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2019 CAGNY PRESENTATION TRANSCRIPTION

Danone

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Speaker: Emmanuel Faber, Chairman and CEO

Jonathan Feeney: If we could all find our seats, please, I'd like to introduce our next presenter.

Well, good afternoon. I'm Jonathan Feeney, CAGNY co-chair, and it's my pleasure, once again, to welcome Emmanuel Faber, Chairman and CEO of Danone, and Nadia Ben Salem-Nicolas, Vice President of Investor Relations. Before we get started, I'd love to take this opportunity to thank Danone for their great display with all of their latest U.S. innovations, including my new favorite breakfast, STÖK, highly caffeinated and delicious. Thank you for the display, and thank you for your sponsorship.

With the WhiteWave acquisition, the U.S. is now Danone's largest market, and Danone North America, the largest B Corporation in the world. Of course, every U.S. consumer already knew about their strong yogurt franchise, while most U.S. investors know about their great positions in fast-growing emerging markets. Here to tell you about it's Emmanuel. Thank you. Take it away.

Emmanuel Faber: Thank you, Jonathan. Thanks for the free advertising on STÖK. I cannot be more specific. This is the product you need to try, for those of you who have not, and continue, for those of you who have already.

I'd like to first start by saying a big thank you to Chairman Andrew for conveying such a great party to celebrate Danone's 100-year anniversary. This is going to happen in only a few weeks' time. It's a great place to share the event with you. Danone was born in Barcelona in May 1919, and so we are, today, celebrating our 100 years.

Well, if I look at the world around us as a big food company, the question is, is there really much to celebrate about? And I guess many of the presentations that you've been going through over the last couple of days, and will, would probably trace a bit of the same half-sour feeling that, after 100 years of success, our brands are being challenged. And this is not new. I've been sharing this chart with most of you for many years, actually. Big brands are just failing, and the smaller ones, the local ones, are eating into their share of your kids' stomachs, basically, and maybe yours, even.

So there is not much to celebrate, unless you address this topic in a very serious way. People all around the place are changing the way they eat, the way they drink. They, as you can see here, are looking for much healthier

diets than they used to. They're conscious. Forty-seven% of the young generation says they are eating healthier. Thirty% are willing to pay a premium for that, as you know, and millennials are 30% of the world global consumption in food and beverage. They're also seeking immediacy. This is why they're getting out of hypermarkets, supermarkets, the usual brands and labels that we all know around the big food, the big retail, universe around the world.

And finally, they're trendsetters. This data here on the right is incredible. It says that nearly 80% of food decisions are influenced by the members of the Gen Z of that family. So it means that, these younger people, they influence the way you eat, the way your wives, your husbands, your partners, your families, your friends are eating. And this is the exact reason why the brands that my parents were using, that I've been using when I was young, are just disappearing off the shelf. No growth anymore. Growth is somewhere else.

So should we celebrate this 100-year anniversary? Well, we have a simple answer to that and a very difficult task. The simple answer is we've been preparing for that moment for the last 20 years. For 20 years, Danone has chosen to go for healthier categories, to go for sustainability, to go for long-term growth. So I'm just not popping here and telling you we're going to be better because you expect me to say that. Because, as you know, we've been doing this way before there was pressure to do this because we believed that it was part of the future of food.

So there are a couple of reasons why today I'd like to still celebrate the 100 years, and probably the next 100 years as well. And the first of them is the one I have on this chart. We have built, over time, patiently, a superior positioning which is aligned with the consumer preferences that I just expressed.

First of all, small and local, as you've seen on the graph. Well, at Danone, more than half of our total sales are consciously driven and grown as local. For the last 20 years, we've resisted the temptation to standardize, to internationalize, to globalize all of our brands. We've done that with a few of them, luckily so, but we've consciously also grown a portfolio of smaller brands.

On the bigger ones, I'll come to that in a minute. The bet, and the only reason I have the right to say I would like to celebrate with you today, for growth -- profitable growth in the future - is we are disrupting our big brands. I don't think any big brand today can survive without disruption in the food space in which we are.

And the second is: grow the small and the locals. Not only buy them, at an expensive price sometimes, but grow them and actually create them. There's not been a single other point in this industry, over the last 30 years, where creating a brand has been less costly than today. And we do not take advantage of that yet enough. We do, but not enough.

We have a uniquely positioned portfolio when it comes to health. Ninety% of our volumes - the dozens of billions of products we sell every year -- 90% of them are deemed by the WHO, by the health authorities in the countries where we operate, for daily consumption. They are the basics of the fundamentals of a healthy diet: Specialized Nutrition, baby food and medical nutrition, Essential Dairy, fermented and Plant-based and Water. That's as simple as what it takes. These are the ingredients of the Danone recipe for healthy food. I've got nothing more.

This leads, obviously, to a superior growth potential, the one that we're shooting for in the mid-long-term, because we're playing exactly where the growth is in terms of categories globally, and, actually, where the

growth is in terms of the categories in this country as well: water, flavored water, organic, baby food, plant-based, coffee creamers, yogurt, medical.

We are basically creating new category fundamentals, and let me share briefly on this one. Probiotics overall, which we pioneered 30 years ago with our brand, Activia, are now a global conversation, and they are growing above 6% in all the markets in which we play. You want growth? Think about probiotics. Plant-based, growing 8% globally. High-protein yogurt is growing above 10%.

So as a company that has the expertise of being a leader in each of these three areas, we're able to come up with that kind of solution. Light & Fit, which is a brand that you've known in this country for decades, is just now launching a plant-based version. So out of dairy, it's migrating towards plant-based with a product called Good Plants: almond-based, high protein, high probiotics, totally plant-based.

So this is an example of how we've self-disrupted ourselves, and this is the second reason why I think we can celebrate being 100 years old and still look at the future in a way that's positive and optimistic: because we have accepted, and we consider, that the name of the game is self-disruption.

Let me share a few examples of that. There is a growing consumer belief now in the relationship between healthy gut and well-being. As I said, we started 30 years ago and, reasonably successfully for many years, grew brands like Activia, Actimel, others. But now, this is a global conversation. It's a conversation where you see, if you go and google the search on the word 'probiotic', you find incredibly more answers and searches than even a couple of years ago. There have been more than 5,000 studies last year made on why probiotics are good for your health and why gut health is important for your own health, and why, instead of you taking care of your gut, your gut is actually taking care of you, if you feed it rightly so.

Another example: Number two out of 10 of the global food trends of the Whole Foods survey of last year is probiotics, gut health food. Ten% growth in the probiotic supplement market globally. So the probiotic space is a fundamental area which is being rediscovered as one of the elements of good health for the future, for basically humankind. It's very interesting to see that. Essentially, this is the renaissance, as we say in French, of fermented foods. There is nothing more natural than fermentation. It takes only one thing: time. It's just a matter of time. And we are deeply rediscovering, around the world, the richness of how nature works for us through fermentation. Ferments plus any kind of nutrients will bring you to incredible solutions: lactic fermentation, alcoholic fermentation, acetic fermentation. In many ways, they're all leading to the same, which is developing a gut health that will support your health in the longer term.

This is also rediscovering a very, very rich heritage from a local standpoint. This is not a one size fits all. There are many, many, many countries, recipes, cultures, agricultures that, around the planet, for milleniums in certain cases, thousands of years, have existed, and that are resurrected today through the way people eat and drink and think about fermentation of any kind. It can be animal. It can be plant-based, camel milk. It can be lassi in India, et cetera, et cetera.

So if you look at this as a large brand that thinks about my brand overall and how I feed the world, you're missing this. This doesn't even exist in most of the presentations that you probably see. But that's the underlying reality of the revolution that is happening outside of this room and that we need to address with our brands.

So why and how? Well, first of all, you can always go for probiotics and fermentation through supplements, but the vast majority of people prefer to have it as food. Actually, in Europe, 70% of European consumers are saying that they want probiotics as being part of their total diet. And if you look at the U.S. here, kombucha is nothing else than probiotics and fermentation. Fifty% of millennials in the U.S. are actually drinking, and some of them, as you know, are making their own kombucha. So it's about how humankind is retaking control of its destiny through mastering fermentation, rediscovering ferments, bacteria, and probiotics as a very, very important player in the field of health.

And guess what? We have an expertise in this. In 100 years, we have been able to assemble a bank of 4,000 different bacteria. And we're only scratching the surface of how many of them we're actually using in our products for medical research, but also for implementation in our food. And this is an incredibly exciting opportunity for the future.

The ferments we are using have the power to change the sweetness of the products that we are designing. So the next generation of Actimel, DanActive in this country here, is going to be without any added sugar because the bacteria that we are using is eating the lactose to the point that it transforms the sweetness and the texture. You will still have the impression of having a sweet product, but it will not have any sugar added.

More flavors and textures. We're able to assemble, with this bank of ferments, things that allow us to do lassi, straggisto, ayran, skyr, that I'm sure you know here, laban and many others that are addressing the willingness of your kids to enjoy a diverse food. Not the old brands of the past that they saw you and your parents shop at the local hypermarket. They've got no interest in that anymore.

Flexitarianism. I remember a chart that we shared when we were hosting the conference for the WhiteWave acquisition, and we said they're the champions in the world of the plant-based, and we're the champions of the world of the fermentation. If we put them together, we can create an incredible future. Just one word of so-called science. The good thing about bacteria is that they are neither animal nor vegetal. So you don't need to think about whether this is a dairy ferment or whether this is a plant-based ferment. A ferment is a bacteria. So bacteria is a living organism of its own. So by definition, it is flexitarian. And as long as we apply the 4,000 bacteria that we have to the protein that our team now at ex-WhiteWave know how to engineer to create great plant-based products, you can imagine the future that we have as we diversify the plant-based into an incredibly rich amount of solutions, textures, cultures, tastes, et cetera, for the future.

I'd like to spend maybe a few minutes on what I think has been a turning point for us and, frankly, one of the reasons I'm happy to share this 100-year anniversary here, and that's about Activia. Because Activia has definitely been part of why Danone was unique 20 years ago, why it was unique still 10 years ago. But as you know, Activia, being our biggest brand in the world, has also had a terrible performance for the last eight years. We've not been able to turn around that brand for eight years.

In 2016, we decided to go for the big relaunch. We did that. I can tell you, it's been a playbook for the best old-school model's relaunch. Extremely good work from the marketing teams, from the agencies. Total failure in the new world. That left us with no solution at the end of '16 to grow that brand. The result, unfortunately, has been this: four years of decline, year-on-year decline, as you can see, 2017, after the relaunch. So that's what happened: more than well into double-digit declines.

So we changed everything literally two years ago. Changed everything in the organization of the brand, in the way we designed its structure, its recipes, its formulation, its design, its visuals, but also the people that we engaged in building that brand together. Let's have a few slides on that.

First of all, probiotics. Through heavy work and revisiting the paradigms of the regulatory approach we had, we've been able to use, as many of the smaller competitors, the word probiotics back on Activia, and you can see that on a few of these charts. We have, basically, gone back to basics. This is the product. So it says, "Activia contains good milk, five ferments, billions of probiotics and eight hours of natural fermentation." That's all. That's it about Activia. So the magic of the texture, the mild texture of this product, is related to the five ferments' engine, this unique blend of engines of ferments that we've created, that we own as an I.P.

We completely disrupted the visuals into radically more modern. It looks like it's obvious, but this is so different from the pretty, green wall that we had initially. We entered into all the new trends of flavors. So you can still have strawberry, vanilla of course, but you have curcuma, you have ginger, you have ginseng, you have turmeric, you have honey, you have herbs, you have hibiscus, et cetera, et cetera.

Why? Because they are also the way people today believe that food has an impact on their health. This younger generation, they believe in what the old science of food was saying. They believe in traditional Chinese medicine. They believe in Ayurvedic diets. They believe in the power of plants. And because of that, they're ready to find, in their best probiotics products, nice texture, these very subtle, new, rediscovered tastes of natural spices, ingredients, herbs, grains, seeds, et cetera.

Iconic simplicity, crafted authenticity, radically out of the multipack, by 24, by 16, by 8, into cups, formats that are making sense for every day's use by the younger generation. Some changes like this one, for instance, in the U.K. Some changes like this one in Japan. Think always about local: how to ground this brand into its local culture.

Going even further, in Mexico, we used the five ferments probiotics of Activia to ferment vegetables and fruits. So in those products here, Probioticos Naturales, there is no dairy. There's no dairy. It's a vegetable and it's a juice under the Activia name. Because for that transformation in Mexico, we saw that the tribes using Activia, the new tribes, they were ready to go that way, for Activia to travel through fermentation. As I shared earlier, fermentation is way beyond dairy. It's a whole way of life in many ways.

We focus also a lot on much more modern convenient type of formats, local relevance. So that's trendy cereals in Europe, the Dailies here in the U.S., and I'll come back to that. But we had the same, the shots of probiotics, in Brazil. The touch of tea, jasmine, herbal teas in France, in Germany. The Mix&Go, with a topper of very good quality cereals, was a great success in Europe. Organic, of course. Going organic all over the place in our brands, and Activia has been one of the first -- the second, actually, after Dannon brand, to go organic as well. And small shots. Small probiotic shots with a very strong, distinctive taste, which have been doing great in several Southern Europe countries. So as you can see, Activia is no longer this green wall. It's a whole different interpretation of what people would expect from a tasty probiotic shot.

So what happened is this: essentially, one after one, quarter after quarter, the performance of Activia improved so that last year, the third quarter, we were positive; the fourth quarter, we're even more positive. So after literally a decade of decline, that €2 billion brand, global brand, has faced its own future by going through a

complete disruption in many ways to produce profitable growth now. And this is important because I remember a number of conversations with you that, without stabilizing Europe, without stabilizing Activia, there would not be superior growth for Danone.

So we have not accomplished it yet. We are in the middle of that journey. But there has been a tipping point, and that tipping point shows through Activia, but also through the whole lot of other innovations that have been successful, plus route-to-market excellence in terms of localization in Europe, to the fact [point?] that Europe was positive, for the first time in 10 years, in the fourth quarter last year.

So one of our commitments had been to your community that we would turn around Europe, exiting 2018, growing in EDP in Europe, and that's the case. This is, again, thanks to the Activia turnaround, thanks to a lot more that I will cover soon. But this is now where we are.

Let me say a few words about, as well, what Activia is doing -- what disruption it is doing here in the U.S. We moved Activia Dailies shots outside of GMO, so non-GMO. As you know, we had a pledge two years ago here to go non-GMO for half our total product of milk here in the U.S., so moving about \$1 billion worth of brands and consumers into the non-GMO-verified project. That has had great results on Danimals, our kids' brand, as you know. I shared that here last year: 40% market share, 10% increase in sales with the non-GMO label. Well, we said, why don't we do the same with the new probiotic shots of Activia Dailies? And so that's what we did. Well, the result? It's been the best innovation in this market in 2018 on the yogurt space, by far, as you can see, outpacing, in terms of velocity, the second, and about twice the velocity of the average innovation on the shelf of yogurts here.

More interestingly, it's extremely strong, profitable and incremental growth. 55% of growth is incremental to the category; 100% of growth is incremental to Activia, and it's margin enhancing, as I just said. So this has been driving Activia into a high single-digit growth in Q4 '18 for the total brand in a country like the U.S., which is one of our top five countries for Activia in the world.

Another thing, very important, that this did, is it rejuvenated the consumer base of the brand. We've been moving from a base where about 60% of our consumers were people my age and plus, where, looking at the Dailies, 44% of consumers are in the 18 to 44, with an over-indexed of 40% on younger populations. So in essence, this launch is basically rejuvenating the brand by 20 years. So it's bringing that brand into the space of my kids, which is where it should lie if I want it to have a real future.

It's also offering the opportunity to go beyond that, and we shared that in our Investor Day in London. But in the next 12 months, we will actually go beyond that by introducing and leveraging fully the territory of Activia and probiotics into the plant-based opportunity, which leads me to the plant-based opportunity, which is so interesting also because we have so many new brands opportunities.

I've spoken about Activia, but I also said how much I believed in the opportunity that we have to create new brands. Big companies are not good at creating new brands, and they need to become good because it's an incredible opportunity, provided you have the authenticity of being the right people, the right stewards, the right sustainable stewards of this small brand. It cannot be another launch of a big, multinational company. That will never work. But the cost of launching a brand has never been as low as today, as I just said.

So this is an example: Good Plants, which I just shared with you already -- a Light & Fit Good Plants launch here in the U.S. LIV, which is a brand we just launched in the U.K., an oat-milk-based beverage that we have just launched, probiotic beverage, from zero. The Cultured Snack Company, which we tested here in Chicago for 18 months, is now going to launch, second quarter of this year, here in the U.S., a very interesting, diverse solution of probiotics snacks, whether this is puffs or a bar. And there will be a beverage as well.

And these are new brands. They did not exist. And one day, they can become what actually STÖK's become because, when we bought WhiteWave, STÖK was a \$3 million brand, somewhere in a cupboard in the Boulder head office of WhiteWave. The first temptation was to say, hey, guys, stop it. It's too small. We need to focus. Big-brand Silk needs rejuvenation. No, we kept it. And now it's 15 times that size. It's already more than a \$50 million brand in two years. So any of these brands can become that, and that's part of how both plant-based and the new food space is creating opportunities, if you dare.

Plant-based is a category here in the U.S. that continues to outgrow the rest. We all had, and I think probably me more than you, a bit of a heart attack when I saw the numbers in Q1 and Q2 where, basically, plant-based had stopped growing faster than the rest of the category. And the overall slowdown here, you remember this pretty hard pre-closing session that we had before we closed in April 2017, where we saw this slowing down. But it's there. It's there. It's back there, and it will stay because of the underlying growth of this category.

So plant-based is, today, growing at 5% or more in the U.S. in Q4. It's been growing double-digit in Q2 and Q3. And again, this is here to stay, which means, by the way, that we believe we have a huge opportunity there. You know that. We shared that already in October but let me share three quick charts on that.

First of all, we're accelerating the core of our plant-based offering in the U.S. here, but also with Alpro in Europe and many other countries. We're maximizing the potential because most of the business today is about soy and almond, and it's moving into oat, coconut, cashew, rice and even, on the right, with blends of proteins, and so there is a whole new traction and story that comes with the expansion into more ingredients.

Another one is the fact that, today, 80% is beverage and yogurt. And this is a product form that can expand way beyond that, as you can see here.

We will also go way beyond with Danone. Today, 90% of our plant-based business is in only five countries, and we have 50. So you can see a number of countries in which we started in '18, and we'll continue in '19 to roll out our plant-based proposition in the Danone system overall, which leads us to say, by '25, we will triple the size of our plant-based business. It's €1.7 billion today; it was €1.3 billion when we bought WhiteWave two years ago. It's going to be €5 billion by 2025.

The last reason I'd like to share with you, why we're profoundly happy to celebrate the 100-year anniversary, is because we are preparing hard the next 10 years. We're moving towards a 2030 agenda. That's like a lighthouse for the people working in this company that are not facing the revolution by saying, oh, my God, we need to change because we need to change. But they need to change because they want to reach these targets, and if we are not changing, we won't. But it's a totally different story to have a desirable future to go to and an uncertain future where you are very afraid of where you need to go, and you have to go, and so you go. The energy level is completely different. And this is probably why we've been able to change the culture of the company, its ways

of working, in a manner that, frankly, I myself am sometimes surprised at, for a company that has such a strong culture, we've been able to do.

So first of all, '18 has been a year where we delivered, and we've continued to, as you can see on these numbers -- and those who are directly interested in our story, you know these numbers, I won't comment them -- we've delivered on our guidance for last year. It's been a year where we've continued to solidify and strengthen our operating model. And in particular, a year where for the first time for a long time, all categories, all reporting lines, have actually contributed to growth, including our Essential Dairy and Plant-based business, as I just explained about Europe.

If I look back a couple of years as well, if I look at the last five years, we've reported on average 4% sales growth, and we know we can do better than this. A 200 cumulative bps improvement in the margin, 15% CAGR in cash flow. 8% to 11%, the way you want to read it, EPS growth, with or without forex, and a regular dividend increase in total. So we're delivering on the short; we're delivering on the mid-term. And we continue to create incremental growth with the big move that we did here with WhiteWave. More than 75% of categories at WhiteWave are growing more than 5%, and that includes coffee creamers, that includes the plant-based business that I described and a number of others here in the U.S. We're delivering on synergies as much as we wanted, and we are starting only to scratch the revenue synergies that I had mentioned before.

As I said, we can't do that without also working a lot on our organizations. And here is a list of themes that we've been discussing with you over the last several years. I would like to highlight the fact that, for the first time of our \$1 billion saving Protein program by 2020, we overdelivered. We were expecting €200 million last year; we are delivering €300 million indeed for last year and making good progress. We've just announced, with our full-year numbers, that we will continue to streamline the way we work. We're delayering the organization, basically making sure that we are taking decisions at the most local level possible with 13 regions that we have designed, that are directly related to the global organizations now and working on the efficiency of our systems.

A few more words before I finish: These are our nine integrated goals for 2030. They speak about the way we want to do business. They speak about the brands and how we think brands should be activists in this world. And they speak about trust because, if there is one thing that's missing here, I mean, in the world, it is trust. And this is something that I cannot imagine can't be part of the way people eat and drink.

So we are delivering on a number of these three colored pillars already in '18, which is, for me, paving the way to the gradual acceleration towards our 2030 goals. And the one thing I would like to highlight is how much innovation is central to this. A few words about innovation: one quarter of our sales in 2018 was coming from products less than two years old, 25%. That's up from 16% two years ago. So in two years, we've moved from 16 to 25% accelerated innovation. It's a huge change, and it's a change that was only possible because we narrowed by two, the time to market of these innovations. And by the way, they are all accretive, significantly better-priced per liter, per kg than the core.

So this is the recipe for future growth and profitable growth in food, only if you accept, to the tune of 25 or maybe even more% of your sales, to be radically innovating. We are exploring, one by one, new categories, new opportunities, new business models for the future.

We are also doing this through our incubator, as I said. And you know we created, as many others by the way, incubators where we're learning fast about new business models. I think the one difference is that there is so much alignment between the way these companies work and where we want to go that we don't need to have them completely separate. They don't want to be independent from the big company. They want the big company to be part of what they do today, so that we can help them. And actually, I'm very happy because they can help us too, of course.

We're accelerating on digital. We have a plan, 40% growth last year. We want to double to €2 billion, next year, and we are also accelerating outside of the regular hypermarkets and supermarkets because this is where the growth of today is, all across the world. Our brands, which are activists, are growing three times faster than others, for all the reasons I just mentioned and I won't repeat, but that is a fundamental part of the objective that we have for 2030.

And, by the way, let me finish with a few words about people and the company. I'm particularly proud and happy that 30% of our total sales are now certified as a B Corp. Some of you know about B Corp. I've been speaking about this a number of times here. This is basically a pioneering labeling of a company that's active for good and not only for economic value and shareholders' value. And I think that, when it comes to recreating trust in food, this is an absolutely fundamental element of that trust.

Trust is what's missing all over the place, as I just said. You have here a very interesting parameter in the global Edelman trust survey of last year that says that people in companies expect their employer, the company, to be the ones in which they trust most about the future. It's a huge responsibility on our shoulders if we realize this. Actually, 75% of them expect to have a voice in that future.

So I will finish my last three charts by something that is part of the revolution that I think is going to pave the way for the next 100 years: a program that's called One Person, One Voice, One Share at Danone. At the next AGM, all Danone people around the world, 100,000 of them, will become a shareholder in Danone. They will have one share, and they will have the opportunity to invest more, if they want, through ESOP plans.

But they also have one voice, and that voice is expressed internally. We ran 100,000 people consultation last year around the planet about the priorities, about the goals. Where are we good? Where are we not good enough? Where should we improve? Where is society expecting us? What about the health agenda? What's the plastic agenda? Seventy-five thousand of them responded. A third of the total workforce volunteered to be able to create the bottom-up process that led to me being able to speak to you about this.

So we've decided that this would become a routine for the company. We have a routine today that creates our new strat plans every year. We've added a very important period of time. From September to December, the people at Danone will express their voice about this, routinely, every year, so that it feeds back into the strategy planning process and the priorities because you cannot expect -- back to why we grow or we don't grow - you cannot expect, tomorrow, brands to be protected from civil society just by the communication, the legal, the lawyers, the General Secretary people. That does not exist anymore. They all have the same Instagram accounts. They're all activists in their own, even if they work with our companies. So unless you get in line with them about why the company is doing this or that, you will end up with big-face problems in the public, and the brands' reputations will be at risk.

So this is really the way where we can, today, for tomorrow, create brands that are truly powered by people. And this is the best, I think, that we can do to continue to support the value creation that we are creating gradually, year after year, and why I am, and I will finish with that, so confident that '19, '20 will continue to pave the way through this centenary year to create a company that will deliver the superior, sustainable, profitable growth that we see happening after we work hard.

Thank you very much for your attention. I will take your questions.