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BN.PA - Q1 2018 Danone SA Corporate Sales Call

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OVERVIEW:

Co. reported 1Q18 consolidated sales of EUR6.085b.
Expects FY18 recurring EPS to grow double-digits at constant exchange rate and excluding Yakult transaction impact.

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PRESENTATION

Operator

Good day, and welcome to Danone's First Quarter 2018 Sales Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Nadia Ben Salem-Nicolas, VP Investor Relations. Please go ahead.

Nadia Ben Salem-Nicolas - *Danone SA - VP Investor Relations*

Thank you very much. Ladies and gentlemen, good morning, this is Nadia Ben Salem-Nicolas, Head of Investor Relations speaking. Thanks for being with us this morning, for Danone's first quarter results. I'm here with Cécile Cabanis, CFO. As usual, we will go through the presentation and then the Q&A session. Please note that we are experiencing technical issues unfortunately this morning with our webcast provider. As a result, while you will be able to hear her, Cécile's presentation slides will not be synchronized with her speech. She will, therefore, indicate each time you have to turn to the next page. We apologize for this inconvenience. Before I hand it over to Cécile, I invite you to go through our usual disclaimer on Page 2. And I think we start now.

Cécile Cabanis - *Danone SA - EVP, CFO, IS/IT, Cycles & Procurement*

Thank you, Nadia. Hello, everyone, I'm sorry that you are experiencing some issues but, as I move along, I will make sure I mention the number of the slide so that you can follow easily. So I'm pleased to announce our results for Q1. As you've seen in the press release, Q1 is a strong start to the year with further progress in our transformation journey. We continue to execute on our 3 strategic pillars for 2020, mainly accelerating growth, maximizing efficiencies and allocating capital with discipline.

I would like to start this call by thanking our teams for their relentless focus on delivery and execution demonstrated, again, by our strong results this quarter. On our first priority, and I'm on Slide 3, to accelerate growth, we delivered the like-for-like sales growth of almost 5%, outperforming most of our markets. Importantly, this outperformance highlights the strengths of our portfolio of categories and brands. It includes both positive volume and value contribution, coupled with our unique capability to adapt, with a continuous focus behind innovation and execution.

The performance reflects improvement across all of our 4 reporting entities and bodes well for our ability to accelerate throughout 2020. The main growth engine in this quarter was Specialized Nutrition with 14.5% growth, supported by another quarter of exceptional growth in China for Early Life Nutrition. I'm also pleased to report positive growth in Q1 for EDP International and very solid growth for Waters, again, this quarter.

Secondly, our initiatives to maximize efficiencies continue to be deployed across the company. We are progressing on track with the integration of WhiteWave and the rollout of our Protein efficiency program and are confident to deliver the savings target that we set for the year.

Lastly, we continue to ensure that we allocate capital with discipline and actively manage our portfolio. It was highlighted this quarter by the partial sale of our stake in Yakult, which closed at the end of March. The EUR 1.3 billion proceeds will be used to continue on our deleveraging path while providing us additional capacity to invest in our organic delivery and transformation agenda towards sustainable value creation. So overall, as I said, we are pleased with the strong performance during the quarter, and we remain committed to executing on our strategic priorities through the remainder of the year and beyond.

Moving to Slide 4. In addition to delivering a strong quarter in terms of financial performance and strategic execution, we also made significant progress on our ambition to lead the way in creating and sharing sustainable value for all stakeholders. First, with the successful launch last month of an innovative EUR 300 million social bond. Danone became the first multinational corporation to issue a bond aimed at financing projects that include positive social impacts in line with the new social bonds principle. We are pleased to note that this bond issuance attracted significant interest from ESG investors, and we truly believe that creating a positive impact on our ecosystem is a key enabler to drive sustainable value.

Second, last week, we achieved a key milestone in our global B Corp certification road map, with the B Corp certification of Danone North America, 2 years ahead of target, and the biggest B Corp certified company in the world. It brings the portion of Danone business now B Corp certified to around 30% of our global sales. Achieving B Corp certification is about more than being recognized as a sustainable company. It is about having sustainable business practices, and it's a very important milestone for the company as it continues to reflect the company's longstanding commitment to delivering financial success, along with social and environmental progress.

Let me go now through the details of the numbers, and I will start with the classical sales bridge on Page 5. So in the first quarter 2018, consolidated sales stood up at EUR 6.085 billion, reflecting sales growth of 10.8% on a reported basis. It includes from left to right on the bridge, first, the base effect corresponding to the contribution of WhiteWave from January 1 to March 31, 2017, which contributed to 16.2% sales growth. Second, a negative impact of 1.4% from other changes in the scope of consolidation, resulting primarily from the disposal of Stonyfield in August 2017. Third, a very strong negative currency impact of around 9%, reflecting the appreciation of the euro against primarily U.S. dollar, Argentinian peso, Indonesian rupiah, Russian ruble and Brazilian real, which all depreciated by more than 10% in Q1 versus last year.

Finally, like-for-like sales growth, 4.9%. Growth continued to be driven by value effect at 3.8%, with positive volumes contributing 1.1% to growth. On the volume side, the evolution reflects positive contributions from Specialized Nutrition, Waters, EDP Noram as well as improvement in trends in EDP Internationals. And on the value side, results were driven by our continued efforts in enhancing mix in each category, with also some targeted price increases in specific inflationary markets like Argentina and Russia. Going through regional dynamics, there continued to be mixed trends as observed over the last few quarters, with Europe and Noram being broadly flat versus last year, while rest of the world posted double-digit growth driven by China and continued positive dynamics in other markets.

Let's now go in more details through each reporting entities, starting with the overview on Page 6. So if we start with the Specialized Nutrition. Specialized Nutrition delivered another quarter of very strong growth in Q1 of 14.5%, in line with the trends that we observed in H2 last year. Balanced between positive volume effect of 5.6% and value contribution at 8.9%, supported by another quarter of exceptional growth for ELN in China as well as positive dynamics in other markets.

Essential Dairy and Plant-Based activities continued to show a gradual improvement in Q1. In EDP International, we delivered positive like-for-like growth of 0.8% driven by an improvement in volume trends at minus 3.2% versus minus 6.1% in full year 2017. And positive value contribution of 4% as a result of our innovation efforts as well as portfolio shifts into more valorized segment and targeted price increases in Argentina and Russia.

EDP Noram sales were nearly flat in the Q1, continuing its recovery trend. Volumes were up 1.7% supported by plant-based category dynamics. Sales were impacted by a 1.9% negative price mix effect, which primarily reflects promotional pressure in regular and Greek yogurt as well as continued challenging dynamics in Premium Dairy.

Finally, Waters posted a very solid like-for-like growth, 4.2%, slightly better than anticipated. Volumes were up 2.4% growing in all regions, except in Latam, due to weather condition in Mexico. I will go now into more detail to go through the drivers of performance for each entity. And I will start on Page 8 with Specialized Nutrition.

And in Specialized Nutrition, Early Life Nutrition first. Early Life Nutrition posted high-teen sales growth in Q1, with a good set of results across regions, including another exceptional growth quarter in China, which was up over 50%. The performance includes also double-digit growth dynamics in Americas and solid performance in Europe. In China, the exceptional performance was driven by both volumes and value, supported by a strong market demand growing at double-digit rate, driven by the growing-up milk segment, as a result of the peak in birth in H2 2016, while the IF/Stage 1 category started to normalize given the lower number of births in 2017.

Growth was also supported by market share gains in the fastest-growing direct channels, both in e-commerce and mom & baby stores. There has been a continued expansion of Aptamil Platinum in the ultra-premium category, now representing 20% of our sales, which drove a positive mix contribution to sales growth. As we progress, we continue to focus on building a sustainable direct model of sales in China, with also a positive value effect. In Q1, more than 90% of the growth came from the direct platform. We also benefited to some extent from the favorable year-on-year comparison in the indirect portion of the business with a low Q1 last year. And lastly, we ended 2017 with very low stocks given to higher-than-expected demand around the end of the year, and we have now rebuilt normalized level of inventories.

So while we are posting exceptional performances, I would like to reiterate that China growth will normalize quarter after quarter, given what we already commented on lower birth rate in 2017, and including a high base of comparison in the second part of the year. Indirect will continue to be a driver of volatility from one quarter to another, until the regulation is fully implemented.

Turning to Advanced Medical Nutrition. Advanced Medical Nutrition delivered a solid quarter, with a high single-digit growth in the pediatric segment and slightly positive growth in the adult tube segment, partially offset by difficult comps, if you remember, in China, due to the preloading of customers last year before SAP implementation. Brazil, Germany and Poland have been strongly contributing to growth with double-digit growth rates.

With that, we now expect Specialized Nutrition at mid- to high single-digit sales growth for the full year of 2018, with Q2 to be another quarter of still very strong growth, close to double-digit, while the second half of the year should reflect, for ELN China, a normalization of growth.

So moving on Page 10 to Essential Dairy and Plant-Based, starting with Noram, which, as you've seen, celebrated last week the 1-year anniversary of the WhiteWave acquisition, with the great news of its B Corp certification. The gradual improvement of EDP Noram continued in the first quarter, with a sequential improvement for the third consecutive quarter. Sales were nearly flat as expected and slightly positive at 0.5% if we exclude Fresh Foods business, which as expected was broadly in line with the dynamics that we observed in Q4 2017.

We are operating in an environment that remains challenging, and we continue to execute our competitive plans to expand market leadership and build a robust and relevant innovation pipeline, manage certain category-specific headwinds in Yogurt and Premium Dairy and, of course, pursue the synergies from the integration of WhiteWave. If we go through each segment, growth was driven in Q1 by Coffee Creamers and Plant-Based segments. Both of them represent about 40% of our sales in North America. Both categories posted strong sales growth, with market share gains in dynamic categories and supported by the launch and the ramp-up of successful innovation.

In Coffee Creamers, growth was strong in both whiteners and refrigerated coffee creamers, along with double-digit growth in the ready-to-drink segment benefiting from the continued expansion of coffeehouse-inspired brand Stok.

On plant-based, Q1 confirmed the growth acceleration reflecting successful efforts to turnaround Silk plant-based beverage. Top line growth was notably driven by the ongoing rebound of the nut-based beverage category, as we observed already in Q4 last year, due to impactful activation campaigns and premium innovations. Plant-based ice creams and novelties continued to grow nicely. Finally, Vega continued its expansion outside valorized nutritional powders into adjacent categories like bars and ready-to-drink.

Moving to Yogurt. In Yogurt, sales declined marginally as we slightly outperformed a category that deteriorated in Q1, penalized by adult regular and Greek products, while emerging segments such as kids, plant-based and indulgence are growing. The outperformance resulted from growth initiatives and innovations with a favorable mix in those segments, while regular and Greek products suffered from increased promotional intensity.

Finally, Premium Dairy registered another quarter of strong sales decline in Q1, with both volumes and value down. Market dynamics remained challenging as organic milk supply continued to outstrip demand, driving lower on-shelf prices.

Overall, for the full year, we expect no change to the outlook, with the growth that continues to be broadly flat in Q2 and will then gradually improve to be slightly positive in the second part of the year. On the margin side, while we are progressing on track with the integration of WhiteWave and the synergy delivery, H1 margin will be impacted by strong freight cost inflation, as already publicly flagged by most of our F&B peers in the U.S. and also high promo pressure in some categories.

Moving to EDP International, and I'm on Page 12. So in Q1, EDP International posted as anticipated a further improvement and was back to positive growth despite continued headwinds in Brazil. If we look outside of Brazil, we had a growth for EDP International around 2%. All regions improved sequentially in Q1, and, in particular, in Europe, sales trends have confirmed the improvement trend that we observe for the third consecutive quarter while remaining slightly negative. Consumer demand improved in Europe, but at different regional pace, with U.K. and Eastern Europe being the main contributing regions to growth, while Spain and France remain still tough. From a brand perspective, Activia pursued its progressive recovery and continued to register signs of progress supported by the local rollout of innovation plans, especially, France, Spain, U.K. and Italy as well as a favorable base of comps. We will continue in the next quarters to pursue our local innovation and activation strategy and should record further progress. We continue to enjoy growth in young and local brands, driven by investment in brand support and product innovation, such as a Skyr version of Light & Free in the U.K., Bio à boire, a drinkable version of the organic brand Les Deux Vaches in France. And finally, in plant-based, Alpro continued to maintain its high single-digit growth momentum, growing both in its core markets and proceeding with its geographical expansion in France and Spain and product diversification, such as ice cream, organic beverages and coffee drinks.

Moving out of Europe, CIS posted a strong growth -- another quarter of strong growth, reflecting the resilience of its growth model, with persistent positive effects of favorable brand mix related to high-margin products. Danissimo and Danone performed well, supported by key innovation successes launched in H2 last year. In the other regions, we delivered overall slight positive growth despite Brazil decline. As expected, Brazil continued to post a double-digit negative performance that is counterbalanced by positive growth in markets like Mexico, Argentina and others. After a Q1 of great progress, we expect EDP International growth to confirm stabilization for the full year. This improvement versus last year will be driven by a gradual improvement in Europe and continued momentum for Alpro. Brazil is likely to remain under pressure as we flagged out already in previous quarters.

So finally, Waters. Waters had a good start to the year, with sales up 4.2%, balanced across regions and segments and supported by strong category fundamentals, successful premium innovation and brand activation plans. Europe delivered low to mid-single-digit growth. Local brands such as Fontvella in Spain and Zywiec Zdrój in Poland were the main contributors to growth. Asia posted strong growth, both for aquadrinks and plain water. Mizone in China was mid-single-digit in a low season, with a stable market share. And finally, North America delivered double-digit growth, driven by the continued expansion of evian. For the full year, we continue to expect solid sales growth, close to the performance that we had in 2017, well balanced among the geographies and categories. And as mentioned, in February, PET price and Brexit will be strong headwinds to the margins, and we are ramping up Protein savings program execution to mitigate as much as possible this impact.

Let's move to Page 15, nothing really new there. Looking forward to the remainder of the year, I'd like to reiterate that the environment in which we operate continues to be challenging and volatile. As discussed during the full year earnings call, this year will be colored by crude oil prices' very strong inflation: now the expectation is double-digit increase in our PET costs. Currency such as GBP devaluation will be a headwind to the model, and since a few months and that's probably the news since last time we spoke, as already highlighted by most of the other food players, we have observed a very steep increase in transport costs in the U.S.

Moving to Page 16. Having said that, I confirm our 2018 guidance as well as our 2020 ambition. Q1 is another delivery step in that direction. For 2018, our guidance is to deliver double-digit recurring EPS growth at constant exchange rate and excluding the impact of the Yakult transaction. And this will be primarily the results of our profitable growth model, including an acceleration in top line growth on a full year basis versus 2017, progressing towards our 2020 objectives in all our reporting lines, probably with H1 stronger than H2, given the comment and the expectation on normalization of Early Life Nutrition growth in China. A sustained recurring operating margin improvement will be the second factor of the guidance. This margin improvement will be colored by strong inflation of freight costs in the U.S. as well as very high inflation in PET that will be mitigated by both synergies from the integration of WhiteWave and Protein rollout, where savings will ramp up all along the year. This will lead to an improvement in margin that will be stronger in the second half than in the first half.

To wrap up, Q1 is another strong quarter of delivery, on both our economic and social agenda and I would like to reiterate my thanks to the teams. This performance gives us confidence to progress at the right pace on our agenda towards 2020 and continue to lead the way to creating and sharing sustainable value for all. Thank you for your attention, I hope with those slides it was not too painful. And I will now answer your questions.

Nadia Ben Salem-Nicolas - *Danone SA - VP Investor Relations*

Thank you, Cécile. And before we open the line to your questions, a kind reminder to ask you to keep your questions to a maximum of two to allow everyone a chance to feature. (Operator Instructions) Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question, it comes from Warren Ackerman from Societe Generale.

Warren Lester Ackerman - *Societe Generale Cross Asset Research - MD, Head of Global Staples Research and Equity Analyst*

So Warren Ackerman here at Societe Generale. Firstly, congratulations, especially with the good volume performance today. My 2 questions are; firstly, on EDP International. I think I heard you saying Cécile that ex Brazil, EDP International was plus 2%, which is obviously very encouraging. I was wondering whether you can actually just split out for us what the actual performance was in Brazil, European dairy, and then Russia, maybe some actual numbers on those 3? And maybe you can actually dig into a bit more detail on the kind of drivers and the outlook for all 3, particularly, Brazil, how long are we seeing? Or how long should we still see it being sort of double-digit negative? And then on Activia, obviously big brand, good to hear performance improving in the U.K. and Eastern Europe. What about France and Spain? And then secondly, can you talk a bit more about the margin phasing. You kind of gave us some hints by division first half, second half, but there are some other things as well happening in terms of cost savings on WhiteWave synergies and Protein, and also the fact that WhiteWave was consolidated for 1 quarter versus 2 quarters this year. So I guess, that's going to have an impact on the first half. Any kind of color around the first half, second half margin phasing will be very helpful.

Cécile Cabanis - *Danone SA - EVP, CFO, IS/IT, Cycles & Procurement*

Thank you, Warren. You're always the first to ask your questions. So on EDP International, I think the overall message to retain is that outside of Brazil, there has been progress in all regions in terms of the agenda. On the European part, we are making progress, but still having, on the dairy side, a slight negative growth performance in Q1. However, we have Alpro, as you know, that is continuing to grow high single-digit. In Russia, I said strong performance. So it's really a consistent, solid-to-strong growth that we've been observing since a few quarters with negative volume, but having continued success in executing the plans around the brand mix and valorizations. So this continued to pay on results. And in rest of the world, if you take all other regions, it's slightly positive, including a double-digit negative performance in Brazil. So this means that the rest of the market is overall positive, with a good momentum and dynamics of growth. So that's overall the split that we have. Going forward for the remaining part of the year, we will continue to see progress and confirm stabilization quarter after quarter. Once again, we are being very careful not to push for tactical short-term improvement, but making sure that we are taking the stand to restore the growth in a sustainable manner. So we will confirm that within the full year. And as we said in Q4, and there is no change there, Brazil will continue to be impacted with headwinds for the remainder of the year with no real improvement. So that's the overall EDP International dynamics.

Then moving to margin. Let me make different comments. First, last year, we decided to move to a guidance on EPS because we wanted to make sure that we could decouple growth acceleration and margin efficiencies and have the flexibility to make sure that we would manage the right combination of both sales and margin in order to deliver short time agenda, but also transform and go to our 2020 path. And what we committed is that there will be sustained improvement of margin year-on-year. And that at the end of the day, the contract we would pass would be on the EPS guidance. So on the margin, we are committed to what we said, meaning that there will be a sustained improvement of margin for the full year. There will be an improvement in H1, but given the strong headwinds, we said that the improvements in H1 is likely to be lower than the improvement in H2, where both synergies for Noram and Protein savings will ramp up and accelerate throughout the year. So that's the overall message on margin. I don't want to guide more precisely because I don't think it would make justice to what we do every day in ensuring that we are managing the risks and ops. We are investing at the right pace and in an agile manner to ensure our growth pace as well.

Operator

The next question comes from Eileen Khoo from Morgan Stanley.

Eileen Khoo - *Morgan Stanley, Research Division - Equity Analyst*

Two quick questions for me. So first of all, in EDP International, it's encouraging to see your sales turn positive in 1Q. For Europe, specifically, on what you call your young brands, am I right in thinking it's a quarter of your portfolio in Europe now? And could you give us more color on what growth you are seeing here, and how the strategy fits in with your Activia franchise? So for example, is the growth adding to Activia, or is there some cannibalization? That's the first question. The second question is on China ELN. Would you be able to give us some color on growth rate in the channels, so would it be fair to say that direct is still growing 100% for you? And how much of this 50% growth is actually coming from just the distribution rollout, so sell-in rather than sell-out of Aptamil Platinum. So in other words, how much is actually sustainable for H2 and beyond?

Cécile Cabanis - *Danone SA - EVP, CFO, IS/IT, Cycles & Procurement*

Okay. So maybe I'll start with China. I think to answer your question about how much is sustainable it's overall, what we said in term of the normalization of the growth. Meaning, today you have a market demand that is still double-digit. But as we already commented, you will start to recycle the births of H2 2016, and then start to enter a period where you have an effect of the deceleration of births from 2017. So there will be a normalization of the market. And we've said that, mid-term, we expect the market to grow somewhere low single to mid-single-digit. So that's the overall outlook for the market. There will still be a strong Q2. And then, we will start facing very strong comps from last year and the normalization will happen. On direct sales, what we say is 90% of the growth is now from direct. And you know that we are rebalancing quarter after quarter, the weight between indirect and direct. So I will leave you to make your own math. But overall, the direct channel is a very, very important part of the growth. It's 90%. Then, if we move towards distribution gain, yes, it's a part of the growth. It's also an impact from the mix of the growth, positive mix of the growth because we are in an ultra-premium segment with a premium valorization. So it has an impact on the overall mix of growth. But here again, if you want to reconnect with the outlook and what to expect in the coming quarters, just take our outlook for the year, which is growth will normalize and we expect now Specialized Nutrition for the full year to be mid- to high single-digit. That will be supported by the strong dynamic of Chinese IMF demand, but also with very strong progress in the direct platform. So this is where we are. There will continue to be volatility, so you also need to bear with us from the indirect part. But overall, this is the outlook that we have and don't forget that at that time ELN in China will be normalizing, we will make further progress in the rest of the reporting lines, mainly EDP. So overall, there will be a contribution to growth that will rebalance between the different categories of the portfolio.

Then on EDP International. Your question on Activia and whether the growth is adding. So before growth will be adding, the first part of the answer is that Activia is progressing towards recovery. It's not a brand that is yet recovered. So today, everything that we do, and innovation is participating to that, is in order to stabilize sequentially the brand before we can grow it again. It's very important to understand that innovation is also because, today, you are in the middle of disruption from consumer and from channels, so there is a lot of growth that is coming also from formats in new channels. So part of the plan is bringing improvement in the recovery and stabilization of the brand. It's very difficult to split on very precise effect in term of cannibalizing. The overall commitment is to recover growth in the brand and all the teams are making everything they have to in term of plans of activation and innovation to make sure it happens. So yes, there will be some change in the portfolio in terms of what is contributing to growth. And Europe so was -- Eileen, you had another question on Europe or it was Activia?

Eileen Khoo - *Morgan Stanley, Research Division - Equity Analyst*

Yes. It was just on the young brands actually. Well, is it -- I mean, how big a portfolio -- part of your portfolio in Europe is it now?

Cécile Cabanis - *Danone SA - EVP, CFO, IS/IT, Cycles & Procurement*

It's still small. It's less than 20% today.

Eileen Khoo - *Morgan Stanley, Research Division - Equity Analyst*

Sorry. I was asking about is it still growing high single-digit for you. I think that's what you were saying last time.

Cécile Cabanis - *Danone SA - EVP, CFO, IS/IT, Cycles & Procurement*

Yes. Yes. Absolutely.

Operator

The next question comes from Martin Deboo from Jefferies.

Martin John Deboo - *Jefferies LLC, Research Division - Equity Analyst*

Two quick ones for me. The first on China baby and I maybe just like to ask Eileen's question a different way, which is Cécile, can you remind me what your read is on the H2 '16 births in China versus the prior year, just so we can get clear on what the birth effect is? That's the question on that one. And secondly, I'm just going to re-ask the question I asked at Q1, which is around mix dynamics. So are you prepared to say of the price mix component, how much was mix and how much was price? And just in terms of mix drivers, you've called out Aptamil in Specialized, so I won't label that point, but again, you've got very positive price mix in EDP International, a lot of which I think must be mix. What is driving that exactly? You talked on the call last time, or Emmanuel did, about Russia milk declining and with positive mix, but any color on mix dynamics and particularly, in EDP International would be helpful? Those are my 2 questions.

Cécile Cabanis - *Danone SA - EVP, CFO, IS/IT, Cycles & Procurement*

Okay. Thank you. So in terms of the births for China, in 2016, what we have observed is around 7% increase in birth, which mostly occurred in H2, where we have around 13% increase in birth. And then, in 2017, we saw a decrease -- an overall decrease in that. That's the overall dynamic. And then, given the fact that you have both IF Milk, and then growing-up milk, it takes some time to recycle over the different stages. On vol mix price, so overall you're right to say that most of the price effect is in EDP International, given the dynamics on both Argentina and Russia. Overall, if we take Medical, Specialized Nutrition, there is no price impact. And in EDP International, you have a bit more than 50% that is linked to price. So that's the overall impact. We continue to be at company level driven more by mix than price.

Operator

The next question will come from Alain Oberhuber from MainFirst.

Alain-Sebastian Oberhuber - *MainFirst Bank AG, Research Division - Head of Equity Research Switzerland & MD*

Alain Oberhuber, MainFirst. I have 2 questions, regarding the Waters business. This decline we've seen in Mexico, would you tell us how much Waters would have been? Obviously, we haven't seen this decline, and when do you think a recovery in Mexico Waters? And the second question is regarding its impact, which was significantly at today's constant currency, what will then be a full year negative impact on currencies?

Cécile Cabanis - *Danone SA - EVP, CFO, IS/IT, Cycles & Procurement*

Your second question, Alain, was on the EPS or on something else?

Alain-Sebastian Oberhuber - *MainFirst Bank AG, Research Division - Head of Equity Research Switzerland & MD*

No, just on group sales. Just on group sales. I mean, you went down -- sorry 8.9, if we look at currency...

Cécile Cabanis - *Danone SA - EVP, CFO, IS/IT, Cycles & Procurement*

So I'll take this one. So on sales, we expect FX to be mid- to high single-digit negative on the full year top line, driven still by the appreciation of the euro against our main foreign currencies i.e. the U.S., Argentina, Russian ruble. And the impact will be unbalanced high single-digit in H1. You've seen Q1 being very strong. We will see around the same pattern may be slightly less in Q2. And low to mid-single-digit in H2, but as we speak now, then we will have, of course, to monitor quarter after quarter. And then, your other question, Mexico...

Alain-Sebastian Oberhuber - *MainFirst Bank AG, Research Division - Head of Equity Research Switzerland & MD*

Waters for the quarter for Mexico?

Cécile Cabanis - *Danone SA - EVP, CFO, IS/IT, Cycles & Procurement*

Yes. I think we need to be very relaxed, so to say, on Mexico because there was a short-term impact linked to weather condition. It will be restored in Q2. The overall performance of Waters has been very solid again on the back of very strong category dynamics, strong plans. And we will continue to have the same outlook as the one we said in releasing our full year number in 2017. So on that, there is no change in trend, there is no change in dynamics and no change in confidence to have another great year of growth for Waters.

Operator

The next question comes from Jon Cox from Kepler Cheuvreux.

Jon Cox - *Kepler Cheuvreux, Research Division - Head of Swiss Equities and Head of European Consumer Equities*

Congrats on my side as well, good set of figures there. But I wonder -- I have 2 questions. One, on just the margin one. Just to come back to that. If you look at consensus, it's around 15% underlying operating margin for this year. Given what you're saying, are you comfortable with that figure still, or you think it's maybe a little bit too high? Second question, just on the North American business. I'm just wondering, if you can give us a bit more granularity about what's happening there; particularly, any thoughts on maybe divesting the Fresh Foods business because obviously that remains a big -- a big drag. And also about organic milk overhang, you said you were trying to develop new products and that is still weighing. Just wondering how the development of new products in organic is maybe going to trying to help get rid of that sort of oversupply situation of organic milk?

Cécile Cabanis - *Danone SA - EVP, CFO, IS/IT, Cycles & Procurement*

Thank you. So as you saw in February, I did not guide on margin, except the sustained improvement in margin. My commitment is to deliver full year guidance 2018, which is around the double-digit recurring EPS growth at constant exchange rate, and outside the impact of Yakult transaction. I have committed that there is an improvement that will be consistent and sustained year-on-year in order to reach, in 2020, 16%. So we're still aiming to do that. I will not comment further at this stage. We've been having recently very steep increase in freight cost that we are working on mitigating through the synergies, through the acceleration on our Protein delivery. There is still a volatile environment out there. We need to keep the flexibility to manage our risk and opportunities. And continue to invest for the right reason behind our growth, and on that I will not compromise. So we need to make sure that, within all that, we are delivering on our objective. And I can tell you that we will deliver on our objectives. On North America, and on Fresh Foods, it's true that I didn't comment Fresh Foods. We continue to see, in terms of top line, negative development. We continue to turnaround the business as well as making sure that we are adapting and rebuilding the cost base and the supply. So that is in process. As I said to you, this is our first priority regarding this business. And then, we will decide on if there is any strategic options that need to be looked at. And if we are the best operator to operate this business going forward, acknowledging that we continue to believe that there is a strategic value in this business. And then, on Premium Dairy and organic milk, yes, we continue to innovate into premium milk. But given the price range between what used to be organic, what is conventional, we are looking at products that are better than conventional, but still driving mix down versus organic milk, and we continue to work on plans. It's an overall industry-supply issue, which is long to recover, but we are working on that. The overall organic category and dynamics, we have no doubt about and Horizon is a great brand. So we need to face this cycle, and then rebuild the overall growth dynamics.

Nadia Ben Salem-Nicolas - *Danone SA - VP Investor Relations*

Maybe 2 last questions before we end the call.

Operator

The next question comes from Jeremy Fialko from Redburn.

Jeremy Fialko - *Redburn (Europe) Limited, Research Division - Partner of Food Manufacturing & HPC Research*

It's Jeremy Fialko, Redburn. So just following up on Jon's question on the U.S. market. Can you talk a little bit more about the yogurt and the Greek side, clearly, you signal some greater promotion in that market. Do you think there is some more structural issues within that side of the business given the fact that there's been such a big shift towards the plant-based products, which I guess you're benefiting from on the other side of business? So could this promotion be sustained as demand declines? And then, secondly, if you could just split out the contribution of pricing in Argentina to the organic growth within the EDP International, given there was about a 30% currency devaluation quarter-on-quarter in there?

Cécile Cabanis - *Danone SA - EVP, CFO, IS/IT, Cycles & Procurement*

Thank you. So in terms of the U.S. markets yogurt dynamic, our sales declined slightly in Q1. In the soft category that was a low single-digit negative. So we continue to have a market share that is up, an all-time high at 33.6%. What we commented in the previous quarters on the yogurt category is that overall, in the past years the shelf space had increased. So there has been attraction to the overall category, and we continue to believe that there is potential growth in this category. The per capita is still low. Now this shelf has been getting quite crowded, given the Greek dynamics that has been observed, and regular yogurt, also, given the performance of some competitors. So we are in a time where we need to manage better the shelf. We need to go through these dynamics around regular and Greek. But overall, if you look at other segment of yogurts like kids, plant-based, other emerging trends and indulgence, this is a dynamic market. So there is a kind of shift of growth on the shelf, and we also need to make sure that we are managing the overall crowded part of Greek shelf increasing velocity and managing that. So for the time being, there has been especially, in Q1, high promotional intensity around Greek and regular, but we don't see that as a fatality going forward, and we continue to see that there is a lot of space and potential for yogurt going forward, and we have great plans to come through the remaining of the year. So that makes us confident. We have great innovation across formats. Well performing around Activia Dailies, Happy Family, so we continue to activate the portfolio to put good innovation and work with the trend on the category. And then on EDP International, I will not go further to what I said. One way for you to look at is to look at the impact that we posted last year in terms of removing the adjustment we made on the overall inflation. It's probably the best way you can get an overall estimation on the impact of Argentina -- on the impact of the overall inflation of Argentina to the overall equation in terms of topline. So last year we were around 0.4 -- 0.5% to company.

Nadia Ben Salem-Nicolas - *Danone SA - VP Investor Relations*

One last question.

Operator

The final question comes from Alex Smith from Barclays.

Alexander Piers Smith - *Barclays Bank PLC, Research Division - Research Analyst*

Just firstly, on Specialized Nutrition. Are you able to say how much of the growth benefited from the inventory restock in China? I think you said you had low levels of inventory Q4, normal in Q1. I think your guidance of Q2 being high single digits, so is that difference effectively coming from the inventory restock, if I'm not mistaken? And then really following up more on ELN China. Appreciate you talked about the market beginning to slow as we get into the second half, but if I look at the last few quarters you talked about the market being up double digits. This quarter, your own growth was over 50%, pretty much all coming from direct. And so it seems like you're really taking a significant amount of market share? This is not a criticism, obviously. I'm just trying to understand where it's coming from? What it is -- are your brands differentiated compared to your other international competition? Or is it something in the execution or channel mix? Just trying to help that dynamic would be helpful. And then just a quick question.

Cécile Cabanis - *Danone SA - EVP, CFO, IS/IT, Cycles & Procurement*

Sorry, go ahead.

Alexander Piers Smith - *Barclays Bank PLC, Research Division - Research Analyst*

Sorry. I had another quick question on EDP Noram. Obviously, the cost synergy is beginning to come through. I'm just wondering where we are on the revenue synergy side of the story in terms of combining WhiteWave with your legacy yogurt business? So what sort of time frame can we begin to see some of those great benefits beginning to come through?

Cécile Cabanis - *Danone SA - EVP, CFO, IS/IT, Cycles & Procurement*

So I'll start with the second one on EDP Noram. Revenue synergies are coming through. You remember that when we announced the transaction, we were quite conservative on the revenue synergies making sure that we were only talking about parts of the regions where we had both portfolios in place. The synergies are coming through according to plan. We aimed and announced that we would do $75 million worth EBIT of revenue synergy. So we are in this plan, and we will have the first chunk obviously this year, for both Alpro in Europe, coming into France and Spain more strongly. And also, North America given the portfolio, and Mexico to some extent. So it's coming through. It's there, and it's according to plan. On Specialized Nutrition, probably the best way is really to list all the impacts because, for example, if you take inventory, it's a minor part of the impact. But it's part of the impact. And when you need to reconcile, and I'm sure, for you it's been quite tough to reconcile the market growth together with our growth, it's important to make sure that you have the full list of impacts because each of them -- some are bigger than others -- but each of them is counting. So I will go again through the list. So you can make sure that you have all of them, and then I will let you follow with the team, if you still need to follow-up on that. So when you look at the performance in China, for Q1, it was overall 2/3 volume and 1/3 value. It was supported by the strong market demand. We commented it several times. It's double-digit growth. It's driven by primarily growing up milk segment, as a result of the peak in births in H2 2016, while Stage 1 category started to normalize given the lower number of births in 2017. So that's the first item, which is already double-digit. Then the growth was supported as you mentioned by market share gains. And market share gains especially in the fastest-growing segments, in direct -- in the direct-- channel , both in e-commerce and mom & baby stores. Then, there was a continued expansion of the Aptamil Platinum in the ultra-premium category, which is now representing 20% of our sales and which is driving positive mix to the overall contribution of sales growth. The other thing is that we benefited from a year-on-year favorable comparison on the indirect part of the business. Because if you remember, 2016 -- second half of 2016 -- the indirect part of the business started to bear negative volatility because of the announcement of the regulation that was going to come in several quarters and last year, if you remember, as from Q3, we started to observe that even the indirect part was growing again, on the base of very low comps. So you have also a part which is driven by low comps on the indirect part of the channel. And lastly, there is this stock impact, although it's minor. Don't think that we are getting a big impact from the inventory, but it's there. So I wanted to mention it. We ended the stock very low in 2017, again, because of higher demand than expected. And we are rebuilding a healthy and normalized level of inventory, so it plays partly in the overall growth. So you really need to take all these impacts to make sure that you reconcile properly the growth rate that we've seen in the market and our very great performance. And I think it's also a tribute to the work that is done by the team. And the fact that we have a very strong brand that attracts market demand, and we can also be very happy with this performance, not by chance.

Nadia Ben Salem-Nicolas - *Danone SA - VP Investor Relations*

I think we went through all your questions, Alex? So with that, I propose we close the call. We remain available with Tommaso to follow-on later in the day. Thank you very much for your attention. Have a good day.

Cécile Cabanis - *Danone SA - EVP, CFO, IS/IT, Cycles & Procurement*

Thank you all. Have a good day.

Operator

That will conclude today's call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.
