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Tom Sykes:

Thank you very much for joining this session. And thank you very much indeed to Antoine de Saint-Affrique, CEO of Danone, and Juergen Esser, CFO of Danone. Thank you for making the very long journey to get here as well. It's much appreciated.

Tom Sykes:

Before we dive into company specifics, perhaps you could give us an overall assessment as you see it of the current consumer and category backdrop. At the Q1 stage you noted the impact of the Middle East and the infant formula recall on market on your results, but has your outlook at all changed significantly over the first six months of the year?

Antoine de Saint-Affrique:

No, I don't think so. I mean, what is structural in the market is staying. We said it a number of months ago. I think the foods market is at a tipping point. People realize that they are what they eat. The link between health and food is more obvious every day. And you just have to look at the scientific literature also what you find on the internet. Well, the demographic trend with aging population, in need for mobility and the trend of cancer explosion in some ways in need for our proper support hasn't changed. So the fundamentals of the markets are exactly the same and they are playing to what Danone is. We are health of foods. I mean, doing it in a way that is science based and consumer and patient focused. So none of the fundamentals I think have changed.

Juergen Esser:

And maybe one element which is important is that the Q1 was in many dimensions exceptional for us, for all the reasons you mentioned. It's changing absolutely not the way we are looking at the year. It's absolutely not changing the way we look at the guidance. It's absolutely not changing the way we look at the business model. Which means all the focus of our organization is on volume mixed growth and capturing the opportunities the markets are offering to us because the markets are coming our way.

Tom Sykes:

Okay. Very clear indeed. Thank you. So an outcome of the conflict is of course renewed inflationary pressures. Your productivity program has really been a really significant enabler for you underpinning I think a lot of what you've been able to do in pricing, the A&P and opening up distribution. Is this level of COGS productivity you've had expected to be the same going forward? And does the inflationary pressure make any difference to that dynamic at all?

Juergen Esser:

Well, in the way it's a competitive edge, which we are now leveraging since what, two, three years, I would say. And there's still runway for us. It just means one thing, that we can invest back into the business, which is important to us. And it means that in an environment we are today in with higher inflation coming through the Middle East consequences, that the pricing we go to will be as limited as possible and as selective as possible. So in that sense, our ambition is to keep delivering productivity ahead of the industry without doing large scale restructuring. And this is also very important. We want our people to focus externally and not internally.

Antoine de Saint-Affrique:

Just maybe to add a world on that. There, what we've been doing well with the war in Ukraine and for the last couple of years is a good blueprint. As you said, very high level of productivity. Doing silent restructuring when we need to do silent restructuring, focusing on delivering on our business model.

Tom Sykes:

Importantly, you're saying you believe your relative productivity for sure is also there versus your peer group. Okay. So picking up on one significant aspect of your overall performance these last couple of years, there's obviously been substantial mixed benefits from your product innovations, whether say the functional component, protein, fiber, et cetera, or format changes, RTDs, there have been mixed benefits. Are you able in any way to size or quantify those mixed benefits? And I suppose when you look at your innovation slates that are coming forward, do you see that mixed component remaining as strong as it clearly has been?

Antoine de Saint-Affrique:

So obviously we don't guide, or you wouldn't expect me to guide on volume mix, but if you step back and you look at the way we drive our business, there is a category mix effect. And if you look at the dynamic behind medical nutrition, which is obviously accretive both in terms of growth and in terms of gross margin, you have a mix effect. There is an innovation mix effect. Obviously when you launch high protein, when you launch some value added variants of Activia, you're driving a mix effect. There is also a channel mix effect. I mean, as you know, over the last five years, five years ago we had about 55% of our business that was in hypermarket, so large retail stores. Today, it's 45%. It's a mix of resilience effect and mixed effect because obviously mix is better in places like pharmacies, to take an example.

Tom Sykes:

And perhaps we could dive into a bit more detail in the divisions now, and perhaps starting in North America, and as obviously we have heightened focus particularly on North America EDP. If we look first at the yogurt business, what do you see happening at the category level currently, particularly the difference in growth between higher protein, Greek yogurt, and other yogurt?

Antoine de Saint-Affrique:

Well, I mean, the first thing is you see a trend that is a lasting trend on proteins. I mean, overall yogurt market has been buoyant. By the way, the yogurt market is much smaller than what it could be. I mean, the consumption per head in the US is about a third of the consumption per head in Europe. So there's still plenty of ways to go. The market has been buoyant. Protein has been buoyant and is a trend that is here to stay. So a trend that existed a long time ago, by the way. 10 years ago, you started seeing protein bars that needed to be coated with chocolate because otherwise they were really chewy and not tasting good. I know that because I was selling chocolate to the protein makers. You had people selling powder that you had to stir in your glass to get the protein.

The revolution that yogurt has been bringing is a product that the base of which is very natural. I mean, it's milk, it's yogurt with a health component that is perceived and is actually extremely healthy. A way to deliver protein that is extremely pleasant, be it in drinkable or be it in spoonable. And benefits, and that's where, by the way, we are taking the category, benefits that are not only about the content of protein but what the proteins are doing to you, or the proteins combined with the yogurt. So this will keep going. It's very clear. And it will keep going because of the health trend, because of all the push behind milk and milk protein from the US government, and because of the accessibility of GLP-1.

The rest of the segments for many reasons in our case for capacity reason hasn't been properly taken care of. But there are a number of things where you see trends that are here and that are going to accelerate. Gut health is very central. It's expressed in many different ways. But you see an explosion from a very small base of kefir in the US, you see probiotics everywhere in all kinds of support. By the way, our probiotics within yogurt is what Activia has been doing for a living for a very, very long time. So there is a deep trend behind gut health, pre and probiotics, which are fibers by the way, which is just emerging.

It is something that we know how to address. I mean, we are growing double digit with Activia in places like Australia or Japan. There is still a place for natural good-for-you value offer, which is what Danone is offering. Danone is a bit of a sleeping beauty in the US. Very strong brand launched in 1942, which we left a bit sleepy. So that is going to be the name of the game. And Danone, now that we see step by step by step are lines coming on stream, so capacity coming on stream. We will be back to doing what Danone is doing, which is segmenting, playing a portfolio game and addressing the various segments of the market.

Juergen Esser:

The Danone brand, we don't talk a lot about it. And by coincidence, I have a bottle with me. It's now a billionaire platform growing double digit in Europe, growing double digit in Latin America, and has not been leveraged at all so far in the US. And this will be a very prominent part of the strategy moving forward. So it's not only an Oikos / Activia play, but also a done on branded play.

Antoine de Saint-Affrique:

And Activia is flying now in a number of places. Kefir is a big innovation. You've seen that we sold our participation in Lifeway in the US. It doesn't mean we will disappear from Kefir forever in the US.

Tom Sykes:

But it does look like some of the scanner data is showing slightly weaker volumes than maybe those trends outlined. Is that cyclical and are there parts of the customer base, consumer base which are a bit more under pressure, a bit more reticent to consumer at all?

Antoine de Saint-Affrique:

No, I don't think so. I mean, you see stronger value data because when people see value, they're ready to pay for it. So you see what's happening in all the protein space which is very, very, very, very premium. I think there is a move for value at every price point actually. People do arbitrage. When they see value, they pay for it.

Juergen Esser:

In US overall, I think what is very important to take away is that we are totally on track on the improvement journey we have been discussing now for a couple of months, which is true for yogurt, and which is true for creamers. So it will be progressive, yes, but we are going to improve quarter by quarter, the performance of the American platform.

Tom Sykes:

Okay. I was going to say, you're bringing the capacity onto market. So just to be clear, your expectations for the trajectory of like flight growth, EDP, North America are the progressive.

Antoine de Saint-Affrique:

Yeah, it's going to be progressive. It's going to be quarter by quarter. We want to do the things properly, by the way. I mean, I can get you any number for a given quarter. It is about rebuilding in a structural way, the competitiveness of our business in the US. So as capacity is coming onstream, as we are progressively deploying the innovation funnel that we have behind the various brands, you will see over the next few quarters progressing improvement of the overall performance of our North American business.

Tom Sykes:

And if I could just one aspect in North America on the coffee creamers business, it does look like the two largest players within creamers have a lower share combined than they did even though that share is moving between the two. Is there anything about smaller competition in creamers?

Antoine de Saint-Affrique:

Well, I mean, there are two things. I mean, the first thing is you need to take care of the core because if you don't take care of the core, no innovation will replace the core. So that's what in our case we are doing and you've seen that in the last couple of periods, creamers are heading in the right direction. The second thing is there is a trend around naturalness, which is emerging in the US, which is a trend that is eating into the overall market, very relevant trend, which is one in which at some point we will play.

Tom Sykes:

Okay. Understood. So maybe just also just on plant-based, if we could, you recently announced the closure, I think of the New Jersey facility. How quickly do you think plant-based can see?

Antoine de Saint-Affrique:

Well, I mean, if you step back and you look at the story of plant-based, and I've shared it very openly with the market, if you look back five years ago, Alpro and Silk were more or less in the same state, which is coming at the end of a cycle where the brands have been created on ingredients, almond soy, and had been created on speaking to people that were averse to milk and therefore positioned against milk. What we did very well in Europe is to pivot the brand from being ingredients-driven to being benefit-driven and from being built as in opposition to milk, to being built for itself because of the benefits it was bringing. So an Alpro yogurt is a great yogurt experience. It happens to be made with plant but it's a great yogurt. An Alpro barista gives you a foam that is amazing in a cappuccino and by the way, the barista can clean the machine easier than with most of the product.

Alpro beverage has fibers, calcium minerals you don't find in other products. So we reposition the product: moving to benefits and not in opposition to milk. We didn't do that in the US and we didn't do that for all kinds of reasons, but there was, and I was very public about that, a big not-invented-here syndrome. Well, we've changed the teams we've brought in place since January the teams that did the turnaround that we see on Alpro. They are going to deploy the book over the next number of months. I'm expecting to see progress in the next 12 months.

Tom Sykes:

Okay. Very clear what you're saying in North America. So if we can now pivot towards specialized nutrition. Firstly, on adult nutrition, I mean, you did mention it before, but you've obviously been investing in your sales and the go to-market capability in China in particular. What's been the level of growth you've been able to get from that and the returns you're seeing and is that an ongoing investment program or something that you've reached the level of investment?

Antoine de Saint-Affrique:

When you look at adult medical nutrition, the first thing is, and I was discussing the market is coming our way. If you look at the demographics, if you look at the health of the population, if you look at the pressure on the health system, everything that can improve or address the frailty of elderly people and therefore their mobility, everything that help people recover faster and better from cancer or everything that help people recover are better and faster from stroke. All of that, by the way, having a positive economic impact on the health system is good for the individual, good for the health system, which are under pressure because of our demographics. So the market there is coming our way. What we deliver in adult medical nutrition are products that are extremely sophisticated. Some countries we have medical license, long term clinicals. The way to go to market on those products is driven by sales force. It is going into the hospital. It is talking to the healthcare professionals. It is making sure that you are present in the pharmacies. It is doing a job at health economics. So in some ways, and there are some exceptions because they are hybrid markets, you’re A&P is your sales force there. So we're super happy with the return on investment we get from the investment we made. We're growing very fast, both by the way in Asia and in Europe and we'll keep pushing behind medical nutrition.

Juergen Esser:

Yeah. In the end, and we are discussing that quarter by quarter, it's a business growing high single digit, double-digit every quarter. We're the number one in China and for us it's only about expanding the reach into the system from tier one to tier two to tier three to more and more spaces and to pharmacies. So a very organic way of investing and a very predictable return. We have been buying our route to market in the US with skate farms and that's in a way of accelerating the speed at which we can have access also to the healthcare market in US in order to play exactly by the same playbook as we play in China or in Europe and we happen to be the number one in Europe and in China.

Tom Sykes:

Okay. Thank you. And maybe just looking at or talking about infant formula, maybe you could walk through the effects of the product recall in Q1 or so far this year and whether you see there's ongoing effects at all and Q2 seems to have had a higher effect of testing requirements in China and what do you see, if any, are lasting effects?

Antoine de Saint-Affrique:

So we'll probably do a duet on that. I mean, if you look at where we are today, we are basically back to normal when it comes to presence on shelf. When we come to our distribution, I mean we see some effect on brand equity but no major effect on brand equity, it varies very much, market shares vary very much from country to country, it's going to normalize totally over time. We're spending all our energy today talking back to the maternities, talking back to the HCPs, talking back to the mothers opening virtually because you cannot get into them with opening our factories. So rebuilding the equity and the trust. We don't expect significant or very lasting impact on the market. It's a category where first our brand has lots of credibility. Second, it's also a category that is totally renewed in two years. So we are back on shelf, we are back on the front foot with the consumer and with the HCPs and doing the job of rebuilding the credibility.

Juergen Esser:

Well, frankly, largely behind us isn't one set. So, there will not be a lot of discussion around this topic, I believe, in the months to come.

Antoine de Saint-Affrique:

And to your question of do the Chinese authority ask for more testing? Yes. We are very well-equipped. We are very disciplined, so in some ways it gives more structure to the trade, which is not necessarily bad news.

Tom Sykes:

Okay, clear. Thank you. And when you look at the infant nutrition market as a whole, and, obviously, we're seeing declining birth rates, but price mix or premiumization mix gains, are you comfortable that those dynamics can remain as strong as they have been over the last few years in the year, obviously, especially, in China?

Antoine de Saint-Affrique:

In China, there is a very interesting statistics. If you look 10 years ago, the size of the market was 20 billion euro. If you look today, the size of the market is 20 billion euro, give or take.

If you look 10 years ago, number of babies per year were 14 million. If you look today, it's below eight million. So, the market has stayed the same, more or less, in size with a number of babies that has been almost divided by half. I think the dynamic you've seen at play in the China market is a combination of a number of things.

One is market consolidation. You have a market where seven years ago you had about 1,000 players. Today, you have about 500 players. Top three players are 50-ish percent market share, top three players in most of the countries, in the world, are 70 plus. So, there's still a consolidation potential.

The second thing is it's a market that is extremely sensitive to science. It's a market where innovation backed by science has been helping the premiumization of the market. And it's a combination of two things.

It's a combination of science that really makes a difference. You look at what we do with Essensis, you look at what we've started doing with Nuturis. The really deep science that can be proven has an impact. It is about the ability that you have to tell the story. It is also something that is very common sense, which is when you have only one kid, you really take care. So, the direction of travel is that one. There was an extraordinary year, or 18 months, because of the year of the dragon, but it's a blip. But, no, we are back to normal, but normal is pretty good.

Juergen Esser:

And the ambition remains to grow in China in early-life nutrition. Thanks to market share dynamics, and you look also at the last reading of market shares, they look pretty good.

Tom Sykes:

Okay. Thank you. And, in terms of your capital allocation in specialized nutrition, obviously, you spoke about the acquisition of Kate Farms, medical nutrition. How important is it to you to have a larger share of US infant formula?

Antoine de Saint-Affrique:

So, if your question is, would you buy a very large business that does exist and maybe for sale in the US? The answer is no, not the US business. If you look at the liabilities that are floating around this business, if you look at the challenges, it's not appealing at all. So, let me be very clear. When we look at acquisition and we look to three filters, obviously, a strategic filter. So, does it make sense? I mean, do we gain market shares? Do we gain capabilities? Do we gain our reach in a place where we are not? We look at our financial, I mean, ROIC, ROIC, ROIC, and we look at execution. Taking something that would bring us, I mean, liabilities for the next 20 years is not something I will do for the company.

Tom Sykes:

Okay. Very clear. And if we look at overall M&A for the company, how important is the distribution, or retail channel, that the targets have, that the acquisitions have? How important has that been relative to the business, themselves? Because it does feel like you've been buying market access, as well as kind of quality of the products that you're buying.

Antoine de Saint-Affrique:

So, I'm sure we'll do a duet with Juergen on that. I mean, the first thing is the filter I just described apply. The second thing is, as you know, our guidance is organic guidance. So, we grow the business and then when we acquire, we acquire things that are complementing our business. If you look at the various acquisitions we have made over the course of the last two years, you take Kate Farms, extraordinary business, gives us critical mass in the US in medical nutrition, with a footprint that is complementary to us, in a segment that is exciting, premium, accretive, et cetera. So, ticks absolutely all the boxes in a category, in the market, where it doubles our size, so we were there already, but the market that is the market of the future. You take what we are in the process of doing with Huel, we haven't closed yet. The logic is, at the same time, the same and slightly different. Fantastic brand, totally on-trend, different target, but straight on what we do, human fuel. So, food that you can take at lunchtime and serve you as a lunch. Capabilities, we don't have our capabilities in which they are much better than us. Direct to consumer, community management. So, super exciting from a mixed standpoint, from a relevance of the category standpoint, from capabilities they bring. We bought, not long time ago, a small business called Akkermansia. Akkermansia, from a consumer standpoint, is very small, irrelevant, immaterial, in terms of size. But, it's a strain that has very significant impact on gut health with very strong claims endorsed by Efsa, which works in a pastoralized way. It's a formidable technology break, out of which you can do something. So, different angle through the same filter, which is strategic, execution, financial.

Juergen Esser:

And probably the one element which is really important is, as we are buying into companies which are complementary to our portfolio, the returns are very predictable. So, we are discovering a new landscape, a new category, or whatsoever. And this is very important because we went from seven and a half percent ROIC four years ago to more than 10%, and we love the double-digit ROIC. And the M&A activities we have shall contribute to develop our ROIC, and so this is also in the way we are looking at it. And so, it's great to see a Kate farms or Huel, which will be accretive to EPS after 12 months. And so, in that sense, it ticks all the boxes.

Tom Sykes:

Okay. Thank you. So, if we zoom out a little bit and bring this all together, you've given a view on category growth and an outlook in part for the, and that you've given guidance for the year, but, obviously, your view on North America, as well as ongoing productivity... Previously, you'd articulated that you were coming out of a period of higher A&P investment and you've, obviously, the last couple of years, delivered around 40 basis points of recurring margin improvement. Would you expect a similar degree of margin improvement this year, even though your A&P growth may be moderating?

Juergen Esser:

Look, I mean, we are extremely committed to our guidance, and our guidance is the consequence of a business model. And the business model is about volume mix. And so, in any year, whatever the inflation will be, the priority is growth through volume mix, because it's the best way to get operating leverage, is the best way to be able to reinvest into the business, and expand our margin year, on year, on year. And so, that recipe is not changing. The variables are changing. So, this year will be, with the inflation will be a bit higher than what we have seen last year. And so, we are adapting to it. We talked about productivity, we talked about price, and so you will see us delivering on our commitments and our guidance as the last years.

Antoine de Saint-Affrique:

Maybe just reinsisting on one thing. I mean, you know our guidance, 3 to 5% growth with bottom line growing faster than top line. There is a reason why we don't qualify the percentage of bits, or a percentage EBIT margin. If you do that, and the company has been through that a long time ago, you start managing the company to a KPI, not to a business model. And the consequence of that, and we have been there, is you start cutting advertising, cutting in R&I, or cutting innovation when you are under pressure. We are managing the company to a long-term business model, delivering on our guidance, but not creating a new guidance. And we had the discussion in the past when we were expecting tailwinds. We said we will reinvest the tailwinds in the future growth of the company. So, we will be consistent on our guidelines.

Tom Sykes:

Thank you. So, before we finish, it would be good to hear your perspectives on the use of AI within the company. If we look at the investments you've made so far in AI, would you view these as more on cost-savings operations side or in demand creation?

Antoine de Saint-Affrique:

We'll do a duet as well on that. Listen, when we look at AI, we look at it, in some ways, in three dimensions. There is a dimension where, in partnership with Microsoft, we've put everyone on Copilot, I mean, to give a culture of AI throughout the company. So, it's raising the floor of everyone in the company. So, they are familiar, and they use the tools. We do it in a sandbox to preserve our data, but making sure that we lift the company from an AI standpoint.

Then, there are verticals where we say, "Well, we think there is a return on invested capital or return on investment. We think it can have an impact." We do things. So, we obviously use AI in research and development. I mean, when you have a base of 1,200 ferments, you start playing and forecasting on the ferments in a radically different way. We use AI in marketing. We use it in content creation. We use it in consumer relationship. I mean, if you look at what we are doing with tools like a stool tracker, it's more than marketing, by the way. It becomes business model.

We use AI as well in everything that is productivity. So, the quality of our forecast, finance, a number of things, I'm sure that Juergen will complement.

We are also starting to plan for the long run the impact of AI on people. And if you say, well, in 10 years or 80% of the jobs would have changed, in a western world where the availability of people is going to be scarce, making sure that you manage in parallel your pyramid of edge and your pyramid of knowledge and making sure that you become very good at upskilling and reskilling. Make sure that in 10 years' time you still have the capabilities that you need. Knowing that you won't find them or you won't find a number of them on the market is something that we are also doing. So, literally through that-

Tom Sykes:

The apprenticeship model's not completely dead, then?

Antoine de Saint-Affrique:

No, the apprenticeship model is not completely dead. The permanent learning model is not completely dead. And actually, that's where we believe that, as Danone, we have a distinctive strength.

Juergen Esser:

In the end, we are going through three phases. The first phases was very broad education on the topic. So, we had individual productivity. I do my job better every single day. We went relatively fast into this collective productivity, especially on the supply chain management. So, one of the reasons why we are able to deliver very high level of productivity in our cost of goods sold is because we had focused there, first and foremost, because the business cases were the most tangible and the most easy to access.

So, when you go today to Poland, to Opole, it's one of the most digital factories in the world in specialized nutrition, and it shows what is possible. And phase three is now as we go, which is going faster and more efficient on R&I and going faster and more efficient on the way we engage consumers and retailers, which is extremely important.

Tom Sykes:

Thank you. And maybe then just looking at agentic AI, I think really interested on the procurement side of retailers and how they use it in price negotiations as well as on product discovery side.

What are your thoughts and perspectives on that and how prevalent it is?

Antoine de Saint-Affrique:

Well, they use it. We use it. So, we use it with our suppliers. We use it to prepare also what we do with retailers. It is becoming standard practice.

Where agentic AI is super interesting is in consumer relationship. I mean, the speed and the breadth at which you can detect what's happening, answer to what's happening, surfacing either/or issues when there are issues or trends is really impressive. The speed at which you can create, screen, narrow a product concept is really interesting.

There is a whole dimension around consumer that is very, very interesting. There's a whole dimension in sales that is very interesting. You'd go in France with one of our sales guy. Uses image recognition powered by AI to do a store check, look at where the things are, how should they be, so you have a sales force productivity that is immediate.

Tom Sykes:

Thank you. Well, look, we've come towards the end of our formal Q&A. And so, Antoine, Juergen, thank you very much, first of all, but perhaps you'd like to make some closing remarks on the outlook for Danone in 2026. And, indeed, are we at peak protein or even peak protein growth?

Antoine de Saint-Affrique:

So, I mean, the first question is, no, we are not at peak protein. It's going to keep growing. And what we are doing in protein specifically on that topic is, yet again, move from protein to benefit. What does the protein does to you? What does the carrier of the protein do to you? So, we are only at the start of the journey and obviously the expansion of ... I mean, GLP-1 is helping. Ageing population is helping because people need protein for their muscles and for mobility. Cancer is, sadly, helping. So, they are secular trends, which brings me probably to the second thing, which is where I started, which is the choice we've made of a company that is only healthy food, which is science-based and consumer and patient focused, position us with a portfolio that is healthy. I mean, 85% of our products are 3.5 stars Health Star or more. With products that have an impact on your health, position us exactly at the point where the consumer trends are going. So, the market is coming our way which gives us all the confidence in the world that we will deliver our guidance.

Tom Sykes:

Well, look, Antoine, Juergen, thank you very much, indeed, for your time today. Very clear and very interesting to your perspectives. Thank you very much.

Antoine de Saint-Affrique:

Thank you, Tom.

Juergen Esser:

Thank you.

Tom Sykes:

Thank you.