



DANONE 2023 THIRD-QUARTER SALES CONFERENCE CALL TRANSCRIPT

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COMPANY SPEAKERS

Juergen Esser

Danone Group Deputy CEO in charge of Finance, Technology & Data

Mathilde Rodié

Danone Head of Investor Relations and Financial Communication

OTHER PARTICIPANTS

Bruno Monteyne

Analyst at Bernstein

Céline Pannuti

Analyst at JP Morgan

Guillaume Delmas

Analyst at UBS

Jon Cox

Analyst at Kepler Cheuvreux

Pascal Boll

Analyst at Stifel

Warren Ackerman

Analyst at Barclays

CFO PRESENTATION

SLIDE 1 – COVER SLIDE

Operator:

Good day and thank you for standing by. Welcome to the Danone Third Quarter 2023 Sales Conference Call and Webcast. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker day, Mathilde Rodié, Head of Investor Relations and Financial Communications. Please go ahead.

Mathilde Rodié, Danone Head of Investor Relations and Financial Communication:

Thank you. Good morning, everyone. Thank you for being with us this morning for our Q3 results call. I'm with Juergen Esser, the CFO, who will go through some prepared remarks, before taking your questions in a second step. Before we start, I draw your attention on our disclaimer Page 22. Please pay attention to that. And with that, let me hand it over to Juergen.

Juergen Esser, Danone Group Deputy CEO in charge of Finance, Technology & Data:

Thank you, Mathilde, and good morning, everyone. I hope you are well and thank you for being with us this morning to discuss our third quarter sales. I propose that we go straight into it, starting with Page #2.

SLIDE 2 – Q3 HIGHLIGHTS – RENEW DANONE STARTS YIELDING RESULTS

We have been closing this third quarter with solid results with like-for-like sales up +6.2% compared to last year. Beyond the quantum, we are particularly pleased with the quality of the growth as it starts to show that our Renew Danone initiatives are paying off, yielding results exactly in line with our expectations.

Pricing reached +6.6% this quarter, sequentially decelerating from the high single-digit levels we saw in previous quarters. This normalization has been driven by all geographies, with North America unsurprisingly the zone where prices are normalizing the fastest. Most importantly, as price contributions start to go down, we are able to sequentially improve the dynamics of our volumes and mix, which are only slightly down, with -0.3% in this third quarter, a clear improvement versus the first semester where we were down around -1%.

This dynamic is very encouraging and is giving us confidence to further improve the trend in the last quarter of the year. In other words, and let me be very clear right away, we are confident that the fourth quarter of this year, we'll see a positive contribution from volume and mix, a key milestone, as you know, in our Renew Danone journey.

SLIDE 3 – Q3 HIGHLIGHTS: DELIVERING BROAD-BASED GROWTH WHILE SEQUENTIALLY IMPROVING EDP VOLUME/MIX

Let us look first at our performance through the lens of our categories on Page #3. While we continue to deliver solid and consistent growth across EDP, Specialized Nutrition and Waters, with all 3 categories growing above 5% in this quarter, we're also reporting an improved underlying volume/mix dynamic. This is most visible in EDP where volume/mix significantly improved, only down -0.8% this quarter, compared to around -3% in the first semester of this year and compared to as much as -6% when looking back into the second semester of last year.

These results do not come by coincidence. They rather reflect the hard work of our teams over the last 18 months where we consistently executed against our strategic agenda, where we actively stepped up the performance of our portfolio, of our Core assets, of our Underperformers, and our Winners, which is well illustrated on the next page, Page #4.

SLIDE 4 – Q3 HIGHLIGHTS: ACTIVELY DRIVING OUR PORTFOLIO OF CORE, UNDERPERFORMERS AND WINNERS

In EDP Europe, our teams have, over the last few quarters, taken bold actions to restore value creation after many years of underperformance. After having clarified the swim lanes of our brands, we refocused our ranges, which has led to the rationalization of roughly 20% of the least value-creative SKUs in Dairy. This first step allowed us to give more clarity to our value propositions within each brand, but also to ease what I would call the shopability of our shelves.

And combined with improved execution and higher investments, the transformation of EDP starts delivering results. As an example, in the U.K., we are emerging from the transformation phase, not only with a stronger portfolio, recently complemented by the rollout of our high-protein range, but also with higher distribution and share of shelf levels. Those are measurable successes, and I'm convinced that this will sequentially translate into stronger growth and competitiveness.

Next to EDP in Europe, we've also been active in turning around Mizone. After a deep root cause analysis, the team has been deploying the renewed Mizone proposition for the last quarters, and we are pleased with the results, now that the first season is behind us. Mizone has been growing +13.9% since the beginning of the year, mostly driven by volume and mix. Importantly, this growth translated into higher market shares. After years of slowdown, we can say that Mizone is reconnecting with value creation, which bodes well for the resilience of our model in China and for the performance of our Waters category.

Last but not least, you have seen us actively and intentionally boost the Winners of our portfolio. This is, for example, the case of Medical Nutrition, a business that has been consistently growing in double-digit territory. Since the beginning of the year, we have made several investments to increase production capacity in Europe, and we are, in parallel, actively expanding the reach of our portfolio, for example, in China in Adult Nutrition. There, we continue to lead the enteral nutrition space, while we are now expanding beyond hospitals, introducing our oral nutrition solutions, a key step in expanding our presence from hospitals to post discharge moments.

You remember that delivering strong and balanced growth sits at the heart of the Renew Danone's business model. I will conclude this brief introduction by reiterating that the efforts of the last 18 months are starting to pay off. And as our sector is shifting away from price-led growth, we are confident that moving forward we can demonstrate that we have categories, brands, and capabilities to deliver more balanced growth with volume, mix and price contributing.

SLIDE 5 – Q3 SALES BRIDGE: REPORTED GROWTH IMPACTED BY SCOPE AND FOREX NEGATIVE EFFECTS

Let me now move to Page #5 for our traditional sales bridge. I have already been commenting our like-for-like sales growth of +6.2%. On top of that, we see this quarter, a negative impact from ForEx of -7.4%, reflecting the depreciation of the majority of currencies against the euro, while Scope was negative at -6.2%, mainly resulting from the deconsolidation of our EDP Russia and Waters Argentina business from our perimeter.

SLIDE 6 – ALL GEOGRAPHIES CONTRIBUTING TO GROWTH IN Q3

Let's now look at the performance of our zones, moving to Page #6. This quarter, again, all our geographies have been contributing to the growth. To be efficient, I would even suggest we move immediately forward to the next page, to Page #7, to look deeper into the performance of each zone starting with Europe.

SLIDE 7 – EUROPE: CONTINUED BROAD-BASED GROWTH WHILE TRANSFORMING

Europe delivered solid growth of +5.1% in this third quarter, with all categories contributing. Pricing started to progressively normalize, yet still being up +9.2%, thanks to significant carryover from last year. At the same moment, volume/mix was down -4.1%, with a weaker volume performance in our Waters business, where volume/mix was significantly down, while EDP, on the other side, experienced a tangible sequential improvement as expected.

On EDP, as I commented already, our teams have made good progress in the transformation of our portfolio. We are starting to deliver results, with a sequential improvement in volume/mix dynamics. The quality of our delivery and our competitiveness are both improving month by month, led this quarter by strong performances of our Dairy brands like Actimel, Danone or YoPro, all of them growing double digits, but also of our Alpro brand in Plant-based, which delivered high single-digit growth.

Specialized Nutrition posted another quarter of resilient growth, while Waters registered further market share gains, in a category which was, at the beginning of the quarter, penalized by very poor weather conditions.

And maybe a last comment on our European performance. When looking through the lens of our distribution channels, our away-from-home business was the fastest-growing channel this quarter, benefiting from an enhanced focus on price pack architecture across categories from Dairy to Plant-based and Waters, and supported by increased investments.

SLIDE 8 – NORTH AMERICA: RESILIENT GROWTH LED BY COFFEE CREATIONS AND YOGURTS

Let's move now on to North America on Page #8. North America delivered +3.9% like-for-like growth in Q3 with a pricing that is normalizing in line with our expectations, up +4.0%. Volume/mix was again very resilient this quarter, ending broadly flat, despite an elevated base driven, as you will remember, by our contribution to addressing the IMF formula shortage in U.S. last year.

The performance in North America was led by our Coffee Creations range that posted again double-digit growth this quarter. Here, let me highlight the International Delight and Stok brands, that continued to drive growth and market share gains. Beyond Coffee Creations, our Yogurt business also delivered a solid quarter, with our Oikos brand registering another quarter of steep double-digit growth.

On Plant-based, we started taking corrective actions to restore short-term competitiveness, which seem to yield first results. In parallel, we are working on more structural plans to restage our portfolio and increase its relevance to consumers.

So overall, another solid quarter in North America, benefiting from a well-positioned and resilient portfolio in this zone.

SLIDE 9 – CHINA, NORTH ASIA AND OCEANIA: STRONG GROWTH LED BY ALL CATEGORIES

Moving to the next page, which is Page #9, about China, North Asia and Oceania zone. The zone registered +8.4% like-for-like sales growth in the third quarter, mainly driven by volume/mix, up +7.3%.

Starting with China and zooming into our Infant Milk Formula, Aptamil delivered another quarter of solid growth, with continued market share gains. The uniqueness of our business model in China is indeed a great asset, particularly in this moment where the category is shifting from old to newly registered recipes. We are carefully navigating this transition period, focusing on keeping tight control on inventory and price levels, while introducing in a staged manner our newly registered innovations in this space.

Next to IMF, our Medical Nutrition portfolio posted another strong quarter, building on the strength of our enteral tube feeding business, which delivered double-digit growth. We are very pleased that we can now meaningfully expand our portfolio in the coming quarters, thanks to the recent introduction of our oral products in China, as I commented earlier in the presentation, a key milestone to strengthen our presence in this fast-growing segment.

In Waters, Mizone is delivering another strong quarter of competitive growth, with the team now focusing on further enhancing our executional muscles to solidify the turnaround with the next season to come.

Finally, beyond China, our business in Japan posted again a strong double-digit growth led by our Functional Dairy range, and notably the Oikos brand.

SLIDE 10 – LATIN AMERICA: BROAD-BASED PRICE-LED GROWTH

Let me move on to the LatAm zone on Page #10. LatAm registered sales growth of +8.2% in Q3 on a like-for-like basis, with price up +10.0% and volume/mix down -1.8%. The focus of this zone is to restore a resilient profitable growth model, to streamline its portfolio and to optimize its business model. Our teams are making good progress on this agenda across the different countries and categories. They have been discontinuing or resetting a number of activities, including our Liquid Milk business in Brazil, which is sequentially visible in the results. While doing so, the focus is to drive the Winners in the zone, with brands like YoPro, Bonafont and Aptamil, all of them growing profitably also in this quarter at very fast pace.

SLIDE 11 – REST OF THE WORLD: SOLID BALANCED GROWTH LED BY SPECIALIZED NUTRITION

Finally, moving on to the Rest of the World zone, which is Page #11. The zone posted sales growth of +9.7% on a like-for-like basis this quarter, with a balanced contribution of price, up +7.7% and volume/mix, up +1.9%. Let me here particularly highlight the continued solid performance of our Specialized Nutrition categories in Southeast Asia, but also in India, which has posted another quarter of double-digit growth. We continue to win market share across the region, with a strong focus on our superior Aptamil portfolio, but also with our unique local brands like SGM in Indonesia.

On EDP, we are making further progress on the portfolio transformation of our Dairy business in Africa, with a clear mandate to reconnect with a profitable growth algorithm in this region. Our teams are laser-focused on getting into that value creation journey with results visible quarter-by-quarter.

SLIDE 12 – 2023 GUIDANCE RAISED

Let me now conclude this presentation with an update on the full year outlook, which is Page #12. Reflecting our solid delivery over the first 9 months of this year and the momentum of our business across geographies and categories, we are today raising our guidance for like-for-like sales growth. We now expect like-for-like sales growth between +6% and +7%.

We are at the same moment confirming our full year guidance for recurring operating margin, delivering a moderate margin increase versus previous year. Here, more specifically, and as you already observed in the first semester of this year, we expect our full year operating margin to be led by the expansion of our gross margin, while we will continue to make significant reinvestments in A&P, product superiority and capabilities.

And with that, let me hand it back to Mathilde to start the Q&A session.

QUESTIONS & ANSWERS SESSION

Mathilde Rodié, Danone Head of Investor Relations and Financial Communication:

Thank you, Juergen. So we will now open the Q&A with the first question from Guillaume Delmas, UBS.

QUESTION 1 – PRICE AND PROMOTION TRENDS IN Q3 AND INTO 2024; SPECIALIZED NUTRITION PERFORMANCE IN EUROPE GOING FORWARD

Guillaume Delmas, analyst at UBS:

A couple of questions from me, please. The first one is on pricing. I would be interested to hear what you're seeing on the pricing and promotional front at the moment. In particular, if there are some regions or product categories where you're seeing a pickup in promo activities or maybe more pushback from retailers. And then look, I appreciate it's very early days, but how do you think 2024 will play out from a pricing point of view? I.e., do you expect some additional pricing actions on your part? Some rollback? Or overall, some stability? So, any color on this would be very helpful.

And then my second question is on Specialized Nutrition in Europe. Because I think Q3 is your third consecutive quarter in the low single-digit territory, I would assume this is made of strong pricing and some negative volume development. So, I don't think this is an area where you've had much SKU pruning. So, my question is, how should we think about SN in Europe going forward? Is it realistic to assume better than flat to low single-digit organic sales growth, given that, I would think, you've got very limited volume growth from a category standpoint?

Juergen Esser, Danone Group Deputy CEO in charge of Finance, Technology & Data:

Let me try to help you on the different points. When it comes to pricing and promotional activities, you're right to say that pricing is coming down quarter-by-quarter at a different pace depending on the region. Depending also when we started to take pricing. So unsurprisingly, North America is first normalizing and you will see that Europe will normalize in the coming quarters. This is indeed combined with the fact that we are sequentially increasing our promotional activities.

What we said some 6 months ago is still valid, which is that by the end of this year, we will be back to the level of promotional activities we had before COVID, which is probably a fair level of promotion moving forward. We're obviously in very close collaboration with our retailers organizing these promotions, because these promotions have 1 single objective, which is to bring the consumer back to the shelf. So very targeted promotions, making sure that promotions get us back to the magic price points, because this is what drives impact and rotation on the shelves.

How does it look going into next year 2024? Overall, of course, 2024, we want to reconnect and to connect to our desired growth model with contribution from volume, mix and price, all of them positive. But more importantly than that, the level of pricing will depend on the level of inflation. And what we are seeing is that inflation is coming down quarter-by-quarter exactly in line with our expectations, but we expect inflation to stay positive, as a result of the fact that Liquid Milk in a number of markets is still way higher than it was 12 months ago as a result of the fact that cost of labor is increasing and also a few other ingredients like sugar.

That means that we will probably go away from what we have seen over the last 12-18 months, which was broad-based pricing to something which is more targeted pricing depending on the categories and depending on the countries. Overall, we expect pricing to remain positive also going into 2024.

On your last point on Specialized Nutrition in Europe, I would say, resilient performance. In IMF, we managed to deliver a competitive performance in a currently softer category, while in Medical Nutrition, we benefit from obvious strong underlying segment growth. And we are investing, as you could see over the last weeks, in production capacities, like in Poland, to fully serve today's but also tomorrow's demand in a very dynamic space.

Mathilde Rodié, Danone Head of Investor Relations and Financial Communication:

Thank you, Guillaume. Next question from Jon Cox, Kepler.

QUESTION 2: SPECIALIZED NUTRITION IN CHINA; EDP IN EUROPE

Jon Cox, analyst at Kepler Cheuvreux:

Congrats on the decent print there. I have a couple of questions really. One, just on China. I wonder if you can talk through what's going on in China with a bit more detail on the IMF front. We've seen some of your competitors actually closing down production of international brands because of the softness in that China market. I wonder what you're seeing there. Is it really expanding the domestic? Talk us through that. Also on the Medical Nutrition expansion, I'm just wondering when you think that would come on tap into that region.

And then just the last one on Europe. It seems pretty impressive when you're sort of reeling off a lot of stuff about double-digit growth for this and that. I wonder if you can just talk a little bit more about the SKU rationalization, where you are. Is that pretty much done? When will we roll over in terms of the comps? And when can we start modeling maybe more growth elements into Europe Dairy in terms of volume/mix going forward?

Juergen Esser, Danone Group Deputy CEO in charge of Finance, Technology & Data:

Look, on China IMF, the team is doing a stellar job, as you can see, quarter-by-quarter, increasing our market share in a category which is transitioning, and transitioning, I would say, without any surprise with a little bit of volatility, which is impacting some players. Because of our very unique business model, which gives us strong control on stocks and price, we are navigating through that, I think, in an exemplary way. That transition, we expect to finish towards the end of the year, early next year, when all the old stocks will be completed. So in that sense, we don't look at it differently than the way we looked at it 6 months ago.

What bodes well is that, as we speak, we are introducing in a staged manner our first innovations. You may remember what we presented in the month of May in the Paris-Saclay event that we have a number of innovations now kicking in into our portfolio, which is meaningfully expanding our portfolio in the more premium part of the category. And so this is happening as we speak. Other element I can give you is the fact what we are calling our controlled versus uncontrolled channels. So the Daigous and the friends & family continue to decrease, which means our controlled channels represent more than 90% of our business in China, which is also a very important element to navigate through the next quarters.

And last but not least, we feel good, in fact, about our operating model, with an efficient mix between global and local manufacturing capacities, with recipes developed, as you know, in our local R&D center in China, and we're just leveraging both our global science assets but also our local expertise.

When it comes to the Medical part of it, we are pretty happy with the performance of our Adult portfolio in China, growing consistently double digit. But you know that today, our presence is mostly in enteral, prescribed and reimbursed category, where we are reaching today already 90% of top tier hospitals. We are now in the moment that we can first time expand our portfolio beyond the enteral space with 2 ranges, in fact, which will allow us to go from mainly hospital-focused to more post-discharge moments. So when patients have left the hospitals. And so there's 2 elements we are introducing. One is our Nutrison powder, which is something for which we received a drug license and which means that we also go through prescription and reimbursement. And on top of that, we are introducing our Fortimel range with oral nutritional products, what we are calling aFSMP, which is self-paid, so not reimbursed product format, which is going through recommendation from key opinion leaders and then sold through pharmacies. So overall, I would say, it bodes well for the future dynamic of that part of the business.

On your last question, which was on Europe. Look, I mean, we started the transformation of our EDP portfolio some 12 months ago. And as expected, as you could see, volume/mix dynamics start to sequentially and tangibly improve. We have cut something like 20% of SKUs, which as you could see over the last quarter has led shorten to some pressure on our volume performance. However, we are now emerging stronger from this reset, because we have a more optimized segmentation, we have a better buildup of our portfolio, and we start to reinvest behind it. And so, it starts to show concretely in the key metrics of our business.

And so, this is why I was using the U.K. example, where we have first, I would say, successfully agreed with a number of key retailers to implement a new planogram for dairy shelf. It's a much clearer segmentation by benefit for health and protein bays. We tried across many supermarkets, which is helping the category because it's attracting more consumers. But also, it means that our distribution numbers are going up, our share of shelf is going up. And we will see sequentially translating that into volumes and market shares. And so, we are seeing that kind of progress like in U.K., across the board. It happens, obviously, at different speeds of implementation, depending on the local reality. But net-net, what it means that you will not hear

us any more talking in a very prominent way about portfolio transformation in Europe, as we will now sequentially shift the gears towards better execution and reinvestments.

Mathilde Rodié, Danone Head of Investor Relations and Financial Communication:

Thank you, Jon. So next question from Warren Ackerman, Barclays.

QUESTION 3: EDP TRANSFORMATION PROGRESS IN EUROPE AND NORTH AMERICA; WATERS BUSINESS PERFORMANCE IN Q3 AND INTO NEXT YEAR

Warren Ackerman, analyst at Barclays:

Back on EDP, Juergen, you talked about tangible progress. And in the last question, you mentioned a couple of things. But can you maybe walk us through what you're most pleased about in EDP and where there is still work to do? And that's a question for EDP U.S. and Europe. It's not just a Europe question. And then within EDP Europe, we can see the like-for-like went from 5.8% to 6.6%, I think it was, from Q2 to Q3. Are you able to actually break that out for us in terms of volume versus pricing, just to understand the kind of sequential volume/mix performance in EDP? That would be that would be super helpful.

And then the second one is really around the kind of Waters business. You've told us a little bit about, obviously, Mizone, and you're sounding bullish about that. But looking at the Europe volume overall, which was down 4% plus, how much was Waters volumes down in the quarter? Because I guess there was a big summer impact given poor weather. And then maybe can you just outline what's happening to the performance in Waters in your other big EMs of Mexico and Indonesia? I'm just trying to get a sense of how we should be thinking about the Waters growth going into the final quarter and into next year?

Juergen Esser, Danone Group Deputy CEO in charge of Finance, Technology & Data:

Yes, Warren. Let me start with the Waters part, which it's true on one side, we saw in Q3 a very encouraging result in China with Mizone, which is, I would say, really going along its turnaround plan, market share wins in a category which is quite dynamic, so that's going well. In Europe, in Waters, the start of the quarter has been tough, especially in the month of July. Very poor weather conditions. The category double digit down. And so, despite the fact that we have been winning market shares, especially with the evian brand, we have been suffering quite a bit in that quarter, so, volume/mix significantly down in the third quarter. Which unfortunately is hiding some of the good progress we are doing in Europe on EDP.

That will not be so much the case anymore in Q4, because Q4 will be out of the season in Waters Europe, so, we can expect a normalized growth rate - weather is not playing such a big role there; which will also make, I would say, EDP progress probably more visible moving forward. We are not yet happy with everything in EDP, let me be very clear. I think that we have done very good progress on a number of elements. I think the portfolio transformation is really yielding results. Now it's about execution and reinvestment.

On some brands, we are seeing that the transformation plus the reinvestments is already showing good traction, on others a bit less. But we now need to make sure that all of our larger brands are getting into the right dynamics. We are talking a lot about Dairy, but let me also make a comment on Plant-based because Plant-based showed a quite good dynamic also in the third quarter. Alpro growing high single digits, where we are refocusing on clear occasion moments with breakfast and coffee, where we are refocusing on the fundamentals of that category.

When you go now to the U.K. today and you go in 1 of the 4 largest coffee chains in the U.K., you will see Alpro everywhere. That was not the fact 12 months ago. So, we are going back really to the fundamentals of managing a category as a category leader, and we are doing the same in Dairy. So more to come, quarter-by-quarter, but we are confident. And this is also why we are saying that the fourth quarter for the company, we will see positive volume/mix and EDP will contribute its fair share to it.

Warren Ackerman, analyst at Barclays:

And Juergen, sorry to press you, but on the EDP numbers, are you actually able to break out what the volume/mix was in Europe, just in the quarter versus the last quarter, so we can understand that sequential improvements?

Juergen Esser, Danone Group Deputy CEO in charge of Finance, Technology & Data:

Yes, look, we never give guidance, nor report at this granularity, but very tangible progress on volume/mix in EDP quarter by quarter, so very, very significant.

Mathilde Rodié, Danone Head of Investor Relations and Financial Communication:

Thank you, Warren. So next question from Pascal Boll, Stifel.

QUESTION 4: SPECIALIZED NUTRITION PERFORMANCE IN CHINA VS. COMPETITORS; MIZONE PERFORMANCE IN Q3 VS. PRE-COVID LEVELS

Pascal Boll, analyst at Stifel:

2 questions from my side. On Specialized Nutrition in China, the situation with your local competitors, I mean, we have seen a couple of months ago, the profit warning of one of your largest competitors. And when I look at your results, I think Danone is doing quite well. So, what's really the difference? What do you see versus your competitors? And then on Mizone, I appreciate that year-to-date, you're up like-for-like 13.9%. Where do we stand in comparison to pre-pandemic levels at Mizone?

Juergen Esser, Danone Group Deputy CEO in charge of Finance, Technology & Data:

Look, on Specialized Nutrition, indeed, as I was mentioning, the team is doing a stellar job because we are increasing our market shares quarter-by-quarter since many, many quarters. Why are we able to do that in a moment, when others are suffering? First, because we are committed to that category. It means we are intentionally investing. We have today the brand Aptamil has a very narrow portfolio, but a very powerful portfolio, with a brand equity which is extremely strong, and in China is the synonym of immunity. So that's one which is very important.

The second one, which is very important is that this is a business which has been started 10 years ago as an entirely digital business, e-commerce business, which means that comparing to many others playing in that category, we don't have thousands of salespeople on the ground, but we have a unique and proprietary B2B2C e-commerce platform, which means that we can control stocks and prices down to the point of sale, and this gives us an asset which very few players have.

We have been able to reregister all of our SKUs. And on top of that, and is what I mentioned earlier, we have been registering a number of breakthrough innovations, which will hit the market over the next 6 to 12 months. So that I think makes us confident also in terms of resilience of this portfolio moving forward.

For Mizone, look, we are happy with the growth rate, but what makes us more happy is indeed the market share turnaround. Because to your point, Mizone has been suffering for a number of years from market share losses, because we lost a bit the edge of the brand and the marketing mix. The team went very deep to understand why that happened to us and has been adjusting the marketing mix. You may remember what we said last quarter is that we have been also here transforming the portfolio, cutting a lot of SKUs, which were not rotating, and refocusing on the top 4 SKUs and this is paying out big time to modernize marketing mix. And so, we are not only

benefiting from the, I would say, post-COVID dynamic of the category, but also winning in a competitive way.

Pascal Boll, analyst at Stifel:

Just quickly on that – I mean prioritizing on the top 4 SKUs, but what does that mean going forward? I mean where are the growth levers here?

Juergen Esser, Danone Group Deputy CEO in charge of Finance, Technology & Data:

Yes. Look, Mizone is an on-the-go consumption product, and it's going to refrigerators. It means that the more focus you have when you have a refrigerator, the more you make sure that the flavors and the variants the consumer is looking for are available in the fridge, the more you win. And this was one of the learnings we had because where we ended up a couple of years ago is that we had the SKUs in the fridge which were not rotating, while those ones which were not, were out of stock.

So going back to the fundamentals, putting heros SKUs in the shelves and advertising around them is an important element. We have been complementing our range with a range of a high level of electrolytes, spot on to the needs of the consumers. So, we are innovating, but with impact, and this is paying off well for us.

Mathilde Rodié, Danone Head of Investor Relations and Financial Communication:

Thank you, Pascal. The next question from Bruno Monteyne, Bernstein.

QUESTION 5: EDP PERFORMANCE IN NORTH AMERICA; VOLUME GROWTH IN EUROPE GOING FORWARD

Bruno Monteyne, analyst at Bernstein:

2 questions from me. Clearly, I think everybody is hoping and waiting for the EDP turnaround. And luckily, you have quite some different performances around the world. And if I think about the U.S. performance, you turned around the brands years ago, you're happy with the positioning about the U.S. And if I look that pricing has normalized back to 4% in the U.S., but you still have negative volumes despite kind of the turnaround having been done and pricing normalizing. And that kind of volume is a lot worse than it was a few years ago when you were around 4% pricing. So, what should we expect in the U.S. as like a normalized kind of growth rate in volume, what are you aiming for?

And the second one is, I'm sort of coming back to the European volumes of -4.1%. You indicated when you'd expect positive group volumes, which is next quarter. How much time should they be before Europe finally gets into positive volumes? Is that a few quarters away? Is it a year away? Can you give us any indication on that, please?

Juergen Esser, Danone Group Deputy CEO in charge of Finance, Technology & Data:

Look, when you look at North America, really qualifying that as a resilient performance. Because when you exclude the impact of the fly formula high base of last year, volume/mix in North America is actually growing. And it's growing because teams are doing a pretty good job, especially on EDP part of the portfolio. Coffee Creamers, with International Delight and Stok, are growing at a very fast pace. Oikos and especially everything which is about high protein and truly differentiated with stellar performance and market shares are holding in a good way.

So we are pretty happy with it. I think we are really earning the fruits of the restaging Shane and the team did, as you said, Bruno, over the last 2 to 3 years. We are very clear that in Plant-based, we are not yet where we want to be. Let's also be straight on this. We have been probably going a bit too far on price. We are cost-correcting that, as we speak, with more intentional promotional activities, and this is starting to yield the first results. We are introducing small formats at entry price level, which we also believe will help to create stronger dynamics. So we are looking with confidence into that part.

When it comes to European volume/mix, when you remember, I think it was at the end of Q4 that we showed you this famous curve where we were showing you the expectations for the next quarters to come. We are very clearly now on the trajectory of sequential volume/mix improvement quarter by quarter. So don't ask me please to give you a guidance on when Dairy Europe or when Plant-based Europe and when Waters Europe will have what kind of volume/mix.

But what we are very clear, Bruno, is the fact that EDP volume/mix needs to be and will be a key contributor for the company to turn into positive volume/mix, just because of pure size and importance in the portfolio. So, this is obviously a critical component. When you look at the underlying numbers, fundamental numbers, what I was saying in terms of distribution levels, market shares, it will also translate into volume/mix. So, we are very confident on this side.

Mathilde Rodié, Danone Head of Investor Relations and Financial Communication:

Thank you, Bruno. And last question from Celine Pannuti, JPMorgan.

QUESTION 6: CONSUMER ENVIRONMENT IN EUROPE; 2023 GUIDANCE FOR TOPLINE AND BOTTOM-LINE; WEIGHT LOSS DRUGS POTENTIAL IMPACTS ON DANONE'S PORTFOLIO

Celine Pannuti, analyst at JP Morgan:

My 2 questions: so first, I wanted to understand the European context in EDP. So, it seems that you are pleased with the Renew Danone working. But I just want to understand in an environment where people are a bit more cautious about the macroeconomic in Europe, Germany including, whether how do you see the positioning of some of your high-price portfolio doing in that context? And if you can talk as well about like contrasting maybe your value portfolio versus the performance of the high-end portfolio and how the promotion activity may help, or not, for you to fend off market share wins, from private label. So that's the first one on the context in Europe.

Second one is on the overall topline and bottom-line equation. You are raising your guide on topline today, still coming a bit higher than expected. You said that costs are easing, probably as expected if I noted what you said. But how should we think about that extra topline performance? And I think you know as well the mix should be quite good, because SN has been doing well, to the bottom line and the margin delivery for the year.

Juergen Esser, Danone Group Deputy CEO in charge of Finance, Technology & Data:

Look, you're absolutely right to see that the consumer in the current environment is more intentional and sometimes more careful in spending its money. How we see that translating is that the consumer is deploying more and more, what I would call, a smart shopping practice. So, on the one side, consumer preferring more discounter chains, or club stores in the U.S., and this is clearly reflected in our growth numbers, where we are growing fast in those kinds of channels.

But interestingly, the consumer is not compromising on activities and lifestyle, with all sub channels addressing that - so, within the broader away-from-home universe, but also e-commerce outperforming. And so, it's not by coincidence that in Europe, and by the way, in EDP Europe also, the away-from-home channel is the fastest-growing channel we are in. That's obviously also a consequence of what we have been doing because we have been very early refocusing and reallocating our resources on discounters and away-from-home. Knowing that away-from-home was for us probably in the past, not so much a priority channel, but I think that has been very clearly identified. And for us, it bodes well because this is the place where we can position especially our more premium ranges in EDP. You think about our high-protein ranges,

particularly, or you think about a drinkable yogurt proposition. But you also think about the premium ranges in HORECA. So, it's definitely something we want to push further and where we see good opportunities. Which also means that we can very well manage the mix, the product mix in our portfolio between the essential dairy products for essential daily needs for the consumer and their families. And this is where Danone is playing today and is playing very successfully. We have been talking about that last quarter with the example of Spain. And on the other hand, the more premium ranges with the YoPro or HiPro, but also with Actimel, which is performing extremely well.

When it goes to the guidance. So yes, we are upgrading the guidance for the full year as a result of the good momentum, overall, including on volume/mix. How does it translate into the bottom line? We confirm moderate margin improvement. Because we are sticking to what we have now consistently been saying over the year, which is that any good news we would have from inflation or other elements, we are going to reinvest into the business. And this is important, as you see, because the more we are reinvesting on an optimized portfolio, is yielding results. And so, you can expect us to come with a good gross margin expansion also out of the second semester, but with also a very significant reinvestment into brands, capabilities and product superiority.

Celine Pannuti, analyst at JP Morgan:

May I just add one last one, because I think it's very topical: could you share your views on what you think the impact on GLP-1 medicine will have on your portfolio, please?

Juergen Esser, Danone Group Deputy CEO in charge of Finance, Technology & Data:

Yes. Look, Celine, if anything, it will benefit our business. People focusing on weight loss prefer obviously healthy products. They are looking for products with high protein and low fat content. And guess what, it's exactly what we are proposing, not only in North American-based, but especially there. And as you know, this is an area where we are further developing and innovating in that space in sync with our strategy to provide healthy food with a relevant science backbone. So, we are looking, obviously, positive into that dynamic, monitoring the situation since the beginning. Obviously, difficult to predict even how fast it could scale and how it would impact consumption habits.

Mathilde Rodié, Danone Head of Investor Relations and Financial Communication:

Thank you, Celine. So, this was the last question. Thank you, everyone, for your attention. And Juergen, a final word?

Juergen Esser, Danone Group Deputy CEO in charge of Finance, Technology & Data:

Yes. Thank you, guys. Thank you for your support. So, you see we are leaving confident that third quarter and going with confidence into the last. And so, we'll talk soon, guys. Have a good day.

Mathilde Rodié, Danone Head of Investor Relations and Financial Communication:

Have a good day. Bye.