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PRESENTATION

Operator

Good morning. Thank you for standing by, and welcome to the Danone Q1 2021 Sales Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your first speaker today, Mathilde Rodie, Head of Investor Relations. Please go ahead.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Good morning, everyone, and thank you for being with us this morning for Danone Q1 sales. I'm here with Juergen Esser, who will go first through the presentation before taking your questions in the second step. And before we start, I draw your attention to the disclaimer on Page 2 related to forward-looking statements and the definition of financial indicators that we'll refer to during the presentation.

And with that, let me hand over to Juergen.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Thank you, Mathilde, and good morning, everyone. Thank you for joining us today on this call. I hope you are all safe and healthy. It's true that after an eventful start of this year for our company with many happenings along the way, I'm looking forward to discussing with you today our business results of the first quarter and the perspectives for the remainder of the year.

Let me go through the presentation, and then we will open for questions, as Mathilde just said. Let me jump right into the presentation by moving to Slide #3.

Our Q1 revenues declined as expected by -3.3% on a like-for-like basis. Important to note straight here that this was the last quarter of decline for our company. As you remember, we have been lapping in this Q1 the effects of the exceptional panic buying and pantry loading of last year in March, which happened across all geographies. This Q1 was the last quarter of full negative effects related to COVID on our baseline so that we start to trade from Q2 onwards on a more comparable, on an easing base of comps, which will then be including the COVID-related demand shifts.

Despite the decline in overall net sales, this first quarter has definitely confirmed a number of important areas of strengths within our portfolio. First of all, EDP. EDP sustained its performance momentum, growing +1.6% in the quarter despite a significant base of comparison and 1 less trading day in the quarter. Our Plant-based, Probiotics and Protein platforms have delivered another quarter of strong growth, and I will come back to that in a minute.

On Specialized Nutrition, we saw another quarter of strong growth for our Adult Nutrition portfolio, especially driven by our Chinese and Southeast Asian platforms. The Adult Nutrition starts now to represent a meaningful part of our SN portfolio, an exciting base on which we will accelerate our Healthy Ageing capabilities.

And finally, our Waters portfolio saw in an indeed very complex environment of mobility restrictions, some sequential and gradual improvement in terms of demand, notably in Europe.

Moving on to Slide 4. The implementation of our Local First organizational framework continues, with key milestones being delivered around the world. The first big milestone took place in the U.S. where we successfully went live with this project called in Noram "Transform to Win". Implemented early April, the project will be an important enabler for our North American growth strategy, driving not only cross-category growth opportunities across channels but also in areas such as e-commerce, digitization and revenue growth management, simplifying our processes and ways of working while strengthening fundamentals for our people's engagement.

A second very important major milestone has been reached a couple of weeks ago in Europe when we shared our organizational project with our social partners and employee representatives. This marks the start of the information and consultation process, which will allow us to discuss and finalize the project's details. The Local First project has been designed and optimized to make it an important enabler for growth acceleration, including, of course, the way we shall adapt our local organization to address the highest level of agility, cross-category growth opportunities, but also the way we preserve our most strategic global capabilities and global category and brand expertise, all of this being an important step in ensuring a smooth and efficient execution of the project.

We managed to achieve these very important milestones while maintaining the teams' primary focus on business delivery and execution and are well set to return our business back to growth from this second quarter onwards.

Let's now move into the details of Q1, starting with the net sales bridge on Slide #5. Reported sales reached EUR 5.7 billion, down -9.4% compared to last year. This first and foremost embarks an important negative impact from currencies, resulting from the depreciation of the U.S. dollar but also from emerging market currencies such as the Russian ruble, the Brazilian real and the Indonesian rupiah as well as the Mexican peso. We expect those currency effects to reduce their impact as we go through the year 2021. Assuming currency rates remain from now on stable for the remainder of the year, you would see a full year impact of around 3% negative on our net sales.

While scope effects have a limited positive contribution to reported sales of +0.4%, organic like-for-like sales declined by -3.3% this quarter driven by a -3.7% decline in volumes and +0.3% positive contribution from value. The decline in volumes was obviously mainly driven by our Waters division, which continued to suffer from the closure of out-of-home channels, as well as by our Specialized Nutrition unit, which recycled the panic buying and pantry loading of last year. Important to state that our EDP division posted another quarter of positive volume growth despite the very high base of comps.

Value growth contributed positively with 0.3%, as I mentioned, driven by another quarter of positive product mix, especially coming from our Specialized Nutrition division, and driven by first targeted pricing initiatives, which bodes well for our ability to innovate and to selectively pass on price when and where needed, which is very important as we will be in an increasingly inflationary environment.

Let's now go into the details of each business, starting with Specialized Nutrition on Slide #6. SN sales declined by -7.7% on a like-for-like basis in the quarter, on an extremely high base from Q1 last year where the division grew at an exceptional level of +7.9%. As a result, volumes in Q1 were down -7%. Product mix, as I mentioned, contributed positively. However, country mix was negative due to China relative performance.

Overall, when we look at it, the divisional performance was quite polarized. On one hand, our Adult Nutrition portfolio, which represents now around 15% of SN revenues, that Adult Nutrition portfolio posted strong growth with major contributions from our China and Southeast Asian platforms, while Europe recycled last year's high base. Growth was led by tube feeding solutions and the Nutrison brand, while our Healthy Ageing platform continued to accelerate with the roll out of the Protinex and Fortifit brands in Southeast Asia.

On the other hand, revenues of our Infant Nutrition business declined in the quarter as, first, we recycled the panic buying that benefited last year's base. And then as second, we continued to face COVID-related channel headwinds in China. Sales declined at a steep double-digit rate in China driven by a -45% decline of cross-border channels, while our domestic labels confirmed their very solid growth momentum, capturing the category growth.

In Europe, sales declined at the mid-teens rate, while our market shares held well within continued soft category dynamics. And then finally, our sizeable platforms in the Rest of the World posted another quarter of solid performance with share gains in Southeast Asia and Middle East.

Looking at the rest of the year and while bases of comparison will start to ease as of Q2, current pressure on birth rates will certainly weigh short term on the category. Having said that, we are convinced of the solid mid- and long-term perspective of this category and remain laser-focused on capturing competitive and valorized growth opportunities across our geographies and especially in China, which will let us return sequentially to growth.

If we move to Page 7, you can see here some interesting examples of our brand plans with initiatives aiming at further valorizing our portfolio. For example, in the organic space or in A2 proteins, or even in new food forms, here, you see pre-measured tabs made for convenience. These launches almost all took place in Q1 already in the U.K., in Germany and in China, a good testimony of our ability to innovate with impacts across markets.

We also accelerate in capturing opportunities in the growth space of what we call "journey extension" with a number of different initiatives in kids and family milks, as well, what you see on the right side of the chart is in cereals that we'll deploy in Europe, Southeast Asia and China.

On Page 8, you have also a couple of illustrations of the newly launched Nutribliss by Nutrilon range in China, the first range of locally produced SKUs from our recently acquired Qingdao factory, a very important initiative for us to address the Chinese market.

Moving on to Slide #9. We are very pleased that our EDP division delivered another quarter of solid performance, growing +1.6% on a like-for-like basis despite the very high base of comps of last year. Europe and North America both delivered another solid quarter of growth driven by Plant-based, Probiotics and Protein. On Probiotics, Actimel delivered another quarter of exciting double-digit growth, while our Silk and Alpro brands led our strong plant-based dynamics, growing also well into double digits.

On Protein, our emerging star brands, YoPro and Two Good, delivered another stellar quarter of growth while we are preparing to launch several initiatives this year to restage our Greek portfolio in the U.S. And then finally, on Smart Indulgence, our top brands Danette and Oikos, performed very well in the quarter.

Maybe going a little bit more into the regional dynamics. North America delivered the largest sales quarter ever despite the high base of comparison and despite the important weather disruptions, which we experienced in Texas in February where we have located major production hubs. It has been another quarter of excellent performance from our Coffee Creations segment that delivered strong growth and gained market shares. And outside of out-of-home channels, growth was around mid-teens range.

Plant-based grew in Noram high single digit in the quarter driven by a sequentially accelerating performance in beverages and a very fast double-digit growth in plant-based yogurt and ice creams. Our Yogurt segment in Noram experienced slightly negative sales in the quarter. However, excluding Away From Home, the Yogurt segment continued to progress with sustained growth and share gains of the wellness portfolio led by Activia and Danimals.

We saw sequential improvement in the Greek segment led by our Two Good brand, but also by the acceleration of our Oikos Black range while we are working, as I mentioned, on restaging the remainder of our Greek portfolio over the next couple of months. And then finally, our Premium Dairy posted low single-digit growth in the quarter while lapping last year's panic buying.

Moving on to Europe. Europe delivered another quarter of strong growth with a broad-based contribution from all geographies. This performance was driven by continued strength of our Plant-based portfolio growing well into the double digits, while the Probiotics and Protein platforms posted another quarter of solid growth. As mentioned, Actimel continued to show stellar momentum, growing mid-teens and gaining market share over the quarter. Our Smart Indulgence brands continued to post solid growth driven by Danette and Oykos brands.

Our platforms in the Rest of the World delivered a flat quarter with soft dynamics in the CIS, while Latin America and Africa started to see some gradual and sequential improvement.

I would say that overall, EDP is definitely well set for another year of solid growth, building on the strength of our platforms and brands. We have pretty exciting plans for year 2021, starting with Europe, and I think we put something on Page #10, where we will further develop on our priority platforms: Probiotics, Protein and Indulgence.

On Probiotics, we will accelerate on Activia and Actimel, focusing on Immunity and Functionality, with new offerings boosted by vitamins or with no added sugar, which you can see here on the left side of the chart. On Protein, we will accelerate the geographic roll-out of the YoPro brand and add on selective innovations. And finally, in the Indulgence space, we will continue stretching our brands like Oykos from dairy into plant-based spaces, to expand their reach and also relevance to our consumers.

Turning to Slide 11. Here, you can see a few illustrations of how we intend to accelerate on Alpro, with portfolio initiatives exploring the White Indulgence, Coffee and also Performance spaces. These brands and platforms will obviously be priority in receiving extra investments in 2021 to support this growth acceleration.

Moving on to the next slide, Page 12. The execution of our North American growth strategy will progress on both winning and accelerating platforms. On Greek yogurt, as I mentioned, we are restaging the Oikos range while continuing to scale the Two Good brand. In parallel, we will accelerate on our other yogurt platforms, Wellness and Plant-based, which have been growing and gaining market share. On plant-based beverages, our focus will be on further expanding almond and the soy segments where we are strong leaders while accelerating on the oat opportunities.

Maybe to be a little bit more precise here, we are investing into the differentiation and superiority, especially of our Silk master brand as we speak. We have started a new campaign on Silk Almond, and that shows first positive market share results. While on soy, we are reframing our portfolio, building on the nutritional benefit of that unique ingredient and are seeing also here first promising results, with the segment returning back to growth since the beginning of the year.

And then, of course, last but not least, on the oat segment, we are launching a complete restaging of our range in terms of product and brand positioning with what we believe is the best tasting product in this space. We are conscious that we need to catch up fast on this segment but are determined and probably more importantly, we are confident in our ability to accelerate based on those initiatives.

And then finally, I think on Page 13, we will accelerate on coffee, building on the success of the International Delight and Stok brands, with selective innovations and expansion in key spaces like plant-based. And on Premium Dairy, our objective is to sustain the profitable growth model of Horizon Organic, focusing on its brand differentiation.

Turning to Page 14, to finish our business review with Waters. Waters that closed the quarter declining -11.6%, still affected by continued mobility restrictions in most of our countries. Important to note that within the first quarter, we have seen a sequential improvement from 1 month to another between January and March.

Europe sequentially improved, posting high single-digit decline in the quarter on the back of increasing mobility and market share gains, especially in France, but also in Germany, Spain and Poland. We continue to see pretty resilient performance of our at-home formats in Europe, which bodes well for the category perspective overall.

In China, Mizone posted another quarter of growth, in line with what we observed already in Q4 last year, yet, we know, it's still on a small quarter. We remain focused on preparing for the upcoming high season as we want to capitalize on the initial good acceptance from distributors on our summer plans.

And then finally, Indonesia and Latin America, where we posted another quarter of steep double-digit decline on a high base as restrictions to mobility have not yet shown real signs of easing.

While remaining agile to respond to the speed at which mobility will improve country by country, we have developed plans to selectively reinvest as we enter into the season. And so, on Page 15, you have a few examples of what we are working on. We will invest to accelerate on our core portfolio through portfolio innovation but also media support. We will also keep innovating in targeted adjacencies, for example, by entering the functional sparking segment with evian+, which we are launching in the U.S. as well as in Europe.

And then finally, here, we continue exploring with new models, and we kickstart a regional test for 100% locally sourced returnable glass model for Volvic in Germany, addressing the increasingly important preference of consumers towards glass packaging for natural mineral water.

Turning to Slide 16. The beginning of year 2021 has also been a moment of intense development on our responsible value creation agenda. First of all, we continued to progress on our B Corp certification journey with the addition of our Brazilian and Thai entities, but also on the recertification of Alpro and of our American and Canadian business units.

We have also made progress on our One Planet. One Health agenda. For instance, on planetary diets, Alpro signed a very exciting partnership with EAT, the EAT Foundation, to promote plant-rich diets which are supporting environmental sustainability and peoples' health in the Nordics.

On climate change, Horizon Organic just published, in fact, the results of its life cycle assessment, a key milestone on its journey to become carbon positive by year 2025.

And finally, on packaging circularity, we continue to make selective strategic investments in Waters and in EDP, supporting our immediate growth plans from this year onwards.

In fact, all of those initiatives are rooted into the brand's business models, and they will be key contributors for us to return to profitable growth.

With that in mind, let me move to Slide #17 and the outlook for the remainder of the year. From a macro perspective, visibility remains, unfortunately, still limited with many uncertainties, especially on the release of mobility restrictions. This said, we continue to believe in gradual reopening of the economies, starting from the second semester, driven by progressive roll-out of vaccination programs, with probably some regional differences in terms of pace of roll-out.

Taking into account all of this, we are reiterating the outlook shared with you a few weeks ago. We will be back to like-for-like growth as of the second quarter and return to profitable growth in the second half of this year.

On the moving part for margin, important to mention that we observed since the beginning of the year a broad-based acceleration of inflation on several areas, including milk, including ingredients, but also packaging and on logistics. We have, therefore, intensified our efforts to deliver another record year of productivity, which is supported by our newly introduced Design-to-Delivery cross-category organization. We will also use pricing actions strategically when and where relevant without harming our competitive positions.

In any case, and I want to be very clear on that, we do not want to use inflation as an excuse to cut investments, so you should expect incremental investments behind our commercial and brand plans and our level of competitiveness from Q2 onwards.

With these combined effects and efforts, and keeping in mind that we will have a first small contribution from Local First to margins in the back end of this year, we continue to expect a full year margin broadly in line with that of year 2020.

And with that, I would conclude my remarks, and I now hand it over to Mathilde, I believe, to kickstart the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

So I think first question comes from Celine Pannuti from JPMorgan.

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

So firstly, on the outlook and you are talking about the increase in inflation, could you quantify what you think the inflation will be for the year? I think you were seeing it single digit at full year stage, and whether there would be a difference by half, as well as what it would be by category, there would be maybe more impact on Waters and EDP. If you could give us a bit more background on that.

And you talked about the pricing. Can you talk about what is now your ability to price? I think you said there has been some, starting on pricing. I'd just like to understand how you feel this is going, especially in emerging markets.

The second question is on Specialized Nutrition. You said that China was growing. Can you quantify what you see on the Mainland China in terms of growth, both in terms of your performance as well as the market growth, and whether this, just maybe a small one, but the locally produced SKUs, I saw that the mix was from Australia. I just wanted to know why not local mix.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Thank you, Celine. Let me go through your questions. First, on the outlook when it comes to inflation, you're absolutely right to say that we have seen an accelerating inflation since the start of the year, which is impacting us, I would say, across the different ingredients, which is on milk but also other dairy ingredients, on plastics, on sugar, but also, as I said, on logistics and transport. And we are reaching now a very strong mid-single-digit level when it comes to inflation.

Having said that, we have done, I think, a pretty good job in hedging ourselves on the plastic part, which offsets part of this inflation for the remainder of the year. And with that said, we have also a different exposure to inflation when it comes to our divisions, as indeed, we are probably most exposed on the milk and dairy ingredients side.

When it comes to how we offset that, indeed, one element is really to go for record productivity. On the other side, we will study and implement selective pricing initiatives. And you have seen that in Q1, we have already done that. This is particularly true in some of our emerging markets, from Latin America to Russia.

And we believe that we have today the visibility as much as the competitive ability to implement these pricing actions as we go through this year. For us, very important that we absolutely want to protect our competitive positions to go back to growth and accelerate as we go through the quarters.

On your second question, which was on Specialized Nutrition, first, maybe on what we see in terms of category. I said it, birth rates are short term decreasing with the COVID crisis, which is true for China and which is true for other parts of the world. But on the other side, we continue to see that the category is continuing to benefit from 2 elements. First element comes from continued penetration gains of the category, thanks to a growing affluent middle class, especially in lower-tier cities; and secondly, from consumers continuing to upgrade to premium and super premium recipes. So, this segment, this super premium and premium segment, continues to grow double digit.

And so when we look at the totality of that, what we are observing so far, this is true for the back end of 2020 but also for the start of 2021, is that the category remains in positive value growth, which I think is also a positive sign for the underlying profitability of this category. When it comes to us and to our performance, I think competition is and will remain fierce because it is an attractive category. However, having said that, I think we are doing a pretty good job, especially with our Chinese labels business, where we have been, across year 2020 and also for the start of the year, very competitive with our market shares.

We have been especially, I would say, driving our competitive set through the Aptamil brand, which is one of the most trusted brands in the space, which is very successfully positioned in the premium segment with the Platinum and the Profutura range. And we believe we have still lots of opportunity in strengthening our share in the premium segment and increasing especially our share, and I was showing that in the presentation in the stage 3 and 4 area, which is also a fast-growing space.

And then finally, you said it, we have started our local production in our Qingdao factory with the Nutrilon range, which I think is very exciting, which will give us now more tools to address the low-tier cities in a meaningful way, where today, yes, we are sourcing our milk from Australia, but we will see how this will evolve over the next quarters.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Next question is from Bruno Monteyne from Bernstein.

Bruno Monteyne - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Two questions for me. As the quarter is gone, do you expect any disruptive impact from the transition to Local First? Or should we not worry about any future results session where we talk about the negative impact?

And the second question is you keep reiterating the return to profitable growth from the second half. Clearly, in the second half at some point, you'll probably have a new CEO in place. Does this guidance really tie the hands of the next CEO? What if he or she wants to invest in the business? So how strong is that commitment to profitable growth in the second half? Is that including what new CEOs might and will do?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

First, on going back to growth and potential impacts on Local First, look, we have now a second quarter in front of us where we'll indeed be back to growth and all our divisions will be back to growth. This is true for EDP where we have a strong level of confidence that we will see the current dynamics continuing. I think we have also a relatively good visibility on what is going to happen on the Specialized Nutrition side, and then Waters where we still have a little bit of uncertainty of how mobility restrictions will ease.

But having said that, what we are seeing today is that the teams are very, very focused on business delivery. We have a set and a defined group of people working on Local First and preparing the Local First implementation. But so far, what we are seeing that we are extremely happy with the engagement of our teams around the world focusing on the day-to-day delivery. And you can imagine how important also, from a motivation standpoint, it is that we are now back into positive growth territory. So I do not see today a risk that we would need to talk about business disruption because of Local First in the next quarters.

When it comes to the second half of the year and the fact that we will be going to go back to profitable growth, I think there's a few important aspects. First, and let me start from the first semester, you understand that in the first semester, we are still exposed to very important category mix. You saw that in the first quarter we have the Specialized Nutrition business declining sharply. And you know that this business for us is by far, the highest profitable business. And this will obviously weigh on our H1 margin delivery.

The H2 margin will be based on a much more balanced category mix, which will really support margin expansion as we are back to growth. It will be supported by Local First first savings kicking in at the back end of the year and probably also by some ease of the costs we have linked to COVID.

As I mentioned, our plans for year 2021 and for the remainder of the year do include already reinvestments, reinvestments in EDP, reinvestments in SN and also selective reinvestment in the Waters space as soon as mobility restrictions are easing. Now you're asking me what could the new CEO decide once she or he arrives. I absolutely do not want to speculate on that. What I can tell you is that I believe we have very solid plans for the remainder of the year.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

The next one is Warren Ackerman from Barclays.

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

So Warren here at Barclays. I've got 2 for you. The first one is on EDP. A few topics would be interesting to get some more detail on. Could you tell us what the overall Plant-based growth was in the quarter? And then separately, can you also tell us why CIS was weak and what the number was in CIS in the first quarter? Because it's obviously a big geography for you in EDP. And then still on EDP, what did U.S. Greek do in the quarter? And what's your expectation on the relaunch of the Greek range in the U.S.? A couple just on EDP.

And then the second one is back on Specialized Nutrition. I mean it seems to me you've still got a major channel mix problem. 40% of your China business is in the indirect. And I think we've now seen the last 3 quarters down 60%, down 45%, down 45% again. So 3 quarters of down sort of 50% on average. I know the comps ease from here on the indirect, but what are you actually doing as a business to make that 40% a smaller number and to move the kind of e-commerce from C2C e-commerce to B2C e-commerce, which is more sustainable? Because it's all very well saying to us that direct is doing great, but when you've got the indirect down 50%, 45%, 50%, obviously, it's a massive drag. So some color on that would be helpful.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Thank you, Warren. Maybe I'll start with Specialized Nutrition. You're absolutely right that we have important channel mix and we're exposed to that. You said it, -60% in Q3 coming from cross-border, -45% in Q4, and now another -45% in Q1 of this year, knowing that this is not the same minus 45% because we are running, obviously, in Q1 on a very exceptional high base of last year. So we do see a sequential improvement.

But let's also be very clear that we are not in a wait-and-see position. We are very active working on that. Obviously, getting ready for the moment that the cross-border restrictions will ease, but at the same moment, boosting our domestic label activities. You have seen that on Aptamil, we have really a stellar performance. And when you go into the market share reading, you will see that Aptamil is continuing to win market shares, which is, by the way, true on domestic label as much as on cross-border business.

Nutrilon is where we believe we have an opportunity. And this is why the first recipes launching from our Qingdao factory are addressing the Nutrilon range. And you see that on various fronts, a very dedicated format for low-tier cities where today, there is a lot of growth, and where we want and need to be competitive as much as on the plant-based front. So we believe that we are well set from a competitive standpoint.

Maybe one last element on low-tier cities and expansion into mom and baby stores. It's true that here, we can leverage our proprietary B2B2C platform. Today, we are reaching with that 320 low-tier cities, which is granting us access at a very competitive cost. And so I believe that's really a strong asset for us, as much as the fact that we still see a lot of opportunities on going into stage 3 and 4 milks where I think we can still gain some share.

Last but not least, we are not talking a lot about that, Warren, but we have a very exciting Adult Nutrition platform in China, which is growing very fast and which for us is also a very strong asset for profitable growth in that area.

On EDP, look, Plant-based, very strong performance, overall in the double-digit, in the lower double-digit range, growing very fast on Noram, I said it, I think, high single digit, and on Europe a little bit faster. I shared the plans we are having. You saw it for Europe, you saw it for Noram. On Noram, particularly, we are quite excited by what we are having in the pipe moving forward. I said it, we saw some very promising effects from the campaign we did on almond and on soy. And now we have the oat initiatives, which are in place to kick in over the next couple of weeks as we speak. And so, we are confident that also here, we see an accelerated growth momentum.

Good to also say that we see very strong performance on plant-based yogurt and ice creams, growing very fast. And we have now completed the acquisition of Follow Your Heart on the cheese space, which will give us another element to play on. So, we are quite confident that we have a very, very strong set of assets moving forward.

CIS has been really a soft quarter, as you said.

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

How much was it down? How much was it down? Can you say what it was down by?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

We are very slightly negative on the quarter. In CIS, what we see is that there is clearly an economic downtrend in the moment. What we are leveraging here is the fact that we are having our 2 business units established now, the modern business, the modern portfolio business unit, as much as the traditional business unit. We see in the moment a stronger demand on the traditional portfolio. And so we are boosting that with selective initiatives, particularly in this space.

And then when it comes to the Greek range, I think there's a number of elements to say here. I mean I was talking about YoPro and Two Good, where we see really strong double-digit performances. So, we are winning in distribution. We are winning in penetration. This is really great. We have now 2 brands well above $100 million a year, growing very, very fast.

On the rest of the Greek segment, we saw that Oikos Black, we see some first positive signs here. So this is great. We are winning back in competitiveness. And we have a full range of campaigns and new products to come as we go through this year, which makes us feel confident that we will also be able to sequentially accelerate on that part of the portfolio.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you, Warren. Now the next question comes from Jon Cox from Kepler.

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

Just a couple for me. Just on the European Baby and what's happening there, maybe you can just give us an indication what you think was the impact of destocking a year ago, but also specifically on the Baby Food segment, not necessarily the Early Life Nutrition, but the Baby Food segment, Bledina, and what you think is happening in that business with maybe more people at home preparing baby food. So that's the first question.

And then the second one, just on the timing of anything regarding the CEO. I got the impression this was going quite quickly. The statement today seemed to maybe be a bit more new in terms of what we should expect from that. But is it really sort of more or less maybe an announcement in Q2 and somebody in place in H2? Is that still the thought?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Yes. Look, on the European Baby, it's true, there are a few moving parts. First, you're absolutely right to say that there has been a destocking when we compare to Q1, especially last year, where we had a good performance. But at the same moment, COVID, of course, is short term changing some of the consumption patterns, which is true on the milk side because with families and mothers being more at home this year, some extended breastfeeding times. But also home cooking has more important space in daily life, and so people are less going for some of our products shopping in the supermarkets.

So that's the short-term impact we are seeing. In the moment mobility is going to come back- it's a little bit the same like in Waters; in the moment mobility is coming back, in the moment people will go back to offices, we do expect this to normalize. And having said that, our primary focus today is on staying competitive in terms of market shares, and what we have seen is that we are very resilient on this front. So we are putting all the focus on that.

And Jon, on the second part of the CEO search, I think Gilles and the Board with Jean-Michel have been quite clear on the importance of this topic and the importance to have a high caliber in place as soon as possible. I think they have been clear on the process. So, I do not want to speculate today on an exact timing. I think we need to be patient until there will be more concrete news to be shared.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you, Jon. So next question comes from David Hayes from Societe Generale.

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

So 2 for me, one on Plant-based and then one on the CEO change related to the cost saves. So on the Plant-based side, you talked a lot about the good innovations into the adjacencies, particularly yogurt, Juergen. I just wonder whether you can monitor and whether you are monitoring the cannibalization effect that might be having in the core dairy business. Is that something we should be taking into account, but to some extent, there's a switch going on with some of these key dairy brands?

And then the second question relates to the CEO change. Obviously, it's come up a lot, and the cost saves. So would you say, from a personal standpoint, as you look at the group, there is an impact of the vacuum with the CEO currently? And then on the cost saves side, you talked about Local First continuing. But are there any projects at all that inevitably get delayed because the plan may change and/or managers are just, if you like, dragging their heels because they're not going to get rid of some of their team if a new CEO comes in and has a different direction to take?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

On Plant-based, that's a good question. I think what we need to realize is that 80% of our Plant-based portfolio is in milk, dairy milk alternatives. And you know that we are playing hardly on that front. I mean with the exception of Horizon Organic in the U.S. and the exception of some milk we're having in Russia and in Morocco, we are not a player in milk. So we are sourcing today growth from more traditional dairy milk players around the world.

When you look at our portfolio on Plant-based, roughly 15% coming from yogurt. And here, what we see interestingly, and I take the example of Activia, is that in the moment we are launching Activia plant-based, we see very little cannibalization effect from our existing dairy portfolio, but we are rather able to attract new consumers to the space. And this is why I was talking about Oikos earlier because we believe that here we have, in fact, a great opportunity to make our brands more attractive and to cover a broader space.

And then finally, we are growing very, very fast on some other adjacencies, I was mentioning that. For example, on ice cream, and I'm sure in the future, on cheese, where we also have 0 cannibalization. So cannibalization, we are tracking very carefully on the yogurt part, but so far, we are quite confident that there is no significant impact on that, and rather, I hope, and I think opportunities.

When it comes to this period where we are now operating with our 2 co-CEOs, Véronique and Shane, what I can tell you is that we are very, very strongly focused as an executive committee, together with Véronique and Shane, on delivering this back to growth momentum, driving the Local First implementation at the moment. I'm really happy to say that this is going on a day-to-day basis with a very strong level of energy. And so, I was mentioning that before, I think the fact that we are going back to growth, for us as an executive committee, for our teams in the countries, is a very important provider of additional motivation.

On the cost saving elements, look, as I mentioned, in Europe a few weeks ago, we have been sharing all the details about the Local First plan with the social partners and employee representatives. We have been working in all granularity about the phasing of implementation geography by geography. I do confirm that we are confident to get the EUR 700 million. I do confirm that we are confident to get 2/3 of these savings in year 2021. We have started the implementation in North America. We have started the implementation in Africa, and we will be starting, after we have finalized the social consultation, the implementation in Europe. And on the savings, maybe I said wrongly, so 2/3 of the savings kicking in from the year 2022, of course, onwards, sorry.

So, we have a clear plan, which we will work accordingly. And here, again, listen, I mean, a new CEO coming in. I really don't want to speculate if he may want to adjust here or there slightly the plan. But I do believe that today, we have something which is very concrete and where we are all convinced that this organizational framework will really enable us to better capture growth opportunities on the ground. So that's what I can say today.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you. So next question comes from Guillaume Delmas from UBS.

Guillaume Gerard Vincent Delmas - *UBS Investment Bank, Research Division - Analyst*

Two questions for me. The first one is when you talk about a return to positive like-for-like sales growth in Q2, I was wondering if this also means that your like-for-like sales growth will be in positive territory for your first half of the year. So basically, do you expect Q2 like-for-like to more than offset the 3.3% decline we've seen in the first quarter?

And then my second question is, going back to Plant-based, so Q1 was, I think, your fifth consecutive quarter of like-for-like sales growth well into double-digit territory, and this is happening against a particularly competitive backdrop. So wondering here if, one, you could talk about your market share developments, particularly in the U.S.; and two, if you can also provide some colour on the cost of doing business in this segment, and basically, the impact this fierce competition is having on the operating margin of your plant-based offering.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

First, maybe let me try to help you on how we see the first semester, I mean, despite the fact that today, we are not giving a formal guidance on the first semester on the full year in terms of net sales. But having said that, you're absolutely right to say that we'll be back to growth from the second quarter onwards. We'll be back to growth with all divisions. It's true that while on EDP, we have a good level of visibility, and you said it, I mean, we have a strong performance. And to some extent, also some level of visibility on how SN dynamics will evolve. On Waters, we are still managing a certain level of uncertainty coming from the release of lockdown measures. What we have seen, Guillaume, is that how immediate our sales in Waters are reacting as soon as mobility is coming back. And this will also have an impact on our net sales for the first semester and the full year.

So, conclusion, as I said, teams are extremely motivated to return to growth and capture any opportunity along the way. And we are supporting that by a strong level of reinvestment compared to a year ago. And so, we'll maximize H1 and full year net sales.

On Plant-based, you're right. We are pretty happy, in fact, with the sustained double-digit performance, and yes, on a high base of last year. Market share performance, when it comes, and you were mentioning the U.S., it's important that we look at it by segment, of course, because segment dynamics are not the same. As I said, on almonds, we saw good market share reaction to the campaigns we have started at the beginning of the year. So we are quite happy with that. And you know that we are a very strong leader of that segment.

On soy, same. And you know that here, we are a strong leader of the segment and protecting our high share. What is more important for us is that we are bringing this segment back to growth. And so, we are happy to report that we saw the start of the year being in positive growth for the category. This is great. This is very encouraging. And this is what we want to nurture with specific innovations in the space.

And then on oat, we are very conscious, as I said, that we still have here big opportunities for catch-up. I think we have pretty solid plans on restaging our Silk brand here. And so, we are confident that we can accelerate on that space. And here, we have definitely market share opportunities for the remainder of the year. And I said it, in those spaces, and this is true across all the 3 segments I was mentioning, organoleptic and taste superiority plays a big role, and we believe that what we are bringing to the market, especially for older, we have the best tasting products which makes us confident that we can really accelerate on that pace.

When it comes to cost of doing business, and you're right, it's a pretty competitive space. But still, I think we are doing pretty good here. It's true that I believe that being one of the largest player in this field gives us some competitive edge, which is true on cross ingredient research and development as much as on our manufacturing footprint. We have a very competitive set when it comes to reach and ability to build distribution at scale. And I think this gives us very competitive costs. And on top of that, with our 2 brands, Alpro and Silk, we have 2 of the star brands in that space. And especially for retailers, important, 2 star brands, which are rotating very fast on the shelf. So this is not things which are coming on the shelf, which we are seeing today very often, which are then disappearing from the shelf after 6 or 12 months because these new brands do not get the necessary traction.

So all in all, what we are seeing is that we have, in most of our geographies, accretive growth coming from it. But obviously, we are investing and reinvesting behind those initiatives because we believe that there is still a lot of growth potential for us. Maybe last comment on this is that we are expanding into new geographies, which is very exciting, this is true for Europe, where we have very, very strong growth in the southern part of Europe, in Spain and Italy, where we have now very sizable platforms more and more. This is true for Latin America and especially in Mexico. And this is true for Russia, where we have been also launching the Alpro brand and we are now starting local manufacturing. So I think we have a strong competitive set with interesting margin profile.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

So next question from Jeremy Fialko, HSBC.

Jeremy David Fialko - *HSBC, Research Division - Head of Consumer Staples Research of Europe*

A couple of questions from me. Firstly, can you talk about Latin America? So that was an area which has been quite weak the last few quarters, looks to be getting a bit better. Talk about it in a bit more detail, and also how confident you can be given the high case numbers in Brazil at the moment.

And then secondly, maybe just a bit more details on Waters and some of the most recent trends that you've been seeing. You talked a bit about how mobility is very quickly being translated into sales. Can you just sort of elaborate on that where you're seeing kind of the positive signs, particularly within Europe as we get to the peak season and maybe to an extent, China?

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Let me start on your second question on Waters. Look, we have seen this very immediate effect from mobility into our net sales in both ways, right? I mean we were talking about that in the fourth quarter because what I said after the first quarter was we had a good momentum in October, but then with lockdowns coming back in November and December, unfortunately, that didn't stick. And now what we are seeing in the first quarter is that we see some gradual improvements, especially in Europe, as some of the mobility is coming back.

Europe, you see the roll-out of vaccination is not going at the same pace country by country. And we believe that this is also going to be reflected in the pace at which mobility is coming back. When you take an example, in the U.K., where some of the stores and away-from-home channels are reopening, we will certainly then also see our Waters business coming back to growth faster than probably in other countries in Europe and beyond Europe where lockdown measures may stick for a little bit longer.

Having said that, we will be back to growth in Waters, as I said, from Q2 onwards. You know that we had a very tough Q2 last year. So there's absolutely no doubt that you will see positive growth dynamics in Q2. Season for us usually starts back end of April-May and then gets very strong as we go in the third quarter. And so we are hoping and confident that until that moment, we have also a better lockdown situation as we are having it to date.

On China, we have now 2 consecutive quarters of positive growth, as I said, obviously, on 2 small quarters. Having said that, when you look at market share evolutions, market shares have been stabilizing now for a number of months, which is a good sign. Again, we are outside of the high season. But this is why I was saying before that we get a very positive response from our distributors on our farmer plants. And now we need to push as much as we can into the season and we monitor that together with you as we close the second quarter and then the third quarter.

On Latin America, you are right to say that, unfortunately, the COVID situation is still tough in 2 of our big countries, which is true for Mexico, which is true for Brazil. However, we see that our businesses are sequentially and gradually recovering. Especially on the EDP side, we see Plant-based doing good performance, in fact, getting to a sizable platform, especially in Mexico. So, we do expect that Latin America business will continue to gradually improve.

On the Waters side, it's a bit more difficult because here, we need to see mobility really coming back before our on-the-go part of the portfolio, which is very important in Mexico, as you know, especially in Bonafont, will return to strong growth. At the same moment, in what we are pushing here, and this is particularly true for Mexico, is our bulk water format. You know we have these 19-liter jugs, which are doing extremely well, and this is what we are pushing to the maximum as we speak.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Okay. Thank you. So this was the last question. So thank you, everyone, for attending the call. Obviously, we remain at your disposal for any question in the IR team.

Juergen Esser - *Danone S.A. - Chief Financial, Technology & Data Officer*

Thank you very much, guys. Thank you very much for your attention, and looking forward to continuing the dialogue over the next couple of days and weeks. Please stay safe and healthy. Bye-bye.

Mathilde Rodie - *Danone S.A. - Head of IR & Financial Communication*

Thank you, everyone. Bye.

Operator

Thank you. This concludes today's conference call. Thank you for participating. You may all disconnect.
