



## **DANONE FY 2024 RESULTS CONFERENCE CALL TRANSCRIPT**

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### **COMPANY SPEAKERS**

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## **PRESENTATION**

### **Mathilde Rodié, Head of IR**

Good morning, everyone. Mathilde Rodié speaking. Thank you for being with us this morning for Danone's 2024 full-year results call. I'm here with our CEO, Antoine de Saint-Affrique; and our CFO, Juergen Esser, who will go through some prepared remarks before taking your questions.

And before we start, I draw your attention to the disclaimer, on slide 42 of the presentation, related to forward-looking statements and the definition of financial indicators that we will refer to during the presentation. And with that, let me hand it over to Antoine.

### **SLIDE 2 – CEO INTRODUCTION**

#### **Antoine de Saint-Affrique, Chief Executive Officer**

Thank you, Mathilde and good morning, everyone. A very warm welcome to our '24 full-year results presentation. Juergen and I are delighted to be with you today to share what is another strong set of results. These results have a particular meaning to all of us as they mark the successful close of the first chapter of Renew Danone, a chapter we opened three years ago. The strategy which we initiated then is starting to bear fruits and gives us a solid base as we enter the next chapter of Renew.

We are progressively becoming a different company, truly science-based, and consumer and patient focused, a company which stands for health through food, a company which is rediscovering the power of execution and consistency. And for all of this, and before I do anything else, I'd like to express my gratitude to all Danoners. They are making this happen day in, day out. So a big thank to you guys. Let's move to the results on slide number 3.

### **SLIDE 3 – CLOSING THE FIRST 3 YEARS OF RENEW DANONE**

As you will have seen in the press release, and Juergen will cover in more details later, we delivered a strong like-for-like sales growth of +4.7% in Q4, leading to a +4.3% growth for the full year '24.

Importantly, and as we intended in our Renew Danone strategy, we have kept improving the quality of our growth, transitioning over the past three years from a negative to a consistently positive volume/mix, delivering a +3% contribution in '24.

With volume/mix back to our factories, we are benefiting from operating leverage. And this, enhanced by another year of record productivity, is allowing us to further invest behind our brands and capabilities, and to proactively drive our categories, while expanding our

profitability. In '24, we increased our operating margin by 39 basis points versus '23, bringing it to 13%. It is the way we intended the Renew business model to work.

The strong financial discipline we apply to the business starts showing on many levels: at EPS level, with a +2.5% increase; when it comes to free cash flow - it's an impressive EUR3 billion delivery, helped by strong working capital management; and last but certainly not least- it is an important one to us - we are back in double-digit ROIC territory, a 110 basis point increase in just two years.

So on the purely financial side as well, we start seeing the power of Renew Danone. And importantly, we do all of this while driving sustainability in a focused but impactful way, as we are convinced it is critical for the long-term resilience of our business: we moved to the first place of the ATNI index from number 4 in '23.

So, we are delivering on the Renew strategy, trying to be very consistent and systematic, addressing what needs to be addressed, but also facing to what still needs improvement. Let me now move into a bit more details on slide 4.

#### **SLIDE 4 – DELIVERING ON OUR BUSINESS MODEL**

As I said earlier, we have been, over the last three years working at rebalancing our growth model between price and volume/mix. And there, we have made consistent progress. Quarter 4 marks the sixth consecutive quarter of volume/mix improvement.

Our categories are showing good growth, and the resilience of our portfolio is improving step by step. Our winning platforms are again growing double digit in '24, including high protein, coffee creation, and medical nutrition.

We are making progress on our core, as shown by our positive volume/mix in EDP Europe for five consecutive quarters, after 10 years of decline. But there, the journey is not over, and there is still plenty to do, from sharpening Silk in the US to continuously strengthening Activia, to quote two of our large brands. We have also proven that, with proper focus and discipline, we can turn around underperformers. Mizone is a good example of this: it has again grown double digit in '24 on the back of stronger fundamentals combined with relevant innovation: our electrolyte products, which many of you tasted in June, are showing encouraging results. Now moving to slide 5.

## **SLIDE 5 – LEVERAGING OUR UNIQUE HEALTH-FOCUSED PORTFOLIO**

As you may recall from our June CME, we are convinced that the food industry is at a tipping point, and that we feel equipped and relevant for the world to come. We start seeing some tangible signs of it. Firstly, the categories in which we are playing, keep growing faster than the average of food: gut health, the microbiome, proteins, healthy hydration, immunity are more relevant than ever.

Secondly, our portfolio is about health through food and recognized as such. We were extremely proud to have been ranked number one by ATNi this year, as I mentioned earlier. What is even more important is that our products deliver not only on taste, but also on health: close to 90% of our portfolios scores 3.5 stars or more in the Health Star Rating system. We do not only play in healthy and growing categories, we also play in healthy and growing channels. In '24, more than 50% of our sales were outside mass retail. And we are growing in these channels, such as away-from-home, hospital, pharmacy and home care, 2 to 3 times faster than in mass retail. We reach more people, in different places, at different moments in their life. This contributes as well to the resilience of our model. Now moving to slide 6.

## **SLIDE 6 – CONSISTENTLY INVESTING INTO FUTURE GROWTH**

To remain relevant and competitive in the long run, we have focused, and we will keep focusing on what makes the difference: we keep investing into brands and capabilities, we keep focusing on operational excellence, but also on differentiating science. We also work at improving the quality of our spending. We test more, we have a better balance of working to non-working media. There, some good progress, but still some way to go.

On average, over the last three years, we have invested additionally around 100 bps per year behind our brands and capabilities. And we didn't only increase the amounts, while we invested in future growth drivers, we have been also focusing on executional excellence and operational efficiencies.

And it shows in the numbers: be it with above-industry average productivity or high levels of customer service. And there too, we are investing for the future. In '24, we opened new integrated planning centers with a focus on leveraging AI to provide a further drive of future operational efficiencies.

We told you in Saclay, almost two years ago, and in Utrecht last June, that science was back at the heart of what we are doing. It is starting to show very concretely. We are accelerating the number of scientific papers we publish and the number of patents we file, directing our scientific and technological resources towards key areas, taking into account emerging trends and insights into many aspects of nutrition. We are also successfully deploying digital health

technologies as key value drivers for Danone's brands, collecting millions of health data points and submitting digital health-tech patents. So now moving to slide 7.

### **SLIDE 7 – PROGRESSIVELY ASSUMING CATEGORY LEADERSHIP**

The name of the game for us is not only to invest in future-looking science, but obviously, to turn this science into relevant consumer and patient-centric innovations, and in doing so, to drive the growth of our categories.

We see this happening, for example, in North America in many different ways. For instance, with our initiative addressing diabetes. In recent digital campaigns, we note a direct increase in yogurt consumption with consumers looking for reduced sugar options. We're also providing valuable nutritional support, dedicated to individuals on a weight loss journey. We see a broader trend around consumers living a more active lifestyle, knowing that both these journeys drive a need for protein and for better gut health. And it shows: our Oikoshigh protein proposition in the U.S. has now hit retail sales value of over \$1 billion.

What is true for yogurt is even more relevant for infant formula, where science-driven innovation plays a critical role. Nuturis, our pioneering innovation based on advanced breast milk research, was launched softly in Hong Kong only a few months ago and shows encouraging early signs. It comes on the back of Essensis, another ultra-premium format launched in China in late '23, which is now meaningfully adding to our growth in China.

Across our portfolio, we have engaged in a very systematic approach to drive consumer relevant superiority: superiority in taste and experience, as food is about pleasure. Superiority when it comes to benefits, as food is about health and nutrition.

We are progressing step-by-step, as you can see, for instance, on Activia, where we start reclaiming the gut health territory, or on protein, with benefits such as muscle recovery. But this is only the start of our journey, and there remains lots to be done, more opportunities to be addressed. Moving to slide 8.

### **SLIDE 8 – DRIVING A WINNING CULTURE**

All of this is enabled by a deep cultural change, which we initiated when we started Renew and which we will keep embedding in the coming years. A culture where we play to win, rather than playing not to lose; a culture where things move on a different rhythm - our 90-day reviews keep going with an intensity to push the limits and achieve even more. And importantly, a culture much more focused and open to the world, working in partnership to learn, to benchmark and to set the bar higher. There too, the journey is far from over and keeps going on.

And with this, let me hand over to Juergen. Juergen, over to you.

#### **SLIDE 10 – CLOSING A STRONG YEAR 2024 WITH +4.7% LFL SALES GROWTH IN Q4**

**Juergen Esser, Chief Financial Officer**

Thank you, Antoine, and good morning, everyone. Let's begin our financial review with slide number 10 and our net sales performance. We are very pleased to end the year with a strong finish, reaching in this fourth quarter like-for-like sales growth of as much as +4.7%.

This was the strongest quarter of the year, not just in terms of the overall growth, but more importantly, also in terms of its quality. Volume/mix contributed more than 4%, driven by multiple growth platforms across the regions, while pricing remains within the expected corridor at +0.6%.

It is great to see increasingly the benefits of our strategy in action, seeing the results of our very intentional reinvestment approach. And this is probably best explained when moving to the next slide, slide number 11.

#### **SLIDE 11 – BROAD BASED QUALITY GROWTH IN 2024**

Our full-year growth reached +4.3% like-for-like in 2024, and as illustrated here, all our regions and all our categories are contributing to it. This is important as we are leveraging today a portfolio which has a larger number of winning platforms. It makes our delivery more and more resilient and balanced, a key asset in this volatile world.

You may be interested to know that the component of volume/mix alone has also been positive for all categories and all regions, which is another proof point of the underlying quality of our growth. We will come shortly to the performance review by regions. Let me here just briefly comment on the dynamics by category.

Our EDP business delivered solid growth of +3.8% in 2024. We are very pleased with the continued strong performance in countries like the US, Canada or Japan whilst in Europe, the portfolio transformation is now bearing fruits as we have been delivering a positive volume/mix contribution in each quarter of the year after so many years of decline.

Our leading platform of high protein continued to grow double digit, and we have landed this year meaningful innovations, notably with the muscle recovery claims on high protein as well as a new great tasting kefir product in Europe under the Activia brand.

In specialized nutrition, sales were up +4.6% in 2024. This growth was driven by our medical nutrition business, with China again growing double digit in this segment.

While the medical segment continued its stellar growth trends, infant milk formulas posted yet another year of solid growth. Our premiumization strategy is working well, with strong growth in the Aptamil brand during all year 2024.

And lastly, in waters, where our business grew by +5.1% in 2024, with notably strong double-digit growth of the Mizone platform in China, as Antoine mentioned before. Worth mentioning here also the very strong performance of our evian brand in Europe as well as in North America, winning market share in many markets with its premium positioning.

Before commenting on the regions, let's move on to the traditional sales bridge, on slide number 12.

#### **SLIDE 12 – FY SALES BRIDGE**

The + 4.3% like-for-like growth was driven by + 3% volume/mix, while the price effect continued to normalize, reaching + 1.3%.

Outside of the like-for-like, ForEx and others had a negative effect of -0.3%, reflecting notably the depreciation of emerging market currencies against the euro, partially offset by the impact of hyperinflation. Scope also had a negative impact at -4.8%, mainly resulting from the deconsolidation of EDP Russia as well as the Horizon Organic businesses.

In total, reported sales were slightly down at -0.9% for 2024, bringing our net sales to EUR27.4 billion. It's important to better understand the like-for-like performance by region, and so I propose to start with Europe on slide number 13.

#### **SLIDE 13 – EUROPE**

In Q4 2024, Europe sales were up +1.8% on a like-for-like basis, with volume/mix at +3.0% and price at -1.2%. The zone registered the fifth consecutive quarter of positive volume/mix, demonstrating the step-by-step progress of our EDP business. In the dairy category, the growth is driven by products such as our high protein range as well as by the immunity platform with Actimel.

We're also confirming a solid growth contribution from our Alpro brand in the plant-based segment, which is now back into competitive growth momentum since several quarters. In

specialized nutrition, we delivered good growth, especially in our medical nutrition business, with both brands Fortimel as well as Fortini, growing double digits.

And in Waters, we posted strong growth in this last quarter of the year, driven by the evian, Volvic, and Zywiec Zdroj brands.

Looking at the full year, Europe delivered +1.7% like-for-like sales growth with a +1.4% contribution from volume/mix.

The recurring operating margin increased by +48 bps to 11.9%. We are pleased with the fact that we increased the region's profit margins thanks to operating leverage while we could at the same moment reinvest significantly into our business, to further step up the superiority of our products, services, and brands. And with that, let's move on to North America on slide 14.

#### **SLIDE 14 – NORTH AMERICA**

In North America, quarter 4 sales were up with a stellar +7.7% on a like-for-like basis, led by volume/mix up +5.9% and price up +1.9%. In dairy, the performance was driven by the exceptional growth of our high-protein platform, namely Oikos Pro, which was benefiting in this last quarter from a particularly strong demand for the yogurt category.

Also, our coffee creations portfolio delivered another quarter of strong growth, driven by both brands, International Delight and Stok Coffee.

In specialized nutrition, the growth is led by our medical nutrition platform and here especially by the Pediatric Specialties portfolio.

In waters, we are seeing continued strong demand for our evian brand which is expanding its market shares in the premium segment.

And finally, plant-based, where the teams are applying the learnings of our successful Alpro turnaround in Europe, repositioning the brand on clear occasions and consumer needs. At the same moment, we are complementing the Silk branded portfolio with added value innovations like the kids range, which we launched in this last quarter of year 2024.

Looking at the full year, North America closed with like-for-like sales up +5.2% with a strong contribution from volume/mix at +4.1%. Margin was significantly up, +124 bps, to 11.4%, mainly driven by operating leverage and the high level of productivity in our supply chain.



## **SLIDE 15 – CHINA, NORTH ASIA & OCEANIA**

And with that, let's now move on to China, North Asia, and Oceania region on slide number 15. Q4 sales in the region were up +6.8% on a like-for-like basis with strong volume/mix at +9.8% and price at -3%.

The demand for our products in China remains very high, demonstrated by this almost double-digit volume/mix performance. We have at the same moment invested into expanding our distribution, particularly for our innovations in the IMF space which is driving the price effect temporarily down. Important to say that this price effect will normalize rather soon in 2025 as our new portfolio is now placed successfully in the market.

A few comments on the different business cells. In specialized nutrition, our Infant milk formula continued to deliver significant market share gains, in a category which is showing further signs of improvement. Our premiumization strategy is working well, and indeed, we are particularly pleased with what we call the Essensis platform, which we launched over the last quarters into the ultra-premium segment. This Essensis range is already contributing greatly to our market share performance.

In parallel, our medical nutrition business maintained its strong momentum, with again double-digit growth for the quarter, driven by both the Nutrison and Neocate brands.

And finally, in Waters, Mizone confirmed its momentum with another quarter of solid growth, while EDP sustained its strong performance in Japan with the continued success of our Oikos and Activia brands.

For the full year, sales in the region grew +8%, with volume/mix of + 9.1%. The full year operating margin was down slightly to 29.4%, reflecting the additional investment allocated to drive further market share gains in the specialized nutrition space. And with that, let's turn to Latin America on slide number 16.

## **SLIDE 16 – LATIN AMERICA**

In Latin America, Q4 sales were up +4.7% on a like-for-like basis, with volume/mix up +1.2 and price up +3.5%.

In EDP, we posted solid growth despite being still impacted by the licensing out of our milk business in Brazil, thanks to the strong performance of our Danone, Danette and YoPRO brands. Specialized nutrition delivered strong growth, led by Aptamil, while waters benefited from the normalization of the weather conditions, which caused a softer third quarter as you may remember.

For the full year, like-for-like sales were up +4.2%. The full-year margin was down -68 bps,

impacted, as in the first semester of 2024, by the consequences of the hyperinflation in Argentina. What is important is what is happening with the underlying performance, and here, we can report a more comparable margin progression outside of currency effect of almost + 90 bps.

We will be able to see the benefits of that positive margin development reported in our numbers once inflation and devaluation is normalizing, and here we see first encouraging signs for year 2025. And finally, let's have a look at our AMEA region on slide number 17.

#### **SLIDE 17 – AMEA (REST OF THE WORLD)**

Net sales in this region increased in the last quarter by +5.4% on a like-for-like basis, with volume/mix up +1.7% and price up +3.7%. Growth was notably led by the solid performance of specialized nutrition, where the Aptamil brand is growing again double digit.

Worth mentioning the strong performance in India, especially in the IMF super-premium segment where we are growing 2 times faster than the market as well as with our protein powders, namely our Protinex diabetes scale.

In EDP, Dairy Africa showed continued progress, particularly in Morocco, where we are now delivering, since a number of quarters, solid growth numbers combined with a business model which is further stepping up its profitability and cash generation.

For the full year, net sales of the region were up + 5.7%, with volume/mix up +1.4% and price up +4.2%. The operating margin was pretty steady at 10.4%, reflecting both a significant increase of the gross margin as well as meaningful reinvestment to be able to capture future growth opportunities of this zone.

I suggest we conclude here the zone review and move on to the margin bridge for the full year 2024 on slide number 18.

#### **SLIDE 18 – RECURRING OPERATING MARGIN UP +39 BPS IN 2024**

Our recurring operating margin reached 13.0% in 2024, marking an improvement of +39 bps compared to previous year. And this is where we can confirm that our business model is working.

Our focus on quality growth and record productivity is driving a strong increase in the margin from operations, up as much as +242 bps.

This has enabled us to reinvest into the business by as much as 173 bps into A&P, research and innovation, into sales and marketing capabilities. On the back of this, we have worked our portfolio, renovated many of our brands, to drive superiority and bring meaningful innovations. As we move into year 2025, and as our share of voice is now much more aligned with our share of market, we will turn our attention to more category leadership initiatives, continuing to invest for future growth.

Lastly, what we call on this slide "other effects" reflect notably the impact of scope arising from the before-mentioned deconsolidation of dilutive businesses which are more than offset by a negative ForEx impact for a combined effect of -14 bps.

Let's now move on to the EPS bridge on slide number 19.

#### **SLIDE 19 – RECURRING EPS UP +2.5%, DRIVEN BY OPERATIONAL PERFORMANCE**

Recurring EPS reached EUR 3.63 in 2024, which represents +2.5% increase compared to last year. Importantly, the main contributor of recurring EPS growth was a strong operational performance, which we just went through at +14.2%.

We were, at the same time, able to increase the benefits from tax, associates and minorities, thanks to a strong managerial focus by the teams. Those two positive building blocks were partially offset by a negative impact from currency, as well as a negative scope effect, resulting from the deconsolidation of our businesses, as already discussed.

And now, let's look at some of our other financial results on slide number 20.

#### **SLIDE 20 – DISCIPLINED AND RETURN-ORIENTED CAPITAL ALLOCATION**

You will remember from our CME presentation in June last year that we have an ambition to turn our company into a consistent value compounder.

In 2024, our strong step-up in earnings combined with the continued focus on working capital management has enabled us to post a record free cash flow, reaching as much as EUR3 billion, an increase of 14% compared to last year.

While we cannot yet claim to be a structural EUR3 billion free cash flow company, we have made another important step versus this objective, demonstrating the ability of our organization to drive high cash conversion.

The cash flow of EUR3 billion is enabling us to reduce significantly our debt leverage with net debt reducing to EUR8.6 billion in 2024, bringing us to the lower end of our target leverage corridor, at 1.9 times.

At the same moment, we are also very pleased, as Antoine mentioned, that what we have increased our ROIC back to double digit, at 10%, the first time since the acquisition of WhiteWave in year 2016, driven by the increase in earnings.

For us, this marks a very important milestone in our value creation journey as we ambition to maintain the ROIC structurally in double digits.

And finally, let me mention that we will propose a dividend of EUR2.15 per share, keeping our dividend payout ratio stable at 59%.

Those good numbers, combined with the underlying strong dynamics of our categories and brands, make us confident to deliver on our future value creation ambition, which leads me very naturally to my last slide, slide number 21, on our financial guidance.

#### **SLIDE 21 – 2025 GUIDANCE IN-LINE WITH MID-TERM AMBITION**

We have successfully demonstrated over the past three years that our business model is effective in delivering consistent results. We have taken difficult decisions in order to make our portfolio future-fit, and have now the right assets, the right culture, and the right capabilities to start becoming a true value compounder.

The mid-term guidance we provided as our capital market is also defining our ambition for this coming year 2025. We want to be in line with this mid-term guidance, achieving net sales growth of +3%- to +5% like-for-like, with recurring operating income to grow faster than our net sales. And with that, let me hand it back to Antoine for the conclusion.

#### **SLIDE 22 – CEO CONCLUSION**

**Antoine de Saint-Affrique, *Chief Executive Officer***

Thank you, Juergen. As we close this call and before we open to questions, I want to leave you with a few thoughts. The first one, and let's move to slide 23, is to repeat what we told you at the June capital market event.

#### **SLIDE 23 – THE INDUSTRY IS AT A TIPPING POINT**

We believe that the industry is at a tipping point as people come to realize that health and nutrition are more intertwined than ever. We see changes in the way people eat, age, and live as structural tailwinds for Danone.

We also believe that markets play to what makes us unique: our focus on health, our deep science, our brands and the categories in which they are playing, which are proving month

after month to be growth categories. We are helped also by the fact that, in what becomes a multipolar world, we run a truly glocal model.

So we see the opportunity, and we believe we can address it, as we are now, as you've seen, a different company from what we were three years ago. Moving to the final conclusion chart.

#### **SLIDE 24 – A STRONGER COMPANY, READY FOR MORE**

While there is still plenty we can improve, we believe that we are now stronger than we were, as I was just saying, more resilient, certainly ready for more.

As I told you in June, the next chapter of Renew Danone is fundamentally about a few things. It starts, and it's very important, with doubling down on Renew Danone fundamentals, driving consistent value creation and a culture of continuous improvement on capabilities, culture, and talents.

It is about pivoting the way we look at our categories, broadening our reach and our business models to become a truly multichannel company, and further expanding our geographic footprint. It is about moving to the front foot on portfolio strategy and become more acquisitive while staying very financially disciplined.

And in the end, it is about becoming, as Juergen just said, a value compounder, by consistently delivering on what is a long-term business model. So, we believe the best is still to come.

And with that, I hand over back to Mathilde.

### **QUESTIONS & ANSWERS SESSION**

#### ***Mathilde Rodié, Head of IR***

Thank you, Antoine, so we will now open the Q&A and start with the first question from Guillaume Delmas, UBS.

#### **QUESTION 1: RAW MATERIALS AND PRICING OUTLOOK FOR 2025; REINVESTMENTS**

#### ***Guillaume Delmas, analyst at UBS***

Thank you, Mathilde, and good morning, Antoine and Juergen. Two questions for me, please. The first one would be on your raw materials and pricing outlook for 2025. So curious to hear the kind of commodity cost inflation you're anticipating for this year and how it compares to 2024.

And as a result, pricing-wise, do you expect this kind of continued muted development, so in line with the previous three quarters you reported? Or would you be looking for a gradual buildup through the course of the year for pricing? And maybe on this pricing element, can you just shed a bit more light on what happened in specialized nutrition in Q4 because pricing turned negative all the sudden.

And then my second question is on your level of reinvestments because it keeps on increasing year after year. If I remember well, I think we were at 60 basis points in 2022, 100 basis points in 2023, and now 170 basis points. So question here would be what are the key areas where this 330 basis points over the last three years have gone, are you getting the traction you were initially hoping for?

And I guess, more importantly, looking ahead, as you enter the new chapter of Renew Danone, what do you think is the right level of reinvestment? So, should we stay at this kind of elevated levels? Or would you expect some kind of normalization starting in 2025?

**Antoine de Saint-Affrique, Chief Executive Officer**

Good morning Guillaume, and we'll do as per usual a duet with Juergen on that one. Let me start with the second question. I'm sure Juergen will complement and take the first one. As you said, we have been reinvesting very consistently, and the way we reinvested is basically on three elements.

We progressively rebuilt our share of voice to share of market, we reinvested behind our brands, in media. And there, the journey is not over. And the journey is not over because obviously, we moved from a place where we are massively underinvested, to a place where we are getting closer to our fair share but the name of the game when your category leader is to drive your categories. So, the journey there is not over.

By the way, it's a mix of reinvesting, but also making sure that our reinvestment is being impactful and efficient. So, as I said during my opening statements, we are much more disciplined in what we test, how we test it. We are raising the bar on our thresholds to make sure that every euro we invest gets more traction.

The second area of reinvestments was really capabilities. And you can, I mean, broadly divide it into two blocks. One is research and development. We believe in science, we are a science-based consumer and patient-driven company. Science makes a difference. And there is a whole field of innovation in protein, and you see it impacting in the market. There is a whole field in the world of microbiote and that is opening a lot of opportunities both, by the way, in

our core businesses of I mean, EDP, but also in SN. So same story, we are extremely disciplined in the way we spend the money, but we will keep investing in R&I.

The last point, or the last big block, is what we do in data and IT. And that it applies across the company, I mentioned in my speech, we are improving the way we are planning, for instance, by upping our game, applying artificial intelligence to it. We apply artificial intelligence, by the way, to be creative in advertising, so we start doing really cool things in terms of content production.

We obviously leverage it in R&I or in R&D. I mean you start combining things in a radically different way. So there too, the journey is not over, which is why we have the model that we have, which is delivering consistently a quality top line, reinvesting into the long term of our business while increasing our profitability, and we stick to that model. Maybe on price, Juergen?

**Juergen Esser, Chief Financial Officer**

Yeah. Good morning, Guillaume. Starting with the COGS inflation. You're absolutely right that in 2024, we were benefiting from, especially in the first half, in fact, from some lower commodity prices, which have bounce-back in a number of areas, which means that we foresee for year 2025, what I would call an almost back to normal level of inflation, remaining within a reasonable corridor.

From what we know today, and that's important, this inflation will be driven mainly by milk, milk ingredients, and a few components of packaging. However, I mean, we are living in a volatile world, and so there could be some ups and downs, ups and downs which could come from energy, ups and downs which could come from potential custom duties, and there are news every day in newspapers.

So the way we're going to manage it is three-fold. First, driving again, productivity to the max. Antoine was talking about digital investment, a lot of this goes actually into supply chain. And you have seen us driving record productivity in year '23, '24, and the same ambition is for 2025. We want to maximize the operational leverage by growing against our volumes in year 2025 is a big lever for us, especially in EDP.

And lastly, increasing our prices. And here, again, in a targeted manner, not broad-based, but it will be, again, consumer led. We will go, especially for those products, which have a more differentiated setting in the shelf, for those products which have more functional and emotional benefits, and I believe that we have the right recipe to drive quality top line and quality bottom-line.

**Antoine de Saint-Affrique, Chief Executive Officer**

In the end, it will vary region by region because the profile of inflation is very different region by region. And it will vary based on consumer focus. In the end, what makes the most sense for the consumer and gives us the best balance between, I mean, the leverage of our assets, the competitiveness of our products, so we run a full mix operation.

**Juergen Esser, Chief Financial Officer**

And maybe just a quick one because you asked about specialized nutrition and pricing, which is very much driven by what you saw in China, which is a very temporary impact as I said, we have been launching very successfully the Essensis range in China. We made sure that we got very fast to the necessary level of distribution, and that's particularly in the back end of the year to carve out also all the old GB, so the old recipe products, so you will see that normalizing very fast in year 2025, but that was indeed a very good investment, which is paying back quite immediate.

**Guillaume Delmas, analyst at UBS**

Thank you very much.

**Mathilde Rodié, Head of IR**

Thank you, Guillaume. The next question is from Jon Cox, Kepler.

**QUESTION 2: FREE CASH FLOW; Q1 2025 MOMENTUM; HIGH PROTEIN TRENDS**

**Jon Cox, analyst at Kepler Cheuvreux**

Thanks very much Mathilde. Just a couple of questions for me. On the free cash flow, you're saying you're maybe not quite structurally a EUR3 billion company. We don't have all the financials, but I can see the working capital improvement. Why should that deteriorate all of a sudden? Just trying to help us with the modeling.

I think if you look at consensus, people have around EUR2.5 billion free cash flow and maybe a bit of change on that over the next couple of years, but nowhere near EUR3 billion. How close to EUR3 billion should we be already for 2025?

Second question, just on momentum in terms of the Q4 organic sales growth overall was very decent. Are you seeing that sort of continued momentum into the first quarter? And sort of as an add to that, we've obviously seen this extraordinary growth going on in yogurt protein products in North America. Maybe, maybe not, helped by what's happening with GLP-1s, et cetera.



Are you seeing any signs of this coming into Europe yet? Obviously, you are improving your business there. Do you think you will see a similar thing, you talk about the whole of the food industry is at a tipping point? Do you see that sort of acceleration coming through or do you think maybe Europe is maybe overly saturated when it comes to yogurt anyway and maybe you won't see that sort of trend emerge into Europe?

**Antoine de Saint-Affrique, Chief Executive Officer**

Hi, Jon. Let me take the second question, and Juergen will take the first one. First, as you know, we don't give quarterly guidance. So I won't get into any form of quarterly guidance. On the trend, I mean, obviously, the trend of GLP-1 is very significant in US. Depending to whom you talk, it's between 6% and 15% of people that are on GLP-1 in the US. With the effect that you're seeing. And the effect is or the counter or negative effect for the people is the risk of muscle loss, so you need protein and some form of gut disorder. So yogurt with protein become the absolute answer to what is a deep, deep trend in the years. We see, by the way, no slowing down of the GLP-1 trend in the US.

Interestingly, we see in the US a push for more natural and healthier food with the new administration, which happens to be very much in sync with what we are selling. So we look at the market with some appetite.

When it comes to Europe, I think it's not a question of saturation, but Europe has always been slower in adopting new trends or new fashion. Problem of obesity is the same in Europe to a slightly different degree, but the trend of obesity is very important in Europe.

The reason I think, but don't hold me on that, why the adoption is a bit slower, it's obviously the legalities of registering and the legalities of reimbursing or not reimbursing in Europe are much more complicated and longer than in the US. But do I see this trend coming at some point in Europe? Yes, we do, which is why we keep doing what we are doing, which is reincurring Activia into gut health, driving Kefir rolling out, what we do with protein.

So step by step by step. We are not only strengthening our EDP portfolio in Europe, but we are getting it, future, I think, the trend is going to be the same at some point.

**Juergen Esser, Chief Financial Officer**

On cash flow, obviously, we are very happy with the delivery of year 2024 with the EUR3 billion which you could see, which is driven actually by two components: an increase in our underlying absolute earnings, and that's important, and that's something we're just going to continue as much as a further step-up of our working capital which contributed greatly to the EUR3 billion in 2024, which is now reaching a -8.5% on net sales.

While, and this is very important, at the same moment, we have been increasing our CapEx investment as we have been discussing in June last year. Why are we not yet declaring victory that we already structurally a EUR3 billion company because we want to make sure that we increase our absolute earnings step by step, as a value compounder, as Antoine was saying before, while making step-by-step also the annual contribution of working capital structure.

At -8.5%, we are there but repeating every year, EUR500 million of contribution, as we have seen it in year 2024 is obviously not an easy one. So very important step towards our objective, be on the right path. The focus is there and the business model is focused exactly on that KPI.

**Antoine de Saint-Affrique, Chief Executive Officer**

I hope that people start realizing that structurally, we are delivering free cash flow which is above the EUR2.5 billion mark, as we said at the CME.

**Mathilde Rodié, Head of IR**

The next question is from Charlie Higgs, from Redburn.

### **QUESTION 3: EDP IN NORTH AMERICA; IMF IN CHINA**

**Charlie Higgs, analyst at Redburn**

I was wondering if you could give an update on the North America EDP business across high protein, but then also plant-based and your regular yogurt. And have you updated your marketing in US yogurts for the new FDA-approved claims around type 2 diabetes yet?

**Antoine de Saint-Affrique, Chief Executive Officer**

Let me start with the end of your question. If you look at our digital campaigns, actually, we have out there digital campaigns to help people that are facing diabetes issues to give them advice. And we see, by the way, an uptake on yogurt that is more important in this population.

We see a direct correlation, and we see the impact of it. If we look at the total yogurt portfolio, altogether, it's running very, very well. There are still things, and we are very open about it, there are still things that we need to improve.

We are making good progress on Two good. We still have progress to be made on our kids' range, for instance. Everything we do around creamers and everything we do around coffee is doing very, very well. We still have progress to make on Silk.

Although, by the way, we are making progress step by step by step, but it's a long-term fix. So

altogether going in the right direction, still a number of things to be fixed, which is why we don't declare any kind of victory.

By the way, you won't hear me declare victory because in a large family, you always have a business that is challenged, so when something will be fixed something else will have to be fixed. But altogether, I mean you see the development of the dairy category, very very dynamic in the US. You see a stabilization in our plant-based but not yet where we want it to be. And you see the rest of the categories doing pretty well.

**Charlie Higgs, analyst at Redburn**

And then my second one was just on China IMF. And can you just talk about the rollout of Essensis, where we are in that process and how it goes into 2025? And then also your view on the stabilization of birth rates in China, do you think this could be a longer-term trend or if it's just driven by the Year of the Dragon?

**Antoine de Saint-Affrique, Chief Executive Officer**

So on stabilization of birth rates, the honest answer is, I don't know. It will take a bit more time to know. Obviously, it was very encouraging to see the stabilization. Obviously, there must be something that is linked to the Dragon Year, but there is also a very intentional push from the Chinese government to stabilize those rates.

What is the proportion of growth? I don't know at this stage, but that's one we are tracking very, very closely. But to be honest, I mean, we're super happy with the stabilization. As you know, when there are a number of babies in one year, it carries over, from a product standpoint, for the first two years of the life of the baby, so I take the first year, and I'm looking for the second.

Essensis, I mean, as you know, we launched it in the back half of last year. The first results are really, really encouraging. I was in the stores in China. The product is cutting through the shelf with a very impactful packaging. The team did a superb job in launching it.

So we are getting quite a bit of traction behind Essensis. I mean, you see it reflected in the overall results in China. So we are quite happy and grateful to the China team for consistently doing a very good job.

**Mathilde Rodié, Head of IR**

Next question is from Warren Ackerman, from Barclays.

#### **QUESTION 4: M&A PRIORITIES; EDP EUROPE TRENDS**

**Warren Ackerman, *analyst at Barclays***

A couple for me as well. The first one is on the free cash flow, obviously, great results. But the obvious question now is where does that cash get spent? I heard you talking about debt at the bottom of the range. I heard you talking about acquisitions.

Are you able to, Antoine, talk a little bit about your M&A priorities by category or by region, your hurdle rates and how ROIC plays into that? I know that you've been in India. You're talking about India as a big priority, but you also want to build out specialized nutrition.

I mean what kind of size are you thinking here? Are we talking bolt-ons or something bigger? Just the whole topic around whether that cash get used and how you're thinking about it?

And then secondly, can we maybe dive a bit into European EDP trends? I think, if I saw it correctly, European, the EDP organic growth in the fourth quarter in isolation, I think it was flat. And then within that, I'm sure you're seeing slightly positive volumes and negative pricing.

Can you talk a bit about what's actually happening on the ground in terms of your everyday portfolio versus the high protein rollout? And what your kind of outlook is? Because on the scanner data we can see, is still showing some weakness. And I just want to get a feel for looking forward, what your plans are on some of the big kind of brands like Activia, which still seem to be seeding market share?

**Antoine de Saint-Affrique, *Chief Executive Officer***

We'll do probably a duet on that. Let me start with your question on acquisition. Obviously, I'm not going to tell you what, where, how much and at which price, as you would expect. But I mean, clearly, we want to move to the front foot on acquisition. With a dual filter which is always strategic filter: does it improve our market shares? Does it improve our market position in places where we are not? Does it bring us, businesses or capabilities in places where we are, I mean, lacking those capabilities? And we want to do that in a way that is financially responsible, so making sure that the impact on ROIC is very limited in time and where that acquisition is structurally improving the quality of our business.

So that's the filter we permanently look through. We will indeed look at everything in the field of specialized nutrition. There is no secret. We have been buying some home care businesses last year in a couple of geographies, so on enteral nutrition.

You've seen us make a move on kefir in the US. I mean the two points that are common between that, is products where our science can make a difference and products that are at the heart of our mission of delivering health through food. So that is the filter.

We are pretty active, but you will understand that I'm not going to share more details on where and at which price or what kind of element. Juergen?

**Juergen Esser, Chief Financial Officer**

And just to reiterate one thing which Antoine said, we have been celebrating this morning the fact that we have been first time posting a 10% ROIC since year 2016, and when you talk about hurdle rates, it's very important that we are staying structurally in double-digit ROIC territory, which I think is a very important and strong frame for our M&A activities.

**Antoine de Saint-Affrique, Chief Executive Officer**

On EDP Europe, well, first, we are happy to see that volume/ mix is in positive territory and not for one quarter. Coming out of 10 years of decline. So, the work is starting to pay. It is very clear also that there are still plenty of things to be done. Interestingly, in Europe, you don't have one Europe I mean, you have very, very different situations country by country.

So you take Activia, we start seeing, I mean, also an improvement in the volume/mix or a part. But actually, the things are very spread depending on the countries. We see some countries where it's getting markedly better. We see some other countries where it's still more work to do. So we keep going at it and we improve it.

Actimel is, I mean, the relaunch that we've made and the work that we are making is universally positive. And it's doing very, very well. We are working on the volumes of our core. And there, we are getting traction on volume, and we've made a choice to go for volume because it gives us leverage in our factories, also drives the penetration into the category.

And then country by country, I mean there are things that we need to fix. I mean my preferred brand in the French portfolio, Danette, is not where I want Danette to be.

So in some ways, it's a country-by-country thing. But altogether, the direction is the right one. We work at every level of the portfolio, much more disciplined at rolling out winning mixes, but we are also very practical. When something is working, say, in France and not in Spain, well, we rework in Spain, while we keep driving in France.

So that's a bit the way we look at EDP, quite a bit of progress versus where we have been for the last 10 years, but nowhere near the end of the journey.

**Mathilde Rodié, Head of IR**

For the last question, we have Victoria Petrova, from Bank of America.

**QUESTION 5: EMERGING MARKETS DYNAMICS; MARKET SHARES IN US COFFEE CREATIONS**

**Victoria Petrova, analyst at Bank of America**

I have one clarification question and one general. When I look at your performance in developed versus emerging markets, particularly on the margins versus expectations, we're seeing somewhat weaker dynamics around emerging markets. Is it just a function of cost of goods sold and coverage around raw material inflation? Or are there any other aspects related to pricing or your maybe bottom-up initiatives?

And my second question is, obviously, in several categories, but one which stands out where you were very successful it's coffee creations, one of your core competitors have been increasing capacity and is kind of doubling down on the category.

Are you seeing anything happening in terms of your market share challenges? Or tougher competitive environment? And are you doing anything to protect and grow your market share for this specific US coffee creamers?

**Antoine de Saint-Affrique, Chief Executive Officer**

Thanks, Victoria. Well, there again, we'll do a duet. On coffee creation, to be honest, I mean, there has been competition all around. I mean, private labels have been very aggressive. Chobani is doing a very good job.

Another competitor has announced that they were coming. So I mean, competition is good, it will grow the category, which matters enormously. It will keep us on our toes, which matters enormously as well. So, I mean, I love competition.

Do we see something that is horrible right now? No. Will it get tougher? It always get tougher. And in some ways, it's good, because it will avoid that we become complacent.

On emerging markets, we'll do a duet with Juergen but let me maybe say one word in introduction. Besides what we will explain on currencies and all the rest of it, we have been very, very systematic at cleaning our portfolio, cleaning our business model, cleaning the way we go at market in emerging markets. And we've done that in a number of different ways.

We've exited a number of categories. So you take what we did in Brazil with Paulista milk, which we licensed out. We have shored some of our business models, and what we see in Morocco

is super encouraging because we are gaining momentum, we are becoming much better.

We have allocated very clear priorities to some of those countries, which is to say, guys, couldn't care less about volume, couldn't care less about your market share, frankly, you need to fix your business model. Showing progress in a number of countries, still work to do in some others.

**Juergen Esser, Chief Financial Officer**

Actually, there's not a lot to add to what Antoine just said. It happens that some of the remaining underperformers, indeed still sit in this pocket of emerging markets, which we indeed see as an opportunity moving forward.

**Victoria Petrova, analyst at Bank of America**

And on the coverage, I'm more talking about hedging strategies, coverage of your cost dynamics. Are there any differences we should bear in mind in the cost inflationary environment in the emerging markets and developed ones?

**Juergen Esser, Chief Financial Officer**

There is structurally no difference between emerging markets and developed markets. It's a question of business model. Antoine was referring to that and to make sure that we are delivering the right product at the right level of differentiation for each and every of those markets. So again, we see rather as an opportunity than anything else.

**Mathilde Rodié, Head of IR**

With that, we close the Q&A for today.

**Antoine de Saint-Affrique, Chief Executive Officer**

Thank you, everyone, and I'm sure we'll see a number of you in the coming days and weeks, so looking forward to continue the conversation, and good day to everyone.