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BN.PA - Q3 2016 Danone SA Corporate Sales Call

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Co. reported 3Q16 reported sales growth of minus 1.8%.



OCTOBER 18, 2016 / 7:00AM, BN.PA - Q3 2016 Danone SA Corporate Sales Call

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PRESENTATION

Operator

Good day and welcome to the Danone Q3 and first nine months conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Cecile Cabanis, Chief Financial Officer, please go ahead.

Regis Massuyeau - Danone SA - Head of IR

Good morning, all. This is Regis Massuyeau speaking first, just to introduce for the call. So thanks and good morning all, thanks for attending the call.

Before we go through the presentation you have received or found on our website, please go through the Safe Harbor statement before we start, please.

A classical one. So if you are ready now, I hand over to Cecile Cabanis, Chief Financial Officer of Danone.

Cecile Cabanis - Danone SA - CFO

Thank you, Regis. Good morning, everyone. Thank you for attending the call. I'm on page 3, and before getting into details let me just summarize with you where we stand on our journey towards 2020, which is the left part of your chart. Basically, our agenda does not change. We continue to focus on rebalancing our model of growth before we accelerate towards 2020.

What does it mean? It means that first, we improve structurally the profitability of our businesses in all regions. Second, we are being disciplined in resource allocation to make sure that we fuel appropriately and at the right pace, short, mid and long-term initiatives. And lastly, making sure that we are concentrating on key battles that are important for our mid and long-term agenda.

Doing all this is really what will enable to secure a safe journey towards 2020 and also secure the delivery of our results quarter after quarter in a volatile environment.

So moving on the right part of the chart, Q3 sales results are consistent with that. If we exclude the Chinese transition in both Waters and the indirect platform in ELN, the overall growth continued to be solid at more than 4% end of Q3.



OCTOBER 18, 2016 / 7:00AM, BN.PA - Q3 2016 Danone SA Corporate Sales Call

However, as you know, because we discussed it already at the end of July, Q3 sales have been impacted by the transition of China, which is basically two fold. The first one is in Waters, where we continue to transition Mizone and we have observed an overall slowdown of the NABs category. Second, for Early Life Nutrition, which is impacted by the transition of the indirect model, which created some active destocking by traders.

So while China is transitioning, we have continued to build a solid agenda of growth, leveraging the fundamentals of our unique business portfolio and the growth potential of our brands in each of our categories.

Now, let us move on page 4 on the sales bridge, growth for the quarter is 2.1% like-for-like and minus 1.8% on a reported basis. As you can see, currencies have had a negative impact of minus 4.1% as expected with still negative impact of the Argentinian peso, the British pound, Mexican peso, and the Chinese renminbi. The scope effect is 0.2% positive and is mainly due, as it was the case before, to the consolidation of Fan Milk at the end of 2015. And then moving back to the organic growth, the 2.1% result is the combination of a slightly negative volume effect of minus 0.7% and the positive value effect of 2.8%.

Commenting on the volume part, basically it reflects the transition occurring in China for Early Life Nutrition and Waters, and it also reflects still negative volume for Dairy, especially in CIS and Brazil where inflation remains strong and consumer trends are still fragile.

The value part continues to be the result of the work we do on our portfolio to improve the overall mix and it of course reflects the different dynamics between categories and regions. So I propose that we move first to our regional dynamic on page 5, and I will start with Europe.

So looking at Europe, it's still negative in growth this quarter. It reflects the impact of the transition of the indirect Early Life Nutrition business in China which created a short-term volatility, and I will come back on this topic in more detail in a few minutes.

If we exclude this impact, the European underlying trends are unchanged. They reflect first progress in our Dairy agenda. Second, they reflect also positive trends in Waters, despite, if you remember, high 2015 comps and unfavorable weather conditions in the summer. Lastly, they reflect strong momentum in Medical Nutrition.

Moving to NORAM and CIS. The 2.8% growth this quarter reflects first, a solid performance in NORAM with volume improvement despite weakness in the overall food and beverage category in July in the US which was driven by half-price promotions. It reflects also a persistent fragile context in the CIS where we maintained our efforts to build a more valued portfolio and protect the margin.

On the right part of the chart, moving to the rest of the world. Despite the negative impact of the transition in China for Waters, the ALMA region continues to be driven by strong pillars of growth. With an overall sales increase of almost 7%, it reflects positive dynamics in important countries such as Indonesia, Mexico or even China which is positive in total despite the Mizone effect.

I propose that we move to the category dynamics on page 6, and start with the Dairy business. The Dairy business delivered a growth of 2.2%, which is fully on track with this agenda. Despite still negative volumes globally, the efforts on the portfolio continue to pay off and create a positive value. I will come back more precisely on US and Europe in a minute.

Moving to Waters, performance is flat which is mainly reflecting the negative impact both in volume and value of Mizone in the Chinese beverage market that is under transition. If we exclude China, the growth remains strong, around mid-single digit, with solid increase of volume and the success of the Aquadrinks continues to be a positive contributor to the mix of the business.

Moving to Early Life Nutrition with a growth of 1.7%, the category is impacted by the transition of the indirect Chinese platform. As you know, fast changing regulatory context is creating short-term volatility, via active destocking by traders. If we exclude the indirect Chinese business, the category is performing strongly with a mid-single-digit growth and this reflects, of course, the continued expansion of existing platform, but also investment in new markets and key progress on the development of the direct sales part of China.

OCTOBER 18, 2016 / 7:00AM, BN.PA - Q3 2016 Danone SA Corporate Sales Call

On the right part of the chart, finally, Medical Nutrition delivers again another very strong quarter with 9.7% growth. A quarter that continues to rely on a well-balanced model of growth. All product categories helped fuel this overall strong performance with a meaningful contribution still from the pediatric care brand, Neocate, and the adult tube one, Nutrison.

I would propose now that we go into more details for some of our key priorities and I will start with Dairy Europe, which you have on page 7. In Europe, we continue to progress on our agenda for a safe return to profitable growth, where 2016 is an important phase for the relaunch of our global brands.

As you remember, we relaunched, Actimel and Danonino in Q2 and we just now relaunched Activia mid-September, including a new identity, a new packaging, and a new positioning.

With this relaunch, we pursue our strategy around our global brands to ensure their consistency and efficiency. The relaunch of Activia is about showing the product superiority by introducing a new packaging as well as engaging with the consumer in a new way.

Overall, our objectives are to first, rejuvenate the brand and make it more contemporary. Second, strengthen the brand premium identity and the product superiority. And lastly, create an emotional link with the consumer and connect deeper with women through a new tone of voice for the brand.

The rollout in Europe is on its way. As you know, the success of Activia is an important milestone for the stabilization of the sales in Europe, and of course, it's too early to measure the results of the relaunch which just happened.

So I propose we switch to US Dairy sales on page 8. In the US, the Q3 performance confirmed a solid growth momentum. US is pursuing its agenda to sustain the reacceleration of growth. The results reflect the success of the plans to nurture growth in this important market which still offers potential of growth for the future.

All the efforts to support the development of the category and the investment that we've put behind the brands are paying off.

You have two examples on page 8, of our plan. Well, basically our plans included a dynamic drive of innovations, as you can see, Light & Fit drink renovation, and two innovations, one, Oikos yogurt drink and Dannon whole milk yogurt. We have also gone through a strong media support to grow and continue to grow the brand equity. And the strict discipline on pricing and promotion despite the pressure in the season, in accordance to our PRGM program that has been implemented at the end of 2015.

Danone has been able to build an even stronger position in all segments if you look at this, co-leader in Greek, number one on the kids' segment, and on adult regular with a fast-growing brand. So as a result, Danone is significantly improving its global marketshare and reaching a best-ever at around 36% and that despite a more competitive environment in the beginning of this summer.

We are really pleased with the choices, the execution of the plan, and we continue to be confident in the potential of those categories.

So I propose that we switch to Waters on page 9. And first, I would like to come back on the fundamentals of the category and its potential, which you have on at the top of the page.

Basically, and as we shared already, trends for healthier hydration, are transforming very quickly the overall market and this is why bottled water will outperform in that category in the years to come.

Danone being number 2 in volume has strong assets, very strong brands to capture this growth opportunity and that makes us fully confident on Danone's Waters business agenda of growth for the future.

To that extent, and I'm moving on the bottom of the chart on the left part, if we exclude the transition in China, Q3 is another solid quarter with sales up mid-single-digit. This strong and well-balanced performance relies on a very strong platform of growth and even new market platforms.

OCTOBER 18, 2016 / 7:00AM, BN.PA - Q3 2016 Danone SA Corporate Sales Call

It is the result of a permanent focus on innovation and activation of our brand around healthier hydration. You have here a few examples with in the ALMA region, Aqua in Indonesia and Bonafont in Mexico, and in the US, with evian.

Three very important platforms, growing at solid to strong pace between plus 5% and to over plus 20%.

One comment on Europe, because in Europe, the category has generated a positive performance. As you know, despite a high base of comparison due to a hot season last year, and less favorable conditions this year, the division is growing steadily and we maintain our growth agenda brand-by-brand, country-by-country.

Then moving to China, on the bottom right part. So in China, we are pursuing the transition of Mizone, as you all know, the base of comparison was still very high in Q3 as the transition started in the same quarter last year and Q3 is the high season.

Today, the reality of the market is more complex for everyone. Dynamics within the category are still sluggish and bad weather conditions that we observed during the summer with important floods, have significantly impacted the whole industry.

In this context, Mizone sell-in were still negative in Q3. The current situation however does not change our plan, our direction, or our confidence regarding the potential of the Chinese market for the future. We need to be disciplined of course, to fuel appropriately and at the right pace the mid and long-term initiative. The Chinese transition will still take some time and we do not count on growth for Mizone for the quarters to come.

At the moment, we are working on protecting Mizone market share, currently stable at around 5% and continuing to adapt our direct model to that, we make sure we protect the profitability of the brand and secure the after transition.

Let us move now to Early Life Nutrition and business. Page 10.

So here again, before we look at the Chinese transition, I would like to spend one minute on the rest of the category. As for Waters, Early Life Nutrition is relying on strong category fundamentals such as demography, middle class development, growing urbanization and specific needs of babies. In Q3, if we exclude the indirect Chinese platform, the overall growth has been mid-single digits. Beyond developing our existing platforms, we continue to invest in new markets, such as Brazil and in new segments to reinforce our global worldwide position and to prepare the long-term.

The development of new markets and new segments is one of the key priorities for ELN and for example, as we shared earlier, one of the important elements of future growth is around the development of tailored nutrition.

More and more, we are developing products that are tailored for specific needs of babies as opposed to a general use of breast milk substitutes. We are targeting specific needs that go for pre-terms, digestive comfort or sometimes, even serious issues on digestion and allergies. This part of the business is already around 10% of our total sales, and has grown around 10% again in Q3.

Let's now move to the right part of the chart with the transition of the Chinese indirect business and its conversion to the direct model.

As you know, regulatory changes have accelerated recently on the e-commerce. This is speeding up the transition of the indirect business and as I explained already end of July when I comment on H1's results, it is creating short term volatility because the traders are actively adapting their model on the indirect channel before the implementation of the new regulation.

So consequently, total indirect is decreasing by around 25% this quarter and it will continue to decrease. If you look at the order of magnitude, basically, it represented around 2/3 of the total Chinese sales in Q3 2015, and this represents now around 50% of total Chinese sales in Q3 2016. At the same time, it is important to notice that approximately 1/3 of the indirect sales which is called Friends & Family is structural and will persist beyond this transition and keep growing.

OCTOBER 18, 2016 / 7:00AM, BN.PA - Q3 2016 Danone SA Corporate Sales Call

But more importantly, we continue to develop the direct model, increasing our position on both direct ecommerce and Mum & Baby stores. We capitalize on strong assets. First, we are leveraging our leadership on ecommerce, investing in direct channel by partnering with major B2C retailers and developing our flagship store.

Second, we continue to grow our market share on Mum & Baby stores by increasing distribution and visibility.

So all in all, we continue to make progress and direct sales growth is around double-digit this quarter. The Chinese transition on indirect channel will continue to create some volatility in the quarters to come. We know and we have always said that this part of the business related to traders will disappear and will be replaced by stronger and more sustainable direct model.

In the short term, gains on one side and losses on the other may not balance each other and that is why it will therefore impact the growth of ELN in the quarters to come. However, we are on the right strategy and it is important that we continue to focus on our mid and long-term destination. We want to make sure that we build the right model of sustainable growth in China and that will remain an important market for us.

Let's switch now to Advanced Medical Nutrition on page 11. So basically, Medical Nutrition is delivering a very strong organic growth of 9.7% this quarter, all regions have contributed to this very strong performance and continue to build resilience. On one side, the mature markets such as Europe have delivered around high single-digit sales growth. Emerging markets, such as the ALMA region, have generated around mid-teen growth, and NORAM and CIS have generated a high single-digit growth in Q3.

As I said earlier, the medical category's strong growth relies on dynamic segments like pediatric care and the adult tube segment. And in a nutshell, we can say that everything is in place for Medical Nutrition to fully participate and play its role in our agenda of profitable growth.

So that's for the category dynamics.

On page 12, before concluding and answering all your questions, I would like to reiterate that the priority in 2016 continues to be the rebalancing of the model in order to increase its resilience.

This is how we will deliver in a consistent manner despite the persistent volatile environment and it will also ensure safe progress on the road to 2020. So we continue in that sense, to work on our efficiencies to make sure that we are being disciplined in the way we allocate resources.

We remain focused on strategic growth opportunities and we are trying to avoid tactical allocation of resources. We continue to balance the short, mid, and long-term agenda of our transformation. As I said already in H1, we are being very careful not to push for short term growth at any cost. But rather, we make sure we give priority this year to margin improvement and to increase the resilience of our model before we accelerate.

This is our everyday focus and we will not deviate from this agenda, especially given the current lasting transition in China on both Waters and the ELN business. We need to remain solid and disciplined, well-focused on our journey and destination, leveraging the fundamental of our unique business portfolio and the growth potential of our brands in each of our categories.

So this, moving to page 13, enables me to confirm our guidance of 2016. And basically, in line with my previous comments on Chinese transition and the necessity to prioritize the balancing of the model, topline growth will be in the first part of the range of the guidance, while margin improvement will be on the high end of the range of this guidance.

Thank you for your attention and I am now happy to answer your questions.



OCTOBER 18, 2016 / 7:00AM, BN.PA - Q3 2016 Danone SA Corporate Sales Call

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Warren Ackerman, Societe Generale.

Warren Ackerman - Societe Generale - Analyst

Good morning, Cecile. Good morning, Regis. A couple of questions from me. The first one is on Mizone. I mean, previously, you were quite clear that Q4 would be a much better quarter on easier comps, but now you seem to be saying that Mizone will not improve for some time.

Can you be precise on what your expectation for Mizone is for Q4 and tell us what the exact sell-in or sell-out of the brand was? That is the first question.

The second one on ELN, can I pick up on a few things that you said? You said that the friends and family C2C sector, which is one-third, will remain, why do you think that will remain? And can you give us some visibility on what you see as the exact stock levels that the traders have? Is it weeks or months? And tell us what the European ELN growth was in the quarter.

If I can just squeeze one other one in just on WhiteWave, the scan data's been quite weak on AC Nielsen, I don't know whether you can say anything about friends at WhiteWave because at a Q2 stage, they delivered 7% organic growth and they said that they would sustain that in the second half. Can you reassure us that that is still the case?

Thank you.

Cecile Cabanis - Danone SA - CFO

I will try to remember your 10 questions.

(Multiple Speakers)

Cecile Cabanis - Danone SA - CFO

Still writing, so it's okay. So basically, on Mizone, yes, you are right to say that we commented previously that there will be an easier base of comparison in Q4 and that is the case. Basically Q4 will be positive for Mizone and overall, the Waters division will accelerate in Q4, around the high single-digit growth, so this is for Q4.

Now, the comment that we made was that basically, we do not count on Mizone sale-out growth for the quarters to come, because we are in the transition that is lasting and we want to make sure that we are focusing on protecting the brand and the market share and making sure we are adapting the model in order to protect also the margin.

That is a safe approach and I think it's the right approach to take for the next quarters.

On ELN, basically, why do we say that friends and family is going to last? It's because it is an accepted channel. It's basically you buy a two pack and then you take them back to your friends or to your family and it's fully-accepted. So this is a channel that has become quite a significant value one because it is one-third of the indirect part of the business and this one is here to stay and probably to continue to grow.

In terms of your question on the stock level of traders, it's very difficult to say because it's not a channel that we control. But again, we are taking a safe approach considering that in the next quarter it will continue to decrease. Q3 was around minus 25%. It can be volatile, so we are not exactly



OCTOBER 18, 2016 / 7:00AM, BN.PA - Q3 2016 Danone SA Corporate Sales Call

totally precise on the order of magnitude for the next quarters, but it continues to decrease because we know that at the end of the day this will disappear.

So it will take the time it takes. We are fully prepared for that. And honestly, the main topic for us is to be fully concentrated and putting all the resources in order to grow our direct model, both on e-commerce and Mum & Baby stores, to make sure that at the end of the day the overall -- we continue to grow our business in China and that we have converted what is the indirect today into direct sales that are for Danone.

So it's really the focus that we have. And today we have a market share that is stable, so we are managing to protect our overall position in China despite what is happening.

Then on WhiteWave trends, today we are under the process of regulatory reviews, so I cannot comment on the current trading of WhiteWave. They will issue their Q3 beginning of November. I cannot make any comment.

Regis Massuyeau - *Danone SA - Head of IR*

Thanks Warren.

Warren Ackerman - *Societe Generale - Analyst*

Okay, thanks.

Operator

Eileen Khoo, Morgan Stanley.

Eileen Khoo - *Morgan Stanley - Analyst*

Morning Regis, morning Cecile. Two questions from me. The first one is on Dairy Europe and Activia in particular. What gives you confidence that the InSync new campaign will be a success and maybe talk us through it a little bit more in detail. It seems to me like it's more a packaging and marketing change, so you haven't actually changed the actual product itself, so formulations, ingredients, that sort of stuff. Can you just clarify that?

Then secondly, just on milk prices, it looks like things are trending up a little bit. Could you comment on the outlook for the coming 12 months and how would that impact pricing potentially particularly in Europe and, for example, UK in particular? Thanks.

Cecile Cabanis - *Danone SA - CFO*

Thank you Eileen. So on the relaunch of Activia, basically it's a full relaunch. So yes, it's about making sure that we have a full positioning of the product. So it includes the packaging which has been premiumized and which is more reflecting the overall image of Activia and what it is. It's about rebuilding totally the emotional link with the consumer, engaging a lot more with women, so around the platform InSync.

Basically, it's not something that we made overnight. It's really a one year work around consumer insights and working with the consumer. So yes, it's a full relaunch. Yes, it's recent and we don't have the results but yes, we are confident. Overall, if you look at what was done or what has been done in evian in 2009 it's really about here. So Activia moving from a hard cold claim into a more holistic and emotional bond with the consumer.

We are confident. It's too early to share any results because it has just started. And it's not only packaging and marketing because in some of the ranges we change also the recipe. So it's a full relaunch and activation.



OCTOBER 18, 2016 / 7:00AM, BN.PA - Q3 2016 Danone SA Corporate Sales Call

About the milk prices. So basically we start to see that they are increasing -- they start to increase. It's not new for us. We have always said that there will be a rebound sometime. We were even more cautious that -- what has actually happened. But it is today starting to increase. This is not a surprise for us, so it's fully embedded in our assumptions. So when we talk about growing profitability in the years to come we have an assumption that the milk price will increase.

Basically, to make sure we protect margin there are three buckets. The first one is to continue to work on efficiencies and productivity. The second one is all the work that we have been doing, especially on milk, around changing the way we buy milk through the cost performance model. Thirdly, as you mention, in some countries where there is inflation it will be about competitive price increase. But overall, it does not put that question our profitable growth engagement for the years to come.

Eileen Khoo - *Morgan Stanley - Analyst*

Can I just follow up on Dairy Europe in particular. Are you still expecting stability by the end of this year? Is that still your target?

Cecile Cabanis - *Danone SA - CFO*

Yes, it is still our target. Now, as I said, Activia is an important milestone. It's too early to give fully conclusive on the results but yes, it's our target.

Eileen Khoo - *Morgan Stanley - Analyst*

Thank you.

Regis Massuyeau - *Danone SA - Head of IR*

Thanks Eileen.

Operator

Jeremy Fialko, Redburn.

Jeremy Fialko - *Redburn Partners - Analyst*

Hi, morning, it's Jeremy Fialko, Redburn here. Couple of questions. Firstly, on the US fresh dairy. I know a little while ago you were talking about how the competition had increased, but on the call now you're suggesting that it was more of a temporary factor in July and maybe August. So can you just talk about that a little bit more? Do you think this little competitive spat seems to have disappeared in the market, promotional levels have returned back to normal?

Secondly, just on Latin America, if you can give a bit more detail on Brazil, Argentina, how those have done and how you see them trending over the coming couple of quarters. Thank you.

Cecile Cabanis - *Danone SA - CFO*

Yes. So on the US it's fair to say that what we observe in terms of high and hard price and promotions was July. So July was overall -- and it's not only dairy, in the food and beverage category in the US July was impacted and was growing at a slower pace, that's what we observed. But then it came back in August and September. I think as far as we are concerned it's important that we do not deviate from our agenda and especially regarding the way we manage price and promotion.



OCTOBER 18, 2016 / 7:00AM, BN.PA - Q3 2016 Danone SA Corporate Sales Call

We have been entering into the PRGM program that we did in Europe and in Russia and we need to make sure that we continue to be focused on efficiency of the promotions, making sure that we take the high price positioning, and the right mix optimization in our portfolio.

Today in the US the fundamental trend continues to be that. We have managed successfully the re-acceleration of the category and of Danone. We have reached our best ever market share and we are confident that going forward we will continue to sustain that and that there is growth potential in this market for dairy and for Danone.

On Latin America, so basically regarding Brazil and Argentina it's two markets where the macroeconomic has been complex and difficult, where there has been a lot of inflation. In both countries we are -- I mean in Brazil we have passed some price increase and we are growing in sales but obviously we are negative in volume.

In both countries we are looking at our cost base and having different initiatives in order to restructure part of the cost base and make sure that we are getting more lean in order to protect the margin before we can re-accelerate the growth. But in Brazil already we have started to re-accelerate the growth especially in dairy and the other categories like medical and early life we are growing very strongly.

So that's where we are, a market where we are very careful in how we manage and we balance the model of growth. But it's an important market and we are committed also to growing those markets.

Jeremy Fialko - *Redburn Partners - Analyst*

Okay, thank you.

Regis Massuyeau - *Danone SA - Head of IR*

Cheers Jeremy.

Operator

Jon Cox, Kepler Cheuvreux.

Jon Cox - *Kepler Cheuvreux - Analyst*

Yes, good morning guys, thanks for taking the questions. Just a point of clarification on the Waters, did you say overall Waters should be growing high single-digit, that includes Mizone from Q4, that's my first question?

Second question, obviously the guidance on Early Life Nutrition is somewhat sobering. Should we be expecting then sort of flat overall growth in that for the next three or four quarters or very low single-digit?

Then just a third question. Obviously Moody's have said they will maintain your credit rating. I was just wondering, it seems that the overall picture for you guys is deteriorating somewhat. Are you slightly concerned this could start to put pressure on your plans and free cash flow generation, which obviously you've talked to Moody's about, and then potentially you may end up doing a capital increase as a result of that WhiteWave transaction? Thank you.

Cecile Cabanis - *Danone SA - CFO*

Thank you Jon. So first question, yes, Waters in Q4 will increase probably high single-digit, including Mizone, on your first.

OCTOBER 18, 2016 / 7:00AM, BN.PA - Q3 2016 Danone SA Corporate Sales Call

On your second question regarding the guidance for ELN, well, if I take Q4 it is very likely that we will face the same dynamics as in Q3 with still volatility created by the Chinese transition of the indirect business. With a difficult basis of comparison in this category that we had for Q4 it may even sequentially lower to a slightly negative, then it will positively come back. It's too early to guide for 2017 but this is basically where we are.

Lastly, on your question about credit rating. So no, I don't have the same reading as you have. Basically, today we are fully focusing on making our model stronger. I just commented on the guidance saying that, yes, we will be in the lower end of the range for top line, but we will be in the high end of the range for margin. We are very focused on the cash flow agenda and we will make sure that it translates -- that the profitable growth translates consistently into the cash flow.

So today there is absolutely no reason that I should question everything we do and our capacity to continue to deliver consistently in the quarters to come. It's very important for that, that we remain really focused on strategic resource allocation. That we make sure that we work on our efficiencies and that we are not pushing for short term growth. This is the old topic about making our model resilient before we accelerate it. So no, there will not be any capital increase and we are managing our model accordingly.

Regis Massuyeau - Danone SA - Head of IR

Thanks Jon. Next question please.

Operator

Celine Pannuti, JP Morgan.

Celine Pannuti - JP Morgan - Analyst

Yes, good morning, two questions from me. The first one is on the ELN division. You kindly gave us the change in what -- that you see between indirect and what you are growing in China, I just was wondering whether there was an impact of profitability there. Because I felt that the profitability in Europe, or let's say in indirect, being higher than in China, will have as well this mismatch in terms of profitability the same way we have the mismatch in terms of sales. That's my first question.

My second question is, looking at the growth rate of the underlying categories that you put in your slide -- I think it's slide 2 or slide 3 -- about the 2020 agenda where we have high single-digit growth for ELN and Waters, where do you see that growth at the moment in the category and should we look at mid-single digit which you say excluding China is around mid-single digit as being the run rate rather. Thank you.

Cecile Cabanis - Danone SA - CFO

Thank you. So basically on the profitability of the balance in profit between indirect and local, it's not indeed fully comparable, but if you remember there has been some adjustment, especially last year, in prices also. Today we are confident about the fact that the conversion will not impact at the end of the day the overall profitability of the business in China.

Because we go all together in a different model which is less price but less A&P, and the way the mix is developing is that basically you will have some mainstream product but then you will have a premium and super premium, so your value mix will be protected around that.

Then looking at the growth rate of the underlying category, today we are fully focused on our agenda of growth and our journey and mid-term destination, which is to deliver our ambition for 2020. So we are focused on that and it's not the time to change any of those numbers.

OCTOBER 18, 2016 / 7:00AM, BN.PA - Q3 2016 Danone SA Corporate Sales Call

Regis Massuyeau - Danone SA - Head of IR

Thank you and we go for our last question.

Operator

Jeffrey Stent, Exane.

Jeffrey Stent - Exane BNP Paribas - Analyst

Good morning, just a quick question on Mizone. Could you comment on what end market sales are doing and what the rate of decline is and what your expectation is going forward? Thanks.

Cecile Cabanis - Danone SA - CFO

So today basically the dynamic is as follows. We are projecting a market share which is around 5%, which is stable, in a category which has slowed down and has not had much growth in Q3. So this is the current dynamic. We are fully confident that growth will come back in China and that there will be growth in this category of super premium beverage. That's why we continue to make sure that we protect Mizone with -- and Mizone market share and make it ready to accelerate.

What we are seeing today is that the transition will last probably again a few quarters and that it won't accelerate before a few quarters. That's what we said. And I think it's a safe approach that we do not count on Mizone growth for the quarters to come. And that's basically what we can say.

Jeffrey Stent - Exane BNP Paribas - Analyst

Okay. So just to sort of press you a little further Cecile, so I guess your comment then on the transitioning continuing, that implicitly means you're expecting the market to remain broadly flat. Is that fair?

Cecile Cabanis - Danone SA - CFO

Yes, it's fair.

Jeffrey Stent - Exane BNP Paribas - Analyst

Okay, thank you.

Cecile Cabanis - Danone SA - CFO

Thank you. Thank you everyone to be here this morning and for your questions and for your interest. Thank you to Regis and Celia who are with me and you will continue today to talk to them I guess a lot. So I wish you a good day.

Regis Massuyeau - Danone SA - Head of IR

Thank you all.



OCTOBER 18, 2016 / 7:00AM, BN.PA - Q3 2016 Danone SA Corporate Sales Call**Operator**

That will conclude today's conference call. Thanks for your participation ladies and gentlemen, you may now disconnect.

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