



Transcription Services Provided by [1888TypeItUp.com](http://1888TypeItUp.com)

## 2018 CAGNY PRESENTATION TRANSCRIPTION

**Danone\_022318**

**Date: February 23<sup>rd</sup>, 2018**

**Speaker: Emmanuel Faber, Chairman and CEO**

Good morning, everyone. We live in a very volatile and changing world, but there is one thing that doesn't change. Danone is presenting at 7 a.m. in the morning at CAGNY, so thanks to all of you to make it this morning once again. Let me start by reminding you briefly of something I shared last year with you. One of my slides was about the fact that consumers are seeking to pierce the corporate veil in our industry and to look at what's behind the brand.

Well, last year was absolutely the case about this story, all over the place, and to the point where we believe this is actually a revolution, and that will be the first point of my agenda. The second, no surprise to you, is that I would like to share why we believe and how we believe Danone is uniquely positioned to lead this revolution, to embrace this revolution. And finally share with you an update on where we are on our transformation journey with the ultimate goal for this presentation that at the end you share my confidence that we have an agenda. That's an agenda that is creating value in a sustainable manner for the short, for the mid and for the long term of our business.

So let me start with the revolution. This revolution starts with something that you can see, that we can see. It looks like a small evolution. Larger brands that perform less than local, smaller ones. Day by day, month by month, year by year you see this. At the end, it doesn't look like a revolution, but it's a very steady slope.

It also goes in terms of channels where, even projecting into the future, hypermarkets are definitely not going to be the fastest-growing segments. No news to you on this. And if you take out a few large countries where hypermarkets are continuing to grow in the future, there are many markets in which they're actually going to be a reduced part of where people are shopping for their food and beverage.

The guys responsible for this are the millennials. The millennials are coming with a completely new set of values when it comes to their way of going at consumption, their way, of course then, at eating and drinking. This set of values means that they want committed brands with authentic products. They are only prepared to engage with brands if those brands show

evidence that they're part of their tribes, that they are siding on their side. And they're seeking on- and offline immediacy, extremely impatient as shoppers, as consumers. Very fast in changing their habits, their opinions about how they go about food. And they're a third of the value consumption. But in organic, for instance, they are 50 percent -- nearly 50 percent of total organic consumption.

And so they actually are a catalyst of change that is creating a whole new approach to food, starting with being more natural, simpler, being more local and if possible small, as small as you can, and accept to be accountable on issues that may not look as your core issues as a brand but that are core to your tribe. These are the cues of millennials, and because they are the first generation that's truly connected, that truly acts as a tribe, on digital in particular, they act as a catalyst. As young adults, as parents, as members of families or as kids of elderly people, they change the way people eat and drink around them, not only for them. We believe it's a revolution, and we made a small film, and I would like to have the video, please.

[VIDEO BEGINS]

[MUSIC]

You have power. You have the power to change everything for the better: your health, your society, our planet. You might not know you have it, but you use this power every single day. This power is the food you choose because everything we eat and drink affects our lives and the world we live in: health, life, local communities, forests, farming, water, climate, tomorrow. So you can create the life, the society, the world you want each time you eat and drink. Just be curious. Ask who made your food. Think about how it got to you. Because if you eat well, it's good for everyone. This is what we believe at Danone. Together we can inspire a revolution for an entire generation.

Danone. One Planet. One Health.

[VIDEO ENDS]

Thank you. As I said, these millennials have started a revolution which is sweeping all ages. It's one generation. The food generation is rising right now, and it goes from very young kids to elderly people, and it goes from China, Indonesia, Russia, here in North America, in Europe, in Africa. It's everywhere. And at Danone, we've made a very simple decision. We embrace and we want to lead this food revolution. We have our true north, our compass for that. The One Planet. One Health signature which is a truly unique signature to Danone because, as you will see, it's also truly attached to the categories, to the way we operate our brands, we grow them, we nurture them, we load them with purpose. We are relentlessly going for supporting people in adopting healthier eating and drinking practices. We are unequivocally accepting accountability on the consequences and the ways we are doing our business in its consequences on civil society and environment and many other topics. And we do this

confidently because we believe, at the end of the day, this is a way -this is our way- to create sustainable value over time to generate the strong, profitable, sustainable growth that we have shared with you as being our ambition in our economic model.

Why am I confident that we're uniquely fit for this revolution? Well, first of all, we have an entirely unique portfolio which is 100 percent -- not 50, not 20, 100 percent aligned on health-driven topics in the food and beverage industry. You have here the slate of a number of our brands, our categories. They are embedding very powerful growth drivers. We're the number two player in Early life nutrition in the world, and that goes with a number of growth drivers that I've listed here that continue to work to generate growth behind this category. We are the number one in Europe, but also leading in China, Advanced medical nutrition business, a business that is also having huge tailwinds due to very significant civil society, societal, social health topics behind it.

We're the number three water company in the world. We are very focused on mineral and spring water, water-based drinks. This obviously is -- and this country is no exception to that -- a market that's growing fast, that's growing because people are switching to a healthier hydration because governments are fighting obesity with taxes because there is an overwhelming evidence that there is a link between sugar drinks and obesity, diabetes and many other topics. Whether we like it or we don't, this is what people believe more and more, this is what governments, this is what science is saying today. So the tailwind behind the water and the water-based category is there to stay.

Fresh dairy products, by far the number one company in the world. Probably five or six times bigger than the number two company, our friends of Yakult® in Japan. The fresh aisle is one of the only that grows. Here in this country again, the fresh aisle in the shops grew 6 percent after a 12 percent growth the year before. There is unparalleled growth ability in this category if we do it right, and we are number one in the world in this. We've been researching on guts and probiotics way before it became a scientific topic for many, and today a lot of social media words about probiotics, the metabolism of a microbiote, and how it impacts a lifetime journey in terms of health and food.

Plant-based food and beverage, our WhiteWave acquisition, our Alpro® acquisition. Alpro® is now our second largest brand in essential and dairy and plant-based business in Europe after Activia®, so it's really moving the needle. Double-digit growth, a slate of great brands. Many people, including probably many of you, going flexitarians with now household penetration. That's a tipping point in terms of creating more frequency in these categories. And we see growth all over the place, from China, Russia, Latin America, here in the U.S. but also a lot in Europe as well, behind this category for the reasons that are explained here.

And finally Coffee creamers and beverage, a category in which we play here in North America, maybe playing a little bit outside of North America one day, with a slate of great brands. We are the most diverse offering in terms of good-for-you or better-for-you creamers, including

plant-based, organic and others, which mean that as a challenger to our good friends, the company on the other side of the lake, here in the U.S. we are by far the fastest-growing because of that more diversified, health, trendy and sustainable portfolio of product that we offer within this category, which is a growing category because the more you drink coffee, the more you want to cream, to whiten it, to flavor it one way or the other.

Beyond this, we have an unparalleled portfolio across these categories of brands that match the description I was making of the new paradigm of consumption -- naturally and minimally processed products with great brands. evian® is the iconic brand of nature when it comes to the water category, for instance.

Local. More than half of our portfolio is made of local, small and bigger brands. Here is an example of this Prostokvashino brand in Russia which is fast growing. That is carrying the cues of locally rooted traditions, but also modern dairy consumption in Russia, and we are leveraging heavily Prostokvashino to grow in Russia further.

And responsible. Just here, the example of our B Corp, the organic leader in baby food here in North America, our friends of Happy Family™.

This means that we are leveraging through these brands a unique cultural trait of Danone. For 50 years, this company had the profound belief, the declaration to the world, that it's pursuing a dual economic and social agenda. This activist positioning of Danone absolutely resonates with what consumers want to hear today -- what governments, what NGOs, what even customers want to hear today about what we do. Example of gender equality in Mexico where with La Carrera, which is the largest women race in the world with thousands -- dozens of thousands of women in Mexico every year, we've been relentlessly building the role of Bonafont in gender equality in Mexico, culminating with a U.N. agreement that we have on HeForShe with the brand, and Danone actually being a champion of HeForShe at the U.N. level.

Another example, evian®. As you know, evian® is committed to be carbon neutral by 2020. It is carbon neutral in this country already, so each time you use this, you don't have to fight for climate. We did that for you before. So don't hesitate on this. It's already fully carbon neutral in this country. And by 2025, it will be entirely circular economy, so we will be recycling more plastic than we're actually using. Hundred percent of these bottles will be recycled plastics or bio-PET by 2025. It's a big declaration and it's a game-changer.

Another example in the country here, Danimals®. You remember we made this pledge for going for more naturality in our dairy business, moving half of our total portfolio of yogurt in the country outside of the GMO system, going for the non-GMO verified project, changing radically agriculture upstream, transitioning thousands -- dozens of thousands of acres in the Midwest, in the Northeast with our farmers to make sure that even the forage that's given to the cows is non-GMO. And so the first brand in 18 months that has transitioned is Danimals®, our kids' brand. Danimals® grew 9 percent last year. It grew from a 30-ish market share to a 40

percent market share. So this is another very clear signal that going into what offers more choice to consumers, what offers reassurance about naturalness and health to moms and dads in this case, is working. It's a good business decision. It's a sound investment for the future and for the short-term as well.

So we become activists, and we want to become activists not only as brands but as companies. I started by saying the people in the street, the shoppers, they go beyond the corporate veil, they pierce the corporate veil through social media, through everything, because they all have friends, employees and in competitors, and they all talk together so they know what's inside our companies. So we want our company to behave as our brands, as activists. The activism that we've chosen is very aligned with these dual economic and social agenda that we're running, and it's named B Corp. So we made a partnership with B Corp in 2015 which is an accreditation for companies that are going for not only economic and financial value creation but for the greater good and common good in society, embedding this into the mission, going for metrics on this, accepting to be held accountable for this and already in these results. So we've certified already five entities, small and big. Danone Spain, where Danone started about a century ago, is now a B Corp. Happy Family™ has been a B Corp here for a long time. Les 2 Vaches in France, but also Aguas de Argentina, Danone in the U.K. and there will be more to come.

One big one to come is DanoneWave here. DanoneWave is already incorporated as a public-benefit corporation in Delaware. With its \$6 billion sales, it is the largest public-benefit corporation in the world, and it's going to be accredited somewhere in 2018 as a B Corp in addition to this, which is about two years in advance of the schedule that we had. And by that time, when we would have done that, it would mean that about 30 percent of total global Danone sales over the world will be accredited as B Corps.

We are pleased to continue to link B Corp with our business. Cécile and the team have secured last week a €2-billion syndicated loan where 12 major banks, among the biggest banks in the world, have agreed to reduce their margin on Danone's risk if we continue to accredit and deliver our roadmap on B Corp. So B Corp is a competitive advantage when we negotiate with our banks, when we negotiate with our customers. We got public applause and encouragement by half a dozen very, very large customers when we announced a year ago that Danone would go for a global roadmap to become a B Corp as a company. So our B Corp progress is synonymous of how we want to radically embrace the change and the revolution serving people's willingness to regain control, to regain sovereignty on the way they eat and they drink. They need to know what the purpose of the company is about, and being a B Corp is clarifying very clearly where the balance is.

And I was mentioning piercing the veil. Piercing the veil is also about the people. So the last reason why I think Danone is absolutely uniquely prepared for the revolution is our people and our organization and ways of working. First of all, a 100,000 Danoners around the world. We

measured the level of engagement because we believe that's what's driving the value creation for all of us, all of you as well. And so we go for bi-annual inquiries, sending questions to our -- all our teams. Last year, in November, 90,000 of them answered back, and the answer is they are 4 points even higher engaged than they were two years ago through the transformation. Notably, because of everything that I just described in how we're driving the business; this is 8 points more motivated people than the average of FMCG, and this puts us by 1 point into the very close, very small club of the high-performing companies when it comes to people engagement.

We have also been working on reorganizing the executive committee of Danone. So not only the 100,000, but also the six people, three ladies, three guys, that are working with me in a diverse, efficient, fast manner, collective manner, to drive the change and deliver the value. And we have strengthened our Board. I'm thrilled about the fact that more people from industry are going to join us at the next AGM. We have renewed a number of positions at the Board. Michel Landel, the ex-CEO of Sodexo, is going to join as the lead independent director. Guido Barilla, who radically changed the pasta industry, incredibly worked on creating value from what was to start with a difficult industry, is going to join us, and Cécile, as the CFO of the company, is going to be sitting on the Board as well if you agree with that at the next AGM of Danone on 26 April. So we have a Board that's refreshed, that's well-aligned with delivery of the value that I've just described.

With that, of course, our ambition is to lead the way in creating and sharing sustainable value with the model I've just described. Where are we on this agenda? Well, I think 2017 has been a year of solid execution on this agenda. First of all, a 2.5% growth rate organic. You remember, we had a slow start in the year. We said it's going to accelerate through the year. The second half has been growing about 4% organic for the whole of Danone, and the full year at 2.5%. Very solid margin improvement with 70 bps organic margin improvement, well delivering on what we had indicated. And a very significant cash flow, more than €2 billion cash flows last year, 18% growth of our cash flow. So very solid financial metrics meeting our EPS target. As you remember, we had said double digit. We revised up our guidance in the course of the year at 12%, and we finally ended up at 14% constant forex EPS growth last year.

We've also been delivering on the other metrics that are meaningful for us on our journey and the revolution. One is 90%-- nearly 90% of all the products of Danone around the world are fit from a scientific and regulatory standpoint for daily consumption. So fundamental to our mission of changing people's ways of eating for a healthier, more sustainable manner is the shaping of that portfolio, and that shaping is absolutely unique.

Second, other important targets. We've continued to reduce our footprint in terms of CO<sub>2</sub>, not only -- and actually radically moving from our direct scope of responsibility to the extensive scope that includes agriculture. So in two years, we've been able, including agriculture, to reduce with our partners, farmers, with our suppliers, with our sales by 10% our CO<sub>2</sub> footprint,

paving the road to a number of commitments that we've made for the longer term.

And finally, as I said, a few important B Corp accreditation achievements in the course of 2017.

With all of this, why did we think that there was an opportunity to accelerate, and where are we going in the acceleration of that transformation? Well, first of all, the transformation has been going on already. It's not starting here. For three years, we have already delivered a strong track record in terms of financial value, financial metrics transformation. The like-for-like sales of the company on average has been 3.5% over the last four years in terms of growth. We have had a consistent growth in our margin, 180 bps cumulative improvement over the last three years, and finally consistent recurring EPS growth. The CAGR of EPS growth has been 10% between '14 and '17. So the delivery agenda is already going on. It's not an acceleration that is due to the fact that anything is slowing down. We're delivering, and because we feel strong, we believe that we can move forward even faster in the transformation.

This transformation has also been about the fact that over the last three years, we've put the enablers in place. We have created these 30 clusters of One Danone around the world that are addressing local topics that are essential in our license to operate in the new consumer, government, policy environment. We have announced our Protein program a year ago when we were here talking about this program and which I will go back in a few minutes, which is an efficiency program making sure we spend less, we spend better, we work differently. Very important is that we have unlocked the budget process that had been in place as in anybody else's companies for decades. We suppressed that budget three years ago. We are now on a rolling forecast agenda, and the resource allocation process that goes from three years to every quarter which allow us to constantly review the best way to spend our resources on the short, the mid and the long term. Every quarter we're doing this. There is no budget at Danone anymore. The world is going too fast. We need to be much more flexible. We need to have our compass, which is the things I described before: the financial metrics and guidance for us inside the company on a three-year basis. But then we constantly adjust the pace at which we're moving in order to make sure we are creating sound, solid growth and nothing tactical.

The second aspect of what has been going on in terms of transformation to address the revolution is obviously our portfolio with two important examples, I think: WhiteWave acquisition, which we closed finally in the middle of last year, and the Danone Manifesto Venture which is a very specific incubator for new business models on which I will go back. And these are just two examples on how we have actually continued to move portfolio. And finally, as I said, we've put this true north for the company with the One Planet. One Health and B Corp ambition. That's describing what we want to be to the world, what our people want to be, what our brands want to be to their consumers and users.

So on the back of that, early last year we said there is an opportunity to decouple our growth agenda and our efficiency agenda. On the growth agenda, we've been working on the three horizons: short, mid, long term. This chart is about the short term. All of these products did not

exist a year ago. All of these products are matching the consumer revolution I have been describing: healthier, more sustainable from a social and environmental standpoint in many ways, very fast process of putting them together, lower cost of innovation and at the end of the day, mix accretive.

The one thing that I want to plant in your memory after this discussion is the fact that food is not a commodity. Not anymore. Not if you deal with it this way. All the innovations that are disrupting the big companies that come, like us, in front of you describing how tough and volatile the market is for us today, all of these disrupters are coming with valorized proposition, with high-priced, high-value, high-cost propositions. Not about commodities. So there is a future in this industry for brands, for products, that are ready to really move the needle and embrace the new model, and all this slate of innovation is an example of that.

You have here our Happy Family™ yogurt new slate of products. As you know, we sold Stonyfield™ as part of the antitrust process of the closing of WhiteWave. We have developed in five months a full range of organic yogurt for kids that is now on the shelf. Five months. On the other side of the spectrum, some of our Chinese beverages, we found them in three-week consumer interactions, took three months to put on the shelf. So very fast innovation as well. You see on the left a wide bottle, the So Delicious® Organic Almond Milk. This bottle is made out - the packaging - is made out of waste sugarcane. So it's not only recyclable, it's biodegradable at the end of the day. This is a bioplastic. Not a PET, not a virgin plastic, not coming from refined oil. And that talks a lot to the So Delicious® tribe.

Another example of how things are moving in this space, the International Delight®, the cup that you see, the blue and yellow cup here. International Delight® is one of your most favorite whitener and coffee creamer. It's synonymous of indulgence. We moved it into the yogurt category unapologetically and developed that and launched it with three great flavors that have just started. Because the tribes that are using these brands, they want to see the values of the brand, the relationship being kept and enriched by new categories. They don't care about being a category specialist. They travel from one category to the other if the DNA of the brand is there and has been enriching the conversation that the brands have with their consumers. So we are addressing the short term with our growth and innovation process that we have been putting in place a year ago across the company.

We're also addressing the mid-term growth, and I wanted to use the example of digital. We've continued to work on our platforms on digital. We're signing a very interesting, strategic partnership in Southeast Asia with Lazada covering four large markets, including Thailand, Indonesia and a couple of others for us where we will propose unique, online, consumer parents to start with. Experiences, targeted, personalized with nutritional advice online in our shops on Lazada for parents in Asia with our early-life nutrition programs. Another example is how we also drive the cost down through digital on the top-line growth. Precision marketing. We invest a lot on making sure that we lower the cost of reaching and discussing with each

consumer through the precision marketing tool, and -- but also optimizing our supply chain and our data management. Here is an example on the bottom right of a strategic partnership we signed with Jingdong in China to build together an automated warehouse in Chengdu where we have a very large Mizone® business, and they will help us reduce inventory. They will help us manage the flow of data in a way that will impact our ability to serve customers and the distribution better as well.

And finally, we've been preparing the long term with a number of investments last year in our Danone Manifesto Venture incubator, which is based in New York, and we have been growing brands, business models, connected fridges, digital apps, frozen baby food apps and digitally connected that are going to pave the way for the future of the revolution, and inspiring us also in the way we do business regularly. Already several examples of how we've been rolling this into our business.

But a year ago also we said we want to not only accelerate growth but we want to accelerate efficiencies, and we've got two big engines on efficiency. The first is the one in this title here. Chapter one of synergies of WhiteWave. Chapter one is the fact that despite going late in the closing last year, we've been able to be above the level of synergies that we anticipated within 2017 with a \$50 million delivery of synergies on the WhiteWave acquisition, mostly here in North America, paving the way for a year '18 where we expect 60% of our run-rate synergies to already be in place after 18 months. So it's an acceleration that we had forecasted and that we expect to deliver and confirming the synergies that we have announced at the time of the deal of a total of \$300 million by 2020. So that's one significant, obviously, efficiency program that we're running to make sure that we generate the resources to develop our profitable growth model.

The second one I alluded to is the Protein program. This efficiency program that we have created a year ago which goes about indirect spending at Danone, the way we buy our services, we buy the goods that we use to do business. And we have spent the most of last year to prepare the regional and local rollout of this program. Hired the entire central team, went into this in a way that we feel we're well prepared now to deliver on '18 where we expect €100 million of savings from Protein program to flow in the margin of '18. So supporting the improvement of the company's margin this year. And yet, as you know by 2020, €300 million in the margin on a cumulated basis, so that's another €100 million for next year, another €100 million for the year after next, on a total of a €1 billion savings. So we will have two-thirds to reinvest in the transformation and the revolution and one-third going into the margin.

Finishing on the efficiency, just one word about the announced, revised strategic partnership we have with Yakult® in Japan. I'm pleased to report that we have come to an agreement where we will reduce our shareholding in Yakult® from 21 to 7 percent. With 7 percent, we will remain as the largest Yakult® shareholder, their strategic partner, seats on the board, renewed operational program of synergies and joint activities with Yakult® around the world, and I think

a very relevant capital allocation for Danone at the time where we need to invest significant resources into the transformation -- into the deleverage of the company. That's part of the equation, of course, that we're running with you.

All of this will, I think, confidently put us into the numbers that we have shared with you already in the last investor seminar. By 2020, 4 to 5% top-line growth on a like-for-like basis, 16% margin target from where we are at 14.4% now. Consistent pace of deleverage, of course, and this consistent, recurring EPS growth that is our contract with you that we will respect pacing the way we invest for the short, the mid and the long term.

To finish, 2018 will be no exception to that. We expect a double-digit recurring EPS growth at constant forex this year. It will be essentially a year of execution and delivery. I have to say that I'm very pleased with 2017 numbers and results. It's been a year of both strong delivery on our metrics for the short term, but also preparation of the future as you have seen during the course of my presentation. And I would say expect very much of the same for '18. It's going to be a year where we will deliver safely on our agenda of acceleration from a metrics standpoint, but also a year where we will continue to land to root this revolution into the DNA of Danone. One Planet. One Health is the true north for us. We need everyone at Danone, we need our governance, our organization, our brands to comply with that One Planet. One Health vision, and the B Corp ambition because at the end of the day, I'm absolutely convinced that this is a fantastic way of delivering strong, sustainable and profitable value for all. Thank you so much for your attention.