



DANONE Q3 SALES 2024 CONFERENCE CALL TRANSCRIPT

October 24, 2024 – 08:15 AM CEST

COMPANY SPEAKERS

Juergen Esser

Deputy Chief Executive Officer & Chief Financial Officer

Mathilde Rodié

Head of Investor Relations and Financial Communication

OTHER PARTICIPANTS

Guillaume Delmas

Analyst at UBS

Warren Ackerman

Analyst at Barclays

Céline Pannuti

Analyst at JP Morgan

Charlie Higgs

Analyst at Redburn

PRESENTATION

Mathilde Rodié, Head of IR

Good morning, everyone. Thank you for being with us this morning for Danone's 2024 Q3 results call. I'm here with our CFO, Juergen Esser, who will go through some prepared remarks before taking your questions.

And before he will start, I draw your attention to disclaimer on slide 21 of the presentation related to forward-looking statements and the definition of financial indicators that we will refer to during the presentation. And with that, let me hand it over to Juergen.

SLIDE 2 – CONTINUED STRONG MOMENTUM IN Q3

Juergen Esser, Deputy Chief Executive Officer & Chief Financial Officer

Thank you, Mathilde, and good morning everyone, and a very warm welcome to our Q3 sales call. I suggest we go straight into the presentation as this is a busy day for all of you. So let me start with page number 2. As you will have seen already from the press release this morning, we are sharing with you today another strong set of numbers with like-for-like sales up +4.2% for the third quarter of this year.

This represents yet another quarter of broad-based growth with consistent overall delivery, demonstrating the resilience we have built into our company over the last three years, which is giving us the ability to deliver on our commitments even within a soft consumer environment.

Our Q3 performance is again supported by growth across all our geographies with particularly strong performances in North America as well as in the China, North Asia & Oceania region.

Before going into the details of each zone, let us turn to the next slide, slide number 3, to put these results into perspective.

SLIDE 3 – 5th QUARTER OF SEQUENTIAL QUALITY IMPROVEMENT

Since the start of our Renew Danone strategy, we have been very clear about the business model we are striving for, a model which is based on competitive growth, on quality growth. And we are delivering against this ambition as the quality of our growth does indeed improve quarter-by-quarter.

Our volume mix contribution for Q3 has reached a new height of +3.6% with resilient pricing at +0.7%. As you can see on this slide, it is now the fifth consecutive quarter of volume mix acceleration, a testament to the effectiveness of our investment strategy.

Turning to the next slide, slide number 4.

SLIDE 4 – DELIVERING BROAD-BASED QUALITY GROWTH

You will see that this quality growth is broad based, being reflected across all our categories. Our focus on dynamic health-oriented categories is paying off as we delivered once again positive volume mix as well as positive pricing across all categories from EDP to Specialized Nutrition and Waters.

EDP closed up +4.1% like-for-like sales with growth in volume mix accelerating to +3.8% in Q3 with particularly strong performances in North America and Japan, and a competitive performance in Europe. The Dairy category is keeping its momentum, and by doing so, growing faster than the overall Food and Beverage market, which is offering us great growth opportunities, especially for our more differentiated portfolio.

In Specialized Nutrition, like-for-like sales were up +5.2% with strong growth in volume mix at +4.1%. We continue to see our premiumization strategy winning in IMF, while Medical Nutrition continues to perform strongly supported by positive macro trends and enabled by capacity expansion across the network. And in Waters, we see like-for-like sales growth of +3.2% with solid volume mix up +2.3% despite rather mixed weather conditions around the globe. The growth continues to be driven by Mizone in China and our evian brand across the regions.

Let's move on to the traditional sales bridge on slide number 5, before we talk in more detail about our geographies.

SLIDE 5 – LFL SALES GROWTH UP +4.2% IN Q3

As we said, like-for-like sales were up +4.2% during Q3 and we delivered +3.6% volume mix while pricing continued to normalize with a contribution of +0.7%.

Outside of the like-for-like, we had a minus 2.3% impact from currency, hyperinflation, and others, reflecting mainly the devaluation of emerging market currencies against the euro. The scope effect is still negative at minus 3.1% yet sequentially reducing, as expected. This is mainly due to

the disposal of our Horizon Organic business in Q1 of this year. Altogether, this gives us net sales for Q3 of around EUR 6.8 billion, down minus 1.2% on a reported basis.

Let's now move on to slide number 6, to look in more detail at our geographies.

SLIDE 6 – EUROPE – CONTINUED PROGRESS IN TRANSFORMING OUR BUSINESS MODEL

And here, let me start with Europe where we delivered in Q3 like-for-like sales growth of +1.4%, driven by as much as +2.4% in volume mix. This volume mix growth is actually the strongest level we have seen in the region for some time, a proof point that we are becoming more competitive, that our investments into brand equity and selective price initiatives are yielding results.

The volume mix growth acceleration is led by EDP, where we see a strong momentum of our functional platforms. Our High Protein range performed again strongly with double-digit growth also in Q3. We have in this last quarter successfully expanded its distribution to the German and Polish markets and see all across Europe strong consumer demand.

In parallel, Actimel as well as Alpro, also delivered very strong performances, growing mid to high single digits. While pushing hard our existing winning platforms, we also launched a new kefir proposition under the Activia brand in countries like France and in the UK. We are very much looking forward to the impact this new range will have in the coming quarters.

In parallel to EDP, we can report resilient performances in Specialized Nutrition as well as in Waters despite mixed weather conditions in the quarter.

And with that, let's turn to North America on slide number 7, please.

SLIDE 7 – NORTH AMERICA – CONTINUED STRONG MOMENTUM IN Q3 LED BY COFFEE CREATIONS, HIGH PROTEIN AND WATERS

In North America, we delivered what I would call a stellar performance with like-for-like sales up +5.8%, led by another very strong quarter of volume mix growth, up +4.9% and a positive pricing of +0.9%.

Our Coffee Creations platform is going from strength to strength with our core portfolio as well as our innovations selling extremely well, enabling consumers to trade down from coffee houses, replicating the experience in the comfort of their own homes.

We also see a very good performance in the fast-growing Yogurt category, where our High Protein products continue to post strong double-digit growth. The rest of our Yogurt portfolio is also showing an accelerated momentum, including our Activia brand, sequentially increasing its contribution to the performance of our Yogurt business.

Next to our dairy business, we are working hard on the acceleration plan for our plant-based portfolio, leveraging the learnings from the successful relaunch of our Alpro brand in Europe, which is now delivering superior competitive growth. And last comment on Waters, as our evian brand is posting another quarter of strong growth with further market share gains.

With that, let's move on to our China, North Asia & Oceania region on slide number 8.

SLIDE 8 – CHINA, NORTH ASIA & OCEANIA – STRONG BROAD-BASED GROWTH IN DYNAMIC CATEGORIES

This region delivered another very strong performance in Q3 with like-for-like sales growth of +8%, reflecting broad-based growth across the region. The growth was driven by a very strong volume mix contribution of more than +10%.

In Specialized Nutrition, the momentum continues as we are consistently delivering strong and competitive growth with double-digit volume mix. We are very pleased with the ongoing performance of both the IMF and Medical businesses, which continue to win share in their respective segments.

In IMF particularly, our strategy of premiumization is paying off with the Aptamil brand delivering strong growth in Q3, also supported by the recent launch of our Essensis innovation platform.

While we are happy with this competitive performance, we do also see first signs of growth recovery of the total IMF market with the segment of formula for young babies, called stage 1 formula, recently returning to growth.

In Waters, the Mizone brand has performed well in the second half of the summer season despite lapping some even stronger comparables. Growth is very much supported by our successful repositioning of the core as well as by the electrolytes innovation, which makes us win market shares in this very vibrant category.

And in EDP, the Oikos and Activia brands continue to grow very strongly in Japan. And moving forward, this will be supported by the new capacity coming online very soon at our local factory. Our continued strong growth in Japan is a testament to the investment we put behind our products to make them differentiated and value added, attracting more and more consumers to our products in this very large Japanese dairy market.

On to Latin America on slide number 9.

SLIDE 9 – LATIN AMERICA – SOLID QUARTER DESPITE HEADWINDS

In Latin America, we had a solid quarter of +2.7% like-for-like sales growth, led by price of +3.5%. Volume mix was slightly down this quarter by minus 0.7% due to poor weather conditions impacting our large Waters business in Mexico.

At the same moment, we are delighted to see our Specialized Nutrition business continuing to grow strongly, winning market share in its category. In EDP, excluding the impact from licensing out of our Paulista milk business, we saw a good growth momentum, especially of the Danone brand and the High Protein platform.

Let's turn to the next slide to discuss the performance of what we call externally the Rest of the World region on slide number 10.

SLIDE 10 – REST OF THE WORLD (AMEA) – STRONG QUARTER LED BY SPECIALIZED NUTRITION

Our Asia, Middle East and Africa business saw a strong +6% like-for-like sales growth with volume mix at +1.2% and price at +4.7%.

In Specialized Nutrition, we had a strong competitive performance in both IMF and Pediatric Specialties with double-digit growth across Asia, India, the Middle East, and Africa. Our hero brands, Aptamil and Neocate, are driving most of this growth.

In EDP, we are increasingly benefiting from our ongoing transformation in Africa as the quality of our growth is sequentially improving. Let me mention here particularly our business in Morocco, which posted strong quality growth in this third quarter, driven by a more and more differentiated but also locally relevant portfolio.

This is making us commercially win in the market while we are building at the same time resilience into our supply chain. We're investing here into high-impact sustainability initiatives supporting our farmers' transition to regenerative agricultural practices, which, among many other benefits, will secure our access to high-quality milk also in the future.

And finally, on to the last slide, slide 11, to discuss our financial guidance for year 2024.

SLIDE 11 – 2024 GUIDANCE CONFIRMED

We are very pleased with our performance in the first nine months of the year with the fact that the quality of our growth is increasing from quarter-to-quarter. This consistent delivery makes us today confirm, with confidence, our guidance for year 2024 with like-for-like sales growth of between +3% and +5% and a moderate improvement in recurring operating margin.

Moving forward, we will continue to drive a business model which focuses on a science-based and consumer centric approach. We're investing for even stronger category leadership for not only winning where we play, but also taking care of our categories, keeping our categories growing faster than the average of the food and beverage market within a soft consumer environment.

Our ambition is more than ever to support our consumers and patients by addressing their needs, leveraging the relevance of our categories, our strong brand equities as well as our increasing product superiority.

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

QUESTIONS & ANSWERS SESSION

Mathilde Rodié, Head of IR

Thank you, Juergen. So now we're opening the Q&A. First question from Guillaume Delmas, UBS.

QUESTION 1: CHINA, NORTH ASIA & OCEANIA OUTLOOK; PRICING IN EUROPE

Guillaume Delmas, analyst at UBS

Mathilde and Good morning, good morning all. I've got two questions. The first one is on your China, North Asia & Oceania region because you've been reporting now seven consecutive

quarters of like-for-like sales growth in the high single-digit percentages or even better. This has been mostly volume mix led.

So my question here is how long do you think you can sustain that run rate? Or I guess, maybe to ask it differently, I mean, what would cause a sudden deceleration given that you are seeing first signs of gross recovery in IMF. You've got plenty of new innovations, including Nuturis. And it seems Mizone has a very strong momentum. So any color on the outlook for the region would be great.

And then my second question is on European pricing, which was in negative territory in the quarter. Could you maybe shed some light on which divisions and countries were the main reasons behind this negative development?

And would you expect some further deterioration over the coming quarter? And I guess what I'm trying to get to is, as input cost inflation seems to be returning, I mean, how confident are you that you will be able to implement new pricing actions late this year or early next year? Thank you very much.

Juergen Esser, Deputy Chief Executive Officer & Chief Financial Officer

Good morning, Guillaume. First, you are absolutely right that we are very happy with the ongoing performance of our business in China, North Asia & Oceania. I think what is reassuring on the outlook of this region is the fact that we are not depending on one or two engines, but that all our engines are performing.

Medical Nutrition, which is benefiting, as we all know, from strong macro trends, is winning in its market. Mizone, as you say, is going from strength to strength. And I think on IMF, the new news is that we are seeing some first green shoots on the category, which we have not seen for quite long. We are doing well in market shares, as you said, thanks to a lot of impactful innovations.

But we also see that stage 1 formula, which is basically the entry formula for babies, has started to turn green in Q3 of this year. It's too early to celebrate that this category is now stabilized and returned to growth, but it can give us confidence on our ability to perform in this category moving forward.

I made the comment on Japan because Japan is also now delivering since many, many quarters very strong growth. We have been putting new capacity in place in order to make sure that we can continuously and consistently deliver on it. So when it comes to the sustainability of our ability to deliver sustainably those quality results, we are quite confident. Obviously, the name of the game is staying on the ball and executing this excellent, and Bruno and the team are just doing a very, very good job.

In Europe, actually, we're pretty happy with the results of Q3 growing, +1.4%. Volume mix up +2.4%. Yes, we have been investing into making the volumes more dynamic and it's working for us, which I believe is very good news. The acceleration of volume mix is actually led by EDP, which is, on one side, confirming that Dairy is a growth category; and secondly, that we are making progress on our competitiveness.

And so I believe that moving forward, we will stay with the approach we had so far, which is a consumer-led pricing, which means that we're going to increase price when we are in the next round of negotiation, which will be early next year in the more differentiated product format, High Protein, to name, while we will manage prices more smartly and promotions more smartly for the less differentiated products. I'm confident that we are able to manage price in the right corridor. And I'm also convinced that mix can be a particularly strong driver of growth in Europe. When you think about the rollout of our High Protein ranges, which is working very well, when you think about the launch of our kefir ranges we just started, when you think about the fact that away-from-home becomes a bigger and bigger part of our business, especially in EDP in Europe, all of this is coming with higher price points and this is what we are focusing on to drive quality growth in Europe.

And maybe a last comment, Guillaume, sorry for being a bit long, is that you remember what we said at the CME in Amsterdam that we have still idle capacity, especially in Europe. So bringing volumes back into our factories is obviously driving a disproportional operating leverage. So finding the right balance between volume mix and price for us is important, and I believe that we are here fully on track.

Guillaume Delmas, analyst at UBS

Thank you very much.

Mathilde Rodié, Head of IR

Thank you, Guillaume. Next question from Warren Ackerman, Barclays.

QUESTION 2: US EDP PERFORMANCE & OUTLOOK; VOLUME LEVERAGE IN EUROPE

Warren Ackerman, analyst at Barclays

Yeah, good morning, everybody. It's Warren here at Barclays. I've also got two. Juergen, can you maybe dig into the US EDP performance in a bit more detail. Obviously, there's the Coffee Creations piece, which is doing well. But the core EDP, it looks like it's accelerated from Q2 into Q3.

Maybe what's your outlook into Q4? Any update on plant-based in the US on Silk. Do you still think you can keep growing double digit in Coffee Creations? So just the moving pieces around the US would be super.

And secondly, I'm just interested a little bit on your comments about disproportionate leverage from the volume. You've said before you're underutilized in factories in Europe. Any kind of comments around the volume leverage that you're talking about through the margin? And then sort of interlinked to that, any comments around COGS or margins, noticing, for example, that milk prices are starting to tick up, just to kind of help us a little bit sort of thinking through the back half. Thanks.

Juergen Esser, Deputy Chief Executive Officer & Chief Financial Officer

Good morning, Warren. Very good results in North America, actually stepping up further. We had a very good start of the year, Q3 with an even stronger performance. And you're absolutely right that Coffee Creamers is pulling a lot of that growth, growing again double digits, growing again competitive, winning shares in its market.

And what is reassuring and comforting us is this is not only linked to the innovations we have been putting into the market earlier this year, but also the core portfolio is winning. So we are quite confident that we have here really a strong asset, which we can further make grow in the coming quarters.

What is truly accelerating is Yogurt, you are absolutely right. We are pretty happy with our High Protein range, Oikos Black. But what we are seeing now that also the remains the other part of

our Yogurt portfolio is getting into a better momentum, especially Activia, within a category which is very dynamic. The category of yogurts in the US is growing very, very fast. Consumers understand more and more that this is contributing to a healthy diet. And so today, we are winning in that segment.

On plant-based, we are still not where we want to be, let's be very clear. We are working hard to get this part of our business back to solid growth. I think the blueprint of Alpro in Europe will be very helpful for us. Alpro is now, since the beginning of the year, accelerating.

Very strong performance in Europe on the back of the fact that we have been investing in a very intentional manner, going into away from home, making our Barista ranges more visible, but also have a more occasion-based approach with driving oats on one side and almonds as the right ingredient with cereals on the other side.

That's working for us extremely well in Europe. We will make that also happen in the same way in the US. And we know that's not been so from one quarter to the next, but we will take the time to make it happen and are confident we can do so.

When it comes to the volume leverage of Europe, this is very important, as you say, because we are still sitting on idle capacity, although we have been taking out some of it over the last years. And this is particularly true for Yogurt. So for us getting our Yogurt category in Europe back to growth, and you saw the dynamics of the third quarter, which are really encouraging, is important for us.

In the moment, as you say, that some of the commodity prices have probably touched the lowest point. And so I can confirm what I told you three months ago that we also see -- I would say, some inflation on our material costs moving forward.

So having the right balance between driving strong volume and mix, maintaining the pricing within the right corridor, getting the volume leverage while delivering strong productivity moving forward will be for us the recipe to continue increasing our gross margins for Europe and for the company, and we are on track here. Thank you, Warren.

Mathilde Rodié, Head of IR

Thank you, Warren. Next question from Celine Pannuti, JPMorgan.

QUESTION 3: PRICING IN EUROPE & CHINA; COST INFLATION EXPECTATIONS

Céline Pannuti, analyst at JP Morgan

All right. Good morning. So my first question, and I'm sorry if I have missed it, if you have already answered that, would be on understanding the pricing dynamic in Europe and in China because those are two regions where pricing has sequentially weakened. So maybe if you could talk about those two regions and in terms of whether you expect this to continue or whether there would be -- there were some temporary issues.

And then my second point, which may be a bit of a follow-up on the same subject. In terms of cost inflation, can you remind us what you expect for the full year and whether this has changed, and what you think 2025 is shaping like and the ability you may have to raise prices in developed markets. We heard from one of your competitors that when they tried to raise prices, they got delisted. So is the environment a bit more challenging? Thank you.

Juergen Esser, Deputy Chief Executive Officer & Chief Financial Officer

Yeah. Good morning, Celine. Look, when we look at pricing of the third quarter at a company level, +0.7%, we clearly see that we are back to a more normalized level. What I said three months ago is that we were confident to remain positive in terms of pricing for the company, and I confirm what I said.

When we double-click on Europe and China. For China, you saw that we are growing very fast in volume mix, actually in double-digit territory, that pricing is negative at minus 2%. And this is mainly to be attributed to our IMF business, where there's a very strong correlation between strong volume mix effects and this temporary negative price. We have been launching a number of new SKUs, as you know, in this category, each of them at a higher price point compared to previous average.

Those innovations, and we have been talking a lot about Essensis, have actually a good start, a very good start, and are driving significant positive mix into our results while the stimulation of this demand made some investments necessary to get the right distribution in both the offline and online shelves. So this is a temporary element and you will see that pricing will normalize as we go over the next quarters.

In Europe, I've been talking about that. We have been investing, I would say, selectively into pricing where we thought it's important in order to get the right volume dynamics. This is not about one country or one category. It spreads a bit across everywhere, where we believe that we are a bit less differentiated, we have been investing. And the good news is that volumes are reacting to it.

To reassure you on what's in front of us for Europe pricing, while realistically speaking, price will not be a major driver of growth for Europe in the coming quarters, it will neither become a major drag on our reported performance there. So we are looking with confidence into that.

Juergen Esser, Deputy Chief Executive Officer & Chief Financial Officer

On the cost side, Celine, actually, no change vis-a-vis what we discussed at H1. We see some inflation at, I would say, normalized level driven by milk and some milk ingredients, driven by labor costs and transportation.

Some volatility, but no real change vis-a-vis what we have been discussing, which means, and coming back to the pricing point, what we will do moving forward is to stay with our consumer-led pricing approach, increasing prices where we have a very strongly differentiated product portfolio and staying a bit more cautious where this is not the case.

Mathilde Rodié, Head of IR

Thank you, Celine. So next question from Charlie Higgs, Redburn.

QUESTION 4: 2024 GUIDANCE; EDP AND ACTIVIA IN EUROPE

Charlie Higgs, analyst at Redburn

Yeah, good morning. My first one is just on the guidance reiteration this year. I know you've been clear about reinvesting margin upside behind top line growth. But with China and Specialized Nutrition and Mizone doing so well versus, say, EDP Europe, why would you not perhaps raise the full year guidance? Or should we read it as there'll be greater marketing investment in H2 along with some of the negative pricing we've seen to support top line growth? That's my first question.

And then the second one was just on EDP Europe. Could you maybe just give an update on Activia, what you're seeing there in the market and how some of your recent focuses on gut health and fiber are performing? Thank you.

Juergen Esser, Deputy Chief Executive Officer & Chief Financial Officer

Good morning Charlie. On the guidance, look, we have now been delivering three good quarters in year 2024, each of them at around +4% with actually a good mix, as you are saying. What is very important for us is to build a sustainable growth path. And as we have been discussing in the capital market event in Amsterdam, we want to invest into true category leadership.

When you look today at our categories, they are performing extremely well. They are performing better than the average of the Food and Beverage market and it is because those are categories, which are invested into and they are invested into also by us as a category leader in many of the regions we are operating. When you look at the results of China because you were mentioning China, China is performing very well, but also because we are investing into this growth. And this is our intention also moving forward, is why we are today confirming the guidance in terms of growth, but also in terms of moderate margin progression for the year 2024.

When it comes to our EDP and Yogurt portfolio, and more importantly, the Activia portfolio, we're making very good progress. Can confirm what we also said in Amsterdam that the repositioning of the brand going back to a very clear position on gut health, very clear positioning on the health benefits is working for us. It's working for us in Europe as well as in North America.

And you will see that moving forward, we will be even clearer on the benefits and the claims of this great brand. This brand has a fantastic potential. We have been creating the conditions over the last two years to go back to growth and we are seeing that sequentially getting into our results. So we are confident on that part.

Charlie Higgs, analyst at Redburn

Thank you.

Mathilde Rodié, Head of IR

I think this was the last question. So thank you, everyone, for your question and your interest. And speak to you soon.

Juergen Esser, Deputy Chief Executive Officer & Chief Financial Officer

Thank you very much, guys. Have a good day. Talk soon. Bye-bye.