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DANO.PA - Q3 2022 Danone SA Corporate Sales Call

EVENT DATE/TIME: OCTOBER 27, 2022 / 4:00PM GMT

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Danone Third Quarter 2022 Sales Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

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

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

Good evening, everyone. Thank you for being with us on our Q3 call tonight. I'm with Juergen Esser, CFO, who will go through some prepared remarks before taking your questions in the second step. And before we start, I draw your attention on a disclaimer, Page 2, related to forward-looking statements and the definition of financial indicators that we'll refer to during the presentation.

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

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

Thank you, Mathilde, and good afternoon to all of you. I hope you're all well, and thank you for joining us today for our Q3 results call. I'm sure you all had a long and busy day, so let's jump straight into it.

Before we go through the financial highlights of the quarter, let me just start by a few remarks of introduction, starting with Page #4. As you have seen from the press release, our Q3 like-for-like net sales growth reached +9.5%, supported by a sequential acceleration of pricing across geographies. In this context, volumes continued to hold well, remaining broadly flat at -0.2% compared to last year when excluding our Russian EDP platform. Going a little bit deeper into the performance, you will note that we posted broad-based growth across zones and categories.

Let's focus for a minute on the results by category. EDP delivered +6.3% growth in the quarter, supported by continued strong dynamics in North America, but also Mexico and Japan while our performance remains resilient but contrasted in Europe. Within EDP, dairy and plant-based, each of them delivered mid-single-digit growth in the quarter, driven by key brands such as Silk and Alpro on plant-based as well as Oikos, International Delight, Actimel, or YoPRO on the dairy side.

Specialized Nutrition delivered another stellar quarter, growing +12.2%. Importantly, this growth is competitive and balanced across our 3 segments, infant milk formula, paediatric specialties and adult nutrition. Our SN portfolio is consistently gaining share since the beginning of the year, a testimony to the relevance of our innovations, the strength of our brands and the quality of our execution.

And last but not least Waters. Waters delivered another strong quarter of growth, up +14.4% versus last year. The performance here also broad-based across geographies and brands. In particular, Bonafont in Mexico and Aqua in Indonesia delivered very strong double-digit growth over the quarter. So all in all, we closed a strong quarter of execution and delivery, but not only.

Turning to the next page, Page #5, I believe, yes. You will also see that we continue to progress on our Renew Danone agenda. We have made progress in the active management of our portfolio, first, by boosting the winning platforms with a number of global and local brands, which you see displayed on the chart but also with a very strong competitive performance, especially in geographies like U.S., Canada, Indonesia, Mexico or Japan. This quarter has also been a quarter of progress in the management of our underperformers organically like for Mizone, where we believe that we have now a credible path towards value creation. Despite challenging operating conditions, we are seeing Mizone's performance improved sequentially and market shares stabilizing.

You have also seen us act on the inorganic front with the announcement of our plan to transfer the effective control of our EDP Russia business, a transaction which we expect to be accretive to like-for-like sales growth as well as for margins once the transaction is closed over the course of next year. We have at the same moment also been progressing on the management of our core portfolio. And here, I would like to focus for a moment with you on our dairy platform in Europe, for which you should turn to the next page, Page #6.

Our starting point here is that we fundamentally believe that we can grow and create value in that category. No category is more relevant when it comes to daily health and wellness, especially in a likely more recessionary environment. I want to insist our job in Europe is not about short-term fixes. It's really about reversing a multiyear decline trend that was mostly self-inflicted, as we discussed during our Capital Market Day in Evian. And we are committed to making this transformation a reality over the next quarters. The transformation we are engaging into will articulate around 5 pillars, which you see on the screen. And while it's true that the starting point is different from one country to another, the playbook remains the same, broadly following the one we executed to turnaround our North American dairy platform over the last few quarters.

First, it's about making conscious portfolio choices, refocusing our efforts on key benefit led spaces, especially on functionality, on indulgence, kids and family nutrition. Second is about focusing on fewer brands, assigning them clearer roles and therefore, avoiding overlaps and cannibalization. Thanks to this, we will optimize our offerings from a price point and product execution perspective while driving complementarity.

Third pillar is about reinvestments. With clearer swim lanes, our brands will express their superiority and differentiation through a more assertive renovation of their core, supported by fewer but bigger and more relevant innovations. We're also progressing on our A&P reinvestment journey with a focus on our winners and our core. Fourth pillar is about a significant step-up in the quality of our execution. We must and we will drive better shelf clarity for the consumer, making our top SKUs available everywhere and truly superior to competition. Simply said, this is about acting as a category leader.

And last but not least, considering the context we operate in today, we have started and will continue making our portfolio recession-ready, notably leveraging all revenue growth management levers.

Turning to Page #7. Let me briefly walk you through how we are leveraging our superiority agenda to further build resilience in our Specialized Nutrition business. It starts by maximizing growth and competitiveness on infant milk formula, which, as you know, represents around 60% of our SN revenues. Here, we further specialize and segment our portfolio in line with specific growth opportunities. Our objective is to continue delivering competitive growth here. And for this, we will keep building on the unique equity of the Aptamil brand as well as on the quality of our scientific evidence to make a real difference to the parents and babies we serve. In parallel, we continue to double down on the paediatric specialties and the adult nutrition segments which, together, represent around 40% of SN revenues. For both segments, category dynamics and future prospects are strong, driven by the increasing prevalence of allergies and development-related conditions among babies, but also by the growing incidence of conditions such as heart disease or cancer.

Our focus here is on further leveraging our competitive advantages based on science, evidence, medical expertise and market access.

The last element I want to highlight before we answer into the financial section is on -- is displayed on the next page, it's Page #8 and this is about innovation. And here, let me be very short and clear, in line with what we said in March at the capital market event. It's about driving scale and game-changing innovations across our categories and rolling them out fast into our geographies. And we put here on the screen, Alpro Not Milk, Aptamil Profutura and YoPRO, which we believe are excellent examples where you will see the impact in our business moving forward.

Let's now move on to the financial review on Page #10, starting with the like-for-like sales bridge for Q3. We delivered, as I mentioned, +9.5% growth on a like-for-like basis, which includes a -0.5% impact from EDP Russia. Looking at the figures, excluding EDP Russia, like-for-like was up +10%. Growth continued to be led by accelerated price, up plus +10.2% while volume and mix remained broadly flat at -0.2%, driven by resilient volumes, especially in more developed markets.

Outside of the like-for-like, the main driver is ForEx. Here, we continue to benefit this quarter from a strong positive impact, reaching +7.6%, mainly thanks to the appreciation of the U.S. dollar against the euro. In total, reported growth reached a stellar +19.1% for the quarter, bringing our quarterly net sales to EUR 7.3 billion, up from EUR 6.2 billion in Q3 of last year.

Let's now have a look at the performance of each zone in more detail, starting with Europe on the next page, Page #11. Europe posted another good quarter, reaching +6% in Q3, with price up +8%, while volume and mix declined by -2%, the latter being mostly a result of active portfolio management as well as of some delivery suspensions, something I will come back to in a second.

From a category perspective, growth in Q3 was again led by Specialized Nutrition & Waters. Specialized Nutrition benefited from another strong competitive performance of our Aptamil brand as well as from very strong growth also in our paediatric specialties through our Neocate and Fortini brands. Waters posted broad-based growth across brands from evian to Badoit and Font Vella, to name a few, benefiting notably from a pretty hot summer period. And talking about EDP, the EDP performance sequentially improved in Q3 compared to Q1 and Q2, growing +2.2% compared to last year.

The picture continues to be contrasted with growth led by France, while Germany or Belgium have been penalized by what I would call temporary delivery suspensions with some of our retail partners as we were negotiating price increases, especially at the beginning of the third quarter. Important to note that we have, at the same time, started to actively prune our EDP portfolio to refocus our efforts on the more differentiated and more profitable path. This portfolio optimization is an essential part of our transformation agenda in the European region, and we expect that to last well into next year.

Moving on to North America on Page #12, where we posted stellar like-for-like growth of +11.2%. Growth was well balanced and competitive driven by another step-up in price at +10.2% while revenue growth management and disciplined execution supported volume and mix which remained positive at +1%. This quarter, again, our yogurt platform in North America delivered strong growth, led by brands like Activia, Oikos or Two Good or Danimals, all of them growing double digits. Here, we clearly benefit from the work realized over the last few quarters, which helped us to focus our brands on clearer and more differentiated spaces. In the coffee space, International Delight and Stok delivered again strong growth well into the double digits, maximizing the core while innovating with purpose and impact. Our plant-based platform delivered good and sustained growth, with Silk growing high single digits in the quarter.

And finally, Specialized Nutrition, that delivered another quarter of strong growth yet, as we know, on a relatively low base. The performance was led by our Neocate brand while also the Aptamil brand started to appear on the shelf in the U.S. And as you know, while this remains nonmaterial for our company, we are very proud to have further stepped up our efforts to help address the baby formula shortages in the U.S.

Moving on to the next page, that's Page #13, and to our China, North Asia and Oceania zone. Here like-for-like growth reached +6.8% in the quarter, driven by a very dynamic volume mix at +5.2%. Let me first focus on the performance of China. Here, infant milk formula posted competitive low single-digit growth on a high base, as you may recall, and within a category, which remains under volume pressure. Our performance was again led by our Aptamil brands, which continued to gain market share.

On the channel front, growth was, again, driven by what we call our controlled channels while our revenue exposure to the uncontrolled channels continues to decrease and now reaching all-time lows of mid-teens levels. This quarter was also a quarter where we continued to build resilience in our SN China platform, both our paediatric specialties and adult nutrition platforms were growing well into the double digits benefiting from an outstanding momentum of our Neocate, Nutrison and Fortini brands. Besides that, we can report that Mizone was back to growth in Q3 with stable market shares in an operating environment that remains obviously challenging. And beyond China, worth noting that Japan posted again a double-digit growth led by our functional dairy propositions gaining broad-based market shares.

Finally, moving on to the rest of the world zone on Page #14. Rest of the world registered sales growth of +13.6% in Q3 on a like-for-like basis, driven by a strong price up of +19.5%, while the volume mix declined by -5.9%. Here, it's worth noting that the volume mix, excluding the EDP Russian platform, was only down -1.7%. In addition to that, also worth noting that our platforms in Turkey and Brazil continued to face a tough macroeconomic context, you are aware of, with volumes down double digits also in those 2 countries.

In Asia, on the other side, our Indonesia platform grew well in the double digits in both Waters and Specialized Nutrition and with positive volume contributions, benefiting from strong competitive dynamics of the Aqua brand as well as of the SGM brand. In Latin America, let me highlight particularly the strong and competitive performance of our Mexican business, which has also been growing well in the double digits, driven by price. And to conclude, Africa. Africa that posted a price-led mid- to high single-digit growth with specialized nutrition leading this dynamic.

Let me then wrap it up with the full year outlook for this year, year 2022 on Page #16. Taking stock of our strong performance over the first 9 months of this year, we are today upgrading our guidance for year 2022 to like-for-like net sales growth between 7% and 8%. We are at the same moment confirming our full year guidance for recurring operating margin at above 12%. Here, let me just insist on the fact that we are committed to our reinvestment strategy. And that we are executing along the plan, which we shared with you during the capital market event. And at the occasion of the full year results presentation, which we will share with you early next year, you will see tangible proof points of those reinvestments in our second semester P&L.

And with that, let me hand it over back to Mathilde to start the Q&A session.

QUESTIONS AND ANSWERS

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

Thank you. So we have the first question from Warren Ackerman, Barclays.

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

So the first one is, Juergen, just on EDP in Europe. Can you maybe dive into that a little bit more? I think you said EDP in Q3, 2.2% led by France and Germany. Obviously, we know about the delistings in Delhaize in Belgium, some in Germany. You talked about the active portfolio pruning. I know in Delhaize you're back on shelf now is reading.

Can you maybe kind of isolate what impact that delistings had in Belgium and in Germany so we can try and get to an underlying? The same thing on the SKU rationalization, the optimization is -- trying to understand what the kind of underlying EDP number might have looked like ex the delistings and kind of ex the SKUs. I know the SKUs will go into next year, but just to try and give us a feel for what you're seeing underlying in dairy, maybe splitting between plant based and the core would be super.

And then the same sort of question on North America. It looks like very strong volume -- sorry, very strong pricing, but volume mix was only 1% in the quarter. Can you maybe just elaborate a little bit what you're seeing in North America within the core brands? And how much is supply chain challenges still there? Maybe you can just elaborate, are we still seeing weaker plant-based trends on vol mix and -- because it looks like it's -- there's quite a big slowdown underlying in North America. Is it just elasticity? Or is there something else going on?

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

So let me go through the different questions and sub questions. First, on Europe volume. I do appreciate that the reading is a bit complex. And this is why I mentioned that on one side, we are pretty happy with what we are seeing in France in terms of performance, in terms of market share performance. When you look at the U.K. on the underlying performance is exactly the same. The reading of Germany is extremely complex, and I will come back to that as for Belgium. And in Spain, we are seeing basically the same dynamics as we have been seeing that in Q2. Overall, what we have seen in Q3 as underlying performance and consumer demand, we did not see any significant change of consumer behaviors when it comes to buying our products.

The reading is a bit more complex for a few reasons. First, it's true that we are consciously refocusing our EDP portfolio in line with what we basically said during the strategic days, and that has led us to deprioritize and sometimes to discontinue some product ranges. But it's also true that this is an essential part of the transformation of our portfolio in this very particular region. And we expect it, and you can expect it, to last well into next year. I'll give you an example plant-based growth in Europe in Q3 has been low single digits. Having said that, the Alpro brand was growing very competitively, mid-single digits. As we have deprioritized and stopped some niche brands, we're having some product ranges, which are neither competitive, nor profitable. The second element worth to keep in mind, indeed, is that especially at the beginning of Q3, we had some temporary delivery suspension, you were mentioning a few. And it's just because some of the negotiations on price increases took a bit longer.

But here, we stayed firm, as we said from the beginning, because this is very critical for our future financial algorithm. And as we speak, most of those situations have been resolved. And then there's the third element, and it's true. This is about what I would call volume or demand elasticities. And here, we have not seen any significant shift vis-a-vis what we have observed at the beginning of the year in Q1 and Q2. And we're usually talking about Spain. But as you know, that has also more, I would say, structural reasons. Obviously, we are very conscious that consumer wallets may be tightening moving forward, and we are actively preparing for that.

When it comes to North America, it's a little bit a different story. First, we are pretty happy with the performance of North America. I think it's a quite a stellar performance, which we are seeing. EDP posted overall broad-based growth, and this is true across dairy and plant based. And this is true for the U.S. as well as for Canada. When we look a little bit deeper, in dairy, we see that all our segments are growing double-digit growth. What we call the functionality segment in U.S. where Activia and Oikos are playing both brands growing double digits, very strong on Oikos on the protein ranges. In coffee creations, we see international Delight and Stok continue to grow very fast and Stok is just posting very, very good numbers behind distribution gains and rotation gains.

Yes, on the kids segment, strong double-digit growth with Danimals and same comment on what we call the low sugar segment with Two Good. So overall, with dairy is a very, I would say, sound dynamic. And here, obviously, we are playing the full -- what's -- the full levers, which is about volume, mix and price. Then there's plant-based. Silk posted high single-digit growth in the quarter. Very good performance of Almonds, but it's also true and it is probably more important even that oats is catching up very fast. Really, a stellar performance on oats in beverages. So the restaging we did is starting to deliver results. But also, we see strong performance in yogurt and adjacency. So we are pretty happy, I would say, with the quality of the growth in North America. And it's true in Europe, I would say, with the overall resilience, yes, the picture is a bit more contrasted.

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

So next question is from Celine Pannuti from JPMorgan.

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

So first question, maybe following up still on dairy. I just wanted to understand, I mean, prices has been accelerated and you were mentioning that was the cause of some of the negotiations you have had to do. How is the overall cost environment for you as you look into next year? I think you did mention that margin -- you reiterated the guide for margin for this year. Just want to know whether we should expect further pricing as we look into next year. And if you can talk about early view on directionally, the cost deal because we've seen that dairy prices in Europe have been quite elevated. So how you would -- yes, if you could give us any indication on that.

My second question is on the impact on -- coming back on EDP. Can you talk about your focus on probably the more value add part of the range? Are you seeing -- how bulletproof is this range if effectively, as you said, there is a tightening of the wallet going forward? And can you as well explain why we've seen some private label gaining shares? Are you saying it's more focus on Spain as opposed to the rest of the countries?

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

Celine, so let me start with the overall cost environment or the dynamics we are seeing there. It's true that when we look at this year, there's not a lot of news vis-a-vis what we told you 3 months ago, which is we expect the overall inflation on our portfolio to be around mid-teens levels. It's true that the market is extremely volatile. I don't need to remind you on that. And what we are seeing is indeed that some of the global commodity indexes are plateauing or even going down. That's good news. But it's also true, and you made the point that, that positive impact is, to some extent, washed out by the fact that we see increased pressure from milk, but not only milk, but also from cost of energy and gas. And here also you have seen the very significant volatility even over the last couple of days.

And this statement is true for -- when you look at the global situation as well as for the European situation. When you look -- looking into 2023 is extremely difficult as of today. I think I mentioned the cost of gas over the last days, which is a perfect illustration of how volatile the market is. Look at the British pound, which has also an impact, as you know, currently has an impact on us. There has also been very significant volatility. Having said that, what seems to be clear as of today is that we will see continued pressure from inflation on our input costs and key drivers maybe beyond, I would say, transport being milk, energy and cost of labor.

Cost of labor, we have not seen yet so much impacting our equation. But I think we need definitely to expect that to start impacting it from early next year. I believe that to be more precise on the potential corridor of cost inflation next year, probably we need to talk again early next year at the occasion of the full year result. Whatever the inflation 2023 will be, we will continue to focus on our internal, I would say, playbook. Productivity is and will remain extremely important. Let me remind one thing, which is that when you look at the inflation of this year, we basically only transferred 2/3 of this inflation to the retail. The reality is that 1/3 of the inflation, we are able to compensate internally by record levels of productivity, and this is what we want to leverage also moving forward.

And this is obviously becoming an even stronger weapon in the moment, inflation will plateau or even go down. You asked about price. If and when we will need to do more price in order to protect and develop our financial algorithm for the future, which we are ambitioning to, we will do more price. And here, we will continue to do it in a firm manner. We continue to do it in a responsible manner, and we will do it even if it may cost us, in a very short term, a little bit of volume. And then last but not least, what I would mention here is that we will continue to actively manage our portfolio. And this is true also for dairy in Europe carving out products and SKUs, which are not rotating, which are not profitable, which are not competitive and boosting what works.

And you were asking about added value products in EDP. Yes, this is exactly what works well for us today. You look at Actimel, which continues to perform very well. You look at YoPRO, the high protein ranges which continue to grow very well. You look at -- even on plant-based, you look at the innovations we have been launching with This Is Not Milk under Alpro, which is among the highest rotating SKUs on the shelf where we have been launching it. So we are pretty, I would say -- that seems to work, that strategy, working -- focusing on the more differentiated part of the portfolio. Sorry it's a long answer, but maybe last word on private label because it's true that private label has been winning over the last weeks, has been recovering what has probably been lost during COVID times when people stayed more at home, but it's also true that private label has been following on price increase over the last weeks and sometimes they've been doing higher price increases than branded products. And here, we will need to observe what that means. We have been obviously extremely careful and conscious, I would say, intentional in the way we have been doing price increases on our -- on those portfolio ranges, which compete head-to-head to low price competition in order to make sure that we don't take too much volume elasticity.

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

So next question is from Guillaume Delmas, UBS.

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

So 2 questions for me, please. The first one is on Specialized Nutrition in Europe because growth has remained very strong in the quarter. So wondering if you could provide some granularity on this business. It's now been 3 consecutive quarters of high single-digit like-for-like. And historically, we've been more used to flattish to slightly up like-for-like development there. So is it just a temporary pickup and we should look at this in the context of very strong pricing and some favorable basis of comparison? Or is there more to it than that? And then my second question, going back to plant-based. We're hearing quite contrasted, if not contradictory messages on this segment at the moment. So I would be curious to hear what you're seeing in plant-based both from a category penetration standpoint, but also from a down-trading standpoint.

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

Guillaume, look, on the Specialized Nutrition front in Europe, what we have observed since the beginning of the year is that the category has been coming back because category has been soft last year and category has been sequentially coming back across all the countries. But more importantly than that is that all the renovation and the repositioning of our portfolio on the IMF front with Aptamil has been playing very well for us. So we have been winning share basically in all European markets. And what I showed during the presentation, and you see there is a picture when I talked about Specialized Nutrition, what we have been doing is that we have been really growing from what we had in the past, which was an ingredient-led portfolio to something which we are now positioning around need states, need states of parents and babies.

And so this is the key driver of the very good performance we see on the IMF side, and that's obviously a competitive performance behind which we are investing because our ambition is obviously to sustain that very good performance. On the other side, what we do see is that the medical part of the portfolio is also doing pretty well. This is true for the one which is addressing specific needs for babies, but also for the adult nutrition part. And this is about Neocate and Fortini. And here, I would do the same remark, which is that our competitiveness has sequentially improved. And here, same message. We are -- this is definitely some of the focus points of our reinvestments moving forward. When you talk about plant-based, it's true that's a bit of controversial topic. Having said that, when you deep dive a little bit, what we are seeing is that penetration of that category, and this is true, by the way, for Europe as for the U.S., penetration has been steadily growing.

But it's also true that the frequency of consumption came under pressure when people have returned to offices. And this is what has explained the slowdown of the category, which you saw, especially, I would say, back end of last year and the beginning of this year. We are seeing a few encouraging results. It's too early to celebrate. But the good news is that penetration is very robust. What our role is as one of the category leaders is to make sure that we are getting more people to the shelf. This is exactly why we do not only want to focus on catching up the game on oat, which is still the hot ingredient but by launching innovations, which are attracting new consumers to the shelf. And this innovation, namely is this is not milk under Alpro because this is something which goes beyond, I would say, the traditional ingredients segmented shelf. This is working well for us. I mean we have been -- launched it, I think, like 2 to 3 quarters ago in Germany first. It became very fast, the best rotating SKU on the shelf. And we see that this is attracting new consumers to the shelf and younger consumers to the shelf. And this is exactly what we want to push moving forward.

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

Next question from John Ennis, Goldman Sachs.

John Mark Ennis - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

So my first question goes back to the topic of inflation into 2023. I wondered if you could talk about your net revenue management plans outside of gross pricing into next year. So I'm particularly interested on your comments in regards to trade spend and how that trended this year in 2022 and whether you still have flexibility to leverage that as a revenue management tool into 2023. And then my second question is on the topic of paediatrics. I thought it was very interesting that you talked about a growing prevalence of allergy cases. I just wondered if you had any statistics you could share with us in terms of the growth in allergy cases amongst infants and whether there are any differences or interesting differences by country that you could share, that would be helpful.

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

Yes, so on the inflation front, as you said that we have different levers which we are using today and which we will be using moving forward. And beyond all what I said on productivity, mix and, let's say, list price, as you say, the way we manage trade spend, but probably more importantly, promotions to the consumer are of the essence. We have been -- when you remember at the beginning of the year, saying that we've been reducing promotional spend as I would say, a temporary solution because of the time gap which took us to increase price lists. As price lists have been increasing over the last couple of months, we have been very intentional, again, using our promotions.

And in some segments and in some countries, we have been re-increasing promotional activities in order to make sure that we have the right level of traffic into our shelfs which is also -- which is not only our interest but also the interest of the retailers. So moving forward, we will indeed manage very well these -- especially these 2 levels between real price list increases and promotional activities. I say that because the way we want to -- the way we manage price points and the architecture of our product ranges is of the essence. When you have a product which used to be promoted at EUR 1.99 is a list price, which is EUR 2.50 and which goes down to EUR 2.90, you may want to remain at EUR 1.99 for your promotional activities. That's exactly the way we are moving forward. What is important is that we have local first, which gives us savings not only this year, but which will also give us savings next year. And then we talked about reinvestment, reinvestments will go obviously in brand A&P. But obviously, when and where we think it's needed and will have good returns, it will go to go in promotional activities. When it goes to Special Paediatrics, yes, I mean, I think there is definitely trends which are -- the prospects of those segments for us are very good. And this is true for babies in needs, and this is true for adult or elderly in needs. I don't have the statistics at hand, but we can certainly provide off-line a number of, I would say, key points which will underline that statement, which I think is probably something which is an obvious statement, I would think.

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

Next question is from Bruno Monteyne from Bernstein.

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

I'm just trying to think about the timing and the time it takes for the European EDP turnaround. I mean, you've seen the success in the U.S. EDP business for the few years. Antoine has been in the business already for a year. A little bit earlier, you said we would see sort of an EDP turnaround in the next few quarters. So it makes me think it's taking a hell of a long while to see improvement in EDP Europe. Is it still on track? Is this going as fast as you initially planned? Or do you feel there's a delay? And related to that, I mean, I know you want to invest more in A&P and innovation. But is the business in Europe already sufficiently restructured in terms of price and the range architecture to be able to do that increased A&P and innovation investments?

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

Bruno, look, the reality, and this is what I said before, the reality is different market by market and so are the solutions. I think we can certainly say that a lot of the playbook we have implemented in North America is very replicable, but sometimes, the solution requires more structural changes and Spain is a good example of that. And sometimes, it's more about reinstalling an obsession about execution and investing behind brand equities and marketing mixes, which work, but which have been totally under leveraged in the past. And that will obviously also make that in some instances, it will take us longer. In some instances, you will see results coming earlier. In that sense, for us, and we're saying that internally, never waste a crisis. I mean what's happening around us, the fact that we are adapting our EDP portfolio probably now faster than what we initially planned can be a booster to our plans. But we won't really -- I mean this is, I would say, a challenge, which is a bit self-inflicted and which has been a challenge for us not only over the last couple of quarters, but for a number of years now, and we will take the time it takes to solve it, but with the right level of sense of urgency and net-net, probably what I'm saying is that we will move fast and the current context makes that we move even faster.

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

The next question is from David Hayes from Societe Generale.

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

So 2 questions, maybe one on U.S. Nutrition and the second one on the outlook clarification. So just on U.S. Nutrition, it looks like there's about a 30 million or so benefit from the disrupted competitor that you mentioned in the prepared remarks. I'm just trying to get an understanding whether that is a very one-off dynamic or whether this has kind of opened the door to that developing through into next year, whether you think those numbers will effectively hold and maybe even evolve upward. And then the second question on the outlook, just -- I know you've mentioned this, but just to clarify, is the new outlook with or without Russia in that number? And if you did exclude Russia, would it have any kind of effect on both the top line and/or the margin? Or is it relatively neutral with or without?

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

Maybe a quick word on the outlook. The outlook is relevant with and without the EDP Russian platform. So the intention is absolutely not to play with that, but to be very clear, that this is valid in any case. When it comes to the U.S. nutrition situation, it's true that when you look at the sequence, in Q3, we first stepped up our exports of our Neocate specialized formula and that impacted the numbers at the beginning of the quarter. Since we got the special authorization or the special permission from the FDA, also the -- Aptamil products have reached the shares at retailers at the back end of the quarter. And it's resulted in what you call the boost in our numbers. But it's also true that this contribution is not really material in the results of our company so far. It's more really that an element of pride for what the teams have accomplished in a very, very short period of time. What does it mean moving forward? You have probably seen the FDA has now determined the process by which formulas can apply for permission to stay on the market permanently over the next weeks. We are, of course, actively monitoring the situation, but without expecting major news to come over the next weeks, while on the other side, on Neocate, for which we had an established presence in the market, of course, we want to be ambitious moving forward. So which basically means that the Q4 figures in a way should normalize as our peers -- the situation of our peers is also normalizing sequentially.

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

The next question is from Martin Deboo from Jefferies.

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

My questions have been answered.

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

So now we have Pinar Ergun from Morgan Stanley.

Pinar Ergun - *Morgan Stanley, Research Division - Equity Analyst*

Two, the first one is quite similar to Bruno's and apologies for it, but at the March CMD, I believe you pointed to improving volumes and therefore, capacity utilization as a key tool to improve margins. I appreciate a lot has changed since then. How are you thinking about this right now? Is '23 likely to be another year of transition for Danone before volumes start improving again? And the second one is on pricing. Given the delivery suspensions you've highlighted, how confident are you that Danone will prevail and be able to land further price increases in Europe?

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

Pinar, look, on the volumes, the strategy we outlined at the capital market event is more relevant than ever because the strategy is about rebuilding a business model, which creates sustainable value and a balance between volume mix and price will be of the essence. And it's true that in the current context, growing volumes is not easy. At the same moment, what is important for us is that we are growing volumes where it's strategic for us. And that's strategic to fill our factories. We are strategic because we have a competitive edge. We are strategic because we have a superior proposition. And this is exactly the way we are going to -- we have been basically handling it over the last couple of weeks, and this is what we're going to accelerate over the next weeks so that as we finish the transformation of our portfolio, we are ready for global volume growth. When it comes to price increases, I think we are very clear on that position, which is that if we need to go into further price increases, we are going to do it, and we will stay firm on it. If this is costing us a little bit of volumes temporarily that we will accept, we will continue to do it at the same moment in a responsible manner. And you -- and as you see, I mean, the inflation, of course, is quite transparent to the market, is transparent to the retailer and is transparent to the consumer. So we'll try to find win-win situations also moving forward, but we don't see a barrier there in case we need to do more pricing.

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

So next question is from Pascal Boll from Stifel.

Pascal Boll - *Stifel Europe, Research Division - Analyst*

The first question is on EDP. What would have been the volume mix effect in EDP, excluding Russia, on the EDP? Second question, on a group level. Can you shed some more light on the volume versus mix in the quarter, maybe excluding Russia? And then on suspended products, have you already found the solution for all these problems? Or do you expect an effect also lasting into Q4? And the final question...

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

Pascal, I didn't catch your last question. Sorry, can you repeat?

Pascal Boll - *Stifel Europe, Research Division - Analyst*

Sorry. Yes, sure. So on suspended product, have you found already a solution for all disputes? Or do you expect an impact also lasting into Q4? And then my final question on Mizone, it seems from your prepared remarks that progress is going well. Is this also due to the relaunch you finally did? Or is this still yet to come? And what is your view on the business now also regarding a potential sale?

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

Yes. So on -- let me start in the reverse order on -- first on Mizone. We are seeing encouraging signs, and we are seeing encouraging signs obviously in a complex environment. But the reality is that overall, our market shares are now stable. What we are seeing there is that we are very competitive where we can measure, and we can measure in those cities and regions where there have been no lockdowns. And so that makes us confident that we have now credible path for sustainable value creation with Mizone. And so we will invest behind making that success.

When it comes to the suspension you were saying, look, I mean, -- that has been a topic for us, especially at the beginning of Q3 because it took us a moment longer to agree with our retail partners on the price increases. Eventually, most of those situations have been resolved in a win-win, I would say, mindset. Can I exclude that, that will not happen anymore in the quarter to come? No. But obviously, we are doing everything to avoid this kind of situations. What is important for us is that we are resolving those situations fast. And in the moment, our brands and products are getting back to the shelf that we are activating it to make sure that we have the best possible rotations. But it is important for us, and I want to insist into it because only when we are getting the price increases, it allows us to reinvest sustainably into our brands, and this is what we are going for. When it goes for EDP volume mix, the reality is that -- you have obviously Russia, which has been -- which has played -- has been a drain on volume in that sense. And you see that also, I think, in the appendix of the press release. But what I would like to highlight also is that in the majority of our countries, we see quite resilient volumes, but the reading is a bit distorted by what we are seeing with Turkey and Brazil, which have been double digit down. So in that sense, overall, I would say, an encouraging sign, but we are extremely -- we are monitoring the situation very closely and activating the playbook I was talking about.

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

So last question from Jon Cox, Kepler Cheuvreux.

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

Congratulations for the print. Just a couple of questions on my side. Just in terms of the phasing that you're talking about in terms of SKUs, particularly in dairy, can you give us any sense of the size of that we're going to see over the next 12 months or so, how much this should -- is it 1 or 2 points of group sales, just for example? And I'm wondering, a lot of people I've talked to have been waiting for you to do sort of like big disposals given the whole portfolio review. I'm just wondering within dairy, is it just so complex to try and tear out some of the -- maybe the -- not so growing or less productive brands that it's pretty difficult to actually do disposals? I wonder if you can just sort of talk about that and the thoughts of the company on that. And then just sort of like a couple of follow-ups. One on the abandonment of that disposal of the water business in Scandinavia, what are your plans now for those brands? What are your thoughts on it? And then just a sort of like a last question on Russia. You deconsolidate it effectively, I guess, from next year or you try and deconsolidate it already in your accounts from this year, just for our modelling as we try to strip out Russia from our models.

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

Jon, look, when it comes to portfolio management, we are really in a very disciplined manner, working on the 2, I would say, dimensions. The first dimension is I would say, the organic pruning of the portfolio. And you mentioned that, especially on dairy on the SKU side. This SKUs, it is product ranges in specific channels, it's about small brands. And this, we have started to accelerate in Q3. We will see that accelerating as we go in the next very few quarters in front of us that will probably last for some 3, 4 quarters. And then I think we will have the majority of that behind us. But what is important because you talk about the strong integration we have in the business model. And there is that at the same moment, we are also clearly looking for inorganic portfolio pruning and rotation.

What we have been announcing in Russia has been the result of the portfolio review. You know that our Russian EDP platform was part of the 25% underperformers we have declared in March. And so here, we are walking the talk after a very thorough analysis. On Russia itself, we have decided to transfer the effective control of that asset with the Board of Directors, which means that we have initiated the process for as long as we do not have concluded a transaction or signed a deal, we continue to make it visible and we make it visible in our like-for-like, but we are isolating it so that you have perfect visibility. And in the moment, we would apply IFRS 5, we will let you know.

And then last but not least, on Aqua d'Or, it's true that we had agreed to sell our stake in that water business in Denmark to Royal Unibrew, but it's also true that the Danish Competition and Consumer Authority did not grant the necessary approval to complete that transaction. It's a relatively small business where we do not feel lots of synergies with the rest of the Danone portfolio. And where we see that the best way to create long-term value is to put it under strategic review. And so it remains under strategic review also after the announcement of this week.

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

So with that, we end the call tonight. Thank you for your attention and speak to you very soon.

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

Thank you very much, everybody. Have a nice evening.

Operator

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