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PRESENTATION

Operator

Ladies and gentlemen, thank you all for standing by, and welcome to this Danone Q3 2020 Sales. (Operator Instructions) I must advise you all that this conference is being recorded today, Monday, the 19th of October 2020.

Without any further delay, I would like to hand the conference over to your first speaker for today, Ms. Nadia Ben Salem-Nicolas. Please go ahead, ma'am.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Good morning, everyone, Nadia Ben Salem-Nicolas speaking, Head of Investor Relations at Danone. Welcome to Danone's conference call for its third quarter sales, originally scheduled tomorrow, Tuesday, finally pulled forward to this morning. So thanks for your flexibility and for being with us today.

I'm here with Emmanuel Faber and Cécile Cabanis, who will first go through the presentation before taking your questions in a second step, and we'll ensure we'll leave enough time for that.

I draw, as usual, your attention to the disclaimer on Page 2. And with that, let me hand it over to Emmanuel.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you, Nadia. Welcome to you all. I hope you're all in good shape and in good health in this complex world. Thank you again for your flexibility, indeed. We had some unpleasant rumors on Friday and felt that we would limit undue volatility by just advancing this call to today.

And maybe let me start, before we go into our numbers and the perspectives, by what is personally touching me probably most directly this morning with Cécile having made a decision to leave Danone. Cécile and I have been working together for many years, and she's been very close by my side since I'm in my current role. So I'm seeing a great teammate and partner go, and Cécile and I felt that the best would be for us to address this as we enter into this call.

So maybe, Cécile, a few words.

Cécile Cabanis - *Danone S.A. - Executive VP, CFO, Technology, Data, Cycles & Procurement*

Yes. Thank you, Emmanuel. You will see that it is with great emotion that I'm giving the news today that I'm leaving 16 very exciting years at Danone, 16 years in which I have participated in all great transformation and adventures of the company, 16 years of action, of deep commitment and convictions alongside, first, Franck, and then Emmanuel.

The last 5 years have been rich. I've been talking with you many times as CFO, working with and enjoying the trust that Emmanuel gave me. I had the chance to contribute in a cycle that you followed closely, which was a profound transformation, driven by an absolutely unique vision and working with incredible teams from the acquisition of WhiteWave that you remember, where Danone became the leader in plant-based and organic; the focus on delivery and growth of 50% of the EPS and also the delivery, and you will see a slight over-delivery of the protein ambition of EUR 1 billion efficiency; and of course, the formalization of the integrated goals for 2030 that really helped transform Danone into a company that is driven with a very compelling vision and mission.

I must say I'm very proud of this journey. I didn't make it alone. It was done as a team work with incredible teams, as I said. And as you've seen, for those who have read the press release already, Danone is taking a new step on new foundation and is entering a new 5-year cycle. So this was the time for me to reflect and ask myself an essential question: do I throw my full energy into this cycle and commit for several years? Or do I look at something else and starting a new cycle of myself? There was a lot of thinking, discussions with Emmanuel and members of the Board, whom I thank deeply for their trust as well. And I believe that the opening of this new chapter for Danone must correspond to a new chapter for me.

Now is the time, after 16 years, to start something new. I'm fully convinced that the adaptation plans that we will lay out during this call and on which we've been working since several weeks are the right ones for Danone.

It's the moment for Danone to entrust a new team with the responsibility of continuing to build this unique company towards a new chapter of development. So new chapter, new team, new organization, it seems consistent. I know I'm leaving an incredible company with incredible and committed teams and people.

I'm also convinced that I leave finance, strategy, M&A, IT and Cycles & Procurement teams fully equipped to drive the changes that are needed today. The period ahead is full of challenges, but I know that the teams under the leadership of Emmanuel will seize them and find the right innovative solutions, responses that will adapt well to the COVID world that we will live in now.

The new Comex organization has been designed precisely to support that, and I will be helping my team. I welcome Juergen, the new CFO, and I will be helping him as well and Emmanuel with my full commitment. I will stay very close to Danone, very loyal to the company and the teams. And of course, I will keep many friends.

Sorry. Maybe I was a bit long, but it's a very important moment for me. Thank you.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you, Cécile, and thank you for taking the time. I know your decision is a profoundly personal one. I can, and we can only respect it and express our deepest gratitude for your extraordinary dedication and contribution to our company. As I just said, I'm seeing you go as a partner and a wonderful colleague. We wish you an incredible future after you leave us in February, and we'll have more time for proper goodbyes.

Thanks, in any case, for working with us through this transition, and welcome to Juergen, which Cécile and Nadia will have opportunities to introduce to you as a community in the coming weeks and months as this is how we have been designing the transition going forward.

If we now go into today's agenda. I think the title page is summarizing in a few words but important words what messages we want to convey to you. This is a new world, and therefore, in many ways, this company will need to reinvent itself again, as probably many others, but that's clearly what we have in mind here, with 4 key words for now, which is Deliver, Reshape, Review and Adapt.

So if you go maybe directly to Page 3 of the presentation. What you will hear from us today in a nutshell is the confirmation of sequential improvement of our sales growth in the course of H2 this year, our restored full year guidance of 14% recurring operating margin and EUR 1.8 billion free cash flow for the full year 2020. And we'll be talking about reshaping the organization of Danone for the future, updating you on our adaptation plans to this new COVID world; and finally, launching a full strategic portfolio review with a simple objective: reconnect ASAP with our 3% to 5% profitable growth midterm guidance.

Page 4 gives you a little bit of where we are today. This blue arrow is basically the way we have pictured for ourselves this pandemic crisis with, as you know, 3 phases: the first half of 2020, which has been about the outbreak and the lockdowns, where we have protected our ecosystem and our ability to continue to serve best our customers, consumers, patients, babies, parents with our brands; the second half, which is as we are right now, where we see some stop-and-go reopenings but also re-closing, where it's really a phase for us to learn, what is here to stick and what is here simply as a phase of lockdowns. And '21 onwards will be the new normal for which we are now actively preparing ourselves.

So when it comes to the Q3, you will see a sequential improvement in Q3, further acceleration of EDP and sustained delivery of efficiencies, as Cécile mentioned. The focus will be on delivery for Q4. We believe we have this opportunity to keep our market share momentum. That's the right moment for large brands to shine, and we want to have that, and secure the expected levels of margin and cash, as I just outlined.

Beyond and, therefore, in Q1, we will implement our adaptation plans to, as I just said, reconnect ASAP with our profitable growth agenda.

On Page 5, these are a few words and pictures just to share what we have learned from the last 9 months, and there was a lot to learn from and shaping how we are responding to this. Probably the overarching one is the first one. Local empowerment is king. It's a pandemic in which the governments, the countries are driving the agenda of what economies and societies will look like in 1, 2, 3, 4, 5, 10 years from now. Governments are back into the game in many, many ways. Multilateralism, as you know, is at stake. And therefore, our vision that local is where everything needs to start when it comes to food and agriculture is even more important right now.

The second is, of course, with all the matter of the resilience of the food supplies, macro and micro, company by company, there is a need for extreme supply chain and customer service agility at a competitive cost.

The third is that the ways people eat and drink today, and including during the pandemic, is creating consumer-centric growth opportunities that are both within defined categories, including the ones that we have, but also across those categories and beyond those categories.

The fourth aspect is that beyond the ups and downs, there will be structural channel shifts, and e-commerce is definitely one, of course.

And finally, this is a moment where there is a power of trusted brands with a strong heritage, local relevance, and we need to take that into account in the way we continue to shape and support our portfolio of brands.

So with that, on Page 6, basically, 3 chapters to reconnect as fast as possible with our 3-5% profitable growth agenda, 3 big decisions. I'd actually start with the bottom one, portfolio review.

We are starting a strategic review to accelerate our return to profitable growth from a portfolio standpoint. So from an organic standpoint, it means we are going to, and we have started, including all our brands, all our SKUs and assets review. It's very clear for us that when it comes to SKUs, for instance, some of our categories in some of the channels will not be able to carry as many SKUs as we have today.

It's clear from our customers, the logistics, the supply chain constraints that they have is getting them to shorten their range. And therefore, there is an opportunity for us to make sure that we focus our portfolio of SKUs. And in some cases, it could go up probably in countries and categories to 20%, 30% cuts in SKUs that we are reviewing.

Same for brands. The smaller brands were everything that counted 5 years ago in the food revolution. Very clearly, they will continue to have a role, but that cannot be the same role. And we also see all the benefits, both from a growth and an efficiency and cost savings standpoint, of running the larger ones as well. So brands are under review.

And assets, whether this is factories, logistic supplies, fleets, everything is obviously going to be reviewed with the same spirit.

Beyond this organic review, there is also an inorganic review, where we are starting to look at our businesses and, again, see how much we believe that they can be fit for a 3% to 5% profitable growth agenda in this new world. And we are announcing today that we are reviewing our Argentina and Vega brand as an immediate step, and it's quite likely that other assets will be reviewed as well.

Moving upstairs. The next obvious thing that we have started to work on is optimizing our execution in this new world. We see significant opportunities for growth and efficiency acceleration that we want to implement as soon as the Q1 of next year, and thereby, finalizing and accelerating the finalization of our detailed plans of adaptation with, from an organizational standpoint, 2 very simple but, we believe, radically important principles.

One, countries will be empowered for speed and relevance of action -- business action locally. Second, that goes with the delayering of the pyramid to simplify the ways of working. In other words, the rest of the organization needs to be as lean as possible in serving the countries. The consequence of that, we believe, is going to be higher growth opportunities because of the speed to market and decisions locally and very significant cost savings in the way we work overall as a company.

The third upstairs is what actually starts this morning, the reshaping of the organization, with a fitter and more agile, to best serve strategy and execution, executive committee team. And I suggest we actually shift directly to Page 7 to look at what it means.

So from the team we had in January and effective in November this year, you can see on the box on the right side, first of all, we are appointing 2 macro regional CEOs, covering both Danone North America and Danone International. It will help us reap benefits, in particular for Danone North America, of smaller businesses that today we run outside of the EDP North America business like the evian water business, the Happy Family, the Nutricia business, which will go now directly under Shane Grant's responsibility.

And for Danone International, Véronique Penchienati, who now heads Specialized Nutrition and has built the merger of our Early Life Nutrition with Advanced Medical Nutrition businesses last year, Véronique will be the CEO of this macro region of Danone International, basically covering the rest of the businesses of Danone and our current category organizations for EDP, for Waters and Africa, gradually starting from today.

The focus of these functions will be to foster and optimize the local execution of our strategies and also work on all the cross-category synergies that we can reach both from a cost and a revenue standpoint.

We then have 2 global functions, one that you know already with Nigyar, who is our Chief Growth Officer, covering knowledge about strategy and insights on consumers, brand management, digital and a number of other topline-related activities.

And we create, next to this function, a Chief Operating Officer role, held by Henri Bruxelles, in charge of an end-to-end function that is required to perfect the way we design and we deliver our brands, our products. So Henri will be in charge of an integrated function that goes from R&D, innovation, suppliers, cycles and procurement, manufacturing, supply chain, logistics and quality.

So this is going to be a transformational function for us, allowing us to reap the benefits of a seamless function all across this chain and therefore, much more efficient in terms of costs, in terms of growth because it will be more focused and, of course, seizing a lot of opportunities across categories when we will organize the manufacturing, the logistics footprint and the delivery footprint of our businesses in the countries locally.

Finally, as we mentioned before, Cécile will transition after the full year of this year, and Juergen will gradually take over from Cécile with a full completion in his function as the Chief Financial Officer, Tech and Data as of February '21. No change for Bertrand, who'll continue to head our human resources function and the general secretary for us.

What that leaves us with for the next 12 weeks agenda on Page 8 is, first of all, absolute focus on delivery. The Q4 sales will confirm sequential improvement in our gradual recovery from COVID, albeit at a slower trend. We will keep our market share momentum. We have our efficiency actions and cost-control measures in place and, therefore, will secure the expected level of margins at 14% and free cash flow at EUR 1.8 billion, as I mentioned before.

The second chapter of the next 12 weeks agenda is to finalize the adaptation plans that obviously we will present to you before implementing them in Q1 next year.

And the third is obviously progressing full speed on our strategic review agenda on which, again, we will update you as things unfold.

With that, I'd like to ask Cécile to take us through the review of our financials for the third quarter. Thank you.

Cécile Cabanis - *Danone S.A. - Executive VP, CFO, Technology, Data, Cycles & Procurement*

Thanks, Emmanuel. So I ask you to move on to Page 10.

We are publishing today Q3 sales, which are broadly in line with expectations. They show, as expected, a sequential improvement versus Q2. On a like-for-like basis, sales were down minus 2.5%, which is half of the level of decline that we observed in Q2. This improvement has been possible, thanks to EDP, which is now consistently delivering a plus 3% growth rate and, as expected, a material improvement on the Q2 decline from Waters. And you can see that the performance has improved in both developed and emerging markets.

Moving to the next page, which is an important one because it shows really how much the channel shift impacted by the COVID context has impacted the overall performance. And we believe it's the most relevant way to analyze the performance in the quarter.

It's obviously contextual, dependent on COVID, as I said, and it shows that the company top line are very extreme trends, sorry, depending on channel. If you look at at-home consumption, it remains buoyant, especially in the U.S., driven growth in the grocery channel, which is up 8%. We are seeing the same kind of dynamic for Waters in large jugs that are consumed at home in emerging markets, as you know, Indonesia and Mexico.

E-commerce is more and more sticking into people habits, and growth accelerated even faster than during the lockdown period. It's up more than 40% in Q3, now reaching 8% of Danone total sales.

If we look at the headwinds, we find, again, out-of-home channels, both for Waters, down 25% and accounting for 45% of the category sales in Q3; and for EDP, notably Noram, down 30%, and accounting for 10% of Noram sales.

The biggest impact is the travel freeze and border closures, which is weighing on cross-border channels in China on our Early Life Nutrition business, and these channels were down 60% in Q3.

Despite this context of channel extreme trends, it's important, Page 12, to note that our brands continue to compete effectively in their core markets. We continue to gain share in approximately 50% of our portfolio through most of our large brands, on average, the one you have in the chart, which gained around 100 bps market share since the beginning of the year.

If we take a look at EDP brand, especially, they have maintained their strong momentum with continued share gains from International Delight and Horizon organic in the U.S., Actimel and Activia in the U.K. or Danette in France. Water brands have also gained shares in Q3 despite continued channel disruption. This is the case for evian and Volvic in Europe, for Aqua in Indonesia and Bonafont in Mexico.

Moving to the sales bridge. So net sales amounted to EUR 5.8 billion for Q3, down 9.3% versus last year on a reported basis. And this is primarily impacted by change in currencies, which had an effect of 7.1% negative on the quarter, which is mainly driven by devaluation in Latin America and Russia since the beginning of the year and, most recently, by a 5% depreciation of the U.S. dollar against the euro.

Next in the bridge is Argentina, which you know is not accounted for in our like-for-like basis and adding an extra 20 bps. On a like-for-like basis, revenues declined by 2.5% in the quarter. Volumes materially improved, minus 0.4% versus Q2 at minus 2.6%, with better trend across all 3 businesses, while remaining affected by the negative Waters performance.

Value also sequentially improved at minus 2.1%. It reflects negative country mix, mostly driven by the China slowdown for Specialized Nutrition and partially offset by a product mix that helped us well in EDP and SN, still continuing to be a drag for Waters. Pricing was overall stable, and positive product mix reflected the continued resilience of our portfolio.

Moving now into the details of each category, starting with Essential Dairy and Plant-based. So as I said, we are pleased to report that this quarter, again, our largest business has been the fastest-growing one, posting a significant acceleration in sales of 3.7% on a like-for-like basis, doubling Q2 growth levels and with a notable 4% growth in volumes. It brings EDP like-for-like sales growth year-to-date to over 3%.

All segments have been growing, including the Essential Dairy part of the business with probiotics and functional yogurts. Organic milk and coffee creamers are among the best-performing segments. Plant-based sales were up well into high-teens level, both in North America and in Europe, where sales continue to benefit from higher penetration, higher frequency and also expansion into new categories and ingredients. Year-to-date, plant-based sales reached EUR 1.7 billion.

If we look at the performance by region, Europe and North America continued mid-single-digit momentum since the beginning of the year. In Europe, it was sustained, as I commented earlier, by further market share gains, thanks to Actimel and Danone brands in particular. Alpro posted, again, high-teens growth within its 4 historical markets as well as outside these markets well into double-digit growth.

North America business continued to be positively impacted by the shift to at-home consumption, benefiting essential food categories like ours. Premium dairy and plant-based both grew at double-digit rates, and U.S. yogurt grew moderately in retail.

Channel dynamics, that I commented earlier and observed in Q2, were confirmed in Q3 with the partial reopening of out-of-home, favoring a bit the coffee creamers category. But on the other hand, we observed continued strength in retail and in e-commerce.

Rest of the world, the business is now back to growth with CIS solid growth, confirming the continued success of revamping our traditional portfolio, especially under the Prostokvashino brand. We continue to observe, however, pressure in Mexico and Africa. Elsewhere, we saw first signs of improvement versus H1 and notably in Brazil.

If we look at Q4, we believe that the category can maintain this momentum, and we don't expect any major change in dynamic.

Moving Page 15 on Specialized Nutrition. We had, in Q3, strong swings in demand, which have been observed since the beginning of the year, leading sales to decline 5.7% on a like-for-like basis this quarter, which brings overall the year-to-date sales of Specialized Nutrition flat.

Moving to China, which is the big part of the volatility of this quarter, we experienced a steep double-digit decline in the quarter against a high base last year when China was growing at more than 20%. This resulted from headwinds related to channel logistic issues caused by COVID-19, which generated a cross-border channel contraction and pantry destocking dynamics.

What happened is that the continuous border closure and travel limitation between Mainland China and Europe, Oceania and Hong Kong led to a sharp contraction by around 60% of the sales done through cross-border channel. As a reminder, these channels include the so-called Indirect channel and Hong Kong platform, which represent combined 40% of our Infant Nutrition business in China.

By contrast, the sellout in domestic channels, such as mum&baby stores, direct e-commerce and direct international, showed good resilience in the quarter with Aptamil keeping a solid sellout momentum and market share gains driven still by the Aptamil Platinum range. Aptamil remains the #1 brand in direct e-commerce in China.

Globally speaking, all channels suffered from further destocking after the H1 pantry loading, not only at daigous level, but also at mum&baby stores' after a restocking phase that we observed in Q2 following store closures in Q1 at the beginning of the pandemic.

Europe posted mid-single-digit decline, impacted by lower hospital activity that remained below pre-COVID level and by softer category dynamics versus pre-COVID, mainly on infant milk formula. Yet, we are seeing solid share gains in our key markets like U.K., Poland, Netherlands, and e-commerce continues to be a very strong driver of growth, posting growth above 20%.

On other regions like Southeast Asia, Middle East and Americas, they maintained their strong growth momentum with all platforms growing and further taking shares. The platform notably benefited from a strong acceleration of e-commerce and the launch of some successful innovation, both under the Aptamil umbrella and local brands.

Looking at Q4. We expect Specialized Nutrition growth to improve but remain negative, given continued headwind expected from cross-border channel on Early Life Nutrition China.

Moving to next page, Page 16, on Water. The category remains severely under pressure in Q3, as expected. Sales are down minus 13.5%. And this decline was less than half to Q2 level, so in line with the sequential improvement that we expected.

The performance is here again entirely correlated with the level of openings in out-of-home channel and more broadly with the level of traffic. In the quarter, we have registered sales declining by 25% in out-of-home, while at-home sales continue to hold up well, and this explains also the meaningful improvement versus Q2.

Looking at the regional split. Recovery was not balanced, while in the Q2, all geographies were down between 20% and 40%. In Q3, Europe and China saw a relaxation in traffic restriction, while in Latin America and Indonesia, social distancing was still quite severe. So it led to Europe where the trend improved versus Q2 with a minus 10% like-for-like decline. Category improved on the back of resurgence of out-of-home sales over summer even if September saw some further restaurant and bar restrictions.

We managed to gain significant market share in our main markets such as U.K., France and Germany, where we have fully deployed our rPET range for small format.

In China, both the beverage category growth and Mizone market share improved versus Q2, allowing a partial recovery in sales, also still negative low double digit, around minus 10%. However, our market share is not yet back to the normal level, and the category still lacks traffic in the street. We, however, remain optimistic on the new proposition, which is receiving very good feedback from consumers and improving distribution metrics.

As anticipated, Latin America and Indonesia sales declined steep double-digit with no significant improvement compared to last quarter despite a resilient performance, as I said earlier, on the jug business that protected the volume share.

The last quarter of the year looks very uncertain for the Water business. The volatility around restriction measures, notably in Europe, is back to increasing again. As things stand, we expect some improvement in trends in Q4, but we remain very vigilant, especially as Q4 is the high season in Latin America, and we'll make sure we adapt the investment accordingly.

Moving to Page 17. I mentioned, and Emmanuel mentioned earlier, efficiencies. You know that since the beginning of the year, we had to mitigate extra costs coming from the COVID-19. We've been focusing all the efforts to deliver more efficiency and be very disciplined in capital allocation. This is leading to a Protein plan that will be fully delivered and slightly exceeded on the EUR 1 billion plan that we had for 3 years and the incremental EUR 300 million that we were expecting this year.

On portfolio management, we've made another sizable step this quarter, unlocking EUR 470 million in invested capital, generating EUR 100 million plus capital gains through the sale of the remaining stake we held in Yakult.

Moving to my last slide, which is the Q4 and the full year outlook. As Emmanuel indicated, for the next 12 weeks, we will be very focused on delivery, keeping the market share momentum, continuing to improve our top line dynamics across portfolio and making sure that we deliver our efficiencies.

As I said, the visibility remains limited, as demonstrated by the recent health measures taken by many European countries that have affected, once again, out-of-home channels. And we don't foresee, at this stage, material improvement in term of cross-border channel dynamic that impacted Early Life Nutrition in China in Q3.

We, therefore, expect for Q4 sales growth to confirm a sequential improvement versus Q3 but remain negative. FX will continue to be a headwind. And despite this lack of visibility, we are fully committed to protect margin, and we expect recurring operating margin for the full year to be at 14%, in line with what I said in H1. Efficiency actions and controls are in place to support our ability to reach this level. And it will allow a solid free cash flow generation that is absolutely key and a focus, as you know, since the acquisition of WhiteWave that we expect to be around EUR 1.8 billion for the full year.

And I will leave Emmanuel to conclude.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you, Cécile. As you've heard from Cécile, we continue to navigate this COVID world, improving gradually our execution. But as I said, to start with, we know we need to also change the way we play the game overall. And that's really where, again, this 12 weeks agenda is so important for us, that we continue to deliver on the hard work that the teams are doing every day, and we are improving, and we are gaining market share, and we control the margin. And I'm certainly very pleased that we have started this review of all our SKUs, brands and assets in order to prune the portfolio to make it fully compatible with a reconnection with our midterm guidance of 3% to 5% profitable growth. And the finalization of the adaptation plans is coming soon. We'll keep you updated with that.

And the fact that starting this morning, we have a new, reshaped executive leadership team, Executive Committee, with me, running the company entirely all hands on deck on both this delivery and this transformation and plan for me is an important factor of my confidence in the fact that, indeed, we are going to leverage all the unicity of the Danone's choices of categories, the health orientation, our sustainability topics into really connecting all of this in this world to the profitable top line growth agenda of the company.

Thank you for your attention. I turn it back to Nadia as we are preparing for questions. Thank you.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Thank you, Emmanuel. Thank you, Cécile. For the discussion part before the Q&A, please be so kind as to limit your questions to a number of 2, and please raise them all at a time to allow as many as possible participants to participate.

QUESTIONS AND ANSWERS

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

I think first question comes from Alan Erskine at Crédit Suisse. Hello?

Alan Erskine - *Crédit Suisse AG, Research Division - Research Analyst*

Can you hear me?

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Yes, we can.

Alan Erskine - *Crédit Suisse AG, Research Division - Research Analyst*

All right. Sorry. Yes, 2 questions from me. The first one is on the decision to review Argentina. I mean over the years, we've often heard from companies that -- congratulating themselves on sort of holding the course and coming out of these emerging market crises in a stronger position. Is there not a danger that you're exiting Argentina at the bottom?

And my second question is regards to the management change. I recognize that by creating one, sort of, macro regional head for everything outside of North America, reduces the number of touch points and should accelerate decision making. But at the same time, you have 3 very discrete categories in Specialized Nutrition, Water and EDP. And by removing a sort of category structure, are you sure that you're not going to lose something in terms of managing the global brands, making sure best practices within the categories are shared? It's leaving Véronique an awful lot to do from the outside.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you, Alan. So maybe I'll take both. Argentina, I mean we've been in Argentina for 2.5 decades. So we've been through the roller coaster game, indeed.

And you heard us, and including myself, I think, saying that indeed, by sticking to our game locally, by reorganizing, reshuffling the way we work in Argentina, we've emerged crisis after crisis stronger than we were before. That's the same that is currently happening.

So I don't think that if we were going to exit Argentina today, we would exit it at the bottom. We are exiting it at a time where we have incredibly strong brands with La Serenísima, with Villavicencio, Villa del Sur in Water.

The Argentinian team is executing the Argentinian way, and they have not waited for this call to radically restructure, reorganize, et cetera. The point is really that in the macros of Argentina, do we see enough traction in the coming 3 years, 2 years, 18 months that will create the connection of our Argentinian business with what, I think, is absolutely needed for us in this COVID world, which is focusing our efforts. The focus is really super important, and it needs to be on profitable growth opportunities.

So that's where we are. And I'm not saying that Argentina is going to be sold. We are going to review many options. We have partners there. And we just want to make sure that as soon as possible, we're making a conclusion on this particular asset.

The same goes actually with Vega, which is a great brand that we acquired in the WhiteWave basket of brands that went under a difficult moment of transitioning its range to organic. We've been reworking this for the last 18 months, but there's the same question. It's a great category. It's a great brand. But are we sure that it can reconnect and move the needles for our teams at the moment, where North America has so much else to do, that it's actually worth being us the best owner of that great asset? And so more to come and conclusions will be shared with you, guys.

On the management change, I think I'm aligned with the positives that you've just been describing, Alan. On the risk that you highlight, rest assured that we are not removing the category expertise that we have. In many ways, we believe category expertise is obviously of the essence. For all companies today, actually, the question of whether the lead should be on geographies or the lead should be on categories is there. Most of our competitors have actually switched to purely geography or matrix, geography-led organizations. At this moment, what we announced today is that our global organizations will stay outside of North America, but they will report to one person. And we believe that's the right point of reviewing options for us and certainly immediately start gaining what we can gain from the cross category opportunities that we have.

In Italy, we've been having joint sales organizations between our baby food and our EDP businesses for a number of years. In Russia, we are having cross-logistics agreements and distribution with brands that have nothing to do with our portfolio, just riding the portfolio, using the incredible power of our Prostokvashino and overall EDP business there.

And the same goes in France, we've just made an investment on organic milk for Aptamil. The organic Aptamil business is going to be a function of a cooperation between our EDP factories in the north of France and milk collection and the Steenvoorde factory when this is going to happen. The same on filtration in Steenvoorde that will allow us to extract essential and very pricey infant milk formula ingredients from the milk that we collect locally and in connection with our fresh dairy plant there.

So I won't stop on that, but it's absolutely essential for us that we reap these growth and efficiency cost-saving opportunities across the value chain of our categories. And yet, of course, we absolutely are maintaining and will maintain whatsoever will be the adaptation plans ultimately, the category expertise that has been a driver of Danone's superiority when it comes to creating brands that win market shares.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Thank you, Alan. Next question is from Celine Pannuti at JPMorgan.

Celine A.H. Pannuti - *JPMorgan Chase & Co, Research Division - Head of European Food, Home, Personal Care & Tobacco and Senior Analyst*

Yes, I can hear you. My 2 questions. So maybe I'll continue. I have a follow-up from Alan's question on the new organization. You mentioned new team, new organization. There were rumors last week about a potential split of the CEO and Chairman role. Why did the Board not decide to look at that new setup for the organization?

And also, just to come back on what you said on the international, where 80% of the sales will be under one person. Why not adding some emerging market regions and Europe, distinct VPs overlooking that?

And then my second question is on Specialized Nutrition. Are we going to go through a bit of a reset of the indirect channel that will last for the next couple of months? Is that something that we should expect as we look into 2021? And can you give us your growth rate in Mainland China, please, in Q3?

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you, Celine. Well, the Board did not review this option because the Board did not discuss this option of splitting Chairman and CEO. The only moment in the history of Danone when it happened was after Franck handed the CEO role to me after 20 years. And so we would only consider this in transition periods of one generation to another generation of Chairman and CEO.

When it comes to your questions on international, I think it's a very valid question. The one thing I would add to this is that we still believe that there is a lot of things that we can learn from emerging countries in the so-called developed countries. And in particular, in this COVID crisis, there is lots of learnings from many, many ways, whether this is about organization or the way we adapt to the pandemic, the way we organize our operations, the channels on proximity and convenience, the many aspects, the direct delivery to consumers, many aspects of things that our teams have learned to do in EMEA and overall emerging countries might well be of use in the more developed markets. And that includes strategies of affordability for some of our brands because there's no doubt that we are going to be in a situation where purchasing power is going to be at stake in this world, in Europe, in Noram. And of course, our people in Indonesia, in Mexico, in Brazil, in Africa have been running these questions of affordability and efficiency in ways, which, again, I think can and should inspire our older economies.

And so, beyond Véronique herself, of course, there is a whole bench of executives below in the organizations, including ones that are in Europe and have experience about emerging countries and vice versa. And I think nurturing the cross learnings from one to the other needs to continue to happen, and we believe the new current setup is allowing us to do this.

When it comes to SN, I may ask Cécile to give you a bit more clarity. But to your question just before that, whether there will be a continued contraction of indirect in the next couple of months in China, I think my answer is yes. And in particular, for us, overall, we are going to enter into a comparison basis for China in the Q4 that was obviously very high in 2019. And maybe Cécile can give you a bit more granularity.

Cécile Cabanis - *Danone S.A. - Executive VP, CFO, Technology, Data, Cycles & Procurement*

Yes. Maybe on your question, Celine, on Mainland China, some further clarification. So direct channel represents around 60% of our sales in China and includes, as you know, modern trade, mum&baby stores and e-commerce.

We need to distinct 2 things. First, from a sell-out perspective, this channel has performed relatively well in Q3 and growing at the bottom end of the category growth range of 3% to 5%. So this is what you can look at, having the brands Aptamil and Nutrilon improve their market share, as I said, mainly supported by the Aptamil Platinum range.

From a sell-in perspective, the demand was softer in Q3. And as we had the reverse effect from the catch-up that we experienced in Q2 at the end of the lockdowns, we saw inventories and destocking happening. Remember that on this part of the channel, there was a plus 50% growth in Q2.

So this is what explained that overall, with the sell-out that is positive, the overall growth is negative.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Thank you, Cécile. Thank you, Celine. Next question is from Martin Deboo at Jefferies.

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

Martin Deboo at Jefferies. Can you hear me?

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Yes.

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

Just one question. Emmanuel, in the context of restating the 3% to 5% medium-term top line guidance, I noticed you're not reiterating the mid-single-digit to high single-digit EPS guidance that you mentioned at Q4 in February. That begs the question of what medium-term margin guidance is going to be. What can you say about that at this stage?

And I suppose the specific question is what's the risk that you need to reset in FY '21, given some of the commentary you're giving on headwinds in China ELN, which is the most profitable part of the business?

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you, Martin. I think that, while we are, I will put it this way: we are not changing in any way the midterm guidance that we've given to you. It has never been taken away through the COVID crisis, so it is there.

So, embedded in what I said, the mid-to high single-digit EPS growth is there on a recurring basis. We insisted, I insisted, and at this stage, that's the only thing I do on profitable growth because we believe that margin improvement is indeed a fundamental part of this equation.

And I'm very clear on what I see and what we do. The margin this year is not going in the right direction, and there is no way we can reconstruct our agenda without a significant margin improvement in the years to come. So that's what we are working on.

We also know, obviously, that SN China is a very profitable business. It has had its ups and downs. We had a lot of ups. There is now a blip in the context of the frontier borders closures and the channel shifts. We've been managing that in the past. But I would double down on your point that margin is critical. And this is also a reason why we believe this adaptation plan needs to come as early as Q1 in terms of implementation for us to rebuild our margin equation in a manner, which again reconnects ASAP with our midterm guidance.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Okay. Thank you.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Thank you, Martin. Next question is from Warren Ackerman at Barclays.

Warren Lester Ackerman - *Barclays Bank PLC, Research Division - Head of European Consumer Equity Research*

2 for me. I'm going to ask 2 operational ones, be a bit different. The first one is on EDP, some good news today. I think 3% year-to-date is encouraging. Could you perhaps dig into the 4 buckets, really, of Europe, U.S., Russia and Lat Am, Africa? Particularly interested in comments around Russia improving. That sounds good. And then maybe talk to us about specifically what the number for plant-based is all in. That would be great.

And then secondly, just back on the margin question. Again, can you confirm that, that 14% margin is the trough margin? I mean you've out delivered on Protein. Is there a new cost-saving program that you're going to outline to us? Is there a couple of markets event? I heard maybe there's going to be something in the new year because I guess the question everybody is asking is that margins aren't balanced. You got the margin in the first half of Water, the 6%, and you got mid-20 margin in Spec Nutrition.

So can you just maybe give us a bit of confidence that the Water margin can recover back to plus over 10% and the mid-20s Specialized Nutrition margin is sustainable? That would be great.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you. Maybe I'll start. I mean, yes, you're right, Warren. We are certainly pleased to see the sequential improvement of our EDP business. You all remember that we've always said that to nurture our midterm guidance, even before it became what it is today, we had our EDP business growing anywhere between 3% and 4%. It is in the 3% to 4% region. Right now, it's a 3.3% on a year-to-date basis, 3.7% on a Q3 basis.

The breakdown is that, overall, we've been growing mid-single-digit in Noram. In particular, this is driven by plant-based, which is growing double digit, as Cécile said. The premium dairy business is also double-digit. The partial reopening of away-from-home has supported our coffee creamer business. And yogurt is moderately growing for us in retail.

We have not followed some of the aggressive price and promotion activities of our competitors in both the Greek and the regular segments. We focused on immunity, gut health, functional that have been doing very well for us and as categories. So that's for Noram.

When it comes to Europe, we have mid-single-digit again, and Cecile highlighted a number of our brands and countries that are working well. You mentioned CIS. Yes, we see CIS with solid growth now with easing comps, obviously, but very happy that we've actually now organized a really strong, modern dairy organization and a traditional dairy organization that allow us to focus on both at the same time.

In Africa, we continue to see continued pressure due to essentially the lockdown situations. Morocco, for instance, that had reopened has locked down significantly again. So that's what it is.

When it comes to your margin question, yes, there are new cost-saving plans. I mean the fact is, obviously, my answer to Martin stays. We are pretty clear that there is both an opportunity because we learnt a lot about new ways of working and making efficiencies during this COVID but also increasing cost of doing business in COVID. And when we make both maps, we come to believe that there are very significant cost savings that we can implement through a new program. And this is embedded in both the organizational aspect, the portfolio aspect that I mentioned of our adaptation plans on which we will update you pretty soon.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Thank you, Emmanuel. Thank you, Warren. I think we have time for the last question, which is going to come from David Hayes, Societe Generale.

David Hayes - *Societe Generale Cross Asset Research - Equity Analyst*

So 2 questions for me. The first one on the portfolio management; the second one, a broader strategic question. So just on portfolio management, can you be a bit more specific about why Vega and Argentina have come up early on the list and why maybe brands like Mizone aren't on that list yet?

And then if you do dispose of those assets, is that something you expect to create value from? Can other people do better with those brands and you can't? And why is that possible versus Danone's operations?

And I guess, finally, on the value creation. Are you intending to reinvest that capital in core areas of Danone? And what might that reinvestment look like? What are the core areas for that focus of reinvestment?

And then the second question just in terms of broad strategic question, just to kind of maybe summarize the whole thing. Are these changes driven just because of COVID? Or are there other things at Danone that you feel aren't working properly that need to be addressed? So, if the COVID hadn't happened, would all this not be going on? Or would this change have happened anyway even with or without COVID?

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you, David. I'll try to be short on the first question because, in many ways, that's what we would like to discuss with you guys when we're ready. But to put an example, I think Mizone is a brand on which despite what happened with COVID has given us reasonable hopes that the relaunch of this year in the COVID world is being well received by consumers in terms of preference of the brand, the way our market share has actually held significantly better than we hoped and the fact that our distribution levels have picked up again to nearly the pre-COVID numbers now. And that compares to brands that are as famous in China as Sprite or Fanta, which probably have the best distribution, weighted average and numerical distribution numbers in China.

So, we have an asset here that might well grow profitably again as soon as China de-locks, and probably there is one country that we all know that should be the one.

So I'll be patient one more here with Mizone personally before we believe that we can't be the right person to grow it, and therefore, we'll see. The whole idea of the portfolio rationalization is, to your broader strategic question is, indeed, to reinvest in the core. When I say we need to focus, when we dispose of our last bit of shareholding in Yakult, that's the same. We want to make sure that we are focused as a management team, and we focus our resources, both management, assets and cash on what will make the profitable growth of Danone.

To your very valid question on is that all just because of COVID or not, the answer is no. I mean as many other companies, very frankly, we are seeing in the COVID crisis an opportunity to move on things that would have been maybe not as priorities before or maybe not creating the same sense of urgency in our own company or outside of the company in our ecosystems. And 2 simple examples would be the Protein program, which Cécile referred to. That was a completely new way of working for 3 years ago. And we are very clear now that we know how to do things in a way that's new. By the way, the person that's going to work on the organizational part of our adaptation plan is the person that run Protein for us for 3 years and that actually was also in charge of the integration of the Early Life Nutrition and Advanced Medical Nutrition businesses into just one single organization. So, absolutely clear that we are also leveraging on some more recent experiences.

The other example that I would mention is end-to-end design to delivery. I think the most advanced companies around us have also been moving to, one way or the other, linking research and innovation with suppliers and ecosystems and with manufacturing capabilities just to ensure that there is no leakage in the innovation pipe in terms of the quality of its execution. And we reconnected from a situation where we were among the only companies that didn't have a sort of an operation or a manufacturing or call it the way you want, function at Comex to the end-to-end design to delivery thing, which I think puts us now ahead of a number of our competitors. So, it's a bunch of both catching up and move forwards that obviously go beyond the question of the COVID itself.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Thank you, Emmanuel. Thank you, David. Thank you, everyone. Thanks for attending this call this morning. I'm obviously available with the rest of the team to follow up today, and this will conclude this call. Have a very good day.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you, everyone. Have a good day, and stay safe.
