DANONE H1 2026 RESULTS CONFERENCE CALL TRANSCRIPT

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PRESENTATION

Paul Avis, *IR Director*

Good morning, everyone. Paul speaking. Thank you for being with us this morning for Danone's H1 2026 results call. I'm here with our CEO, Antoine de Saint-Affrique, and our CFO, Juergen Esser, who will go through some prepared remarks before taking your questions.

And before we start, I draw your attention to the disclaimer on slide 32 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 over to Antoine.

SLIDE 2 – CEO INTRODUCTION

Antoine de Saint-Affrique, *Chief Executive Officer*

Thank you, Paul. Good morning, everyone, and a warm welcome to you all. Thank you for joining Juergen and me for our H1 '26 results presentation. As you would have seen in the headline of our press release this morning, we are pleased to share with you another set of solid high-quality results. Let's start with slide 3.

SLIDE 3 – STRONG QUALITY GROWTH IN Q2

As you can see on the chart, we delivered strong growth in quarter two with like-for-like sales up +4.2% at group level. Juergen will come back to the details later, but this performance was broad-based across both categories and geographies. These strong results are delivered in what remains obviously a challenging and volatile external environment. It once again demonstrates the relevance of our health-focused portfolio and the strength of our multi-engine growth model. It also reflects the hard work, the commitment, and the passion of the Danoners around the world. Their focus on serving consumers, driving execution excellence, and continuously improving our business remains at the heart of our performance and I would really like to take this opportunity to thank them for their contribution. With this strong quarter two performance, we closed a solid first half once again delivering on our business model. Let's move now to slide 4.

SLIDE 4 – A SOLID FIRST HALF 2026

Looking at the first half as a whole, we delivered like-for-like sales growth of +3.5% despite a first quarter, which was far from business as usual. Growth was well balanced in H1 with volume mix contributing +1.7%. Disciplined execution across the organization and strong productivity gains drove a 12-basis-point improvement in the recurring operating margin year on year, reaching 13.3%. Importantly, this was achieved while continuing to invest beyond our capabilities, beyond our brands, beyond our science and our innovations.

Our solid operational performance and strong financial discipline also translated into recurring earnings per share of EUR1.92, up +0.9% versus last year, while free cash flow generation reached EUR0.9 billion. The quality of our H1 performance further demonstrates the resilience of our business model and reflects our ability to capitalize on the favorable structural trends that continue to reshape the foods industry. Moving to slide 5.

SLIDE 5 – CAPITALIZING ON LONG TERM TRENDS

As I have said before, the food industry is at a tipping point and health through food has never been more relevant. Danone is uniquely positioned at the intersection of attractive health-focused categories supported by powerful long-term demand trends. Around the world, consumers are placing greater emphasis on health, nutrition, and healthy hydration, and we continue to see strong demand across our winning platforms.

Our science-based approach, combined with a relentless focus on product superiority and innovation, allows us to offer nutritional solutions that support people at every stage of life. Our science is now concretely translating into powerful innovation.

In dairy, high-protein products remain a key growth driver across all regions from North America to Europe, Latin America, and Asia Pacific, growing double-digit everywhere. Our more recent platforms such as Skyr and Kefir are also gaining strong traction with consumers, growing double-digit in Europe in H1. We continue to expand them both within and beyond Europe.

In plant-based, Alpro continues to deliver high single-digit growth in Europe in H1, with innovation remaining a key growth driver, our high-protein and Greek-style plant-based yogurt ranges continue to perform very well while we are progressively rolling out newer propositions such as Meal To Go across Europe following its successful launch in Germany, the product addresses growing demand for convenience and nutritious meal solutions.

We also recently launched a new matcha coconut ready-to-drink offering, which has seen very positive consumer response so far. If you haven't tried, I only can encourage you to do so.

Another area where we continue to see strong momentum in H1 across all regions is Medical Nutrition. Favorable demographic trends and increasing diagnosis rates continue to support both our adult and our pediatric businesses. This is reflected in the strong performance of our flagship brands: Nutrison, Fortimel, and Neocate, which delivered a high single to double-digit growth in H1.

As these platforms continue to scale, they make an increasingly meaningful contribution to both the quality and the strength of our growth profile. Importantly, they also drive our exposure to attractive channels that continue to outgrow traditional retail. Across strategic channels such as away from home, hospitals, pharmacies, and home care; we continue to grow two to three times faster than in mass retail. While the structural growth driver keep boosting our winning platforms, we remain equally focused on the areas where further progress is needed.

In North America, we have previously discussed our dissatisfaction with the competitiveness of parts of our EDP portfolio. We saw some improvements in performance during Q2, which is encouraging. That said, we are still only at the beginning of the journey and we remain focused on sequentially executing the initiatives that are needed to deliver a sustained improvement in performance overtime.

In yogurt, as we have already shared, additional production lines are coming online throughout '26, enabling us to further strengthen our own shelf execution and better serve demand while progressively reactivating segments beyond High Protein and obviously leveraging the breadth of our portfolio.

Looking ahead, we have a comprehensive innovation roadmap planned across H2 '26 and into '27. This includes reactivating Activia by leveraging successful learnings from Japan on functional claims and from Europe on fiber-based innovation, while expanding our presence in formats and segments such as nourishing everyday Greek yogurt and tubs with Oikos and therefore addressing the gaps in our portfolio. And there is more to come, including additional initiatives aimed at leveraging the strong heritage and equity of the Danone brand, and there you will have to stay tuned.

In creamers, we will continue to support the ongoing improvement of International Delight through innovation and renovation in '27, including upgraded core recipes and new products designed to capture the fast-growing clean label trend.
In plant-based, as part of our efforts to reposition Silk from a plant-based brand to a plant-powered nutritional complement to dairy, we have recently expanded our protein range with the launch of Silk Protein yogurt and Silk Protein shakes. As said, all of these initiatives will be rolled out progressively to support a gradual improvement in our North America EDP performance over the coming quarters.

In EMEA, in the IMF category, we are now back to a normal situation in terms of presence on shelf. Our focus has now shifted from restoring supply to rebuilding trust in the category. Our sales teams are engaging closely with maternity hospitals and healthcare professionals, and we are giving parents greater visibility into how our products are made to enforce confidence in our brand, virtually opening our factories, showcasing our quality processes and highlighting the extensive testing behind our products.

In quarter three, we will launch a new campaign to support these efforts and remind consumers of the quality, nutrition, and expertise that comes with our 50 years of early life nutrition research. Although the disruption affecting IMF market continued into quarter two, we expect the market to progressively normalize throughout the remainder of the year.

Let's now move to slide 6.

SLIDE 6 – ENHANCING OUR PORTFOLIO AND GROWTH PLATFORMS THROUGH M&A

Our business model is predicated on quality organic growth, and this remains our top priority. At the same time, as part of Renew Danone Chapter 2, we have also made clear our ambition to be more active on M&A. Our approach remains highly disciplined and is guided by three clear filters:

First, strong strategic fit. Focusing on opportunities within our core categories or adjacencies.
Second, strict financial discipline with value creation at the core and maintaining structurally double-digit ROIC as a key priority.
And third, but equally important, execution capabilities, ensuring we have the capabilities and the teams required to successfully leverage acquisitions.

The transactions signed during the first half are strong illustrations of this approach. They further enhance our health-focused portfolio and support our value creation ambition. As Juergen discussed in quarter one, the contemplated acquisition of Huel would extend our presence in the premium complete nutrition space. Huel is a well-established player in nutritionally balanced meal with a sizeable business in Europe and the US, positioned in a highly complementary segment to our portfolio.

Beyond the category opportunity, they bring extensive capabilities in direct-to-consumer channels, digital marketing, and community engagement, while operating at the intersection of health and convenience. In parallel, we announced a new chapter for Argentinian dairy business. Together with our long-time partner Arcor, we are creating a joint venture that combines our portfolio to unlock the full potential of dairy market in the region. While the transaction will technically deconsolidate our Argentinian dairy business, we expect the synergy generated by the joint venture to be EPS-accretive over time.
Finally, in June, we signed the acquisition of MADE Group, expanding our presence in the fast-growing healthy nutrition space in Asia Pacific. MADE brings a well-established portfolio of brands spanning high-protein, ready-to-drink products, gut-health yogurts, and coconut-based products aligned with our health-focused strategy. The transaction would strengthen our presence across Australia, New Zealand, and Southeast Asia together with the acquisition

of the remaining stake of our Australian fresh dairy joint venture, it would double the size of our EDP business in APAC, adding more than EUR400 million of sales. MADE would be accretive to both operating margin and EPS from year one. We expect to close all these transactions in the second-half of the year. So as you see we keep moving at pace, organically and inorganically. And with that, I'll hand over to Juergen.

SLIDE 8 – STRONG PERFORMANCE IN Q2

Juergen Esser, *Chief Financial Officer*

Thank you, Antoine, and good morning to all of you. Let me start our financial review with our Q2 sales performance on slide number 8.

As you heard from Antoine, we have seen a return to strong quality growth in the second quarter with like-for-like sales up +4.2%. Growth was actually well balanced across our three regions and across all our categories.

While we will dive into regional details shortly, let me comment briefly on our categories.

Our EDP business delivered solid like-for-like growth of +3.8% in the quarter. While our Protein and other functional yogurt platforms continue to be the primary growth driver, we have also seen increasing contribution from core brands such as Danone and Activia with promising results of our recently introduced fiber and Kefir innovations.

In Specialized Nutrition, like-for-like sales grew +4.5% in the period. Growth was supported by the continued strength of our medical nutrition business across all regions. At the same moment, we can report a progressive recovery of our Infant Milk formula in Europe and the Middle East that started mid-second quarter and that we see progressing since.

And finally, our Waters business that delivered +4.7% like-for-like growth, notably driven by a strong start to the season in Europe and here especially for the Volvic brand as well as driven by an accelerated momentum of the Aqua brand in Indonesia.

Let me now turn to our traditional sales bridge for the second quarter on slide number 9.

SLIDE 9 – Q2 SALES BRIDGE

Within the +4.2% like-for-like growth that I just described, volume/mix played once again a key role contributing +1.9%. Importantly, volume/mix was positive in all regions and in all categories, reflecting the relevance of our portfolio. For the first time in several quarters, reported sales growth exceeded like-for-like growth in Q2. Scope contributed +0.8%, reflecting the acquisition of Kate Farms last year and the consolidation of our dairy joint venture in Australia. At the same time, the currency impact moderated to -1% in the quarter. As a result of those movements, reported sales reached EUR7.2 billion, up +4.4% versus last year.

Let's now take a closer look at the performance of each region, starting with Europe, Middle East, Africa on slide number 10.

SLIDE 10 – EMEA

Momentum in the EMEA region improved in Q2 as our Infant Milk formula business progressively recovers and as our EDP and Waters businesses continue to deliver solid growth. Altogether, like-for-like sales were up +3.6%, driven by 2.2% volume mix.

Let me start with Specialized Nutrition that is back to growth with around +3% in the second quarter. A few comments first on our IMF business.

In the Middle East, we saw actually a fast catch up in Q2 following a Q1 that was impacted by both the recall and the onset of the conflict. In Europe, while our on-shelf availability returned to normal in the month of June, the first part of the quarter was still impacted by disruptions. The category in Europe was still somewhat soft, although trends have improved sequentially throughout the quarter. Our teams are mobilized to rebuild trust among healthcare professionals and consumers, and we are confident that the category will gradually return to normal.

In EDP, we continued to deliver strong performance across the region. In dairy, High Protein, Skyr and Kefir all posted double-digit growth. Activia extended its positive momentum, posting growth for the third consecutive quarter in Europe. And our Alpro plant-based brand also continued to perform very well, consistently delivering competitive growth and driving the category through innovation.

Finally, our Waters business that delivered a solid start to the season, notably driven by our Volvic and evian brands with both plain water and recent aqua drinks innovations under the Volvic brand growing very fast. For the first semester, the EMEA region grew sales +2.1% on a like-for-like basis and saw its recurring operating margin stable at 10.4%, a solid achievement in the context of the IMF recall. Let's now move to the Americas region on slide number 11.

SLIDE 11 – AMERICAS

The Americas region delivered +4.3% like-for-like sales growth, accelerating versus previous quarters. Within that performance, North America also improved with +2.6% growth in the second quarter. Within North America, the performance of our EDP business continues to improve. In Q2, we saw again strong growth in High Protein under the Oikos brand with an acceleration in our drinkable product formats. We have at the same moment seen a stabilization of our creamers business under the International Delight brand.

As Antoine mentioned earlier, we are confident in our ability to further restore competitiveness in those categories, supported by a strong pipeline of innovation for the quarters ahead.

Beyond EDP, Specialized Nutrition performed well across the region, the Infant Milk formula business in Latin America was particularly strong, growing double-digits, driven by the Aptamil brand. In North America, our medical nutrition business further accelerated in Q2, and those numbers do not yet include Kate Farms, which continues to perform strongly, and which will enter the like-for-like perimeter from Q3 onwards. Overall, for the first half, the Americas region delivered +3.9% like-for-like growth and +31 basis points of recurring operating margin expansion.

Turning now to our Asia Pacific region on slide number 12.

SLIDE 12 – APAC

The region delivered +5.2 like-for-like sales growth in Q2, again largely driven by volume/mix. We see solid momentum in Specialized Nutrition, which accounts for two-thirds of the region's sales. In IMF China, we delivered competitive growth in a category that has been normalizing and against high level of comps of last year. The teams are focused on executing our premiumization strategy with a continued strong momentum of our Essensis range. In the rest of Asia, our IMF business is performing strongly and let me highlight especially the business cells in India as well as in Vietnam.

In Medical Nutrition, we saw continued strong demand for both adult medical nutrition as well as baby medical nutrition. While it still is relatively small, we are particularly pleased by the momentum of our oral solutions business, which is gaining scale rapidly across both China and Australia / New Zealand.

In Japan, our EDP business is delivering another quarter of double-digit growth. Both Oikos and Activia performed strongly, supported by effective activation and execution. The full consolidation of our dairy joint venture in Australia represents a meaningful addition to the EDP category in the region and will start contributing to like-for-like performance from next year onwards.

In Waters, performance was more contrasted across our two main brands. In China, Mizone started soft into the season in a slow category environment and despite market shares that are well oriented. On the other hand, we posted very strong results in Aqua Indonesia in the quarter on the back of a dynamic Waters category. Overall, for the first half, the APAC zone delivered +5.6% like-for-like sales growth and recurring operating margin of 24.7%, slightly ahead of last year.

Let's now turn to the margin bridge for the first half of year 2026 on slide number 13.

<u>SLIDE 13 – RECURRING OPERATING MARGIN UP +12 BPS IN H1 2026</u>

Our recurring operating margin increased by 12 basis points in the first half of year 2026 to 13.3%. The IMF recall, as well as the increase of some commodity indexes following the Middle East conflict, impacted our margin from operations in the first six months of the year. Thanks to several cost initiatives launched over the last quarters, our teams around the world were able to counter those headwinds with an elevated level of productivity and efficiency gains.

An immediate step up in savings has been important to deliver on our business model. As you know we believe in a value creation model driven by quality growth and fueled by consistent investment into future growth and efficiency initiatives.

Let's move to the next slide 14, to look at our EPS and cash generation over the period.

<u>SLIDE 14 – RECURRING EPS UP +0.9%, DRIVEN BY OPERATIONAL PERFORMANCE</u>

The strong operational performance which we just went through remained the primary driver of EPS growth in H1, contributing +8.3%. This was offset largely by a negative currency impact of -7%. The remaining items had limited impact with higher refinancing costs compensated by tax, associates, and minorities.

As a result, recurring EPS increased by 0.9% in the first semester to EUR1.92. This leads me to another key indicator of our value creation journey, our cash generation. We delivered free cash flow of EUR0.9 billion on the first half, supported by our strong operational performance. This was achieved while continuing to invest into the business and despite the temporary increase of security stocks to ensure customer service levels.

This concludes the financial review for the first half of the year. And so let me turn to the next page number 15.

SLIDE 15 – 2026 GUIDANCE CONFIRMED

And here, let me first thank our teams whose commitment and excellence and execution enabled us to deliver those solid results in the first semester despite the challenging environment. It is reinforcing our confidence to continue delivering competitive growth and value creation in the future. We are therefore today confirming our financial guidance for year 2026 with +3% to +5% like-for-like sales growth and recurring operating income to grow faster than sales.

And with that, let me hand it back to Antoine for the conclusion.

SLIDE 16 – CEO CONCLUSION

So before we open the floor to questions, I would like to leave you with a few final thoughts.

As you've seen today, we delivered another half year of solid, high-quality results. And as I told you, this performance reflects the relevance of our health-focus portfolio, the strengths of our growth platforms and the commitment of our teams around the world. While we're obviously happy with these results, we also remain clear-eyed about the work that still lies ahead. We are encouraged by the progress we are seeing in some areas, but we continue to operate with a mindset of constructive dissatisfaction and a relentless focus on execution.

As you have heard me say many times before, we believe the food industry is at a tipping point. Consumers and patients are increasingly looking for science-based nutritional solutions that support their health and well-being. With our unique portfolio in health-focused categories, our strong science capabilities, and our commitment to quality, I believe we are uniquely positioned to benefit from these long-term trends. Our priority remains to deliver consistent performance while continuing to transform the company. We will continue to strengthen our portfolio through innovation, disciplined investments, and selective acquisition, positioning Danone long-term sustainable growth.

And with that, let me hand back to Paul to start the Q&A question.

QUESTIONS & ANSWERS SESSION

Paul Avis, *IR* Director

Great. Thank you very much, Antoine and Juergen. Now we will start the Q&A session with the first question coming from Guillaume Delmas, UBS.

QUESTION 1: CNAO VOLUME/MIX GROWTH; EDP NORTH AMERICA

Guillaume Delmas, *analyst at UBS*

Thank you very much, Paul, and good morning, Antoine and Juergen. A couple of questions for me, please. The first one on CNAO, so China, North Asia, Oceania. Volume/mix slowed quite significantly between Q1 and Q2. I think Q1 were 10.5% and now it's more 1.5% volume/mix. I appreciate comps were a bit tougher in the quarter, but could you maybe shed some light on this slowdown and what's driving it in terms of division, category, or country?

And then looking ahead, I mean, it's not like comps get any easier. In fact, they're slightly tougher going forward. So are you confident you'll be able to maintain a positive volume/mix in the back half of the year in CNAO?

And then my second question on North America, Antoine you said during the presentation that we are still at the beginning of the journey. I mean, you're clearly trying to signal the improvement will be progressive, patience may be required. My question here is the turnaround of North America maybe taking a bit more time than you initially expected? And when we think about the key drivers, the creamers, traditional yogurt, plant-based beverages; where do you expect the fastest progress being visible very quickly and what could take a little bit longer? Thank you very much.

Antoine de Saint-Affrique, *Chief Executive Officer*

Merci, Guillaume. We'll do probably a duet with Juergen on that. Let me start with CNAO. First, I'm super happy with the performance of CNAO. I mean, the quality of what they are doing, the quality actually of the delivery on comparators that are, as you said, very, very tough is really good in a market, when it comes to IMF, that has been normalizing, so happy with the performance. I mean, the key driver of volume/mix is Mizone and the Waters category. The category itself is going down in the quarter. But all in all, pretty confident that we will keep delivering in CNAO.

Juergen Esser, *Chief Financial Officer*

Just to reiterate, our confidence in very solid growth patterns, including on volume/mix in the region. Because it's true that Mizone has created a little bit of volatility in the second quarter, but what is really reassuring is the very competitive performance of our IMF business in China, and I think we've been discussing at length the exciting opportunity in Medical Nutrition. So I think we are well set for the quarters to come in there now.

Antoine de Saint-Affrique, *Chief Executive Officer*

So on your question on North America, no, it doesn't take longer than what I expect. But as we said, capacity in dairy will come progressively. So it's not opening a new factory, but it's line by line over the coming quarters. This is enabling us to start reactivating the rest of the portfolio. So it doesn't happen from one day to the other.

What we have in the pipeline from an innovation standpoint and what will help reigniting the brands that we haven't been supporting because of our capacity, looks very strong. You will see the start of it in H2 with Activia. You will see some new formats coming onto Oikos and more to come in the following years. And we will do things in an orderly fashion so that it is solid and building competitive advantage for the long-term.

In the short-term, I'm very happy to see stabilization of creamers. As we've discussed it's step one, we also need to analyze the emerging consumer trends and naturally, it takes a bit more time, but the first indications on creamers are encouraging. By the way, everything that is protein is absolutely, absolutely flying. So things are deploying as per plan. Pretty confident with what I'm seeing, but indeed it's going to be progressing.

Paul Avis, *IR Director*
Nicolas Ceron, Bank of America.

QUESTION 2: NORTH AMERICA; CHINA SN PRICING

Nicolas Cerron, *analyst at Bank of America*
Can I ask just one question on North America to follow-up?

We're all trying to understand to what extent it's really the capacity constraint that's impacting your performance. So maybe if you could just clarify what kind of volume growth you're seeing in yogurt in North America in your business. Are you seeing volume flat as you would expect for capacity constraint or do you see volume going down?

And the second question would be on the China clinical nutrition business. Are you seeing some pricing pressure from the government linked to volume-based purchasing because I know some of your competitors have been talking about that and I was wondering if that impacts your business as well. Thank you.

Antoine de Saint-Affrique, *Chief Executive Officer*
On North America, as we said, on everything that is protein, we see a consistent growth. The rest of the portfolio was under quota. So as we progressively release capacity, we will leverage, as we said, the capacity due to two things: keep delivering to the protein growth because there are still more growth to be taken out of protein and starting to reignite the rest of our portfolio. Juergen, anything?

Juergen Esser, *Chief Financial Officer*

The only element -- I mean, I think there's a lot of excitement watching Nielsen data, especially for North America. And you have seen that Nielsen data, especially the last revised ones for our yogurt business in the US are moving in the right direction, so I think which is a good indication that things are performing as we want them to perform progressively.

Antoine de Saint-Affrique, *Chief Executive Officer*

There was a bit of a reevaluation by Nielsen on the way they measure things and it starts looking more like what we see in our own data.

Listen, on Medical Nutrition in China, it is a very exciting market. It's a very exciting market because in the place where we are the absolute leader, which is tube, we can go deeper, so in Tier 2, Tier 3 hospital. There is a huge conversion work to be done when it comes to moving from the parenteral to enteral. We are super excited with what we see in, by the way, other subcategories where we are only scratching the surface. We are, I mean, pediatrics, I mean, nice business that is growing very, very fast. In oral nutrition, which is growing very fast, we are only at the start of the journey.

When it comes to volume-based pricing, to be honest, it's not new. I mean, that's the thing that is happening everywhere in the world. We have been handling that in about every country in the world. So for us, it's pretty much business as usual.

Paul Avis, *IR Director*

Jon Cox, Kepler.

<u>QUESTION 3: FREE CASH FLOW; EDP MARGIN</u>

Jon Cox, *analyst at Kepler Chevreux*

A couple of questions if I can. One on the free cash flow and when I dig into your half-year report, I see the inventory is up about $250 million, which is a fair chunk probably of what we're seeing as maybe a light print on the free cash flow. Do you think this will unwind in the second-half of the year, talking about the Middle East. And also maybe just on the CapEx is a little bit high, maybe you can talk a little bit about free cash flow and CapEx. You said that now maybe you're starting to obviously spend more on new plants and things like that.

And the second question, just on the profitability, again, looking at the EDP business, the margin is off 70 basis points year on year versus a year ago. Just wondering what's going on there. I think a lot of us still think that that business should start to see better profitability. And I can see the 10 basis points beat was driven by Waters, which is up almost 200 basis points. Thank you.

Juergen Esser, ***Chief Financial Officer***

Yeah, good morning, John. Look, on the free cash flow, you say it. We took a decision in the first half of the year to increase our security stocks internally because fair to say that global supply chains are a bit disrupted, especially when going through the Middle East region, and this is true actually for finished products as much as for some of the raw materials. So as a precautionary measure, we increased security stocks that will fade away in the quarters to come, so it's really just a very temporary element.

The rest of the free cash flow is very strong and especially coming from our operational performance. CapEx is slightly increasing, but I think we talked EUR40 million, EUR50 million in the semester. As we discussed actually over the last quarters, as a result of the investments we are doing into Medical Nutrition and High Protein, so nothing new to report on that front.

EDP margin in H1 is a bit down. You are absolutely right. Actually, it's relatively easy to explain because the inflation kicks in from the second quarter onwards and we will see, as usual, a bit of lag between inflation and price. So we will increase prices selectively across the regions as we go through the third quarter already, so that will be balanced. So don't look at the EDP margin isolated in the first semester. I think it's not really telling because we share your belief that the EDP margin is going to increase over time.

Antoine de Saint-Affrique, ***Chief Executive Officer***

Now, the second thing is, I mean, we keep investing and we keep investing behind our winning innovations. So we'll push high-protein, we'll push Skyr, we'll push Kefir, we'll push plant-based offering on the rest of it, making sure that we list them, making sure that we make them visible. So there is also a dimension of consistent investment.

Paul Avis, ***IR Director***

David Roux, Morgan Stanley.

QUESTION 4: SHAKES NORTH AMERICA; EMERGING MARKETS' PERFORMANCE

David Roux, ***analyst at Morgan Stanley***

I've just got two quick questions. Can we just go back to North America EDP and just remind me on your protein shake ambitions. Is that something that you guys will revisit once the additional yogurt capacity comes online because that's gotten somewhat quiet the last couple of quarters.

And then the second one is just a more broader question on emerging markets. It's a theme that we've seen in the last couple of quarters, strength in emerging markets. How sustainable do you think this is? Do you think that there's been somewhat of a pool foot of demand given concerns around supply chains, et cetera or do you see sustained sort of underlying strength there? I think partly the concern or the question comes from concern over those consumers possibly getting squeezed a bit more on higher energy costs, et cetera, but we haven't really seen that play out yet.

Antoine de Saint-Affrique, *Chief Executive Officer*
Good morning, David. Thanks. I mean, yet again, probably a duet with Juergen, on North America shapes. We'll keep going as fast as we can and whenever we have capacity available, we will seize every opportunity there is.

So we don't talk specifically about shakes, but altogether the trend is positive and things are going rather well and we'll keep pushing the growth there, so nothing really special to report except that we are quite happy with the performance.

Juergen Esser, *Chief Financial Officer*
Just one element to add, which I think we stick to what we said. First priority is bringing back our yogurt business to where it belongs and the second and really after we are going to accelerate and press the acceleration button on protein shakes. So that's very clear. But what is very reassuring is that, despite the fact that we have not been allocating a lot of resources into the protein shakes, we are quite picky on shelf. I'm sure you can see that when you go to the stores in North America. So, yes, there's an opportunity in front of us.

Antoine de Saint-Affrique, *Chief Executive Officer*
So, yes, the core and the innovation, but the core.

On emerging markets, and we do also a duet with Juergen. If you step back and if you look at Danone has actually a quite balanced footprint. And historically actually a pretty large footprint in emerging markets. And the performance that you see in emerging markets has been actually quite consistent over time. So not everything goes well everywhere all the time.

But by and large, we got some pool and we got pool that is not topical as you were worried of, but a pool that is very, very structural. I mean, you take a country like Indonesia, to take one of our largest emerging markets. I mean, we offer great value at every price point. And in a market that has been frankly under pressure from a consumer standpoint for a long time, we are delivering a pretty solid performance. So we try to be relevant despite the ups and downs of our emerging market. You see that in Latin America, you see that in places like Morocco, you see that in places like Indonesia or Vietnam for that matter.

Juergen Esser, *Chief Financial Officer*

I think what is interesting is that a lot of our business in emerging markets is now coming a lot of growth in emerging markets coming through the pipes of Specialized Nutrition, a lot through IMF and here we are gaining scale and that's really an opportunity for us. We can talk about Brazil, we can talk about India, we can talk about Vietnam. So there's many countries where we are really at the tipping point and where we are reaching very interesting numbers not only in growth but also in dollars and euros. That will definitely be ahead moving forward in terms of performance for us.

Paul Avis, *IR Director*

Warren Ackerman, Barclays.

<u>QUESTION 5: KATE FARMS; MIZONE CHINA; NUTURIS LAUNCH IN CHINA</u>

Warren Ackerman, *analyst at Barclays*

I've got a few kind of sort of numbery type questions. Are you able to tell us what Kate Farms is growing at? Just so we got an idea from a modeling point of view when it goes into like for like, it will be helpful.

Secondly, on Mizone, I don't know if you can actually tell us how much it was down in China in the quarter, just trying to understand what the underlying CNAO number was to try and sort of piece that together.

And then just finally, when are we expecting the launch of Nuturis in China? You talked about premiumization Antoine, I assume it's still scheduled for this year in the second-half. Can you confirm that and maybe tell us how it's doing in Hong Kong and do you think it could be another Essensis?

Antoine de Saint-Affrique, *Chief Executive Officer*

Let me start with the last one and Juergen will address the first two.

Nuturis is doing quite well in Hong Kong. And the launch is progressively deploying in mainland China as we speak. It is super premium. So it's relatively a niche product, but it's a niche where we weren't playing. It's the top 5% of the market where only a local player was playing. So very encouraged with what we see in Hong Kong moving according to plans on Nuturis.

Juergen Esser, *Chief Financial Officer*

When it comes to North America and our Specialized Nutrition business there, you see that already outside of Kate Farms, a pretty good performance, double-digit growth, and Kate

Farms will only amplify that. So Kate Farms is growing at a very strong pace and will enter, as you say, Warren, from Q3 onwards, the like-for-like performance.

China, Mizone was pretty much down actually in Q2 in a category which was very soft temporarily, definitely here, while weather has been helping a bit in Europe, weather has definitely not been helping in China. Good news here is that market shares are well oriented and so it shows the relevance of our mix, but it did indeed, as you say, pull down quite a bit our CNAO performance in the second quarter.

Paul Avis, *IR Director*
Olivier Nicolaï, Goldman Sachs.

<u>QUESTION 6: PLANT BASED U.S; HUEL AND ALPRO POSITIONING</u>

Olivier Nicolaï, *analyst at Goldman Sachs*
Two questions. First, following up on the US, but focusing on the plant-based products this time, you've initiated a plan to turn around the performance at the beginning of the year. We are halfway through now. So are you on track? What are the major difficulties that you're facing in the US for plant-based compared to Europe where it's doing much better?

And secondly, just on Huel, how are you planning to position the brand versus Alpro where you already expanded into meal replacement and how do these two brands complement each other?

Antoine de Saint-Affrique, *Chief Executive Officer*
Merci, Olivier. So I mean on plant-based or US, we are basically on plan, as you heard me said last quarter and probably the quarter before. We have a model that is working extremely well in Europe. So Alpro having moved from being plant-based to being plant-powered, focusing on the benefits it delivers, playing the full piano between beverages and yogurt is proving to be a very, very efficient model. And also offers a platform for innovation, as you've seen with Meal To Go.

There was, and you heard me say very publicly a number of times, a "not invented here" syndrome in the US. Things are starting to move. So the first sign you've seen is what we are doing in the field of protein with Silk, which is a step one in a plan that will continue to deploy. So you will see much more coming at the start of next year. So very much on plan from an activity standpoint. Now we need to make sure that activity is followed by impact. But if I see what we are capable of delivering in Europe, I trust that as we deploy the same or something

similar in the US over the course of the next few quarters, we should be heading in the right direction.
When it comes to Huel, Huel has actually a slightly different positioning from Alpro. Yes, Alpro Meal To Go is playing in the same space as Huel. But with a positioning that is very different and with a route to market that is very different.

One of the things that really excites me with Huel is, well, the team excites me. It's a super good team. And it's the capabilities that the team has been bringing or developing. Direct to consumer, virtually no advertising above the line, all community management, issuing something like 300 or 400 assets per month when it comes to online advertising, an incredible ability to manage their community and to develop a model that is largely, largely a direct-to-consumer model.

So actually, I see the two of them as very complementary. Huel starting, by the way, from a health and nutrition standpoint, Alpro starting from a plant-based standpoint. So although Huel is plant-based, but starting really from two different angles. So I see that more as an opportunity of segmenting a market that will keep growing rather than a frontal opposition.

Paul Avis, *IR Director*
Celine Pannuti, JPMorgan.

QUESTION 7: IMF CHINA; COST INFLATION EXPECTATIONS; EDP MARGIN

Celine Pannuti, *analyst at JPMorgan*
So two questions. First on China, Specialized Nutrition, Infant Milk formula more precisely, can you come back to tell us how is the market developing in the quarter in terms of market share, performance, how you've been doing and the supply chain disruption or let's say rather than higher scrutiny on import from the cross-check border, whether that has had any impact on you or positive impact if you think that you've gained market share from some of your competitors that have been disrupted.

And then my second question is on the cost side. Can you talk about what is your cost inflation expectation for the year? You said that H1, there seemed to be a phasing in terms of pricing and cost inflation for dairy. So are we expecting a stronger H2 margin? Because I was expecting SN to be impacted by this recall and it has not been the case. I know you don't guide on margin, but usually you've been delivering closer to 40 business points. Are we on track for similar delivery this year? It's just that it was a slow start. Thank you.

Antoine de Saint-Affrique, *Chief Executive Officer*
So, Celine, we're doing great. Let me start with part of the last question, and Juergen will come back to it. Our guidance is our guidance is our guidance, and I've said it again and again and again. We are delivering consistently on a model which is 3% to 5% growth with profit going faster than the top-line. We don't give margin guidance. We have a model that is value creating for the long-term and we are confident that we will deliver on the model. Juergen will come on the cost side.

On China shares, we are doing actually pretty well. We said the market has been normalizing and normalizing means after the year of the dragon, the trends of the market are back to the same. So the way we execute in the market is back to the same. So it's a strategy of innovation, it's a strategy of premiumization, it's a strategy of deep relationship with the mothers trying to demonstrate that our products are better from a scientific standpoint.

The Chinese authorities have always been very demanding. They are indeed more demanding. Is it a competitive advantage or not? To be honest, I don't know whether it is. We comply to the requirements of the Chinese authority, and we do what it takes for our products to be available in China.

Juergen Esser, *Chief Financial Officer*
And just to confirm that there's no real supply chain disruption element, neither positive nor negative in the first half. Market shares are pretty well oriented, thanks to Essensis, which continues to perform very well and thanks to a continued shift towards more premium products that continues to be the case. So in that sense, I would say pretty reassuring underlying fundamentals.

On cost inflation, not a lot to say. I mean, obviously, energy and packaging costs are impacted by what we are seeing coming from the Middle East. It plays different on the categories for one single reason is that the hedging effectiveness is higher for categories like Specialized Nutrition or Water than it is for dairy and therefore there's also different, I would say, margin phasing H1, H2 for the different categories.

Beyond that, not much more to say. We will stay true to our business model which is quality growth, delivering interesting gross margin, and reinvesting while expanding profit margin. So that's the overall business model we are aiming for, and we'll progressively go back to that.

Celine Pannuti, *analyst at JPMorgan*
Can I just say, should we expect margin in EDP to be positive this year?

Juergen Esser, *Chief Financial Officer*

Obviously, Antoine said it very well, we are not going to give margin guidance by category, but definitely, the margin of EDP will benefit from the fact that we are going to do price increases selectively across all the regions, yes.

Paul Avis, *IR Director*

Tom Sykes, Deutsche Bank.

<u>QUESTION 8: GROSS MARGIN; SN APAC</u>

Tom Sykes, *analyst at Deutsche Bank*

Just, well, I should have two, please. Just coming back to this margin from operations. I mean, I know you said there's a timing difference between COGS increases and pricing, but you've stated before you've got mid-single-digit supposedly productivity in COGS. You've got mixed benefits by channel and product, and you've got the benefit of acquisitions. So I don't quite understand why your gross margin would be down. So maybe you could give some more details and the depreciation charge looks like it's down by EUR100 million in the financial report. Is there anything, is there an impairment on that or is that the actual depreciation number, please? Because I guess that would have been in theory benefit to the gross margin.

And then just in the APAC growth of Specialized Nutrition of 4.4%, maybe I missed it earlier, but could you give relative growth at least or a view on China IMF versus other country IMF and adult nutrition in that 4.4%, please?

Juergen Esser, *Chief Financial Officer*

On the first margin from operations, first is a pretty organic number because M&A didn't really impact that number. All the deals we have announced are closing in the second-half of the year. So in that sense, nothing really to report here.

Why is the margin from operations down in the first semester? First, we had the IMF recall impact, let's not forget that in Q1. And secondly, as described, inflationary pressure with pricing kicking in only in the second part of this year. So that's the two key drivers. I think the teams indeed, as you say, Tom, did an incredible job of acceleration of productivity and savings, so that we were able to continue reinvesting into our business, which I think is a very strong sign of confidence that the financial algorithm works for us.

On APAC that's 4.4% Specialized Nutrition is actually a pretty good number, as you say, and it's as much driven by China as by the rest of the region. Actually, the vast majority or two-thirds of the business in this region is Specialized Nutrition. And so IMF China has a very good contribution to that number, is growing competitively. And so I think that we are going to see a continued good contribution to the results of the company also in the quarters to come.

Tom Sykes, *analyst at Deutsche Bank*
And sorry, just the D&A number?

Juergen Esser, *Chief Financial Officer*
D&A number, nothing really, frankly, there's no specific effect, means a one-off. So it's just a normal cause.

Tom Sykes, *analyst at Deutsche Bank*
So it is down by EUR100 million. Okay, thank you.

Paul Avis, *IR Director*
Okay, thank you. That's the final questions.

Antoine de Saint-Affrique, *Chief Executive Officer*
Good. So listen, well, first, many thanks for joining us for this call this morning. As you can see, we are on the move, happy with the quarter, but knowing that there is more to do. So we are on it, we keep driving, and we'll see you soon on the road. Take care, everyone.