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BN.PA - Full Year 2019 Danone SA Earnings Call

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OVERVIEW:

Co. reported 2019 recurring EPS of EUR3.85. Expects 2020 like-for-like sales growth to be 2-4%.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the 2019 full year results conference call. (Operator Instructions) I must advise you that this conference is being recorded today, Wednesday, 26th of February 2020.

I would now like to hand the conference over to your first speaker today, Nadia Ben Salem-Nicolas. Thank you. Please go ahead.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Thank you very much. Good morning, everyone. Nadia Ben Salem-Nicolas speaking. Thanks for being with us this morning for Danone full year results. I'm here with Chairman and CEO, Emmanuel Faber; and CFO, Cécile Cabanis.

We'll begin with an overview of 2019 results, and we'll follow with the outlook and the announcement we made this morning regarding our strategic plans for the future.

The presentation is available on Danone website. As you may have seen, it's longer than usual and contains a lot of new information. And therefore, we may be asking for about 2 hours of your time this morning, including Q&A.

Before we start, I draw your attention to the disclaimer on Page 2 related to forward-looking statements and financial indicators definition.

And with that, let me hand it over to Emmanuel.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you, Nadia. Good morning, everyone. Thank you for being with us this morning for an important announcement on both, as Nadia said, our 2019 strong progress and the way we want to continue to build our profitable growth model in the future.

I will turn immediately to Page 3 where we sum up basically in less than 2 hours what you will hear from us today. First of all, I'm very pleased about the progress that we made in '19 with the execution of both our strategic priorities and delivery despite the headwinds.

Second, we are actually closing a cycle of 5 years with a strong strategic and financial track record. And we are anticipating already at the start of this year the entry into a new cycle towards our 2030 goals. So this year, in many ways, is going to be pivotal. Pivotal because we will massively accelerate our investments in the next couple of years to shape a fully climate-powered business model. I'll put it in my own words maybe: We believe that we reached a tipping point where our brands will be incredibly stronger if climate is an ally and not an enemy. And we believe that we have the right business model to achieve that.

Consequently, we will update, and we are updating our 2020 objective, as I said, recognizing that this year is pivotal towards this shift.

And let me add that I'm very pleased about a number of the metrics in which Cécile will deep dive later in this call, in particular, on our capital allocation and cash flow generation that create and share long-term sustainable value for us.

So in all, as we start this call, let me say that I'm fully confident -- we are fully confident that we're taking the right steps at the right moment, at the right pace to create a virtuous circle that will fuel a superior growth model and unlock sustainable value in an accelerated manner and a bigger manner.

Let me go for this in a couple of highlights, and I will start with Page 5, which mirrors on the left our 2030 goals and the performance that we achieved in 2019 on the 3 pillars that you know: our business model, and I chose to highlight our EPS growth of 8%; our brand model, we've just been recognized AAA at the CDP ranking among the top 6 worldwide out of 8,000 companies and it speaks a lot about what we want to do for our brands; and finally, as usual, as you know, everything starts with people at Danone. And we are very happy and proud that the level of engagement of our people is hitting a record high in 2019.

Page 6 is a quick overview, and I won't detail it, of the key metrics, financial metrics, for our performance that led to the 8.3% recurring EPS growth that I mentioned before. Broad-based like-for-like sales growth in acceleration, as we will see again later. A step-change in our margin, 15.2%, 76 bps improvement. All cash high (sic) [all-time high cash] conversion with close to 10%, free cash flow to net sales. And finally, and I think in the current context, very importantly, a stronger balance sheet where we are 1 year ahead of our plan of deleverage with a multiple of 2.8 of our net debt to EBITDA.

Speaking about the 5-year period on Page 7, I will simply say that we end this period of 5 years of transformation and delivery with a 50% EPS uplift on a recurring basis, which again highlights the choices, the relevance of the choices and the discipline with which we've made them over the last several years.

Next page is on climate. As I just said, we are very happy and proud to be a AAA list company, which means that we are building a climate-safe, water-secure and deforestation-free future, not only for the planet, but really for our business.

So let me turn on Page 9 a little bit on this as an introduction to a discussion about the future. We've been really pioneering and making pretty bold commitments to transition to low-carbon economy for a long time actually. Since 2009, we started commitments for 2020, a number of years ago with the agreement in Paris in 2015 on the COP. We signed further agreements and we committed by then to carbon neutrality for the total company by 2050, a peak of our full scope emissions of carbon by '25. Then we signed the 2 degrees Science Based Targets in 2017. The 1.5 degree pledge, even more ambitious by 2019, which we're calling for the fact that we would peak our emissions, at the latest, by 2020.

And we are very proud to share on the next page that we've actually anticipated that and brought our full scope carbon emissions to their peak last year already, at the end of last year. So that's 5 years ahead of the plan that we designed only 5 years ago, and that's ahead of the 1.5 degree SBT target and commitment that a number of other companies that have signed this pledge, we have made for 2020.

A few highlights on this page are describing the fact that we are now scoping 95% of our activities in scopes 2 and 3, which is indirect activities, and that's mostly agriculture. As you can see here, 60% coming from agriculture. So when we speak about regenerative agriculture, we're really talking about the core of what is at stake for the future of our business in terms of both financial business and environmental value.

A few more numbers, 27 million tons is going to be our peak, that was last year, of carbon externalities. And already last year, which makes us very comfortable on our decreased trajectory now, a 9% carbon emission intensity versus the previous year on a like-for-like basis in 2019.

As a result of that, on Page 11, we have decided to start a conversation with you and the financial community that is supporting us about the link between carbon and climate and our business. And the best and simple way we found is basically to report here on this page what our carbon-adjusted EPS would be in 2018, in 2019 if they were in our accounts.

And what you can see here is with the value of EUR 35 per ton, which is the value that we use for our CDP disclosures and have been doing that on a consistent basis, you can see the impact on our EPS, which basically means that it's a significant off-balance sheet charge that we see here.

And it's interesting because already last year, the carbon-adjusted EPS has actually grown double digit, 12%, because of only a 2% cost of carbon per share increase last year.

Of course, when you turn to the next page, now that we have peaked, it means that the cost of carbon per share is actually going to be a negative trend as we are starting this year, compress the absolute amount of our carbon footprint, which means that the carbon-adjusted EPS is going to grow significantly faster than our recurring EPS. And you will see later in the presentation that it means a lot, not only because we want our brands to join the fight against climate change with their consumers, but really because it's about the resilience of our whole business model because we depend on climate and because it's high time that, as I said before, we make climate an ally and not an enemy for our business model.

My last point about the last year's achievement is back on people. Last year was a very special moment, where we started our One Person, One Voice, One Share program, which allowed us to welcome, during the AGM last year, our 100,000 employees as shareholders and granted them the dividend-sharing scheme that has started a very interesting conversation about the whole cycle of money and profit and how we create value together with them in an entirely new way. And this is exemplified by the cycle on the right, which is the One Voice cycle, where, as you know, they are now voicing out their priorities, opinions, advice, inputs on what makes a difference for their business locally wherever they are among our big objectives. We're listening to this voice. This is input for our strategic planning, but this is also input for our Board because they now meet twice a year with the Non-executive Board members of Danone, which brings a completely new way of setting the tone for the company's priorities in the future and makes them very, very especially engaged with the company that they are building together with us.

With that, I will turn to Cécile for the financial review. Thank you.

Cécile Cabanis - *Danone S.A. - Executive VP of Technology, Data, Cycles & Procurement, CFO and Director*

Thank you, Emmanuel. Hello everyone. Before I deep dive into bridges and numbers, I would like you to go on Page 15 and give you some comments over the '19 performance versus our strategic priorities.

Starting with sales growth acceleration. So you've seen that in 2019, all businesses are growing, that we've been able to accelerate the growth throughout the year and despite some headwinds that we faced in H2. And as I mentioned at the beginning of last year, we've been able to exit the year at 4.1% rate, which is what we aligned to say in order to make a progress on our businesses, and I will come back on the performance of each of our entities for Q4. But it's a very good quarter where we continue to deliver behind our brands and categories.

On efficiency, record year on productivity, EUR 900 million, a year where we've been able to grow the gross margin, which you'll remember is what is absolutely key in measuring a sustainable, profitable equation. So we are very happy with that, and I will comment on the levers. And we have continued to sustain the investments behind our brands.

Last one, Emmanuel mentioned, we had record high cash flow, EUR 2.5 billion, which is enabling us to be 1 year in advance in our deleverage plan. We also continued to be very disciplined in the way we manage our portfolio. And last year was the year where we sold Earthbound Farm in the U.S., and we've been able, with that, to improve our ROIC by 70 basis points.

So let me now deep dive into the figures, Page 17 with the Q4 sales bridge. So as you see, Q4, we had a reported growth at 3.9%. This is made of a like-for-like sales growth of 4.1%, including improvement in volume, Q3 was minus 1.6%, Q4 is stabilized at minus 0.1% and a strong value contribution, 4.2%. Then, as you know, we are now removing the Argentina organic contribution, but it would have added another 0.5% to the like-for-like growth. Scope effect is negative minus 1.4% and it's linked to the divestiture of Earthbound Farm. And finally, we have been having a slightly positive effect in currencies in Q4, 0.7%, which is mainly linked to the appreciation of the U.S. dollar.

Let's now go into our different entities, I will start on Page 19 with Specialized Nutrition, commenting both on full year and Q4 for each of the entities.

Full year '19 Specialized Nutrition grew again by more than 5%, 5.8% with a balanced contribution of both Medical and Early Life Nutrition. Margin exceeded 25% for the first time and was led by a positive product and country mix as well as the first synergies that we started to have from successful Early Life and Medical Nutrition integration.

Moving on Q4. In Q4, Specialized Nutrition delivered double-digit growth, you see that on the bottom left of the chart, 10.2%. Medical Nutrition posted a steady mid-single-digit growth and Early Life Nutrition sales were up double digit in Q4.

China posted another exceptional quarter with a growth that exceeded 20%. This resulted from the excellent performance of our brands, especially during the 11/11, in which Aptamil has been the #1 selling brand in IMF. And there was also some loading effects because we had this year an earlier Chinese New Year compared to '19.

At the end of the day, we compare that to a mid-single-digit growth for IMF category in China for the full year. We've been growing high single digits. And it's entirely driven by the positive mix and premiumization. Danone over-performance is linked to what we've been discussing throughout the year, it's both the very strong equity of the brand, including a very successful expansion in lower-tier cities. We have tripled our presence in local MBS. We've been posting some very strong innovation and premium propositions through the cross-border e-commerce, in particular, a goat-milk range that has already accounted at the end of '19 for EUR 100 million sales.

And moving out to China, Early Life Nutrition in the rest of the world grew mid-single digit in Q4. It was driven by the rest of Asia, especially on the back of reinforcing market leadership and game-changing innovations like a C-section adapted formula. It's also growing very nicely with Happy Family in the U.S.

When we look at the years to come, we continue to have very strong plans behind the brands and a very strong innovation pipeline that is focused especially on HMO, rare milks, organic offerings and pediatric specialties.

In 2020, the growth of Specialized Nutrition will remain solid, but we expect it to be below 5% in order to take into account for China reduced baby pool, but, in particular, the potential effect of the coronavirus outbreak because, as you imagine, this is currently affecting some of our channels. Remember, the friends and family channels now that there is a travel ban and also some sales coming from Hong Kong.

The other important news on that came 2 days ago where the government said that it will be freezing the registration process for innovation. We've been saying that our innovations were ready to go for the direct channel. They will pause on the registration process, so it will delay our ability to put on the market some of our premium innovations, and we will surely push on border e-commerce to expand the ultra-premium range, but it will have an impact.

On Page 21. Essential Dairy and Plant-Bbsed delivered growth for the year of 1.1%, accelerating from last year, with Europe posting now a consistent positive growth, which is great news, and recurring operating margin, which has improved by 13 basis points including portfolio valorization actions, and efficiencies that have offset double-digit milk price inflation.

Plant-Based sales stood for the full year '19 at EUR 1.9 billion, up single digit versus 2018 with Alpro growing double digit very strongly.

Moving to Q4. EDP posted a 1.5% growth, accelerating from Q3 on the back of a general improvement in Dairy and a continued very strong growth in Plant-Based.

From a regional perspective, there has been some progress also made in North and Latin America. Europe delivered another positive quarter of growth with an outstanding performance, double-digit of Alpro, which is now as big as Activia in Europe. Dairy sales were supported by new brand development, such as Light* & Free and YoPRO and some portfolio renovations.

North America, as I said, improved to a slight positive growth in Q4 on the back of different elements, a better quarter for U.S. yogurt, supported notably by the success of Two Good, I mentioned it last quarter. It's closing its first year with $50 million sales. The top 3 brands that we have in the U.S., International Delight in coffee creamer, Silk in Plant-Based and Horizon in organic milk representing altogether almost half of Noram sales, are growing strongly in the quarter.

And on the other hand, Vega posted steep double-digit decline, including inventory management actions, given the transition towards renewed Vega- One formula.

In the rest of the world, CIS registered low single-digit decline, which is similar to Q3 in the context of lower purchasing power for the Russian people. We are increasing now investments behind the part of traditional range and milk.

Latam accelerated to more than 5% growth in Q4, led by strong growth in Dairy and the continuing increasing penetration of Plant-Based portfolio.

Morocco finally, delivered another double-digit growth quarter, still on a low base, but closing a year of strong recovery and brought the business back to a market leader position and to positive margin.

So we are fully confident on the further acceleration of EDP in sales growth in 2020, and notably in Plant-Based, despite still challenging conditions in Russia, especially for the first few quarters of the year.

Moving to Waters. So for the full year 2019, Waters delivered moderate growth, 1.5%, as a result of a difficult summer season that we had the opportunity to comment in Q3 and some demand softness in Europe, while all the other markets remained solid.

The recurring operating margin reached 13%, thanks especially to portfolio valorization, price effects but also strong over-delivery on efficiency.

If I move to Q4. So in Q4, we've been able to grow sales again in Europe, which is mostly driven by a good performance on our local brands, both in Spain and Poland. There was a soft performance in France, Germany and U.K. And it's worth to mention that in order to prevent any out of stock during the winter strikes in France, we have made some advanced shipments in December.

Moving to the other markets. Outside China, growth was solid in Q4, led mostly by Indonesia and Turkey as well as plain water in Mexico. Aquadrinks has been a bit under challenge in Latin America in the quarter.

In general, we are very pleased by the performance of our plain water portfolio that is in large reusable format, as you know, and makes around 50% of our plain waters volume in the world. They were up 10% in 2019. And in France, the Volvic 8-liter format that we launched last year in 100% rPET already represents close to 10% of Volvic brand revenue in the country.

Finally, moving to China and Mizone brand. We've experienced, as expected, a steep double-digit decline in Q4 when we paused the investment in the quarter ahead of the brand repositioning initially planned for March 2020. I will speak and I will come back on that. The current coronavirus outbreak is having significant effects on our first quarter sales. As you know, Mizone is an on-the go product, mostly distributed in convenience and traditional channels, and those channels have been heavily impacted by the outbreak. This will force us to delay the promising brand relaunch that was an important step to reignite Mizone brand growth. And I will get back on the full picture of the coronavirus impact as you have seen in the press release.

So all in all, for Waters, for 2020, it will be highly dependent on Mizone's performance, but we have to expect a growth that will be very moderate.

Recurring operating margin. So as I was mentioning, we have EUR 900 million in '19 of cumulated savings. Part of it is the continued very strong delivery of the Protein program, second year, EUR 400 million. They will go now for the last year. Cumulated, we have EUR 700 million savings, and we committed EUR 1 billion for 2020. So we are well on track.

On the rest of productivities. To date, there was a lot of focus on procurement, supply chain optimization, spare parts 3D printing as an example, truck filling rate as another example, and also some efficiencies in logistics for Waters; and the successful integration of Early Life and Medical Nutrition delivering the first synergies.

Moving to Page 24 (sic) [Page 26]. You have the bridge of margin. So as I said, a very strong delivery in improving the gross margin despite important inflation of 6% and this is the sum of portfolio valorization, mix and price and very strong productivities and efficiencies. We've been stabilizing the overall investment behind the brands.

And then on Overheads, you see a slight negative impact, which is linked to, on one hand, the first positive impact of synergies and reduction in terms of fixed costs and some other negative effects.

Outside of this like-for-like margin improvement, we've been having positive scope effect, which comes from the fact that, you remember, we said portfolio optimization will be part of improving the margin. So this is a 20 basis point effect from the sale of Earthbound Farm. Then currency and others is having a slightly positive effect of 6 basis points. And Argentina margin is weighing on the overall performance by 21 negative bps.

Moving to the EPS bridge. And as already shared, so recurring EPS closed at EUR 3.85, increasing by 8.3%. This is driven by the overall operational strong performance, which is contributing 6.4%. And all the other items contributing all positively with slight positive effects on financial cost, on tax, with the full year underlying tax rate at 27.5% and Associates and currency also contributed positively.

On Page 29, I felt it was worth to spend a few minutes to go through the nonrecurring net income because there is a swing between last year and this year and a swing between recurring and nonrecurring. We have a recurring net income, plus 9.2%; reported net income, minus 17.9%, both linked from the high base of '18 where we recorded an exceptional capital gain from the partial sale of our stake in Yakult and negative impact this year based on the loss incurred at the sale of Earthbound Farm as well as an impairment of the goodwill of Yashili for EUR 100 million.

Moving to Page 31, very nice chart about our progress on cash flow delivery with a record year, up 12.5%. This is improving the cash conversion as well and it was mainly driven through the improvement of our NOPAT. CapEx remaining stable, around EUR 1 billion. So this is having, of course, an impact on deleverage. Page 33, 1 year in advance, 2.8x. We said we would reach less than 3x in 2020. '19, we are at 2.8x.

You see in the bridge, Page 33, we had said that our net debt would increase by EUR 700 million linked to IFRS '16. So we started with the net debt at EUR 13.4 billion, you have the free cash flow of EUR 2.5 billion; the payment of the dividend, EUR 1.3 billion; and M&A and others of EUR 0.6 billion leading to a full debt at the end of '19 of EUR 12.8 billion.

And finally, for 2019, on Page 34, the proposed dividend that will be proposed in the AGM on April 28, 2020. EUR 2.10 in cash, which is an 8% increase, in line with the progression of our recurring earnings. The payout remains stable. And I think it's a sign that we are confident in our ability to continue to strengthen the model. Emmanuel reminded that over the last 5 years, we increased EPS by 50%, 5-0, which is 5 years of delivery on profitable growth as we said we would do. And I think it's another year that is showing that we are delivering behind our model, a profitable growth model, and acceleration as you've seen in Q4.

This is closing '19, and I will hand over to Emmanuel to go to strategic priorities for 2020 and forward.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you, Cécile. So the chapter of this part of the presentation is called investment to accelerate climate action of our brands and strengthen our growth model, and that's really what the plan is about.

Let me turn to Page 36, which basically summarizes over time. As a number of you know, we've started to design our 2020 horizon back in 2013 and '14. And it was my responsibility and the teams here responsibility to put this and executed this over the last 5 years. The idea was really to anticipate and adapt to the food revolution, embracing it, as we've said many times, and I'll come back to that.

We see 2020 as the moment where we need to interrupt in a way the fifth year and final year of our '20 plan because the industry is undermined, our categories are undermined, by either visible or invisible challenges and opportunities that are really related to one way or the other climate and the perception of climate in social norms and behaviors that we feel we need to really anticipate now in order to fully meet these opportunities. And as said on the right part of this chart, stay ahead of the curve in 2025.

Let me turn to Page 37. This page should be read vertically. So on the left, you have the very important themes of the food revolution that we've been working on and that we've identified.

The first column of 2015 to '19 is describing the level of priorities that we have had in these ones during this period.

The next one is about where we feel we are now versus the new normal, not the one that we had anticipated, but the updated 2020 new normal of our categories. And therefore, is there a need or not to slow down, maintain or accelerate our pace of investment to stay ahead of the curve in the next 3 to 5 years?

So let me start by the first block, which is trust, inside and outside. I think it was fully embedded in the plan. I think we are where we need to be, which is ahead of the plan already, and we will continue. And that's about employee programs, it's about the B Corp certification, the transparency of our brands and a number of other topics.

The second one is very important at this age of where Danone is in its corporate history, and that's about efficiency and discipline. As you know, that was a very important part of the agenda. We still believe that despite the huge progress we've made with things like Protein and others, there is more to be done here, including on organization. So this is work in progress, but we feel we are at the right pace and we will continue to progress on that.

The third and fourth are actually the 2 sides of the same coin. Planetary diets and natural and local. It's really about the One Planet. One Health vision for our brands and our products fully embedded in the plan, absolutely core to the decision of moving for Alpro, Silk, Horizon Organic and a number of others in our strategic move, but also a number of smaller acquisitions that we've done, the Danone Manifesto Ventures initiatives that we've taken where we continue to believe that we are ahead of the curve, and therefore, we will need to continue to invest, but no need to accelerate this. Here, as you know, we have an already very solid plan, EUR 5 billion in Plant-Based by 2025. So it's really about delivering on this right now with all the CapEx needed, that and opening the countries, which is currently happening, we've shared that a number of times with you. And I'm certainly very encouraged by the news that Cécile has shared about the brands growing very fast in the U.S. in Noram, actually, Mexico, Lat Am as well, except for Vega, and certainly Alpro with a stellar performance, mid-teens in the Q4 of last year.

One element that was less of a priority but definitely in the plan for 2020 was packaging. And clearly, here, we are caught off guard, as I think, frankly, everybody else. You've seen the plastic conversation rising tremendously in 2018, '19. We really believe that it's time to take this fully on the agenda of the company in a pretty radical manner, and we'll come back to that. That's clearly one of the elements of acceleration for us in the plan.

And then there are 3 topics that are linked together: omnichannel, our ability to compete everywhere and when our consumers are willing to use our products and get them in their hands. We are not there yet, and it's a matter of execution, processes and systems.

End-to-end value chain, which we have started to create with the cycles organization, but we are not there yet either. So there's clearly a need for acceleration.

And finally, there was no digital and data other than e-commerce, as you know, with our target of doubling by 2020, which, frankly, means that we need to go much more radical on this and this is why it's an orange here. And we will, therefore, double down on this, and I'll come back to that in the next couple of minutes.

So with that in mind, it basically means that you will have us busy on accelerating the 4 pillars that you see here, our brand model, and making sure that by investing rightly on climate-related topics and planet boundaries topics, we actually join the fight of many of our consumers, but also civil society, NGOs, governments that are putting pressure today on all the large food and consumer goods companies to, again, make climate not an enemy, but an ally for our brands' growth development.

Fundamental to that is the pursuit of our sourcing model in the climate-efficient sourcing for planetary diets and regenerative agriculture.

And as I said, on the right 2 boxes, which is really about our execution capabilities, we need to be much better in terms of our climate resilience and overall execution in the business model, end-to-end value chain and omnichannel. And this will be enabled by the fact that we are starting a big project on putting data at the core of what we do. And that's the fourth pillar that you have here.

Page 39 is giving you a bit more color, but I'll go into more detail. We're talking about in the next 3 years, '20 to '22, to spend about EUR 2 billion, about half of that being on packaging to serve the list of important enablers that you see here, innovation, brand sourcing, packaging and value chain, to deliver superior competitiveness for us in our categories through our value proposition, our ability to reach the people using our brands and engaging with them everywhere they are and basically leverage even further the Danone people engagement behind what we do, which, as you know, is for me, the magic about this company.

Giving you a bit more granularity of what we mean here concretely on Page 41. Directly let's go for diets and agriculture, Page 42.

As I said, we do not mean today that there will be meaningful acceleration of investments in the field of regenerative agriculture. There's a lot that we've launched over the last several year, 5, 10, 5, 2, 1 year. Let me, on this Page 42, just tell you how much carbon in agriculture is not an externality for us. It's not about the planet, it's not about the next generation, it's really about our business.

So here are a few facts. Eroding soils from carbon extraction. Already in a number of countries, the U.S. and many others, soils are eroded to the tune of 50% to 70%, which means no farming in the future. Agricultural cycles are pretty long, so there is an urgency to put carbon back into the soil because carbon is essentially 60% of organic matter. So you cannot have healthy soils which will support the agriculture of tomorrow if we do not put carbon back into the soil through regenerative practices.

The current agriculture model is way too relying on pesticides and carbon-intensive -- expensive intrants. We know the solution to that. And we know how to reduce both, again, immediate costs and longer-term costs in terms of soil health by moving to regenerative practices that prevent the use of such intrants.

Third and very important one, water availability and erosion. Water erosion is directly related to the soil carbon structure and how much carbon you have in the soil, which actually retains water. And that water retention is all the more important that there are a number of agricultural areas that in, not 30 years, but in 5 to 10 years won't be able to be farmed the same way as today because there won't be water anymore.

And this is related to the final topic here, which is there is a need to adapt agricultural practices to remedy the current temperatures elevation. Let me give you 2 examples on that. We know that in France, there will not be a possibility to continue to farm corn in the south part of France where it is today because there won't be water enough anymore, which corn relies a lot on and temperatures will be too high. So that's a challenge. So it means that, that part of agriculture has got to change.

But on the contrary, the temperature elevation is also creating opportunities. For instance, we've been able to start programs with our cattle raisers in Normandy for our dairy products and brands here where they are growing soy locally, so they are producing soy in Normandy instead of importing soy from Brazil. So you can see how this is sinking carbon back to farm autonomy, proteic autonomy and overall decrease of both the cost and the carbon -- and the erosion of this agricultural part.

So it means that moving for regenerative agriculture is critical for the resilience, the efficiency and the cost of farming for us in the future.

That's why on Page 43, we're basically saying, if you look at this picture in the middle, we're talking about a shift towards the fact that we do not compete with nature. We want to partner with nature and we've been doing that, and we have many examples now that show how it works: not disturbing soil, but protecting it; going from monoculture to diversity; and a reductionist agriculture to a holistic one which means we will continue, on the right, to accelerate on regenerative agriculture, local provenance, biodiversity, traceability, which will save both cost, emissions of carbon and water.

A few examples on Page 44. In France, we've already invested EUR 40 million in 2 years. That is allowing brands like Danone or Bledina to regain consumer preference. It's very interesting to see in Bledina, for instance, that in only 2.5 years, we are now a close #2, nearly #1, let's wait a little bit, in the organic baby food segment, which is growing 35% in France. And this is thanks to the program of regenerative agriculture, transparency. The 5% of sales that are on this product range are being invested every year in regenerative agriculture, driving consumer preference.

On the right part of this chart, Page 44, you have examples in the U.S. You know already about the non-GMO pledge in 2016 that was really the kickstart of major transformations. For us, it was a $70 million investment that allowed a brand like Danimals to take nearly 10 points of market share, our kids brand, because moms and parents had a preference for non-GMO products being -- feeding their kids basically.

So a couple more examples here. Happy Family is launching this month a regenerative and organic line with a very, very tight organic farming certification that is driving consumer preference.

In the middle, International Delight, one of our fastest-growing brands in the U.S., for the first time ever, there is now a segregated palm oil logistics for us. And this is a competitive advantage because no one can trace back to the mills how much deforestation or actually forced labor there is even in the RSPO Roundtable solution now. What we have done is that we convinced Cargill to build separate infrastructure in the ports importing our palm oil, and this is a joint CapEx for Cargill and for our brand because we believe, as a leading brand, we will be challenged if we don't do that and we are rebuilding consumer preference for growing fraction of consumers in the U.S. with that.

And another example on pollinization programs that we run with many brands around the world, and that's one about Silk in the U.S. here on Page 44.

So enough about agriculture and the link to consumer preference and the resilience, let me go now to packaging circularity with a few examples. But let me start where we think that the packaging topic is probably the highest topic and that's about France, Germany and the U.K. on Page 46. We're talking here about water. And you can see on this page the level of consumer preference and purchase intent for regular PET, for origin PET and recycled PET. So we are talking at home where you're basically -- no one is actually seeing you. You have a consumer preference, which is meaningful, of about 0.5 point of preference. When it's out of home, it's a plain 100 basis points of preference because people don't want to be seen with a plastic bottle anymore and recycled plastic is much more acceptable solution in terms of social norm.

So what we've decided to do on packaging is, on Page 47, moving entirely out of virgin/fossil PET for water by '25. So we are going to be 100% rPET in Europe in all our water brands and we start in April already in France on most of the formats. In the U.K., the full range -- sorry, in Germany, the full range. And in the U.K., all the on-the-go formats for evian.

And adding to that, climate neutrality, not only to evian, which is a long-term commitment, as you know, for 2020, but adding Volvic immediately becoming climate neutral this year as well.

A few examples of adding packaging circularity and new models. On Page 48, you can see direct return schemes on the left a glass bottle of evian, a metal bottle for evian plain water; a can for sparkling evian to be launched in the U.S., functional and flavored in a can at the back end of this year or early next year; Bonafont and many others going for cans as well, metal cans; and a tetra on Volvic kids range.

But also on the right, as you know, we are also exploring home and new on-the-go models, which are completely changing the paradigm in terms of water packaging.

Let me take you to the next chapter on Page 49, which is about our plastics in yogurts. So here is probably the boldest commitment that we are making right now as a company. When I say commitment, it's actually not a commitment in say , it's an ambition that we have and a target that we will reach for our brands where you see going entirely 0 PS by '25 globally and in Europe by '24. So it means we're going to shift to PET and rPET as soon as possible on the left to PLA and other biosourced materials starting in 2020. Les 2 Vaches, the leading organic yogurt brand in France, which is ours, has already biosourced starch-based polymer packaging. And paper on the right, which is for the U.S. market, but you will see more paper in the next couple of pages.

For instance, in the U.K., we are already starting by 2020, there won't be any PS material anymore in our U.K. range. It's all going to be clear labeling and PET and rPET, recycled cardboard, a TerraCycle partnership for the kids pouches and the first ever reusable glass pot for Danone, which is going to be launched this year in the U.K. together with the Loop program.

Another example of fast-forwarding the transformational packs is Alpro. We believe this brand being, as Cécile said, bigger than Activia now in Europe, also the clear thought and market leader in terms of plant-based solutions, we believe that brand requires, deserves a packaging that serves its consumers' purpose and engagement with it. And so as soon as '21, we will move entirely Alpro out of PS, which is mostly the case today, to paper cups, as you can see on left, plant-based drinks cartons with and without aluminum, but the films will be biosourced inside, and rPET bottles on the right for some of the drinkable versions.

The 2 sort of pages I can share as a summary of this nearly EUR 1 billion packaging acceleration plan for our brand superiority in the next couple of years is on Page 52 and 53. It means for our 25 billion cups a year produced for EDP, we will be 0 PS worldwide by '25, 0 PS in Europe by '24.

In Water, in Europe, 100% rPET in Europe by '25 for 5 billion bottles. And outside of Europe, as you know, already 60% of our volumes are sold in reusable packaging already today, which will be accelerated. There is also a plan, but not an accelerated plan, so I'm not talking about it today. But as you know, in Indonesia, on-the-go formats, we have already moved to some 100% recycled PET format, the same in Mexico and other countries. So this is going to go on, but that's not part of the acceleration.

Some of the bigger picture numbers here on Page 53 to finish. It means that if you look on the left at our plastic packaging from today to '25, we will go on recyclable content from 60% to 95%, on recycled to less than 10% to more than 50% and reducing our footprint on production of packaging by 30% globally and by 50% in Europe on plastic.

In total packaging, it will mean that, again, 95% of it will be recyclable, more than 50% will be recycled and fossil origin will be cut by 2 to less than 25%.

So with that, we believe that we will reaccelerate our brand competitiveness on packaging, which becomes a clear factor of choice for consumers.

To accelerate that even further, on Page 54, we will both invest in packaging innovative companies and business models through the Danone Manifesto Ventures that you know of. But we are also announcing today the creation of a packaging transformation accelerator with the intent of investing up to EUR 200 million by '25 on new business models, new materials and recycling solutions, which needs to be co-designed with a lot of parties outside of Danone.

Let me finish that presentation about our strategic priorities as we start 2020 with digital end-to-end. On Page 56, you have topics here on which I won't go into any detail, but it's basically about saying that, on the left, we are going to drive a transformation of our end-to-end value chain in a way that will allow us to be much more flexible and precise in the way we plan for demand and we meet that demand, which is a matter of, of course, top line growth opportunities, but also cost reduction, waste reduction and climate reduction as well.

It's about, on the right part of it, increasing the flexibility, in particular for our EDP operations. One of the examples is we know now that we have a significant opportunity to leverage our factory footprint for dairy by creating hybrid production capabilities for plant-based in the same factories, that's one example of flexibility, but there are many others; late differentiation in the manufacturing process; and omnichannels, as I mentioned.

And finally, a point that Cécile has highlighted already last year. We are moving the One Danone services organization, which is in many countries today in place serving all businesses on a cross-category standpoint to the next level of integrated business services, also powered by data and analytics that we think is going to help us over a 3-, 4-year period to serve our business at a lower and more efficient cost.

2 examples on Page 57 of what we concretely mean and what we've done and what we want to do at a much bigger scale now. evian factory, I think, on the right, you know it already, we've discussed that with you. The digitalization of evian factory and automation, robotics, putting AGVs in place, nearly more than 60 AGVS, for instance, instead of forklift, has allowed us to, first of all, go entirely to train direct load instead of trucks. So moving to a more efficient overall logistics for our evian platform allowed us to reduce the loss of materials because there is no accidents anymore, no incidents, no stops anymore. And safety at work, of course, is improved as well. Just talking about these AGVs investment that we've made, for instance.

Many more other investments in the automation of evian were done to the point that we've been able to increase the capacity by 12% of the factory, reduce the overall carbon footprint and cost of the supply chain and brought evian to being the first site in France ever in this industry to be recognized and certified as a fully carbon-neutral production facility.

On the left, there is an example, you probably know less well, which is Opole. It's one of our best factories in terms of performance on baby food. It's based in Poland. We have entirely digitized Opole with, as you see, pretty interesting returns on these investments: 10% cost efficiency, 12% reduction in CO2 emissions, 6% batch size flexibility added, which, again, talks about the ability to be more agile on the way we work and 0 paper factory, which is also a matter of being much more precise and efficient in the way information are flowing, including in terms of the speed at which our operators are able to work on their lines.

That leads me maybe to a final comment, which is about organizations and ways of working on Page 58. In my first set of introduction on that strategic priorities topic for 2020, I highlighted that on efficiency and discipline, we have made huge progresses already over the last 5 years, but there was a yellow, not green. We are not ahead of the curve. I think we are in progress, but we need to go beyond where we are today. And this page is exemplifying a number of topics on which we are currently working to continue to make sure that our organization is more efficient in the way we are making and -- making decisions in the localizations of these decisions. We continue to believe we are too heavy at the top of the pyramid in terms of pyramid that we need to put decisions back even closer than where they are today to the consumers, the markets, the countries. And therefore, there is work in progress there. As I said earlier, this is not an acceleration that we need there, but a continued work, that we continue to transform the way we work as we are moving into the next phase of our development.

Thank you for your attention on this part, and I move the floor back to Cécile on outlook and guidance.

Cécile Cabanis - *Danone S.A. - Executive VP of Technology, Data, Cycles & Procurement, CFO and Director*

Thank you, Emmanuel. So maybe on Page 60. This is the journey we are in. Unchanged goals for 2030. Emmanuel went through the investment that we want to put. This is really in order to make sure that we preempt the trends and the issues that people have, and we make our brands even more relevant and our business more resilient.

So let me go into the next page to give you some granularity around the EUR 2 billion investment. If we look at the EUR 2 billion investment, there are some categories in which they will be classified and then there are some natures of spend.

If I go to the different buckets. The EUR 2 billion will include EUR 600 million P&L investment in recurring costs, meaning extra EUR 200 million per year. This will really be about supporting innovation, everything that Emmanuel explained about packaging and climate sourcing, but also to make sure that we continue to support the brand in our journey. It will be EUR 200 million for 2020 in terms of investment acceleration.

CapEx, around EUR 1 billion. And this is really linked to the setup of a connected end-to-end value chain, including everything we have to do in our factories in order to enable the packaging transformation and flexible plants as well as digital.

And around EUR 500 million of one-off that will serve here as well, some write-offs of lines that we will have to change and different elements.

So this is, overall, how we see the granularity of the cost. And I remind you, of this EUR 2 billion, around EUR 900 million will be about packaging.

On all this plan, we will come back to you with a more detailed plan through a Market Day that will take place probably in June and then we can really go into the details of the plan.

If I go to the next slide, 62, and back to what I did for 2019. Our priorities for 2020 in terms of equation have not changed. It's all about accelerating growth, maximizing efficiency and continuing our allocation of capital and resources with discipline.

When it comes to accelerating growth, it's around making sure that we preempt and we have the right responses for people's trends and concerns, as I just say. It's about making sure that we have the right execution of our competitive plans in the countries. It's about plant-based acceleration towards the EUR 5 billion ambition that we set for 2025.

In terms of efficiencies, as I said, 2019 was another year record productivity, EUR 900 million. We will continue to make sure that we carry our efficiency agenda in the right way, that we reduce our fixed costs to enable to put more investments behind the brands and that we build a very efficient and effective end-to-end supply chain.

Last, allocate capital with discipline. It's really around both making sure that we add agility and empowerment locally, but also that we have a great discipline to make sure that we are able to shift resources from one place to another when there is a sense of value that is shifting. And it's a strong balance between executing and delivering in the short term. And as you've seen with this extra investment, making sure that we are also building something that is sustainable for the long term and not tactical. So it's really the balance between short-term delivery, increasing the efficiency of the model and making sure it's sustainable for the future.

So if I move to -- or before I move to the guidance, an update on the coronavirus impact because I think it's necessary. We are now end of February. So for the Q1, we start to have a pretty good assessment of what it will mean.

You know that, obviously, China is our #2 market, 10% of the company sales in 2019. It's 1/3 of the sales, which are Mizone and 2/3 which are on Specialized Nutrition. Of course, the #1 priority for us is to provide the best and safest possible framework for our 8,200 employees in the country. We have upgraded, especially locally, our Dan'Cares policy, which is our global program that provides all Danone employees with quality health care coverage and covering 100% of care expenses for our employees and their children. And we provide also a specific financial allowance to protect the extended family members, such as parents and grandparents.

If I move now to the business impact. Mizone is today, by far, the most impacted business for us. It has 1 factory in Wuhan province that is still closed today. Mizone bottles, as you know, they arrive to the consumer through a very complex and multilayered distribution channels and they are mostly sold on-the-go in convenience stores. So the demand for the entire category is severely affected, given what is happening now with the coronavirus.

We had a plan to relaunch the brand initially for March, making sure that we would hit before the high season. And this is now delayed to Q2 and putting risk to the loading for the summer season.

As far as Specialized Nutrition is concerned, there is today no disruption in the supply and manufacturing of our ELN and Medical Nutrition products. Still, travel limitations are impacting sales through the so-called channel "friends and family" as I mentioned earlier, and some from Hong Kong. And the impact that will affect us is, of course, the frozen registration process that has been announced by the government on our premium innovation that were ready to go for the direct channel.

So when we put all that together and as a preliminary assessment, we expect that coronavirus will generate a sales loss in Q1 of approximately EUR 100 million in net sales, and as a consequence, it will have a negative impact on margin for H1. Again, this is the estimation to date and we are, of course, monitoring very carefully the situation.

If I move to our guidance on Page 64. Given everything we said, first, if I go to margin: because of the bold investment choice that we are making, the guidance that we had that was more than 16% will now be to sustain margin more than 15%. The gap between both is entirely due to the fact that we want to accelerate investments. Even if the macro uncertainty and there are some specific context, we think it's still the right time and it is the right time to continue to be fully focused on our journey and make sure that we continue to take strategic decisions, and not tactical, and that's why we have decided that we will not have the margin to 16%, but really use this year to accelerate strong investments behind the brand and the business.

On the rest, it means that we continue what I said around making sure that we deliver more efficiency, that we finish the Protein program according to what we said and continue to foster efficiency.

On the top line, as I said earlier, we closed 2019 with growth at 4% rate, which is confirming the potential of our portfolio, categories and brands. And as we enter 2020, we have to factor in both the already visible impact and uncertainty related to the coronavirus outbreak that I just discussed. And it means that we will have a guidance that will range between 2% to 4% and that includes the EUR 100 million sales loss in Q1, meaning that we do expect a Q1 that will be broadly flat. And for the sake of clarity, remember that this excludes the contribution of Argentina, which is, if we take 2019, 0.5 point additional growth.

So overall, here again, is continued acceleration on the businesses and especially EDP and factoring the impact of the coronavirus.

So as a result of both this short-term context and these accelerated strategic investments we want to do to make sure that we continue to deliver both on the model short term but also make sure it's sustainable, we will guide in mid-single-digit recurring EPS growth for the full year.

If I move to the next page and to give you more metrics for the midterm and to reassure you that we are behind growth acceleration and strengthening the business model. If we look at the midterm, we expect acceleration of growth to be 3% to 5%. We expect our recurring EPS growth to be mid- to high single digit. And we will continue to support our accelerated investment agenda with very disciplined capital allocation, which will continue to ensure a strong balance sheet. And we expect the net debt-to-EBITDA ratio to be between 2.5 and 3x midterm.

It's really important that we all understand that we are making both structural change and accelerating investment in order to make sure that our business model is effective and efficient and that we are on the path of creating sustainable value even if in the short term there are some uncertainties in the overall context.

And I will stop there to make sure you can ask some questions. Or Emmanuel, you want to conclude?

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

I'm good.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Okay. Thank you very much. And now we are ready to open the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

I think first question is from Richard Taylor, that's Morgan Stanley.

Richard Taylor - *Morgan Stanley, Research Division - Equity Analyst*

I've got 2 or 3 actually. Firstly, I'm interested in your comments about the innovation registration freeze in China. How long will that last? Or what impact do you think that will have on your business?

Secondly, I suppose, reflecting on the last 4 years, like-for-like at the group level has grown pretty consistently between 2.5% and 2.9%. You've had, I think, 24 quarters of negative volume growth in EDP. So I'm really interested in what gives you confidence you can grow above that level in the medium term?

And then, finally, that net debt-to-EBITDA guidance, obviously you're already at 2.8x. So how should we think about that? Are you guiding to 2.5 to 3x because of further investments? Or should we be thinking about buybacks or M&A?

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you, Richard. So I'll take the first one. The simple answer is that we don't know. We are in a situation where, as you've seen, the Chinese government has decided to postpone without even giving a date at the meeting of the party, with 5,000 members of parliament. So it's a symbolic, very important decision that they made. If they did not put any date on this one, I think we should reasonably assume that they will not treat this as a priority. This is why Cécile's comment about our ability to double down on the strong positions we have on e-commerce and direct international is the right way for us to mitigate the situation with this great slate and lineup of new ultra-premium innovations that are going to go in China through other channels, but unfortunately, not immediately through the GB compliance system. So it's a long answer to say that we don't know and it's very clear that it will be probably a couple of quarters. But it's very hard to predict anything at that point in time.

Cécile Cabanis - *Danone S.A. - Executive VP of Technology, Data, Cycles & Procurement, CFO and Director*

On your question around the historical growth rate and why we are confident that we can accelerate, especially on EDP. So first, it's very clear to us that we have the right portfolio of categories and brands in order to accelerate the growth. When you refer to the past, you refer also to some years where EDP Europe was very challenged. There were some years it was very negative. It's now back to growth for the consecutive 3 last quarters, which is one of the battles that we had to win, and we did it. The other thing is we shifted the portfolio when we acquired WhiteWave towards Plant-Based, and as you've seen, Plant-Based has been growing high single digits. So there are progresses that are made on all businesses, both in terms of fundamentals and behind brands. We have Specialized Nutrition that has been growing now for 3 years above 5%. Together with that and the investment that we want to preempt and not wait in order to do them later, I think we have what it takes in order to make sure that we can accelerate the growth, and we plan that EDP will improve in terms of growth in 2020.

And your last question on the debt and the net debt level. Today, we are fostering in this kind of guidance the fact that we are accelerating investment, that we want to remain very disciplined in the way we use capital. I've always said that we wanted to remain strong grade investment, and this is part of the guidance. And to your question, it doesn't include to date share buyback plans. And in terms of M&A, we continue to have the investment that we will do with Danone Manifesto Ventures, bolt-on M&As. And the new packaging accelerator fund, nothing special.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Thank you, Richard. Next question is from James Edwardes Jones at RBC.

James Edwardes Jones - *RBC Capital Markets, Research Division - MD & Analyst*

Three 3 questions from me as well, please. So in recent years, you've been pretty convincing, and it's really a follow-on from Richard's question, but you're pretty convincing about the 2020 targets and consistently confident you'd achieve them right up to last October. Why should we have any more faith that you'll deliver on these new targets than the previous targets?

Secondly, Emmanuel, in the past, you've made a really good case that good environmental practices are also beneficial for financial performance and shareholders. Could one argue that Danone's stakeholder model is now moving too far away from the interest of shareholders?

And thirdly, I was just wondering if you can give us any sort of numerical capital expenditure guidance, please?

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

I didn't catch the last one.

James Edwardes Jones - *RBC Capital Markets, Research Division - MD & Analyst*

CapEx guidance.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Okay. So I'll probably let Cécile answer the last one and maybe add on my answer to the first one.

I think that the environment is clearly a volatile one. We don't see in the guidance of this year any change on the top line, any change versus everything that we've said until the end of last year. The acceleration of the fourth quarter for us is a sign that we are in the right direction. As we said, it's been sequential. There has been ups and downs and challenges, but I think the fundamentals are really there.

We will see how much China is bringing more uncertainty, China or the virus, by the way. But that's not the topic for this discussion.

We have set the target this year only on the basis of what is certain when it comes to the China situation on our businesses. We remain absolutely hopeful, and that may be good news, that it's a matter of a couple of quarters and not more than this. Absent that, we are on track with our acceleration plans. We are recycling in China, in particular, a very strong year already. And so we were counting on further growth related to the back of innovation that we've mentioned. Yet, I think we will deliver very good performance overall this year in Specialized Nutrition with continued acceleration of EDP as Cécile has mentioned. So I don't think there is any change there. I think the direction is the right one.

We are taking stock of the changed perception or importance of the nature of packaging in consumers' preferences that we've seen. And I think every of you guys are seeing as much as we do in the way people shop around us and we shop ourselves, which means that we've made the choice of not letting our brands fall back gradually in terms of preferences because the case is that when you look at what I highlighted on PET versus rPET preference on the go, 100 basis points of preference is a huge difference. And this is basically where, if we do not invest and most brands have not, most big brands have not yet invested strategically on water and packaging, we think that we have a risk of a slowdown. And we don't want to have that and that's why we are doubling down on that part. So we are making the right investments, we believe, to maintain this -- the vision that we've -- or sorry, that makes me confident that we have the right categories. Our brands are pretty powerful. The innovation rate of 30% now is a big achievement over the last couple of years, which we have not highlighted much in this conversation because we don't think we need to accelerate, we need to maintain that, but we also need now to innovate on the pack. And that's what we are doing.

James Edwardes Jones - *RBC Capital Markets, Research Division - MD & Analyst*

Can I just push you there, Emmanuel. You've reduced the sales guidance from 2021 and beyond, and you've explained 2020 very clearly. What's changed after 2021?

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

What has changed?

James Edwardes Jones - *RBC Capital Markets, Research Division - MD & Analyst*

You moved the sales guidance from 4% to 5% to 3% to 5% so -- from 2021 onwards. What's the reason for that? I understand about 2020. But beyond -- after 2020, you have lowered the guidance.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Because fundamentally, we continue to believe that we can deliver, with our brands and our categories, superior growth. What is superior in the current environment versus what was superior when we set up all these targets a few years ago around the acquisition of WhiteWave? I think the environment has changed. We do not see the 3% to 5% as a change in the objective that we have. We believe that we have, again, the right categories for the future and that we are building the strength of our brands and competitiveness, that they would be able to recapture the market share that a number of large brands over the last decades have lost -- or certainly decade have lost. And we know we had our fair share of issues and topics to resolve, we continue to have some, as highlighted in this call as well. So we are not complacent about this. So I think you need to look at this as not a change in the ambition, but clearly, in the very volatile situation in which we are, we believe that the link to your third question is basically our absolute commitment on the mid to high single-digit EPS line, which is the line that we created a couple of years ago when we decided to decouple growth acceleration and efficiency. I think we are back to willing to have flexibility in the way we navigate our model in the next few years. And that's all, I think, we should -- you should see through that. There's no more read-through or read-across.

When it comes to your last question, I don't think so. I'm very clear on why, and again, I won't repeat in order to make sure we are not overusing your time here, but I'm very clear and we are very clear on why the climate actions we are taking are actions that are building competitive advantage, not about going outside of the shareholders' interest. And this is the reason why we want to drag the conversation of carbon not as a corporate social responsibility or whatever kind of topic, but as a strategic one and that's why we are putting together a chart where you can see our EPS related to that global climate topic because it's a proxy. It's the biggest proxy you can find about how we are using these externalities to build competitive advantage, and therefore, to drive our EPS up further in the future.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Thank you.

Cécile Cabanis - *Danone S.A. - Executive VP of Technology, Data, Cycles & Procurement, CFO and Director*

There was a question on the CapEx and I would like to complement what Emmanuel commented because I think the best way to get faith in what we say is to look at what we did for the past 5 years. We've been able to increase and tighten the model. You remember, 2015, we said it's about growth, not growth at any price, it's profitable growth. And we've been delivering behind that.

We've been restoring the growth in Europe. We've been transforming the portfolio to make sure that we were in a position to have the best category for the future.

Efficiency agenda, we said we would deliver EUR 1 billion Protein. We are delivering EUR 1 billion in Protein.

And in terms of free cash flow delivery, we are 1 year in advance to our agenda.

So I think these are also important milestones. And we decide today to increase investments, and it's the right decision that we think we're making. And this is why even if we continue to be fully committed on profitable growth, the margin we want to stabilize it around 15% for this year, 2020.

CapEx, sorry, on your last question. CapEx, we always said we would be in a trend between 4% and 5%. We've been, in the past years, in the lower part of the range. You have to take this range and then, of course, we need to add the EUR 1 billion investment that we will make over 3 years.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Okay. Next question is from Martin Deboo at Jefferies. And before you go ahead, Martin, (Operator Instructions) Go ahead, Martin.

Martin John Deboo - *Jefferies LLC, Research Division - Equity Analyst*

I'm going to be very brief, actually. Just 2 quick ones. Emmanuel, on the commitment to circular economy and rPET, there's a footnote on sort of Slide 53 that sort of suggested it is subject to availability. And what interests me is, first of all, are you quantifying the on-cost of the commitment to rPET in terms of a cost impact or a margin impact and is that reflected in medium-term guidance?

And secondly, do you see a need to fund the market in rPET rather as Nestlé recently announced they're putting in CHF 1.5 billion to sort of basically make a market in rPET? Is that an issue for you?

And the second question is just on China. I mean, your guidance implies you expect to be down in China about mid-teens in Q1, which seems like a sort of sensible starting point. But what are you assuming on infant formula? I realize how difficult it is to forecast, but you should have had a pretty strong quarter in infant in China in my view ex COVID. Do you expect infant in China to be sort of up, flat or down in Q1? Okay. I hope those are fairly quick.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Yes. Thank you, Martin. So I'll try to make it quickly and circular as well. We have put this rPET availability point because it's related to the PS move to rPET in EDP.

When it comes to Water, we have secured what we need on the market, huge work being done over the last 6 months really, for our teams to be able to deliver the 100% rPET ambition that we have for our 5 billion bottles a year in Europe. So that's done.

Indeed, there is a price to this because rPET is currently 30% more expensive than virgin PET. We recognize that. As you know, we have in the past already, in a number of countries, invested since 10 years in our own recycling-related facilities with the Danone Ecosystem Fund. So in Indonesia, in Mexico, in Argentina, in Brazil, in China, we already operate or we are contracting with Danone-related investments in formalized and structured recycling systems that allow us to get PET water grade and Danone grade on a recycled stream basis. So we had anticipated that, which allows us to lower the cost of rPET overall worldwide. But in Europe, that's not the case, and therefore, yes, we have factored in the margin the fact that rPET is more expensive and we think it's going to stay expensive for some time.

We are also working on, as I said, with a lot of stakeholders of the recycling systems, the connection of direct returning schemes as exists in a growing number of countries, other beverage companies like Nestlé and others, to make sure that we secure the growing amount of PET as an industry. But again, for us, when it comes to Water, we have what we need for the next 3 years in Europe.

So the comment is about the migration from PS to PET to rPET on the Yogurt part of it because we are not entirely sure -- we are sure that we can move and we will move to PET. Once you've moved to PET, it's very easy to convert to rPET. And this is where we will decide case-by-case how much it makes sense from a cost versus preference from a consumer standpoint country by country, range by range. It's not a blank check that we're letting our people to go just to draw on. It's really about a case-by-case, range-by-range observation on what the right choice will be. And on this one, there is yet for the back end of the program, the question of how much rPET will be available for our 25 billion cups globally.

On China, maybe I will let Cécile comment.

Cécile Cabanis - *Danone S.A. - Executive VP of Technology, Data, Cycles & Procurement, CFO and Director*

Yes. So on China, there are 2 elements. The first one is that Mizone is, obviously, the most impacted brand. In February, we expect Mizone to be down 50%. So this is the current trend. And when it comes to Early Life Nutrition, as I said, there will be some impact, but on very specific channels.

And to your comment that we should expect high-performance ex coronavirus, do not forget that last year was a low base from the year before. So you need to be careful because in terms of absolute, it was not such a favorable base of comp. So don't expect, I think, you have a view on the base of comp, which is too positive.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Thank you, Martin. Next question is from Celine Pannuti at JPMorgan.

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

My first question is on Waters. I would like to understand the growth rate has clearly decelerated. Now you have committed to meet expectation of consumer with recyclable packaging. But overall, what is your take on the growth rate of this category?

And I think as well that you have lost market share, how do you plan to offset that?

And I was wondering whether the margin improvement that we've seen this year is sustainable, or should we factor that the reinvestment and the PET cost that you mentioned are going to hit this category more than the others?

And my second question is trying to understand the Q1 guidance because you said that China will impact Q1 and it's EUR 100 million and that's 1.6% of your Q1 sales. And then you're guiding -- yet you're guiding for the group to be flat. So I don't reconciliate why the 1 point -- like what's the difference between -- what's the rest of the equation to bring you flat basically for Q1?

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you, Celine. So I'll take the question on Water. To make it simple, we see no change in the potential for this category. It is challenged in a couple of countries -- or not a couple -- a few countries and big countries in Europe and that's true for France, the U.K. and Germany. There is a number of reasons why this is the case, a number of reasons including how much money is actually being put on the category in the past couple of years and this packaging topic, which is really important in these 3 countries.

Having said that, overall, we don't see any change. We continue to see strong growth in the water category worldwide. Our own portfolio is having pluses and downs. As you know, Mizone has been reformulating and we found it challenging over a couple of years to refound the right formula for Mizone in the future for China. We believe that we are now having a relaunch that is very powerful and we expect Mizone to grow again, but it's a big part of the equation, as you know. Indonesia is stellar performance, frankly, and the category continues to grow in Indonesia. The same in Mexico, in Latin America, in Poland, in Turkey, in a number of European countries as well. So to put it simply, no change in our view that it's a great, healthy category.

There is a bit of what Cécile said about aquadrinks. We won't do this today, I suggest. But probably we can go back to you with more granularity on what the magic was about aquadrinks and there's a little bit of less magic today. But we continue to believe that functional and flavored sourced springwater brands are a great category for the future where we can deliver more than what we actually delivered these days with great innovations that we've launched, infusions, organics, et cetera, et cetera.

Yes, on the margin, you're right to say that the great improvement of last year will not be sustained this year. We are doubling down in many accounts on the water category starting in the back end of this quarter. So this category will feel a bigger impact on the reinvestment plan that we have for the next couple of years.

And then I'll let Cécile answer on the quarters.

Cécile Cabanis - *Danone S.A. - Executive VP of Technology, Data, Cycles & Procurement, CFO and Director*

So yes, I will recap the effect. So the one -- the first one, obviously, the one you mentioned, Celine, Q1 impacted EUR 100 million as we estimate today on the coronavirus. Then -- and I should probably have recapped that, but I mentioned on Q4 comments that there has been some phasing effects, especially for Early Life Nutrition, given the earlier timing of Chinese New Year and some on Waters in order to make sure that we wouldn't fall out of stock during the strikes in France. This is a bit less than EUR 50 million in total, but it also impact January as it is phasing.

So overall, with that, we expect moderate growth, sorry, for Specialized Nutrition; decline in sales in Water, given the size of Mizone; and EDP will confirm its acceleration trajectory and be in line with performance of Q4. And of course, we expect growth to accelerate. As the year progresses, with today assumption that we've put on China.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Thank you, Cécile. Thank you, Celine. Next question is from Alain Oberhuber at MainFirst.

Alain-Sebastian Oberhuber - *MainFirst Bank AG, Research Division - Head of Equity Research Switzerland & MD*

Alain Oberhuber from MainFirst. I've a couple of questions regarding the guidance. Now obviously, you skipped the EBIT margin guidance. Could you elaborate on that? Is it particularly because of the investments, I guess?

The second is regarding return on invested capital guidance. Has that also changed on the timing, 2022?

And the last question is regarding the bridge, obviously, for the guidance in 2020. I mean, you highlighted coronavirus, but in the release this morning, you also said that, obviously, Russia was an issue and Argentina. Could you just give us a little bit of granularity, i.e., numbers, why you lowered the guidance on margins for 2020 based on these 2 issues, please.?

Cécile Cabanis - *Danone S.A. - Executive VP of Technology, Data, Cycles & Procurement, CFO and Director*

Thank you, Alain. So on 2020, what we are giving as far as margin is concerned is, we said we will remain above 15% of margin. And this is factoring the fact that we continue to have our agenda to improve margin and profitable growth. And at the same time, as we presented, we will advance EUR 200 million of cost investments in 2020.

And for the midterm, I think you can refer to what we say in our 2030 goals, which is about superior profitable growth, which derived on the fact that we will continue to make sure that the model is delivering profitable growth. So that's for margin.

And then your question on ROIC. We continue to be very disciplined in capital allocation. We have improved ROIC in '19, 70 bps. Obviously, acceleration of investment in CapEx and OpEx will have some short-term impact on ROIC. Remember that we have been working hard on portfolio management as well. For 2020, we didn't want to bet on portfolio management given the current market condition. We don't want to be in a position to be forced to do some portfolio management if the conditions are not met. But surely, we are continuing to look at ROIC as an important metric. And when we come in June with a more granular plan, we will also share more about the ROIC.

In your comments around what we put in the press release around Russia especially, when I commented the Q4 of EDP, indeed I said that probably for the following few quarters we will continue to have CIS, which will have a performance that will affect the acceleration of EDP, so yes, this is factored in, indeed.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Thank you. Next question is from Alan Erskine at Crédit Suisse.

Alan Erskine - *Crédit Suisse AG, Research Division - Research Analyst*

Just one question from me actually. Just when I look at EDP's margin for last year, it looks essentially unchanged from the margin of 2017. I know you've realized $220 million of cost savings at WhiteWave and there was a target for revenue synergies above that. I mean, it would appear that the retention rate on those savings has been pretty poor, and that you're not going to hit some of the financial targets you had for WhiteWave. I just would appreciate just some comment on what were the headwinds that you didn't expect?

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you for the question. We are clear on the WhiteWave trajectory. We know and I think we've been transparent about some of the executions topics that actually prevailed even before we were able to manage the company, on brand execution, in particular, on brands like Silk, the fact that there has been an abnormal market situation on the premium dairy and the organic milk price in the U.S. that led us to need to go for a very significant efficiency program on sourcing of milk to make sure that we were creating value on that market; continued challenge of the Yogurt category, which is over promoted with the fact that the Greek segment has come to a plateau and the loss of velocity on shelves, so promoting a lot from some competitors. So we are clear that there were challenges. We are absolutely clear also of why this is a game changer, both for our North American presence, but for the company in total.

The integration is still in progress, although we will reach $300 million of synergies that we expected. But yes, there is more to come, actually, that we've seen.

So in total, it's more a matter of the execution of the first couple of months and years of aligning these 2 companies together to create this big leader on the flexitarian diets in the chill cabinet in the U.S. than anything else. So we are very confident on what we are building, including actually on the margin expansion of WhiteWave over time and Danone in North America over time. There have been a few big offenders, and there is absolutely no excuse in what I'm saying here, but consistently over the last 18 months or so, there has been big offenders while you have a bunch of very large and successful brands that are operating at a much higher-than-average margin for our portfolio in the U.S., which, again, as Cécile mentioned earlier, is now, for those brands, growing very much aligned with what we expected them to grow when we acquired WhiteWave 2 years ago.

When it comes to the rest of the portfolio, we had a significant inflation in milk last year, higher than what we had initially anticipated, as well as inflation on some plastic raw materials during the year. So a lot of the efficiencies were actually, as you said, ploughed back into the cost of doing business for us, and I will let maybe Cécile comment any further if you want to add anything on margin for dairy EDP.

Cécile Cabanis - *Danone S.A. - Executive VP of Technology, Data, Cycles & Procurement, CFO and Director*

No. I think it's what you said. For 2020, it's really about increasing efficiencies, but facing a 10% milk inflation, which was a extra cost that we had not anticipated. Still much valorization of the portfolio, high part of the value growth and an ability to restore gross margin improvement.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Thank you very much, Alan. We have time for last question from James Targett at Berenberg.

Fulvio Cazzol - *Joh. Berenberg, Gossler & Co. KG, Research Division - Senior Analyst*

I'm Fulvio, I work with James. So I'll ask on his behalf, he had to hop off. I was just wondering if you can give us some color on U.S. infant formula. Just on the ground, what is happening there? I just wonder if you have potentially an advantage versus some of the local manufacturers that might have been impacted from the coronavirus. Are you prepared for potentially shortages across shelves of products? And could that offer you an opportunity to perhaps grow share in that market in the weeks to come?

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you, Fulvio. I assume you're talking about China more than the U.S.?

Fulvio Cazzol - *Joh. Berenberg, Gossler & Co. KG, Research Division - Senior Analyst*

Yes. Sorry. China, yes.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

That's fine, no worries. Well, the answer is yes and no. As Cécile said, there was some loading pre-Chinese New Year in that process of the back end of last year. So we were pretty loaded already. The baby food has been -- or the infant milk formula has been elected as emergency goods status in China, which allows products in this category to move easier than regular food and beverage products, although not freely. So -- but that's not a competitive advantage per se. It's just protecting the ability for Chinese babies to get the nutrition they absolutely need, this is critical. And by the way, the same goes for our Medical Nutrition products there.

Having said that, the ability to build stocks is very difficult, in particular, because we start also having logistics and shipments being slowed down by the procedures of ports, coronavirus measures that have been taken, actually both in Europe now very recently, but of course, in China already.

So I guess my too long answer is to say that I don't think that we have much advantage here. You could even argue that domestic players who do not need to import will have less administrative difficulties in the future, although I don't see that as, in any case, a midterm concern for us.

Nadia Ben Salem-Nicolas - *Danone S.A. - Head of IR and Financial Communication*

Thank you very much. This will conclude today's call. Thanks for your time, your attendance. I am available with the rest of the team here to follow up with any other questions you may have along the rest of the day. And thanks again for your attention today.

Emmanuel Faber - *Danone S.A. - Chairman & CEO*

Thank you.
