

DANONE

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Warren Ackerman:

Okay. I think we're going to kick off. Welcome, everybody, to the Barclays Global Consumer Conference, the 18th edition. Thanks for taking your valuable time out to join us today in Boston. We've got an action packed couple of days, and hopefully you're all happy with the schedules that you have. But we are kicking off today with Danone and with CFO Juergen Esser. Thank you, Juergen, for your time. It's going to be a fireside chat format, about 35 to 40 minutes. So with that, I'm going to start the questions.

So Juergen, can we kick off with the new organization? Obviously, you're now operating from three geographies and you talk about improving the agility and market impact. Can you tell us a little bit about why that's the right thing to happen now? You've also lost some high profile execs like Shane Grant to Colgate and Christian to Givaudan. Is that a concern? Who, for example, will be running U.S. EDP? So a little bit on the organizational changes and the fact you've lost some high profile execs. Welcome, by the way.

Juergen Esser:

Thank you, Warren. Good morning to all of you. Indeed, we published a new organizational setup as soon as we came back from holidays for many reasons, but the most important reason that we believe that it's the right time to have a more compact and a more agile executive committee. And when you think about where we started three years ago, which was going back to the fundamentals, reinstalling competencies, making sure that there's an execution focus hard core, also at the executive committee level, the agenda is slightly changing for the years to come.

The agenda is slightly changing because you will keep the focus on execution, but now we want to demonstrate that the health-oriented portfolio is able to grow faster than the industry. And that will require a different level of agility. That will require also a different agenda in the executive committee because you will talk more about how we pivot our categories, how do we become the expert of gut health and protein. That means we will talk more about how we broaden our footprint in terms of geographies and channels. And we felt that it would be the right moment to go now to three macro geographies.

And I would say not rocket science, because in the end what we are doing is that we are keeping an Americas focus, maybe a bit more pronounced than what we have today. That we are adding to Pablo's European responsibility the African one, and that we are adding to Bruno's responsibility on top of China and some part of Asia the other part of Asia. So evolution, no revolution.

Obviously, we are sad that Shane and Christian decided to leave us to two very good companies, obviously. But it's also fair to say that we have built over the last three years a very strong talent pool and a very professional succession planning. So far, it's very natural in the evolution internally, and we feel that this sets us up for success for the years to come.

Warren Ackerman: Just to follow up a little bit on the Renew Danone - the second chapter. I think if I look at the numbers, you've done around 4% organic growth for about five or six quarters in a row, so quite consistent. Can you maybe go into a little bit more detail about what the key elements of the second chapter are? You mentioned pivots broadening, expanding. Can you maybe sort of elaborate a bit on that? And will faster EPS growth also be part of the second chapter?

Juergen Esser: Fair to say that the first chapter was about fixing the fundamentals. And we have been doing that. We have been reinstalling discipline. We have been putting back execution at the heart of everything we do. And we have been reinvesting a lot of our financial resources into competencies, but also into making sure that we are really competitive when it comes to brand marketing investments and a strong innovation pipeline.

In the future, and now that we have Danone back in the game, we are raising the ambition. The ambition is really that we want to demonstrate that our portfolio can grow faster than the industry. It can grow faster than the industry because we want to make even more focus on science and differentiation. And for that, it requires a different focus.

When we are talking about pivoting our categories, it means nothing else than in the past, we were seen as the yogurt company. Tomorrow, we want to be seen as the protein expert and the gut health expert, as an example. I think we will talk certainly later about our protein shake, which we are just testing in the U.S. market is a perfect example. We have everything it takes to come with a very credible product, a product with a great Oikos branding, today very, very established on the yogurt market. But with all the science, which comes from specialized nutrition, there's probably nobody else in the dairy industry who knows better than us how to compact protein. There's probably nobody else in the industry knowing like us, how do you need to complement protein with probiotics and prebiotics to make it really effective to your well-being. So this is what we want to play way harder in the future, and we believe that will set us apart from all the rest of the industry.

So the last three years, we have been putting fundamentals in place. We have been pruning the portfolio, because you say we have been growing very nicely at 3% or 4%, but the reality is that we have been also letting assets go. So the absolute size of the company has been relatively stable the last three years. Now we are changing the game. We are at the tipping point in terms of value creation because we want to make sure that our company, in relative and in absolute, is growing. This is true for net sales, and this is true for earnings. So in that sense, we are opening a really new chapter of value creation for the company.

Warren Ackerman: I want to dive into Aptamil. When I speak to investors, they're quite surprised when I say to them that Aptamil was your biggest brand in infant formula. It's EUR 3.5 billion powerhouse brand that's growing double digit, high-single digit in pretty much most geographies. I think it's grown 25% in aggregate in the last three to four years, especially when birth rates around the world are declining.

Can you talk a little bit about Aptamil as I don't think it gets enough attention? Why is it doing so well? Why in China, for example, is Aptamil Essensis such a big hit? And then

you're talking about the next gen science in infant formula with Nuturis, which could be potentially quite big into China. Is that something -- can you talk a little bit about your thought process on that for China, and is that some sort of technology or science that you can then take to the Aptamil brand globally? So why is it growing quickly, China, and then Nuturis?

Juergen Esser:

You're absolutely right that this is actually a very exciting dynamic we are in. And sometimes -- and we talk a lot about China. I know we come back to China. But the reality is that IMF is a EUR 50 billion market, a EUR 50 billion market in which we have, I believe, one of the best brands, Aptamil, which is present across many, many geographies. A very sizable brand, way more than 3 billion euro and growing very, very fast everywhere.

Now, China is actually a very good example because China is one of the most sophisticated markets where everybody is first launching its innovations like we are doing. Three years ago, we decided to go away from marketing our products with three HMOs or five HMOs or seven HMOs to something which actually talks to the parents. We have a formula for you, who is the right formula when your baby is born by C-section. We have the right formula for you, when your baby is mixed fed. And this requires a very different formula.

Since we are looking through the eyes of the parents into that category, we are winning. We are winning in China quarter by quarter. But the reality is that Essensis is not only a Chinese product format. We have it now everywhere in the world, and we are winning everywhere in the world. So we are looking at that industry as a huge opportunity for us. We will make sure that Essensis, we get the maximum returns out of that launch, which is in China only a good year ago. So there's so much more opportunity, but also in the rest of the world.

And we have still Nuturis in the pocket. Nuturis is the latest innovation in the category. It will be the most advanced IMF formula in the category, which we soft launched in Hong Kong with actually great results. But we want to make sure we really exhaust more Essensis before we put Nuturis into China and then across the rest of the world. But we really believe in a very, very significant growth and value creation opportunity in the IMF category moving forward.

Warren Ackerman:

We talked about high protein. Can you tell us how big high protein and EDP is today, what it was a few years ago, what your ambition is? And then you're entering the shelf stable high protein market with this product, Oikos. You've said it's a \$10 billion market opportunity. It's early days, but do you have any repeat purchase data from Costco, Walmart, where you've launched it? And when should we expect it to go nationwide in the U.S.? And because it's ambient, it's not refrigerated -- or it can be refrigerated, I guess that gives you other avenues which you can then explore. Can you maybe give some examples of new areas that you're thinking about with this product? So how ambitious, how big a deal can this be?

Juergen Esser:

We are quite excited about the overall high protein space. When we launched our strategy some three and a half years ago, we said we have gold in our hands. That was at that moment a EUR 300, 400 million business. We brought it above EUR 1 billion by now, and it's still growing at a very, very high pace everywhere around the world, obviously in the U.S., but also in all other markets around the world. We have been sequentially launching it in Europe, in Japan, in Latin America, in Australia, in the Middle East, and we are still rolling it out. So the headroom is enormous because consumers understand better and better that the right protein intake with the right protein is important.

So while we want to maximize the opportunity we have on the dairy shelf, and the opportunity remains huge, just think about the fact that yogurt consumption in the U.S. is only one third of yogurt consumption in Europe. So the headroom is immense. We want also to make sure that we are addressing different occasions and consumers. Today, we are not playing in ambient. As you said, we have been soft launching this product of Oikos Protein Shake, which I invite you to test. It's in the public area, in the refrigerated shelf. This is an amazing product.

And obviously we are coming into a category now, which is an established category with very important players. But we are coming with an established brand, which today I think has a lot of credibility as a protein expert. And we are coming with a formula which is very much focused on the goodies, no artificial sweeteners inside, high level of fibers. Because people understand more and more when you consume protein, you need to consume fibers to absorb the protein.

So I think we are coming with a great product into that shelf. We have been testing it, as you say, with a large retailer in the U.S. The retailer was quite excited already after two weeks. So we went from a regional to a national test, and we are continuing to expand. So you will see it in a few more retailers coming very soon. Today you only get vanilla in the shops. So I invite you to test chocolate and the salted caramel here, which is not yet in the shops. Amazing product. So we are going at the right pace because it's a huge opportunity. But once we press the button, we will press it and we will be serious about that.

Warren Ackerman:

What about capacity, Juergen? Obviously, the category is booming. Do you actually have enough capacity to service the demand? It sounds to me like you're having to make trade-offs and perhaps you can't prioritize everything. So it's understandable you're going to go after the highest growth opportunities. Does that mean you expect to actually maybe lose some share in the rest of U.S. EDP as you focus your attention on the high protein? And will you need to increase CapEx? I know you're doing something in Ohio, in Minster, but how much does CapEx need to go up to make sure that when you get that demand from the retailers for this product, you can actually service the demand? So how do you think about it?

Juergen Esser:

You're absolutely right. Obviously, we cannot go to the retailer to sell a nice story and in the end, we are not able to serve. So that's not going to happen. And we have the right ambient capacity in place in order to deliver demand once we decide to go full blast. At the same moment, you're absolutely right that the high protein, the refrigerated formats are flying off the shelf. And that's a capacity challenge for Danone. That's a capacity challenge for the industry because nobody in the industry today has capacity for high protein.

So we are all building, and you said it, we are expanding our capacity today in several of our plants in the West Coast, at the East Coast, in order to be able to serve better demand. Today we are prioritizing high protein because we need to do some trade-offs, which means we cannot serve all the demand we have on the rest of the product portfolio in yogurt. And that is explaining some of the scanner data you see. But as the new capacity will come online, we can play again the full portfolio. This is why we have been launching a new innovation in Activia with Activia Proactive, because now we will be able to serve again the demand on Activia.

So it's quite exciting. It's a good problem to have, obviously. And at the same moment, we need to make sure that we are better forecasting those demands, boosts we are having

on high protein. It's really a U.S. phenomenon. It's not so much a phenomenon we have in Europe or in other parts of the world where we have enough capacity available.

Warren Ackerman: And CapEx?

Juergen Esser: And CapEx is exactly what we said in the CME last year. CapEx has been relatively low in the first three years of Renew Danone. We've been traveling around 3%, 3.5%. There's reasons to believe that we will go to 4%, 4.5% for the years to come because we invest into high protein and human interest, and that's important into medical nutrition and also to serve the demand. That's part of our financial guidance. I would say, we will not make that -- we will deliver on the cash flow objectives which we are having. So that's absolutely part of the financial planning of the company.

Warren Ackerman: Maybe moving to coffee creamers. Obviously, it's been a big topic for analysts and investors. You said it will take a few months for the numbers to improve. A few months have gone by and the numbers aren't really improving that much. I know you've got a new capacity coming in from Jacksonville, Florida, but can you maybe give a bit of an outline? When should we expect to see the scanner data turning, because it's still down big?

And then secondly, Chobani is going a bit more natural, a bit more milk, a bit less heavy on calories. How big is that part of the market? How fast is it growing? And what's stopping International Delight going much harder down that road, rather than being a follower, become a leader and actually drive the category?

Juergen Esser: You're absolutely right. We are very happy with many parts of our portfolio. We cannot be happy with what's happening in the first semester or in the first months of this year on coffee creamers. This is to a very large extent a self-inflicted issue, because we had supply chain issues, which are solved by now. You said it, we have capacity coming online. But we lost a lot of shelf space, and the shelf space has been taken. When we were not able to serve, somebody else has taken the shelf space. So it takes time to rebuild it.

Market share data since April is going up, but it's still very negative versus last year. So it will still take us a couple of months in order to get where we used to be. It's a category which is in growth, mid-single-digit, a category which we believe will continue to grow. It's a category which is driven a lot by the flavor experience. And that means today we don't have one, two, three SKUs. We have many SKUs with many flavors. So we focused on rebuilding first distribution on the larger SKUs, and the rest will follow in the next couple of months. We believe this is a very interesting category, which means that you will see us continuing to innovate, innovating in many ways, including the fact to make that category more appealing through natural SKUs.

Warren Ackerman: When should we see that?

Juergen Esser: That will come very soon.

Warren Ackerman: Okay. Another area is Silk which, to me, it's starting to look a bit more structural. You may disagree. But it has a history of struggling underperformance. Do you get to the point where it just can't be fixed and you need to look at other options?

Juergen Esser: Yeah, Silk, we are not happy. We said it, Antoine said it. We have been working on turning around Silk now for a couple of quarters. We have not yet seen the results we wanted to see. The reality is that we have a EUR 2 billion, a bit more than EUR 2 billion

plant-based category, which is growing very well and very fast in Alpro in Europe on beverages, which is growing very fast on yogurts actually in the U.S. and in Europe. But so far, Silk beverages have not been turned around in the way.

So it's frustrating. We are changing gears here. We believe that this category has a role to play in our portfolio in the U.S. and that we have a game plan. So you will see initiatives coming into the market very soon on that one.

Warren Ackerman: Okay. Maybe moving to Activia. It's your biggest brand in EDP, and we've seen some improvement. I think you said you're back in the game, but now you want to become the category shaper. How will you do that? Does the brand simply have too much sugar for what the consumer is looking for? And can you maybe talk about the Activia Proactive in the U.S., and maybe just generally, what are your expectations for Activia in the second half?

Juergen Esser: Actually, we're making very good progress. It's not yet totally translated into the numbers for one reason, which is Activia has become for many, many years a fruit yogurt, sold through promotional activities. We have been launching over the last two years a lot of innovations. You think about what we did with Activia with cereals, Activia with fibers, drinkable formats, kefir, all of this is flying off the shelf. However, it's a different consumer buying this vis-a-vis a 4 or 8-pack, which is sold at the promotional price in retail.

And so we are rebalancing the portfolio Activia towards a more differentiated, more sophisticated offer, while managing slowly and progressively out the high promotional volumes we had. So we're actually quite happy with the progress we are seeing, and all the innovations which are going to come will continue to contribute to that. Proactive is a very, very good example. We have launched a different form of that in Japan a couple of months ago. Growing very, very fast and showing that Activia has everything it takes to become again, the expert of gut health in the yogurt shelf. So we are actually quite excited about that.

Warren Ackerman: What about sugar in the product? Is it too much?

Juergen Esser: I think that when you look today, all the innovations today we are launching are extremely natural, low sugar, high content of prebiotics and probiotics, everything you need for gut health. It's a journey because a EUR 3 billion brand, you don't change from one day to the next. But we are seeing very, very good signs.

Warren Ackerman: Want to move to non-track channels because obviously a lot of investors look at the track channels and they're getting the wrong answer. How much of your portfolio is not caught by scanner data, I guess, your hospitals, your pharmacies? Can you give us an idea of what the kind of growth rates of the kind of things that we can't see is? And how much runway do you think Danone has got in these non-track channels out of home? Clearly water has been a big inspiration, I imagine, on evian, but is that inspiration now coming to EDP? And then maybe if you're able to give us an idea of how much is non-tracked in the U.S. versus Europe, it will be helpful.

Juergen Esser: When we launched our strategy, we were very clear that we want to prioritize growth outside of modern retail for many reasons, but also because it was a totally under-penetrated channel or channels for us. All the product innovation of the last three to four years are product innovations which are multi-channel product innovations. Probably 8 out of 10 of the last innovations are drinkable products. Danone historically has been spoonable products, 4-packs, 8-packs, made for supermarkets and hypermarkets. Today,

we are developing products for on-the-go consumption in refrigerated and in ambient.

Obviously, that opens a totally new universe for selling our products. Today we say, and you said it, Warren, that 50% of what we are selling is outside of modern retail, but this includes specialized nutrition, which by definition is not so much in modern retail. But even when you look at waters, majority of waters we sell is outside of modern retail, and in EDP, it's a very important part already. We do not speak about 5% or 10%. It has become a very important part, and the opportunity is big. Because go today at airports, at gyms, into restaurants and bars, there are still so many points of sales where we are not present. Waters is a fantastic inspiration for that. Where there is an evian water in an at an airport, I want to see in the future an Oikos protein drink. And so we are piggybacking on this, let's say, strength in order to really double down on the channel opportunity.

Warren Ackerman: I want to talk about medical nutrition. It's a topic I've been writing about for a couple of years now, and it's really working quite well for you guys. It seems like it's booming everywhere, really. China, Europe, now U.S. Can you talk a little bit about what's happening in China with your medical sales force? You've obviously put a lot more feet on the street. You made quite a big investment. I'm just trying to get a sense of the number of people you've added in terms of medical reps, specifically in China. And what kind of return on investment do you get? Because it looks like when you break the numbers down, my estimate would be over 20% growth in medical in China. You've said the market's going to double by 2030. So can you maybe just walk through that a little bit with us?

Juergen Esser: When we said last year the market will be doubling by 2030 in China, it was based on two things. First, what we saw already over the last two, three years in China happening. The fact that the government is aware of the fact that the healthcare system needs to transform itself in order to manage the demographics, but also the unique setting we have in that category.

And so what we are seeing today is that market is growing double digits everywhere in the niches where we play or in the markets where we play because today we play in what we call enteral tube feeding, growing very fast. China is historically a market where there was a lot of parenteral tube feeding, a market which is shifting to enteral tube feeding, which today is the fact in most of tier one hospitals, and still there are opportunities, but it's not yet the fact in tier two and tier three hospitals. So we have been investing a lot into medical sales force to make sure that we can also address this opportunity which goes beyond tier one.

But at the same moment we are looking beyond, because treating a patient in hospital is one, but there is also a need for the moment that the patient is leaving the hospital for the recovery phase at home. And here we are creating as we speak a category which is very big in Europe, which is oral medical nutrition, which is 50% of what we are selling in Europe is already oral medical nutrition.

This is a category which hardly exists in China. And so we are investing a lot in order to build awareness about the need to treat also the patient at home, and we believe that this is the next growth engine for us in China. We have been investing into that very significant medical sales force to drive the growth of tube feeding and to prepare the oral medical nutrition, because oral medical nutrition goes through pharmacies. So it's a different channel.

Returns on these investments are very immediate when we come to tube feeding. And you saw it in our numbers in H1, very, very impressive growth numbers. Oral medical

nutrition is a bit of a slow burn. It will take one or two years until we get size and scale, but we are very, very confident that we can.

Warren Ackerman: And a new frontier is going to be U.S. medical nutrition with the acquisition of Kate Farms. You sound very bullish on that one as well. Can you talk about how big is it today in terms of revenues and maybe the synergies from that deal in terms of plant-based tube feeding and your access to hospital key opinion leaders? And are there any kind of cross-selling opportunities where you can take that technology to Europe? How big can Kate Farms be for you guys on a sort of three to five year view? What does success look like?

Juergen Esser: That's a big opportunity for us. It's the first time we can seriously play in the U.S. We have over the last many years built a niche position in the U.S., which is on the special pediatrics, allergy products in the U.S. So first time with the acquisition of Kate Farms, we are playing with a portfolio which is addressing baby medical nutrition and adult medical nutrition and first time we can access the healthcare system and the hospital system of the U.S.

That's a huge opportunity for us. It's a huge opportunity because we are coming with a product portfolio which is truly differentiated. It's an organic product portfolio. It's one which is plant-based and which is number one doctor recommended in the U.S. So a huge opportunity for us.

We have asked the management of Kate Farms to take care of the totality of the businesses we have now in the U.S. We are more than doubling suddenly the size in the U.S., and we are very ambitious. We want that obviously to be a multi-billion platform at some point. And we will be investing into this because it's the moment to do so.

Warren Ackerman: I want to talk about new geographies. We're starting to hear more about EDP Japan, Vietnam in infant formula. Antoine has said that in India, if you don't build a business on a decade view, you're going to be globally, I think irrelevant was the word he used. Can you maybe touch on some of these new geographies? Because it feels like you're building the next growth engines, you know, U.S. medical, now Vietnam, now India. So just how you're seeding that kind of the next gen.

Juergen Esser: There's actually a lot of white space for us in Danone. We are actually using, as we speak, the strength of the Aptamil proposition to enter many markets. Vietnam is a perfect example where we are building scale very fast. And there are still a number of markets in Southeast Asia where we are not present where there is established big markets on IMF. Once you have an IMF presence, you can build your portfolio.

That's also what we see in India. India, where we have today mainly an IMF presence, which is a very small IMF market today but booming, growing at very, very fast rates. We are co-leading this market today. And while we are building our muscles for IMF in India, we look at other categories in India. So that's the way we look at especially Asia, India, but also the Middle East and other markets, because we see many opportunities to come with a very strong existing portfolio. So we are not going to reinvent the world, which means that from a risk and reward balance, that's a very good balance.

Warren Ackerman: But how do you build a business in India in infant formula? What's the plan, because it's a huge country. How do you sort of figure out where to invest, which segment, how quickly?

Juergen Esser: The complexity of India is the number of points of sale you need to access. Now when you come with a specialized portfolio, and IMF in a way is specialized, you don't need

access to three or four million point of sales. You need to have access to the key pharmacy chains of India. This is what we are building as we speak with very dedicated investment, and it works very, very fast. So we see really a stellar growth performance of this business. Is it today at the scale we want? No, but we have a very clear game plan.

Warren Ackerman: Want to turn to gross margins. You've said before that gross margins should really improve in EDP as volumes come back. Can you give us an idea of where the gross margins are? I've always thought in my head 30%, 40%. But as the portfolio gets more valorized with more high protein, more cafe, more skyr, average price point is 50% higher per kilo. Does that change the gross margin ceiling because you're getting more valorized? And what would like one extra point of volume do to EU or EDP gross margins? Just trying to understand -- I'm not asking for numbers, but kind of like conceptually, how much further can gross and EBIT margins go up in EDP as you kind of look out? And is the paradigm shifting as you're valorizing the portfolio?

Juergen Esser: When you look at the gross margin expansion, for example, over the last 6 months in the first semester of this year, there's been two drivers of this. One is quality growth overall across the portfolio of Danone, especially with specialized nutrition growing very fast, which naturally gives us a very strong mix because it's a highly profitable business model.

But there's a second element, which is having the right volumes and the right mix within the categories, and especially in dairy. And in dairy, there's no secret. We're still sitting on idle capacity in Europe, which the moment you fill it gives us very nice incremental gross margin, very, very high percentage levels we are speaking about, and the mix component, because everything we launch comes at a superior gross margin. So the journey has started.

One of the reasons why I said at the capital market event that profit margin expansion of Danone will come big time also from dairy is because we have a very clear game plan there with volumes and with mix. We are today reinvesting an important part of it because we are building capacity on one side, because we are investing into innovations, but we will see more and more of that coming to fall through to profit margins. So the opportunity is really about bringing volumes back in the factories and coming with superior product proposition, high priced, high gross margins.

Warren Ackerman: I want to move to A&P spend. I know you don't give us the exact percentage, but we can see it's gone up by 300 basis points over three years. I think last year alone was up 170 basis points. You're moving into a new chapter where the underinvestment is over and you want to drive category leadership. And you're kind of hinting that that will result in more moderation. You don't need to gap up the spend as you've done over the last three years. What we've been seeing is about 75% to 100% of the gross margins being reinvested.

As we go forward, how should we think about the level of kind of drop through from gross to EBIT? Is it more like a 50% drop through? And then how do you actually measure the return on investment on A&P? Again, I'm trying to sort of understand not specific numbers, but in terms of we've been seeing all of this, all of the gross margins being reinvested for a period, and it's starting to kind of normalize a bit.

Juergen Esser: We have been very clearly starting from a moment three years ago where we were totally underinvested on many fronts, including on A&P. Today, I think we can say that we are competitive. Competitive because overall, our share of voice is more or less equal to our share of market, which is a good indication where you are in the market. We will invest

and double down on investing into A&P in a very selective mode. Obviously, when we are launching such a product, it will require a dedicated, focused investment into A&P, but it will not be any more across the board. So in that sense, you're absolutely right to say A&P further investment will moderate. So we confirm what we have been saying.

At the same moment, we will double down in the sectors, which will make us leaders of the category. Leaders of the category means investing into science, because this is what truly differentiates us, and investing into having very good innovations and renovations in the market, playing as a real category leader not only for our brands, but working for the category.

When we are investing money to file a dossier to the FDA in the U.S. to say that yogurt consumption is beneficial to diabetes 2 patients, this is good for Danone, this is good for the category. This is the type of investment you will see us more and more doing to take care of our categories. So in that sense, you're right, there will be a lesser rate of reinvestment that will reduce, and it will help us to expand our profit margins.

Warren Ackerman: I want to squeeze in a question on water, Juergen. As I'm looking at Evian, I'm tempted to ask you about evian and about Mizone. You get less questions on water than the other divisions. Where are we on Mizone? It's obviously growing very quickly. Can that continue? And on evian, how are you feeling about the health of the brand? I know you've done a sparkling evian. What's the kind of strategy?

Juergen Esser: It's true that we don't discuss a lot about waters, but when you look back the last three years, water has been growing at least at the pace of the company, if not faster than that, expanding its profit margins. So it's a very, very interesting category to play in. And on top of that, today, as I said, for us it's a springboard for entering into away from home channels.

Now, China has been an underperformer for quite some time. We turned it around some two years ago. It's a category in China, which is growing at a very fast pace, and especially that part of the beverage category which is considered healthy. Electrolytes, no sugar, no artificial bodies. So we are benefiting from that because it's exactly the way we have been positioning Mizone. And we believe there's still a lot, a lot of headroom to grow, and this is why we're investing, and you saw us investing, actually, especially into distribution of our innovations. That will continue, and so we are confident that we can grow at a good pace in China.

Warren Ackerman: Final question, Juergen.

Juergen Esser: Evian, you want me to say, because evian is obviously one of the most known brands in our portfolio of waters. And here it's not about boosting volumes. Here it's about getting more value out of one bottle. We are doing actually pretty good in that. The more consumers understand that we have a unique source, unique way of managing the source, the most natural mineral water in the world, the more we sell at high price, and it's working very well for us.

Warren Ackerman: Okay, thank you. Sorry, jumping the gun. Final question. So your balance sheet is deleveraging quickly. You said you're keen to do deals. What kind of size of deal should we be thinking? Does it mean that scope now becomes a positive from an earnings point of view? And how do you balance all of this with return on invested capital? Would you consider share buybacks? Is there anything big out there? Are there any circumstances you'd look at? Mead Johnson has been a topic. Or are you looking at more like gut health type deals, more sort of smaller deals, or kind of like more IP on enzymes or cultures?

Just understanding your mindset on that.

Juergen Esser:

Maybe let's start from the end of the question. ROIC was at a miserable rate when we took over three, four years ago. We are back to 10%, which I still consider as something which is not competitive in the industry. So our ambition is to grow our ROIC. The way we are going to grow our ROIC is first and foremost by growing our earnings. And growing our earnings, we go through growing at the size of our company in absolute. We have been pruning for three years. We want now to be growing organically, but also inorganically through deals, while at the same moment expanding our profit margins.

So that's the overall, I would say, game plan for us moving forward. So yes, the focus will be on acquisitions. The focus will be on value-creative acquisitions because we took a commitment that we are not going to fall back structurally to where we were on ROIC, which gives you very strong framing for any M&A activity. And I think what we did with Kate Farms is a perfect example. We are building a presence in a geography where we have not been playing, but in a category which we know very well, where we have all the science and where in the end we will have synergies which are not only PowerPoint synergies, real synergies. And that's what we want to do moving forward, because for me, that's the best way to create value in the long term.

Warren Ackerman:

Well, listen, we're in the party, Juergen, so I think we're going to have to cut it there. Thanks for your time.

Juergen Esser:

Thank you. Thank you very much. Thank you, everybody.