Transcript

On the road to Strong, Sustainable, Profitable Growth

Cécile CABANIS, CFO

Today will be about the model and how we set up our economic model to build the road that I will discuss. Then we will go into deep dives of each category. I know that many of you have a lot of questions and it is important that we go through these three days. There are many times where you will be able to do Q&As and there will be wrap-up Q&As for anything that you feel we have left out, so bear with us.

For my presentation, I will start by going back to what we said in New York. Then I would like to share with you what we have achieved since then and how we are building our model and transforming the way we work. This is in order to make sure we are going safely on the road to our 2020 ambition of strong, sustainable, profitable growth. Just to start, Pierre-André went back to the period from 2008 to 2013.

This was when we had strong, solid, consistent top-line growth, which was driven mainly by the acceleration of waters. We had a very strong and consistent dynamic of growth in early life nutrition, when we exclude what happened with Fonterra in 2013. Our overall margin was under pressure, especially from 2012, given the pressure that we encountered in our European dairy business model.

In New York, we set a direction of going towards strong, profitable and sustainable growth. This would ultimately drive sustainable earnings per share (EPS) growth, and we started on the road. I would now like to share with you some of our achievements after 18 months in each of our categories, just to show that we are on track. Then I will discuss how we continue to build the model, in order to make sure that we continue on the road safely and consistently.

Since New York, all the categories are at very different stages in terms of maturity and business models. They are all contributing in achieving the roadmap since New York.

The turnaround in dairy is in progress. As we said, dairy has different realities. If we take Europe, we set a very clear agenda for Europe, of structurally rebuilding our growth margin in order to invest our brand.

We want to support our value creation agenda and create the right conditions in order to go back to growth. If we take the US, we explained that following a few years of growth driven by the Greek, we were in a place where we could active our brands. We could invest in reigniting growth, in a category with a lot of potential. CIS has been in an unstable context, and we aim to build resilience in the model and protect our top line and our margins.

In waters, we have continued to have strong, profitable and robust growth. It is quality growth, both in volume and value. In early life nutrition, the agenda was about building a sustainable model of growth. It was especially about adapting and continuing to build more sustainability in our China business model. Medical was also fully part of continuing to deliver strong, profitable growth.

I will go into some specific examples in each of them, starting with European dairy. Regarding European dairy, last year we presented a scheme which was about rebuilding growth margin structurally in order to reinvest the brand. We wanted to create the right conditions to gradually stabilize the sales. We have structurally achieved a growth margin improvement in H1 of more than 140 basis points in Europe. This is because it excludes Unimilk benefits

This has been achieved through continuing to work on efficiencies and improving our mix portfolio. This was through what we shared with you about the programme for profitable growth and revenue management. This has enabled us to reinvest 150 basis points in our brand in H1 and to deliver a good margin improvement. You will have a full session on Europe later, which will go into a very concrete example of what we do in some countries and what we do with our brands.

I will still discuss dairy, but in the US. In the US, we are continuing to invest and activate our portfolio. Through innovation, we have been able to achieve incremental growth, and this is the case for light and fit drinks, which we shared with you several times already. There is also the Danimals pouch and Oikos Triple Zero. This high innovation data created new moments of consumption, new occasions and new types of consumption, which are incremental.

We have also continued to invest in the category, because it is a category that continues to have a lot of potential. Mariano will come back to that this afternoon and we will have a deep dive on what the plans are in the US. We are in a category that continues to grow and where we have consolidated our market share leadership. In recent periods, we have accelerated it, and our key brands are growing very nicely.

Regarding dairy in CIS, I would like to take the opportunity in talking about the results to step back a bit and go through the period since we integrated Unimilk. This is to show you what we have been doing with our partnership during these five years. First, we have worked a lot on the portfolio part in order to rebalance our portfolio of brands. This is between the fermented and milk part of the portfolio and the modern dairy and the high margin trading and value added portfolio. Since 2012, this has brought more than 150 basis points of mix improvement per year.

In the area of efficiencies, we have also had a very big agenda regarding how we adapt and improve our costs to operate in Russia following the integration. This has been about the industrial cost and cost of logistics and it has brought an improvement in the cost of operations per sales of 250 basis points per year. This included going through a partnership through Norbert Dentressangle, when they were called like that.

We are continuing this year to work on our efficiencies through simplifying our sales units and working on centralizing a certain number of supporting functions. Overall, when we look at our KPIs for Russia, since the integration of Unimilk, we have been able to deliver average growth per year of 7%. We have delivered average margin improvement per year of 60 basis points and we have improved working capital by two times, going from -5% to -10% on sales. These five years of partnerships mark the building of a much stronger platform, which is much more resilient and with higher standards. At the same time, we have increased the standards. It is a platform that is now fully ready to continue to consolidate its market share and protect both top line and margin.

Going to waters, we said to you that quarter on quarter, we continue to build quality growth in waters. This is with a portfolio that is 60% plain water and plain water is growing in mid to high single digits. There are also aqua drinks, which account for 40% of the portfolio and are growing in double digits. We will come back to the transition of Mizone, but overall, the waters category has been building a very strong platform, which is delivering broad-based, quality growth. They have done that through focusing a lot on brand activation and innovations. This has enabled us to gain one point of market share overall since 2014.

In waters, as in other areas, we are continuing to improve some of the business models in our countries. This has been the case in Spanish, where we have turned around our business through significant cost reduction of more than 20%. This was through working on how we better target investment. This has brought the Spain platform back to profitable growth, which has multiplied by two the level of margin. At the same time, it has been delivering market share again since last year. As with every platform, we continue to work both on accelerating our top line and improving on the platforms that need to be improved. This is in terms of margin and contributing to our overall agenda.

Early life nutrition is about continuing to consolidate and build a sustainable model of strong growth. We have very strong, broad-based dynamics, whether we talk about our key brands or our key regions. As you know, in our discussion with you, we have also been focusing on how we build a more sustainable model of growth in China. We are doing that through two things.

First, there is the decision that we took to merge Dumex with Yashili to create a stronger platform of local brands. On the other side, we are focusing on fully leveraging the success of our international brands, taking into account the Internet dynamics. As a result, we have been able to regain our level of market share, which we lost after the Fonterra false alert. This is with a different mix of brands.

Medical nutrition again contributes fully to our strong, profitable growth agenda, with very good dynamics. This is in mature markets, where the UK continued to grow by more than 5%, and there are very strong dynamics in other markets. This is driven also through the success of the pediatrics and metabolic portfolios, which are bringing good news in terms of mix development. It is also through a lot of innovations that represent more than 13% of sales today. This is what I wanted to share regarding the achievements we have made since we were talking in New York. There will be detailed presentations on each category from my friends and colleagues and you will see the results in more detail through them, as well as the plans. This is in order to continue to build the agenda.

Today, we are on track, because in 2014, we did deliver profitable growth in H2. We said that 2015 would be both a year of delivery and of preparation. In terms of delivery, we have been posting solid results in a consistent manner. This is both in top line for the first nine months, quarter on quarter, and in H1. This was when we improved the margin by 53 basis points, while reinvesting 65 basis points in our growth and efficiency to continue to build the model. This enabled us to confirm the full-year guidance, so we can say today that we are on the road to our 2020 ambition of strong, profitable and sustainable growth.

Now, it is about what model we continue to build in order to ensure that we continue to deliver this in a consistent manner. Before that, I would just like to say one word on context. This is not new and we have said this in 2014. You know that we have been managing some headwinds in specific markets in 2015. We all know that the world is getting more and more fragmented. This is politically, and the events of last week are showing that, economically and financially. This is not to serve as an excuse, but it is just an assumption that we all have to make, that it is going to be more complex and fragmented. We need to build a more resilient model in order to be able to absorb the shocks, because the shocks will come.

In terms of milk, there is nothing new, and the information is the same as what we shared. We are making an assumption that in the midterm, the milk inflation will be back and that it will be in mid-single digits. Going back to the way we want to build our model, we want to build a balanced model of profitable growth. What does it mean? First, we are Danone, and at Danone, we do believe that value creation will come from growth, so it will be about growth. However, it also needs to be about efficiencies and managing our cost in the right way. This means that we can deliver the right level of efficiency, in order to safely continue our journey for growth.

Our main KPI will continue to be growth margin and growth margin has improved in a structured manner. Why? This is ultimately what will help us to reinvest and create this virtuous circle of profitable growth. With that, and with leveraging our cost, we will be able to deliver profitable growth. We will need to do this in a balanced manner, so that our model is fully sustainable and will become resilient. There are two points regarding that. The first one will be about making sure that we are perfectly executing the plans behind our brands and our sales plans. The second is that we will make sure we are allocating resources in a disciplined and efficient manner. This means that we can do more with less and we can target our resources towards what matters.

We have the right levers to support our ambitions. First, to support our growth, we have unique brands and categories. In his introduction yesterday, Emmanuel shared the potential of those categories. Starting after me, you will see all the plans and the agenda that each of the categories have set, in order to go and grab the right growth pattern and opportunities. As well, regarding alimentation, you were exposed yesterday to some alimentation activations. We look at these in order to go and grasp new growth opportunities. These will bring agility and enrich the work we do on growth.

I would now like to concentrate on the other side of the equation, which is how we make it profitable. This will be about having a different operating model. It is about changing and adapting the mindset, the processes and the organization in order to make sure that we are more efficient in the way we allocate our resources. Yesterday, you shared information with Pascal on strategic resources cycle management. This involves both securing our license to operate and building competitive advantage behind our brand. This will also be a competitive efficiency advantage for us going forward. The balance of both will bring sustainability year after year, quarter after quarter, and make sure that we deliver in a consistent manner.

I would like to start with a few examples regarding how strategic resources are contributing as a driver in our competitive efficiency model. I will concentrate on what it brings in terms of efficiency and cost reduction. It is the example that you saw yesterday. You heard about how we want to go about milk technology, especially leveraging synergies on what we are using for dairy and early life nutrition. We have identified that in France and Poland, this would be a EUR 30 million saving opportunity.

The cost performance model is about reducing volatility and improving productivity, but it is also about having our costs go down in a sustainable and long-term manner. Yesterday, we talked about how we help in the cost of feed for farmers, for example, especially in the US. In the US, it has brought 5 million in savings or cost reduction in terms of what we have been able to do on feed.

One Source is about the new organization that we are deploying on purchasing. You have heard about Dantrade, which was the centralization of the overall procurement for the dairy division. When we talk about other direct methods, it is about doing the same for the rest of our direct materials. We have identified that this could bring another 100 million. On services and goods, there is the fact that we are changing to a more global organization.

We have identified that it should bring more than 150 million, and as an endgame, probably 2-3 times this number. Be clear that it is not that we are discovering productivity. It is new ways of working that will add up to what we do today. We are already achieving a lot of productivity year after year in our costs. This is a change in organization that will bring an additional efficiency in order to mitigate inflation, reinvest or go to the margin.

What does it mean to have a more efficient operating model to support our ambition? It involves two pillars and the first one is about changes in organization, and I will come back on the One Danone organization. The second is a change in our mindset and processes in the way we animate performance and allocate resources. Emmanuel mentioned yesterday that what we call Beyond Budget is about going from a fixed yearly calendar and budget exercise into a very dynamic quarterly rolling forecast exercise, conversation and animation.

I will discuss the more efficient organization and One Danone. You will have a presentation tomorrow with Marc Benoit on this. It is about continuing to create a stronger and more resilient model through defining 30 clusters. In these, we are putting together some finance, some HR, the General Secretary and IS and IT functions. I will come back on that, but doing that is also a way to free the businesses and help them to focus on activating the top line growth.

Doing that in terms of mutualizing the function enables us to create efficiency, because in those 30 clusters, we are putting people together. This means we are leveraging scale through transversality. This enables us to fully invest beyond protecting our business. This is through having the relevant General Secretary function. Bertrand will present his organization tomorrow. Having that and being sure that we are well protected in our business brings value creation and cost avoidance. We have not designed it for pure saving or cost cutting. It is about always thinking that we must be efficient and make sure that what we build is making us stronger for the future.

I would like to spend some time on how we are going to change the way, the mindset and our habits. This is in terms of resource allocation and how this is helping us to be more disciplined but much more efficient. In an environment where this was fitting, we used to have a budget which was a yearly exercise. You set your P&L per brand and per country for the next year and you pre-allocated your resources.

We now want to do three different things. First, we want to make sure that we take the opportunity to reconcile our short-term commitment with our 2020 ambition. We will start by making sure that we define a three-year strategic mandate for each CBU. Some will have a role in accelerating growth. Some will have a role in that they need to improve margin. They will all have a three-year strategic mandate with a few priorities and some resources allocated to those priorities. They will also have some KPIs regarding where they are supposed to be in three years. We will keep very structured year-end goals, to make sure that we deliver on our short-term commitments.

This will be translated in the short term through a rolling forecast exercise, which is a rolling forecast over four quarters. We will update that every month, but then every quarter, we will add one quarter. When we do that, we will have a conversation about where we are. Do we need to accelerate? Do we need to stop some of the initiatives? Are we well on track to deliver the strategic mandate and the year-end structured goals? How do we think about resources in order to increase and/or decrease in parts of the business?

The budget in the end is a barrier to dynamic resource allocation. When you do your budget exercise, you pre-allocate resources for the year in a brand or in a country. Now we would like to free these resources and have a dynamic conversation about where they need to be. This is a major transformation, because it is a transformation that is about the way we have been animating performance. It is a transformation about the processes and the financial planning of the Company.

However, that being said, it is also a transformation in mindset, and we have started. We have started to transform the mindset and in 2015, we have already started the process of being much more open and dynamic in the way we are targeting and allocating our resources. This year, we have allocated EUR 150 million of resources in a seamless way through a quarterly beauty contest.

What is a quarterly beauty contest? Anyone can bring a project, across categories and countries. It can be about CAPEX or OPEX. It can be about accelerating growth, innovation or efficiency. Every quarter, we reviewed these projects, always asking ourselves if we were investing behind the right bet. Are we in line with building our strong, profitable and sustainable agenda if this is where we put our money? Is it consistent with the roadmap that we have set ourselves?

I will just illustrate a few examples on where we have allocated part of this money. In our top-line acceleration initiative, we have accelerated some investment behind Oikos Triple Zero and Actimel. We have also very recently decided to invest more in China, behind our brands in early life nutrition. We had two projects on efficiency, but there are more. One was about restructuring in sales organization for the medical division. The second one was about accelerating our efficiency programme in Russia. There is one example about CAPEX which was about adding a capacity behind Volvic to support the growth. These are only examples. We have allocated 150 million and part of it also went to managing our different context and ensuring that we are delivering our agenda of profitable growth.

We will continue to work on that, and as we change the process fully, we will open that. This means that by doing that, we will free up many resources and we will be able to do more with less. By having seamless resource allocation, we will be able to be very dynamic on where we put our resources. We will be much more agile on how we go about them. Resource allocation is also about how we allocate other resources and capital discipline. Last year in New York, we said that we were not satisfied with the level of return on investor capital (ROIC) and we committed to being conscious about the way we allocate the resources and to gradually improve.

Capital discipline as a whole, on top of what I described on resource allocation, is a key topic for us, and it is around two pillars. Where do we invest our CAPEX in order to nurture future growth? How do we build our business models with partners in order to optimize the way we invest in building new countries or consolidating some platforms in our existing countries?

First, CAPEX is around 4-5% of our sales and should continue to be in this order of magnitude. It is important for you to understand how we allocate CAPEX. When you look at that, 40-50% of our CAPEX is about building growth. This means it is about capacity and innovation. It is also important to protect our growth. I mentioned that in relation to what we do in terms of improving our standards in food safety. Today, 10-15% of our CAPEX goes into protecting our growth, mostly through enhancing food safety standards. Then there is optimizing growth through continuing to work on productivity and reducing our cost. Approximately 10% of our CAPEX is about working on adding productivity and reducing our industrial cost.

Partnership has always been a system that we have used in order to build many of our businesses in the world. The way we do it is that we often start and we enter a country on the side of our partners. That enables us to optimize the investment and to have a full learning phase, with very experienced and knowledgeable people. When we feel it is the time, we take more and sometimes we take control. We take full ownership, but the fact of going step by step is a way to optimize our investment and build our business model in a phased, gradual and safe way.

I will present different cases. Aqua has been a very successful partnership, which we started a long time ago. Then we increased our stake and we built a very big platform together with our partners. Central Danone is Centrale Laitière in Morocco, but we changed the name. You have Unimilk and the new African partnership that we have built. Everything I have described since I talked about resource allocation is important for us, because it is also how we are focusing on our ROIC.

I would just like to share a few examples regarding ROIC, for you to know that we continue to care and to be conscious of how we allocate our resources. We continue to make sure that we improve our ROIC gradually. There are a few examples to share. If we take China, when you combine full categories, our ROIC in China is more than 15%, well above the work.

Regarding European dairy, last year, when Emmanuel talked about the ROIC development in the past few years, we emphasized this fact. Europe is one of the reasons for the decrease in our ROIC in the past few years, because it decreased by more than 30 points. From 2013 to 2015, we have regained 30 points in European dairy. The last example is CIS, where we have double digit ROIC, and we have doubled this since the acquisition in 2011. These are examples, but it is important that you know that we are focusing on that and that we care and we are careful about how we are investing our resources. Now you also need to bear in mind that given the way our operations are set, we have an ROIC that is sensitive to the exchange rate.

As a wrap up, this is the model that we are building, quarter after quarter and day after day, and all the teams are focused on it. There is an important thing which is the reason that we are progressing in our agenda. It is important that it is not about speed. It is not about speed but it is about sustainability. The question is not so much about when Europe will be at zero, but the question is whether Europe is delivering a gradual, sustainable improvement. This means that when it is at zero, there is a safe and sustainable return to profitable growth in Europe. This is what we are focusing on.

It will be gradual and some quarters will be better than others. However, at the end of the day, the important thing is that we are consistent in delivering profitable growth and gradually progressing towards our 2020 ambition. It is about balancing growth and profit, consistency and continuing to be agile and go and grasp growth opportunities. We must make sure that the execution of our plan will ensure that we deliver in a consistent manner.

When we talk about strong, profitable and sustainable growth, what does it mean? I will define strong first. We said 4-5% is solid and steady, but it is not strong. For us, strong growth will be more than 5% growth. We have a few categories that are already growing at a strong rate. These are early life nutrition, waters and medical nutrition, and they will continue to grow strongly.

Then we have dairy, where, as you have seen and as you will see in the dairy session, we are progressing in the turnaround. We will gradually have to come back to growth and go towards a growth rhythm that in 2020 should be between 3 and 5%. The category has the potential and we have the right brands and plans. If we execute our plans and continuing to be consistent in the progress that we are making in our key geographies, we will be there in 2020.

Being profitable is easy. The margin needs to be up every year. Here, the mix of the growth is bringing improvements in the overall margin. However, here again, the main topic regarding margins will be the turnaround of the dairy division. The ambition we have set is as follows. If we look at the cumulative period from 2015 to 2020, the trading operating margin of dairy should improve cumulatively by more than 200 basis points. This is excluding Forex.

How do we do that? It is back to what I said regarding growth. We do that by gradually going back to a safe and sustainable return to profitable growth. We do that by making sure that we are managing our portfolio of assets, brands and countries, so that we are creating profitable growth. This means that some of the countries will have to improve their level of profitability. This refers to what we have done in Indonesia and the way we are allocating resources and working on the portfolio of assets, countries and brands.

It is really about succeeding in the turnaround of dairy. Here again, you will have a full session that will present the way we go about the agenda. We already have a lot to show, because if you consider what we have been doing in 2014 and 2015, we are on the road. It is not like everything is starting today, because we have started. We are progressing and we need to continue to progress in the same way we have started. We will be able to reach this margin progression for dairy.

Being sustainable means that the delivery needs to be consistent each year, with a growth in trading operating margin. We are delivering our cash growth. Remember what we said about cash. We said that we believe that our level of working capital in sales, which is at -8% today, is something that we need to sustain, but probably that will not improve. The cash will be a consequence of no big improvement in our allocation. Then we are growing our EPS as a result of everything which I just described. That is what I wanted to share with you. Now we will have a Q&A session to answer your questions.

Q&A

From the floor

I just had a question on the overall cost savings and efficiency strategy programme. If we look at a lot of the companies based in the US, they are now implementing some form of zero-based budgeting. When I listened to what you said this morning and what we walked through yesterday, it seems that there are a fair amount of similarities. You need to justify the investment, the budget is now on a rolling basis and it is about efficiencies to support the growth etc. Could you provide some color regarding how you view the differences in your strategy versus some other larger companies? How have you thought about that as you define the plan that you have?

Cécile CABANIS

It is the way I presented the model. At Danone, we believe in growth and we believe that sustainable value creation will come from profitable growth. Now our agenda is to make sure that we create the conditions and that we progress to building sustainable value creation. This is in the short term, mid-term and long term, in a consistent manner. There are similarities, as you said.

For example, there is the way we now look at resource allocation in a seamless manner. We are more disciplined and this is probably our way to achieve a zero-based budget. Ultimately, it is important that we focus on this agenda and that we are consistent about that. It will never be about this. We did one big cost plan a few years back in Europe. Today it is not about that, because it is not about having big plans and then going to the next ones. You do not where it ends and you do not know what you built.

For us, the agenda is to build value creation through profitable growth. It is important because we continue to work with our brands and plants and our efficiency, to free up resources and continue on the road. If you look at our businesses, dairy is a specific one and I will come back to it, but the rest of our businesses are very strong. They have good margins and we need to make sure that we build sustainability behind this business. Then it is about what I said at the end. It is about how we gradually turned around dairy in order to make sure that we are taking a significant step up in the role dairy plays in our portfolio. We make it so that it is sustainable in the future model of growth.

Cédric BESNARD - Barclays

You mentioned that growth margin was your main KPI. In Europe, I believe most of the growth margin came from a portfolio upgrade. I see that you mentioned Neocate growing much faster than the average in the division in medical etc. The other category may be fixing some tail brands or more in the portfolio. I work in the portfolio. That could also help you drive your margins in the coming years. Do you have any plans in other countries, regions or categories to do that work on skus and tail brands in the portfolio?

Cécile CABANIS

You are right to say that growth margin is the focus and part of it is the way we work in our portfolio. Then there are different realities in each category. For example, I mentioned the turnaround for Spain in waters. This was around focusing and investing in the right bet, to create more value and growth margin. You will have a presentation on how Evian Volvic's world business model has been fully transformed towards value.

In early life nutrition, we talk a lot about tailored nutrition and premium portfolios. Then you are right to say that profitable growth revenue management is something that we are deploying everywhere, and in dairy too. There are different ways to go, but it can be about grasping new growth opportunities, which will bring additional growth margin. Alternatively, it is about cutting or adjusting part of the portfolio, which is not profitable and will not be the right bet behind what we are trying to build. This is consistent work across categories and countries.

Warren ACKERMAN – Société Générale

You say that growth drives value creation, but there is one thing that has been very noticeable with Danone over the last few years. A lot of the growth which has come from value, price, mix and volume has been consistently negative, or maybe at best flat. My question is, how important is volume growth for you, and do you think you have got the volume versus the value growth? Do you think the balance is right at the moment? Mid-term, when I look at the 5% plus that you are targeting, how much of that might come from volume? Am I wrong? Would you be satisfied if over 5% were to come from value, and volume is a small fraction of the overall totals? It is a question about the balance of the growth between value and volume.

Cécile CABANIS

The growth will be a balance of volume and value. We are clearly not satisfied today with the way dairy growth is going. That is why we are progressing into having a full turnaround in that business. The growth needs to be a mix between volume and value. It is back to the answer I gave to Cédric about the way we are going about value. This is not only value, but it is also driving better value and volume growth. It will be a balance of volume and value.

From the floor

You described the 2020 forward planning and said that you were undergoing a transformation in financial planning and indeed in mindset within the organization. Can you say whether that has been driven down to individual management incentives, or any change to the way you assess your workforce?

Cécile CABANIS

Regarding the short-term incentives and the economic part of the recent short-term incentives, we are rebalancing the weight between growth and margin. This is to fully support the fact that we are working on a balanced model of growth and profit.

John COX – Kepler Chevreux

I have two questions. On the timeline, these are great targets. Is it a little bit premature to say you can achieve the 5% plus organic already in 2016? That is the first question. Regarding my second question, there is a lot of focus on organic growth. Can we take it then that, at least for the medium term, there will be no big bang M&A coming out of Danone through to 2020?

Cécile CABANIS

It is as I said. The purpose is not to guide on 2016. It is important that you all understand that we will choose the actions that ensure that we are building year on year, in a consistent manner, what I have said we would up to 2020. Each year will be a balance between what we want to accelerate, risk and opportunities between elements of context. However, we have a commitment that each year needs to deliver profitable growth on the road to the 2020 guidance.

On M&A, I would repeat what I probably shared with you already. This is about our organic agenda and we are very much focused on that. We do not need any transformation deal in order to reach our agenda. This is the agenda that the teams after me will explain, and each of them will go through each category and region. This is what we have built.

Gerry GALLAGHER – Deutsche Bank

Before I ask my question, thanks for the presentation, Cécile. I thought it was very good. My question is this. Some of us are relatively simple people and we need our hands held all the way to the very end. You talked about the top line and the margin. Could you give us any help at all as to where that ends up in terms of an EPS, even if it is an EPS range? This is for where the business is going through to 2020.

Cécile CABANIS

The EPS will be the result of the agenda for profitable growth that we have set, so it should grow in a consistent manner through what we set as a profitable growth agenda. I did not plan to give more guidance on that. That is it.

Pierre TEGNER - Natixis

I just wanted to follow up on John's question. My question is quite easy and is on the next few years. Just imagine you are able to deliver more than 5% organic growth next year. Is it a top priority for you? Are you considering that the priority now is to go beyond 5% organic growth in the coming months? Or have you other priorities to build this five-year roadmap?

Cécile CABANIS

This is 5% for 2020 and we are now in 2016. The priority is very clear. It is about balancing growth and profit. It will not be about growth at any cost and reaching 5% as quickly as possible. It will be about making sure that we are building the right plans and steps so that we are gradually improving. I am talking here especially about dairy, because the other divisions already have strong growth. This is in order to make sure that we do a safe and sustainable turnaround.

We cannot just look at 5% organic growth. We need to go through each division and look at where they are today and how they will deliver next year. If we look at where we stand today, in dairy, we will continue to gradually improve towards the safe return of growth to what we said for 2020, between three and five. If you look at the other divisions for next year, as you know, in waters, we are managing the transition of Mizone. We know that this transition will take a couple of quarters. We probably will still have low to mid-single digits in waters for H1 of next year, and then it will accelerate.

If we take early-life nutrition, we are delivering very strong growth. We know that Q4 will only yield low single digits because of the high bases of comparison. We have improved since we gave the figures at the beginning of the year. Next year will compare to the very quick acceleration of e-commerce that we develop this year. Therefore, it will probably not be as strong as what you have seen in the previous quarters. Overall, it is about making sure that we are building our plans and that we are succeeding in the dairy turnaround. The next three years are about succeeding in our dairy turnaround, to make sure that we can achieve what I stated for 2020 and that this is sustainable. We can continue to improve from there.

Adam SPIELMAN - Citi

I have a couple of questions. First of all, I have a simple one on dairy. You have mentioned a couple of times that it is not when you get to zero, but it is quality. However, we are still interested in when, so what is the latest thinking on that? Secondly, if I think about the margins, thank you very much for the medium-term guidance. How should we think about the margins on the other divisions?

You have said a couple of things. You have said that there have been huge savings with One Source and it is not quite clear. You have identified them, but it is not clear whether you have already achieved them and there are any offsets. Equally, you have said they already have high margins, so how should we think about margin progression? Will those cost savings fall through to the bottom line?

Cécile CABANIS

I know you are still interested in when. Last time, we said that we have an objective that in 2016, European dairy will have stabilized growth. Once again, if we have to take more time in order to make sure this is solid and sustainable, we will take more time. Our objective is that in 2016, we will stabilize sales. In terms of margin, if you take early life and medical nutrition, we have very strong margins. We need to continue to sustain this level of margin.

The waters category has been growing profitably. We need to transition Mizone and then there is no reason why it should not continue to grow in a profitable manner. Then it comes back to the turnaround of dairy, which is major, both in terms of sales and efficiencies. This is in order to rebuild these couple of hundred basis points within the next few years. A lot of efficiencies will be there.

A lot of efficiencies will be invested in being able to go about strong growth. Then because of the mix of the growth, there will be a natural improvement of mix of margin. Then everybody and every division will make sure that the growth is profitable. However, you would not expect that when you are already close to 20% margin, there will be a significant improvement. The idea is to make sure this is solid and continues to deliver profitable growth. That is why I have insisted on the KPIs of margin improvements being about the turnaround of dairy. Dairy is going back to a level of margin in improving by a couple of dozen basis points. That makes sense for our profitable growth agenda.

Robin ASQUITH - JP Morgan

It is a question about the return on investor capital and the renewed focus on resource allocation to get better returns from your investor capital. I would say it is a given. You want to invest capital to get a good return. Is there a realization of a misallocation of capital in the past? Is this the sort of change that you are implementing, that the way capital was invested before was not right and did not get the right returns and now there is a change in that? Is that what you are trying to say to us?

Cécile CABANIS

No. If I said that, then it is not what I wanted to say, because when I went through the examples on capital discipline, there were many examples. I took the aqua business model as an example and it is an example from a long time ago. Regarding the way to allocate capital, we have always been conscious of that, and we have always worked on optimizing that. Last year, we explained that part of our issue we had in our ROIC development centred on dairy in Europe. Here, I illustrated that we have been able to regain 20 points already of the 30 points that we lost a few years back.

It is not that it is new and that before we did not care. Particularly when it comes to resource allocation, it is also that we are living in a new environment. Things are changing, sometimes very quickly, so we need to make sure that the way we go about that enables us to be very disciplined, but also very agile. This is regarding where we put our resources and how we can move one part to another without putting in silos. Each category has its own budget and then you get trapped in your budget exercise because you have already pre-allocated resources.

The big change here is about being less and less in silos and much broader on the way we are allocating resources. We must be much more dynamic, so it is not one time per year as it was when the environment was stable and growth could be predicted for the next decade. It is much more about reassessing and reallocating every quarter. This is what is changing, and it is not changing because one day we woke up and believed that we did not do the right thing. It is changing because of the environment and the way our businesses are going and because of the agenda we have set for the next few years.

Kartikeyan SWAMINATHAN - Bank of America

I am Kartikeyan Swaminathan from Bank of America. The first question is on CAPEX. Cécile, could you kindly give us some level of prioritization or idea as to how your growth CAPEX will be breaking down between the divisions and perhaps DM versus EM. The second is a question on working capital. How do you see it across the platform of Danone? Are there any specific target areas that you could be working on? Have dynamics materially changed in EM versus DM, particularly given the slowdown in EMs?

Cécile CABANIS

On the CAPEX, it is a full part of the process that I described, so we will go about that, as I said. We will make sure that we balance regarding building growth where it matters and where it will make sense for the next few years. We will protect growth and make sure that we are always at the right standard of food safety and deliver the best quality in our products. We will continue to work on cost and invest in differentiation of our products CAPEX.

It is something that we revisit, the same way that we will do in the other resources, in order to make sure that we are building CAPEX where it matters. When we are in a different context, we are able to reset the way we do CAPEX. For example, if I take the way we are managing the Mizone transition, we are removing some of the CAPEX we put in. We are putting it somewhere else or saving it for other initiatives. For me, it is also about being dynamic and being able to revisit the way we do things on a regular basis. We are making sure we are always behind the right bets.

On working capital, we have already made huge progress, because we ended the 2014 year at -8. For us, it is about making sure that we are stabilizing at that level. We do not believe that we can go much beyond. There will be countries which are not there yet and which we will improve, but overall, the target is to make it sustainable and to make sure we can sustain that level. You are right to say that in some of the countries, there is still an agenda for improvement, and we will manage it to make sure. I am sure you have seen CIS, where we went from -5 to -10. We continue to work on that and it is fully part of the agenda.

Lila FEKIH - EDM

I am Lila Fekih from EDM. I just have a follow-up question on the volume value balance that you are targeting. I just wanted to put that into the competitive environment context of today, where you have to deal with private label competition from the retail side. Then there are the organic brands that are gaining steam and market share. Where would you position yourself in that competitive environment? How do you balance the volume value proposition of Danone?

Cécile CABANIS

Are you mainly referring to dairy?

Lila FEKIH - EDM

Yes.

Cécile CABANIS

Once again, dairy is not a commodity. When you look at Europe in the recent period, we have been able to fully maintain our price positioning. This is despite the context in milk price. Today, private labels are losing momentum and the brands that are gaining momentum are small brands with value innovation and very high price positioning. This is comforting us in the fact that if we rightly work on our brand, towards our value agenda, we will be able to fully recover growth. We are convinced that to that extent, dairy is not a commodity.