Specialized Nutrition in China: a Strong and Sustainable engine for growth

Bridgette HELLER
EVP, Danone Specialized Nutrition
Bridgette Heller
3 years at Danone

2016  EVP Specialized Nutrition

2010  EVP Consumer Care at Merck & Co

2005  Global President Baby Global Business Unit at Johnson & Johnson

Prior to 2005  Senior positions at Kraft Foods
1 context
China, a key growth engine

2 short term
Maintaining Leadership in a shifting landscape

3 mid-long term
Great potential to capture new opportunities
1 context
   China, a key growth engine

2 short term
   Maintaining Leadership in a shifting landscape

3 mid-long term
   Great potential to capture new opportunities
China is large and growing part of Specialized Nutrition Portfolio

**Specialized Nutrition**
Net sales ~ €7 bn

- **Greater China**
  ~25%.

- **Rest of the World**

**Greater China Net sales**

<table>
<thead>
<tr>
<th>Year</th>
<th>ELN</th>
<th>AMN</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
<td>+20%</td>
</tr>
</tbody>
</table>

**Rest of the World**

**China**

- **Infant Milk Formula (IMF)**
  - TOP3 Player
  - Aptamil #1 Brand

- **Allergy Management**
  - Neocate #1 Brand with HCP's

- **Enteral Nutrition**
  - Nutricia #1 Adult Nutrition Brand

- **Neocate**
  #1 Brand with HCP's

**Greater China context**

1. **Short-term**
   - China, a key growth engine

2. **Mid-term**
   - Maintaining leadership in a shifting landscape

3. **Mid-long term**
   - Great potential to capture new opportunities

**Rest of the World**

**январь**

**Danone One Planet. One Health**
We outperformed category while building a more sustainable IMF business model

Market Share
Value%

2018 MAT

Multinationals (ex Danone)

Danone

Chinese top-4

Other

Danone route-to-market
Share of Net sales

2015 2018 Est

Indirect

Direct

Source: Nielsen & smartpath IMF category; Internal netsales
We are successfully building Direct channels to address sustainability of RTM

Direct China
Net sales

4X increase in sales vs 2014

~€1BN

Direct International
Net sales

Source: internal
We established IMF leadership leveraging key specific capabilities to win in China

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**Omnichannel Reach**

- Mom & Baby Stores (MBS)
- Cross Border Ecommerce (CBE)
- Ecommerce
- Modern Trade
- Friends & Family
- We Chat

**Strong Global Brands**

- Champion exposure-led parenting to become the No.1 culturally resonant parenting brand
- Reconnect Chinese families to nature to become the No.1 socially responsible parenting brand

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IMF Brand

* DANONE ONE PLANET. ONE HEALTH
We have also built strong leadership both in pediatric allergy and in adult hospital nutrition.

**Neocate**

- **#1 HCP recommended brand**

**Allergy Management Market**

- >30% CAGR

**Enteral Nutrition Market**

- >10% CAGR

**NUTRICIA**

- **#1 Hospital Nutrition brand**

Source: internal
1. **Context**
   - China, a key growth engine

2. **Short Term**
   - Maintaining Leadership in a shifting landscape

3. **Mid-Long Term**
   - Great potential to capture new opportunities
Performance softening after four quarters of exceptional growth

China Specialized Nutrition Quarterly growth rate

% YOY change

Source: internal, like-for-like Net Sales year on year evolution
In the short term, a few factors putting pressure on the market is expected to continue to grow. These factors include:

- **shrinking baby pool**
  - Impacted by demographic and lifestyle trends

- **regulatory changes**
  - Reinforced regulation of our categories

The continued growth of the category offers great potential to capture new opportunities. In the mid-long term, maintaining leadership in a shifting landscape is crucial for realizing new opportunities.
Demographic and lifestyle trends are impacting growth of IMF category

**China Fertile Population (15-49yo)**

**Mn, 2005-2020E**

The fertile population would have a ~20mn decrease from 2016 to 2020

**Birth Willingness of 15-49yo Women (currently no child):**

% 2012-2017

0 2 4 6 8 10

2012 2013 2014 2015 2016 2017

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**China New-born Baby Population (MN), 2013-2017**

16.4 16.9 16.6 17.9 17.2

2013 2014 2015 2016 2017

Fertile Population - No. of women in reproductive age (15-49 years old)
Birth willingness - % of fertile age woman who gave 1st child birth at given year

Source: Government; Internal analysis & research
Accelerated trend of regulation of our categories in China

2008
Melamine tainted infant formula

2013
Fonterra food safety scare

2015
Food safety law

2016
Registration requirements for IMF and FSMP

2017
New SAMR organization

2018
New IMF national standards in draft

New process for drug license renewal

New E-commerce law promulgated

Note: SAMR – State Authority for Market Regulation; FSMP – Food for Special Medical Purposes
Moving forward, Danone SN well positioned to capitalize on significant opportunities within a changing China market.

Our pillars

- Right Brands & Strategies
- Right Categories
- Right Capabilities

Potential growth drivers

- Evolving consumer preferences
- Premium offerings
- Low tier city expansion
- Categories beyond IMF
We are in the Right Categories with potential for growth

Key Categories

- Infant Milk Formula
- First Diet
- Condition Related Nutrition
- Enteral Nutrition

Expected 3Y category growth dynamic

- Low to Mid Single digit
- Double Digit
- Double Digit
- High single digit

Source: Internal analysis and estimates
Note: 1. Pediatric areas (Allergy, GI, Growth)
We have the Right Brands to drive consumer preference in all of these growth categories

<table>
<thead>
<tr>
<th>Brand</th>
<th>Growth Category</th>
<th>Condition Related Nutrition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aptamil</td>
<td>Scientifiically advanced – immune function</td>
<td>&quot;ready for challenges&quot;</td>
</tr>
<tr>
<td></td>
<td>Infant Milk Formula</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Condition Related Nutrition</td>
<td></td>
</tr>
<tr>
<td>Nutrilon</td>
<td>Dutch Heritage, Rooted in Nature</td>
<td>for strong growth</td>
</tr>
<tr>
<td></td>
<td>Infant Milk Formula</td>
<td></td>
</tr>
<tr>
<td>Neocate</td>
<td>Condition Related Nutrition</td>
<td>#1 allergy globally</td>
</tr>
<tr>
<td>Infatrini</td>
<td>Condition Related Nutrition</td>
<td>Faltering growth</td>
</tr>
<tr>
<td>Fortini</td>
<td>Condition Related Nutrition</td>
<td>Disease related malnutrition</td>
</tr>
<tr>
<td>Souvenaid</td>
<td>Condition Related Nutrition</td>
<td>Cognition</td>
</tr>
<tr>
<td>Nutrison</td>
<td>Enteral Feeding</td>
<td></td>
</tr>
</tbody>
</table>

- Hong Kong Premiumness, better absorption
- Infant Milk Formula
- Baby Food
- Leading edge organic
- Baby Food
- Infant Milk Formula

NUTRICIA
Our Medical Masterbrand

DANONE ONE PLANET. ONE HEALTH
We have the Right Strategies to meet the evolving needs and preferences of Millennial Chinese parents.

- More independent thinker (product truths over brand status)
- Seek more sources before making decisions
- No longer trust institution or conventional knowledge easily
- Define own values and success (do not let society define them)

**Shifts in consumer motivations**

<table>
<thead>
<tr>
<th>2016</th>
<th>2018 H1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authenticity &amp; Safety</td>
<td></td>
</tr>
<tr>
<td>Brand image</td>
<td></td>
</tr>
<tr>
<td>Formula</td>
<td></td>
</tr>
<tr>
<td>Functional benefits</td>
<td></td>
</tr>
</tbody>
</table>

Source: Market research
Our Brands & Strategies are well suited to address untapped opportunity in ultra-premium IMF segments.

Source: Nielsen; Smartpath IMF category, IF stage
We are prepared to leverage an innovative, benefit-focused, global portfolio to extend our presence in ultra premium.
Our Brands & Strategies are well suited to address untapped opportunity in condition related or “tailored nutrition”

### Penetration vs Prevalence

- **Prevalence**
- **Penetration**

<table>
<thead>
<tr>
<th>Condition</th>
<th>Prevalence</th>
<th>Penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gastro-Intestinal Disorders</td>
<td>~+50%</td>
<td></td>
</tr>
<tr>
<td>Allergy risk</td>
<td>~+10%</td>
<td></td>
</tr>
<tr>
<td>Cow’s Milk Allergy</td>
<td>~+30%</td>
<td></td>
</tr>
<tr>
<td>Pre-term birth</td>
<td>~+30%</td>
<td></td>
</tr>
</tbody>
</table>

(Value growth by area)

**Opportunity to leverage our scientific capabilities**

- **EUR 1.3 billion**
- **Tailored Nutrition**
- **+30% growth**

**Leadership in Cow’s Milk Allergy management**

- Strong HCP & KOL credibility
- Research capabilities to localize science

Source: Internal estimates & research; Nielsen & Smarpath tailored nutrition market MAT2018
Again, we will adapt and leverage our global portfolio tailored to specific conditions & medical needs.

APTAMIL PROSYNEO
Hypo-Allergenic, Partially Hydrolyzed Formula for infants at-risk of cow’s milk allergy.

APTAMIL PEPTI SYNEO
Whey-based, Extensively Hydrolyzed Formula for infants diagnosed with Cow’s Milk Allergy (CMA).

NEOCATE SYNEO
Amino Acid-Based Formula for infants diagnosed with severe Cow’s Milk Allergy (CMA) and/or Multiple Food Allergy (MFA).

A complete portfolio in Allergy prevention and management.

Gastro-intestinal disorders

Challenged growth due to pre-term birth

Faltering growth due to disease and/or disability
We’ll leverage the right brands, strategies and medical expertise to continue capturing potential beyond IMF.

Enteral & Parenteral Nutrition market evolution

Global reference benchmark²

> +10%

2018 YTD

Parenteral

Enteral

Nutrison powder improves Oesophageal cancer patients overall survival rate¹

AFSMP New Regulatory Framework

New regulatory framework, opening a new self-pay Medical Food Category in 2018, linked to a growing elderly population

—

Opportunity to make medical nutrition accessible in community

—

Supporting chronic disease management eg. cancer care, geriatrics

Source: 1. Research trials; 2. Long term reference based on fully developed markets
Note: FSMP, Food for Special Medical Purposes
We’ve developed the Right Consumer & Medical Marketing and RTM capabilities to win in China

Data driven marketing

Medical & Consumer route to market

Partnerships with leading retail and ecommerce players

Walmart Group
Best Supplier Marketing Partner

Ali Group
Supplier of the Year
Golden Award of Data Collab.
Best Integrated MKT

JD
The Only GSKA in IMF

Kidswant
1st Brand of IMF
We’re leveraging these skills to capitalize to expand our market reach and capture opportunities in lower tier cities.

**Dual strategy approach**
- Consumers
- HCPs & patients

**Expanding our market reach**
- City coverage (retail)
  - 2015
  - 2016
  - 2017
  - 2018 EST

**Deploying our assets**
- Hospital coverage
  - 2015
  - 2016
  - 2017
  - 2018 EST

**Therapeutic Area Strategy**
- Strong clinical evidence and efficacy of medical nutrition treatment

**e-RTM model**
- e-RTM package for Independent Mom & Baby Stores

**Right Capabilities**
- Patient journey management
- Digital Education Platforms
- Medical qualifications & pharma background

Source: Internal
We’ve begun to explore opportunities to capitalize on our science and portfolio to support the needs of a large, growing silver demographic.
Allowing us to begin building new platforms to fuel future growth
“Specialized Nutrition, giving people the “extra” support they need at critical moments in every stage of life.”
Great Confidence for 2020 and Beyond
To contribute to Danone’s objectives

**our pillars**

- Right Brands & Strategies
- Right Categories
- Right Capabilities

**our strategic priorities**

1. accelerate growth
2. maximize efficiencies
3. allocate capital with discipline

**our 2020 objectives**

- >5% sales growth (1)
- >16% operating margin (2)

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(1) Like-For-Like sales growth
(2) Recurring operating margin
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