknowledge that we were in this first semester, benefiting from some final carryover effects of pricing from last year, which has given the gross margin even more momentum for the last period. With pricing normalizing in the coming quarters, the effect on gross margin will not repeat with the same magnitude in the coming second half.

In a market environment which has seen intense competitive pressure, we have been reinvesting 169 bps into what will drive our growth in the future into A&P, into sales & marketing capabilities, into Research and Innovation as well as into digitalizing our supply chain. As mentioned during our Capital Market Event, the reinvestment focus will now sequentially move towards more category leadership initiatives, which also means that the need for additional investments will soften in the coming quarters.

Other effects reflect notably the positive impact of scope, arising from the before-mentioned deconsolidation of dilutive businesses, which are more than offset by negative FOREX impact for a combined effect of -34 bps.

Let's now move on to the EPS bridge and Free Cash Flow on Slide 16.

SLIDE 16 – RECURRING EPS UP +2.6%, DRIVEN BY OPERATIONAL PERFORMANCE

Recurring EPS reached €1.80 in the first semester of 2024, which is a +2.6% increase compared to last year. The main contributor of recurring EPS growth was the strong operational performance we just went through, at +15.7%. The scope effect amounted to -8.3% from the already discussed deconsolidation of businesses, while the depreciation of a number of currencies against the euro had an impact of -10%. Our focus on reducing our debt levels has contained the impact from financing to only -0.3% impact, while Tax and income from equity accounted companies and minorities had an effect of +5.6%.

You will remember us saying that our ambition is to turn our company into a consistent value compounder. With our earnings increasing in the relative, but also in absolute terms, and with continued focus on working capital improvement, we were able to post another record of Free Cash Flow, reaching as much as €1.2 billion in the first semester 2024, an increase of 11% compared to last year. Those good numbers, combined with the underlying strong fundamental dynamics of our categories and brands, make us confident to deliver on our future value creation ambition, which leads me very naturally to my last slide, Slide 17 is our financial guidance.

SLIDE 17 – 2024 GUIDANCE CONFIRMED

This year 2024 is shaping up to be a strong year where despite many external challenges our company is set to deliver on its midterm commitments, a year where we are growing our business increasingly competitive, in markets which are dynamic. The superior growth of our categories within the Food and Beverage sector is proving that they are on trend, that they offer great growth opportunities, especially for committed category leaders like us. Based on the strong result of the first semester 2024 and our confident outlook, we are reiterating our full year 2024 guidance with +3% to + 5% like-for-like net sales growth and moderate profit margin improvement.

And with that, let me hand it back to Antoine for the conclusion.

CEO CONCLUSION

SLIDE 19 – CEO CONCLUSION

Antoine de Saint-Affrique, *CEO*:

Thank you, Juergen, and I suggest we move straight to Slide 19.

As said, we are obviously pleased with the results of the first half. I mean, these results are true to the Renew strategic intent as we deliver a quality balance of volume mix versus price, which is, as Juergen said, enabling our investments, margin expansion, and ultimately good cash flow delivery.

Also happy with the consistency of our delivery, and the resilience it demonstrates over time. But we are also acutely aware that there are still things that remains to be done, in an environment which will remain challenging and quite unpredictable.

As shared with you at the CME, the way forward for us is to keep executing on Renew Danone with discipline, continuously improving what needs to be improved, while preparing the future, being true to what we believe to be a long-term value compounding model.

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

QUESTIONS & ANSWERS SESSION

Mathilde Rodié, *Head of IR*

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

QUESTION 1: PRICING OUTLOOK; SPECIALIZED NUTRITION

Guillaume Delmas, *analyst at UBS*

Two questions for me, please. The first one is on pricing and your pricing outlook because across the board, we're seeing a fast normalization in price growth. So my question for you is, with most of your price negotiations for the year now behind you, particularly for Europe and North America, do you have a relatively good visibility on your pricing for the second half? And at this stage, do you feel confident that, across your three divisions, pricing will remain in positive territory?

And then my second question is on Specialized Nutrition. It's another strong trend for this profitable business. Short term, do you see any reasons for a sudden change in trajectory? I mean, I would think the launch of Nuturis, momentum in Medical should probably support some optimism here.

And then longer term, since you said at the CMD that for M&A activities, Specialized Nutrition would be the priority, would it be fair to assume that your vision built around health through food implies that Specialized Nutrition will effectively end up being your largest business in some years from now, not just on a profitability basis, but also on a sales basis? Thank you very much.

Antoine de Saint-Affrique, *CEO*

Thank you, Guillaume. We'll do a duet with Juergen. Let me start with the second question. I'm sure Juergen will take the first question. As you've seen, it's a very good print for Specialized Nutrition, but what is very important is it's consistent, quality growth in Specialized Nutrition.

It is a business that is core to us; it is an important business; it is not the only business. So we love our other categories and as you've seen, we are also delivering very good quality and broad-based results.

So we keep looking at acquisitions through the lens that we have described, which is one of strategic fit and financial responsibility? Yes. Is Specialized Nutrition a place where obviously if such acquisition come, we will look? Yes. It's not the only place.

So are we confident in the trajectory of our Specialized Nutrition? We definitely are. But in the same way, by the way, we are very confident that the pivot we are doing from, call it, dairy or yogurt to gut health and protein, is one that offers immense potential in our EDP category. So it's not a one horse track, if I may say.

Juergen Esser, *Group Deputy CEO & CFO*
Guillaume, good morning. On pricing. Pricing will stay positive also in the second half of the year, just to be very clear about this. There has been a reason why in some instances, negotiation took a little bit longer than we would all have wished, because the way we are approaching is to ensure that we do consumer-led pricing where we have strong brands, brands which bring innovations into the market and where we feel that we have the right and the whole, by the way, to be a driver of the market growth, but it means also increased price in certain instances. And there will be other occasions where we will invest into price, in order to make sure that we get our fair share of the volume growth. But net-net, we see also positive pricing for the second semester moving forward.

Mathilde Rodié, *Head of IR*
Thank you, Guillaume. So the next question will be from Jon Cox from Kepler Cheuvreux.

QUESTION 2: MARGIN IMPROVEMENT; NORTH AMERICA CONSUMER ENVIRONMENT

Jon Cox, *analyst at Kepler Cheuvreux*
Yes, good morning, guys. Congratulations on the on the numbers, and just two questions for me. One sort of all on that broad margin equation, you're talking about the gross margin won't be the same improvement that 257 basis points in H1 into H2. At the same time, you're talking about the Latin America profitability potentially being 200 basis points above where you were amid these one-offs. And obviously that business is there a good 10% of revenue, so that would be bad at 20 basis points better going into the second half of the year. And you're still talking about only a moderate improvement in margin this year when you've done almost 50 basis points in H1; is 50 basis points, how you would define moderate? That's the first question.

A second question on North America, and I wonder if you just give us a bit more granularity on that. Some of your competitors are really struggling in that market. You talk about how protein's leading. Maybe give us some color on that, but also at the other end of the scale, what you're seeing maybe for some of the entry-level brands, what are you doing to offset maybe down-trading and private label? And then maybe just to add, if you can on the plus base, you're saying you see signs of traction. Maybe you can talk a little bit more about that. Thank you very much.

Antoine de Saint-Affrique, *CEO*

I guess, Juergen will take the first question, I'll take the second.

Juergen Esser, *Group Deputy CEO & CFO*

Yes. Look, on the first one, obviously, we are very pleased with the gross margin expansion of the first semester, which, in a way, shows that we are really working our business model, quality top line growth, driving operating leverage and therefore, driving very naturally gross margins up.

What we see is a bit particular in that first semester is the fact that we came into that first semester with a good level of pricing, combined with record productivity levels, combined with a number of commodity indexes, which were quite beneficial to the equation. Moving forward, gross margin will definitely continue to expand. This is our business model we are aiming for, to allow for continued value creation over time, also including reinvestment, but it will not grow at the same speed that we saw some of the commodity indexes rebounding a little bit.

To your other point, Jon, on Latin America, you are right, there's a one-off here. And it's a quite mechanical one-off because there's a total disconnect between the level of inflation we see in Argentina and the absence of the devaluation, but this cannot take forever. At the same moment, we don't know when this is going to balance off, that in the second semester or later on. So at some moment, we're going to benefit from that rebound.

And to your third point, I think looking at the full year, you understand that we are looking at the full year with confidence. We are maintaining the guidance we issued at the beginning of the year. You will certainly not expect me to not guide to a very precise bps improvement. But what we can, however, share that we are expecting a comparable composition of the margin progression as last year.

Though remember that we delivered last year a moderate organic margin expansion, and hence by around 10 bps from scope effects, thanks to our portfolio rotation. And this year, we also have both drivers contributing with a similar size of contribution from scope as last year.

Antoine de Saint-Affrique, *CEO*

So on your second question, Jon, I think the current performance in North America is very competitive. It's very good, when you look at the external world, the team there did a very, very good job. It is a mix of a number of things. We have a number of ranges that are working extremely well. I mean obviously, we keep driving our Protein range.

We have started expanding the expression with REMIX, which you have seen in Amsterdam. So we keep bringing new news to our core segments. We have some local jewels around Coffee Creations are doing very well. And there too, it's a mix of our great focus on the core and innovation. I mean the Cold Foam is working extremely well.

So it's a good example of our global mixes and your local mixes are pulling at the same time, with a focus on the quality of execution by the team in the market, which is quite remarkable, which by the way, has been acknowledged externally, as the team is being ranked in customer rankings as #1 of its category. It is also, and that is interesting, the proof of the resilience of the portfolio.

Not everything is going well. We are still working on things like Danonino, which was at the entry price of the market, to make sure that not only we are price competitive, but we are mix competitive. We have been working, and we've mentioned it for a number of quarters now, on Silk. Silk by the way, we see some green shoots. So we see penetration starting to go up. We see, I mean, the first encouraging signs of what we do around the buy it first occasion, around the coffee occasion, but that's only the start of the journey, and there is a lot to be done on that front.

I don't know, Juergen, if you want to add something.

Juergen Esser, *Group Deputy CEO & CFO*

Yes. Maybe just one element. You may remember a chart which Antoine showed during the CME demonstrating that our categories are growing faster than the average of Food and Beverage. And the yogurt category, which is actually true in North America and Europe, is actually very dynamic with consumers looking for categories which provide health benefits. And this is what the trend we are currently selling, which we believe is a long-term trend. So I think we are well positioned.

Mathilde Rodié, *Head of IR*

The next question is from Céline Pannuti, JPMorgan.

QUESTION 3: VOLUME EXPECTATIONS; SPECIALIZED NUTRITION MARGIN

Céline Pannuti, *analyst at JPMorgan*

My first question is I wanted Juergen to come back on the slide where you show that nice volume progression quarter-by-quarter and wondering whether we should expect this ramp-up to continue as we go into the second half; I'm thinking you were talking about the delisting being over, so I would expect some better positive evidence of what you're doing in Europe coming into Q3, Q4. So just wanted to see whether that would help at the group level and as well, whether we should continue to see that good growth momentum on the volume term in EDP continuing in the next quarters.

My second question is on Specialized Nutrition margin were down. Can you please give us a bit of a steer of what has driven that? And I mean, obviously, China, the China division did very well in terms of volume mix, but there was as well a negative price mix. So I just want to know what drove that and whether maybe it's linked as well to your Specialized Nutrition margin.

Antoine de Saint-Affrique, *CEO*

Let me take the very last one, and Juergen will take care of the rest. In China, first, let's start with that as it's a stellar performance again. It's a stellar performance that is driven by great volume mix. As part of the performance, there is obviously the launch of a number of innovations in the market. And as you launch innovations, you invest behind those innovations, be it in terms of listing, be it in terms of trial, but in terms of our promotion. So the margin of our China business is at the right level and is maintained. The balance is linked to the flow of innovation and us are doing what it takes to keep rolling at a fantastic pace in China, with a real quality growth.

Juergen Esser, *Group Deputy CEO & CFO*

Yes. And just to complement on that, and good morning Celine. We were very clear that, yes, the Specialized Nutrition margin will stay ahead of 20%. This is what we said 4 weeks ago, that's totally relevant. You saw that we have been investing in the first semester into China because this is the year of innovation for China. We are launching innovation on Medical Nutrition, as you have seen on the oral and the powders.

You have seen us launching innovation in IMF, and this will continue in the second half of the year as well as in Mizone with the electrolyte version. So we are investing into that. You saw how much we are growing, I mean, high single-digit growth in the first semester. So I think that's a fantastic investment and ultimately, it will be a key contributor to keep the Specialized Nutrition margins well ahead of 20% for the coming semesters and years.

On the second element of volume mix, we're obviously very happy with the volume mix of Q2. I mean all of what we have been doing over the last 2 years is yielding results. Now we will manage our portfolio and maximize the opportunities of our portfolio across the different regions.

Antoine was saying, this is a volatile world, there's things happening here and there. But as you hear, we are confident that we are on the right path, and this is also why we have been reinvesting to solidify the growth momentum for the second semester and the years to come.

Mathilde Rodié, *Head of IR*
Thank you, Celine. The next question is from David Hayes from Jefferies.

QUESTION 4: GROSS MARGIN IN H1; WATERS RECURRING OPERATING MARGIN

David Hayes, *analyst at Jefferies*
Apologies if this has been covered because I did miss the beginning, but I'll ask my two anyway. So firstly both on margin. First one on the gross margin first half, I don't think you gave that number. I was wondering if you can give us what the gross margin was and what it changed year-on-year, specifically?
And then second, on the Waters margin, 290 basis points improvement is very notable, but also a little bit of a surprise, to be honest, because we assume the mix was going to be perhaps a bit less favorable than you would have ideally had, because of the poor weather and therefore less out of home. So just wondering whether there is anything specific in that number that's helping? Is it just the packaging cost coming off quite markedly? Or is there anything else that's changing that means that margin will continue to improve at quite good tier?
Thank you so much.

Juergen Esser, *Group Deputy CEO & CFO*
David, could you be kind to repeat your first question? I'm not sure I got it.

David Hayes, ***analyst at Jefferies***

Yes, of course, just on the gross margin, your specific gross margin, can you give us that gross margin level and what it actually changed year-on-year percentage or by basis points-wise?

Antoine de Saint-Affrique, ***CEO***

What we said is the margin from operations increased by 257 bps. I mean what Juergen said is, obviously, I mean, there is a carryover of price and record levels of productivity. We will see moving forward a bit of normalization, but still remaining in positive territory. And on Waters and Waters gross margin, I don't know whether, Juergen, you want to comment?

Juergen Esser, ***Group Deputy CEO & CFO***

No. But look, what we are seeing, and that is quite promising. We see gross margins actually going up across many of our categories and many of our regions. Gross margin is going up across Europe, gross margin is going up across North America. Gross margin is actually going up in our China, North Asia & Oceania division. And things are going in the right direction, also when you look at the different categories. In Waters more precisely, as you can imagine, the fact that our Mizone business is growing at a high speed is delivering very interesting mix to us.

But also when you decompose the Waters P&L evolution, what we see is that good gross margin evolution within Mizone and good gross margin evolution in our other big business of Europe Waters.

Now it's true the second quarter has been under pressure in Europe because of weather related, I would say, pressure, which is something which is not under our control and Q3 eventually is up to a good start. But so overall, I think the underlying dynamics are quite well. And so we are confident to see an overall good value creation trajectory for Waters from a top line and bottom line standpoint.

Antoine de Saint-Affrique, ***CEO***

Maybe let me add a point because it is important for us. What we said all along is our business model, and our long-term business model is we drive quality growth, so growth with a volume mix component, which enables delivery of gross margin, which enables in turn, the combination of two things: reinvestments are behind our brands, our categories, our capabilities, while increasing our profit on a regular base.

So I think the first half of the year is yet again, because it's not the first time, yet again, a demonstration of the model at work, and of the value that that model can create. I mean you look at the way it drills down I mean, supporting our brands, investing our capabilities, delivering profit, ultimately delivering cash, by the way, are delivering a good EPS, despite the scope effect. So this is our model at work. It's not the first time but it's a great example of the model at work.

Juergen Esser, *Group Deputy CEO & CFO*

Yes. And final comment, David, gross margin level, coming back to your first question, gross margin level has reached end of H1, 49.4%, so we are going very fast back to where we have been a number of years ago to the 50% mark. So great dynamics.

David Hayes, *analyst at Jefferies*

Just quickly, just a follow-up on the spending point. I mean, EDP margin down 50 bps, I guess, with all the mix you're doing, I guess, again, a bit of a surprise maybe that's not a bit better. But is that because there's quite a lot of investment going into the business that part of business this first half, to your point about reinvesting? Is that part of the phasing dynamic?

Antoine de Saint-Affrique, *CEO*

Actually margins are going up in EDP in Europe and in North America. The Latin American currency issue is unfortunately distorting the reading for that first half, but again that it will balance off over the coming semesters. So the underlying is strong and consistent with what we also see or saw in second semester of last year.

Mathilde Rodié, *Head of IR*

Thank you, David. We have the next question from Tom Sykes, Deutsche Bank.

QUESTION 5: GROSS MARGIN IMPROVEMENT; PRICING VS COMMODITY GROWTH

Tom Sykes, *analyst at Deutsche Bank*

Hi, good morning.

Just coming back to the gross margin, please. Just trying to reconcile a bit why it might not even be higher than what you've reported. Because if you're coming in at record productivity, which I guess you guided last year to 5% plus. So just like it's probably more than that or at least that level, plus you've got 2.9% volume mix, which the incremental gross margin on that is clearly going to be quite high, maybe 60% plus. It's difficult to see how that kind of gets you to the gross margin improvement that you're seeing, but then you're saying commodities were also a benefit. So I'm just trying to understand where is your pricing relative to the commodity growth. And is there something else in the gross margin, I don't know, trade spend, something like that, that is affecting it, please? And then just on the A&P, how variable intra-period is your A&P? I mean according to what happens on the gross margin, what percentage of your A&P can you dial up with some downwards, please?

Antoine de Saint-Affrique, *CEO*

So let me take the second one and Juergen will take the first one. Although, by the way, in the first one, we don't guide on productivity just to be clear. We look at our A&P through two lenses. Lens of competitiveness, so what is needed to be competitive in our markets, what is needed to grow our categories. So we look at share of wholesale market, we look at promotional intensity. That's one dimension.

We look at it also in a very systematic way, through a lens of our return on invested capital, or return on investment. And there, we are extremely disciplined. So the name of the game is one where we support in a very systematic way our launches and we are extraordinarily flexible on a day-to-day basis, to or add where it needs to be added, but also claw back if we think that they are not proper returns.

Next to that, by the way, we keep doing our work on what's the proportion of working versus non-working media. We increased the way around the quality of our testing so that we qualify properly. So we keep a very strong eye on the return on investment. We are extremely picky on where we invest. So we have a certain degree of flexibility, and we are not just set one way or the other.

Juergen Esser, *Group Deputy CEO & CFO*

Yes. And on the first point, let me first agree with you that we have, it's in our hands to continue growing our gross margin, because we have a number of levers which make that we are confident for the second semester, but not only, but also as we go into 2025. The levers we discussed about is pricing, which will remain positive. But yes, we will benefit less from the carryover of late last year and pricing for us includes all the elements of pricing, obviously, that includes promotional activities, that includes trade terms.

So we are looking at the net net consolidated figures. So we will continue to have benefit from there, although probably at the lower level. We saw indeed a number of commodities going relatively low in the first semester, and what we are seeing today, looking at the market and looking at the future that some of them are rebounding.

And this is the way we forecasted the second semester, while staying very committed on getting the operating leverage from our volume mix, and by staying very committed to continue all the great things Vikram and his team is doing on productivity. This is why we are confident on the semesters to come. This is why we are confident on the second semester, although the gross margin may not be at the same magnitude of expansion as in the first one.

Mathilde Rodié, *Head of IR*
And so the next and last question is from Victoria Petrova, Bank of America

QUESTION 6: RETAILERS NEGOCIATION; PRODUCT LAUNCHES IN CHINA

Victoria Petrova, *analyst at Bank of America:*
Congratulations on the results. I have two follow-up questions. First of all, are you seeing anything new in retailers alliances behavior in Europe, which you have not seen before? Are they consolidating their efforts in negotiating on pricing or anything new in this process?

And my second question is on product launches in China. Could you walk us through your IMF launches and Specialized Nutrition launches till the year-end? Thank you very much.

Antoine de Saint-Affrique, *CEO*
Good Morning and thank you for the questions. I think I'll take most of it with the capable help of Juergen. On retailer alliances, I mean it's new and not new. I mean retailers have been conglomerating for a number of years. Those alliances, by the way, are changing. So some come in, some come out. The various alliances have different approaches. I mean some are just purchasing platform, so you want to have the best conditions locally. Some try to harmonize at European level.

What does it mean? The price negotiation has never been easy. I mean, that's our business for a long, long time now. And I don't know earlier in Europe where it has been easy. It will continue to be challenging. I think what is important, and you've seen it, by the way, I mean, we said that we had difficult discussions with some of the alliances with our impact on H1. And despite that, we've printed a very good set of results, which speaks to the resilience of the company, which speaks to our ability to keep delivering despite external events. And there will be external events, because such is life.

So alliances will continue. They will keep putting pressure on people like us, which is why the name of the game for us is, number one, offer products that are loved by consumers and totally differentiated. And the second thing is keeping doing what we are doing, which is being strong in away from home, being strong in pharmacy, being strong in hospital and therefore keep building the resilience of our business. I mean, as you remember from Amsterdam, we have over 50% of our business that is now out of mass retail, so it's also a game of resilience.

When it comes to Specialized Nutrition in China. Well, a couple of things. You remember that we said, I think, 9 months ago, that at the time of the renewal of licenses in China, we obtained more licenses, opening us the opportunity to start launching more products in IMF. Some of our last launches, so I mean, the likes of Essensis, are doing very well. Nuturis, as we said, we will launch or introduce in September 1st in Hong Kong, and then expand it further. As we said as well, it's going to be progressive because you need to build the credibility with the health care professional so that, to make sure that, the consumer and also the doctors understand the difference of the product, which then gives you a base to have a long-lasting success.

In Medical Nutrition, first thing is we keep driving what we have, which is, I mean, a very strong range of products. You know that on tube feeding, we have very strong market shares in our Tier 1 hospitals. We're obviously expanding our reach. We are going further in tube feeding in powder, and there our Nutrison brand is moving forward.

And as we said, we are introducing FSMP in China. So same story. You do it in a methodical way, you convince the HCPs you are where the patients are, and here you go. I think what we have done in China in a very systematic way is be very focused, be very deep in what we do, and then be very consistent, consistent, consistent over time, which has served us well and is serving us well because, as we said, I mean, the print of China for H1 is quite remarkable.

Juergen Esser, *Group Deputy CFO & CEO*
Which makes that today we have, I believe, an unparalleled portfolio in China. Medical Nutrition growing double digits for many quarters in a row. Mizone back, and you saw again a good and strong start into the year. And you see that we are winning super consistent in IMF, quarter-by-

quarter, so this is the power of strong core, but also the power of, I believe, a very intentional management of innovation.

Antoine de Saint-Affrique, *CEO*

So really strong team.

Juergen Esser, *Group Deputy CFO & CEO*

Really strong team, yes.

Mathilde Rodié, *Head of IR*

So with that, we come to the end of the Q&A.

Antoine de Saint-Affrique, *CEO*

So many thanks again to all of you for joining the call. We'll see a number of you on the road in the coming days. Obviously, Mathilde and team are here to answer all your questions. I mean, as we said, we are happy, obviously, with the consistency, also the broad-based nature of and the quality of, our delivery. We are also systematically constructively dissatisfied. I mean there are still things that needs to be worked on. So we'll keep driving Renew. We are preparing or getting ready for the next chapter we've shared with you in Amsterdam. And we are working on that diligently. So see you all in the field.

Juergen Esser, *Group Deputy CFO & CEO*

Bye.