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BN.PA - Q1 2017 Danone SA Corporate Sales Call

EVENT DATE/TIME: APRIL 20, 2017 / 4:00PM GMT

OVERVIEW:

Co. reported 1Q17 results.

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PRESENTATION

Operator

Ladies and gentlemen, good day, and welcome to Danone's First Quarter Sales 2017 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Regis Massuyeau. Please go ahead, sir.

Regis Massuyeau

Good evening, everybody. Regis speaking, with Cecile Cabanis, CFO of Danone. And thanks for attending this Q1 2017 sales call.

Before we start, as usual, I would like to invite you to go through the usual disclaimer, which is on Page 2 of the presentation that we just posted, which is quite classic. And now, I think, if you are all ready, we can start and I hand over to Cecile.

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

Thank you, Regis. Hello, everyone. Thank you for being with us on this busy day. And I'm sorry to make it longer. So let me switch straightaway to Slide 3. As you know, Q1 has been an important time for Danone. First, and as anticipated, the sales are showing a slow start to the year. In a continued volatile environment, we have made progress on our key priorities across our categories. Water, Early Life Nutrition and Medical are posting positive growth from low to high single digit. And in Dairy, we continue to adapt our plans to address both the headwinds and execution issues, focusing on the relaunch of Activia in Europe.

Overall, on the company level, we have simplified our global organization and localized further our decision-making. This new organization is an enabler for us to decouple the company growth & efficiency agenda. And in addition, the Protein program has started and will support both our short-term results and fuel our growth journey.

Moving to the very important step that occurred in Q1 in the middle of the slide. We have entered into a new chapter with the acquisition of WhiteWave. As you know, with leading positions in some of the fastest-growing health-food focused global categories, this combination will accelerate our 2020 profitable growth journey.

With the closing of last week, we ended a long 9 month process, which caused growing managerial and business disruptions in the U.S. in a low growth environment for the food sector. Having now completed the closing, we have joined both teams together with the extensive work done by the integration team that was in place since the announcement in July. We will be able to fully deliver our synergy plan, address the current business challenges and accelerate growth from H2.

In Europe, Alpro continues its growth success and offers great opportunities for rollout across many more countries in the future.

So moving to the right part of the chart. We are upgrading our Danone full year 2017 guidance to a double-digit recurring EPS growth at constant exchange rate from the EUR 3.10 base reported in 2016.

2017 is really a year of construction that will strengthen, again, Danone in an even more resilient and balanced model, with disciplined resource allocation, efficiency gains, cost optimization and preparing for growth acceleration in having the right portfolio of product and range to serve our consumer meaningfully.

So that's the highlight of the Q1. And I will now go through the more classical review of the Q1 of Danone, starting Page 4 with the bridge.

So on a reported basis, we are a delivering solid positive sales growth of 3%. As you can see, currencies have had favorable impact of plus 2.8%. As expected, with positive impact of the ruble, the Brazilian real and the U.S. dollar, the scope effect is 0.5% negative. It's mainly due to the deconsolidation of Dumex that occurred last year in May. And if I move to the organic growth, the results of the 0.7% growth reflects the anticipated low start to the year, with some volatilities in key markets especially, and as you heard today, a difficult context in Brazil and for us, the continued Chinese transition in 2 of our categories. So this is a combination of negative volume effect of minus 2.6% and a positive value effect of 3.3%.

On the volume side, the evolution mainly reflects the negative contribution of Dairy, which is billed through a still very tough consumptions market in CIS, Brazil and continued negative performance in Europe, where as I said, we are adapting our organization and our plans and I will come back to that.

And the value part of the growth is the result of all the work that we do on improving mix in each category and also some price increases in specific markets like Brazil or CIS.

Moving to the regional dynamics on Page 5 and starting with Europe. Europe is, as expected, negative this quarter. It's mainly driven by the change of model operated in Early Life Nutrition for the Chinese market that continued to create volatility. And it's also the results of the negative performance of Dairy which is still impacted by the executional issues on Activia relaunch and Spain performance. Water and Medical are posting positive growth in Europe.

In NORAM and CIS, the softer performance reflects the impact of a slowing category in the U.S. along with some price pressure from the competition. And in parallel, CIS continues to display a very solid resilience in a persistent difficult consumption context, where the efforts to enhance the portfolio mix offsets, once again, declining volumes in a low value-added segment.

In the rest of the world, going to ALMA and despite the transition in China for Waters, ALMA region has posted a solid growth of 3.7% in Q1. The sequential slowdown compared to Q4 is mainly related to Brazil where the market consumption remains very tough. And in parallel, the Chinese ELN platform continues to develop at a strong pace.

Moving to the category dynamics on Page 6. We'll start with the Dairy category. So we have a Dairy category with negative growth of 2.3%, which is showing as expected, sequential slowdown compared to Q4 2016. The performance, as I said before, reflects mainly the strong deterioration of Lat Am and, more specifically, Brazil where market consumption continued to be very tough. And it also reflects the negative performance of Europe, still impacted by Activia and some difficult market conditions. Overall and despite still negative volume primarily in CIS, Europe and Brazil, the continuous effort on the portfolio and price is bringing value in the equation.

Moving to Water. The 1.7% growth includes negative volumes, driven by the ALMA region and specifically, Brazil and China, as well as solid mix price impact driven by the ongoing development of aquadrinks and some price increases in emerging markets.

Moving to Early Life Nutrition. With a growth of 4.1%, the performance is solid. Slightly better than anticipated. It includes a decrease of the indirect sales for the Chinese market, but to a lesser extent than we originally anticipated. And in parallel, the successful development of our direct model of distribution in China has continued to be a key driver of the category growth.

Finally, Medical Nutrition delivered this quarter very strong growth, relying on a well-balanced model of growth in between regions and still taking advantage of the very successful pediatric platform around the brand Neocate.

So all in all, excluding Dairy, each of our categories have delivered positive performance despite an increasingly volatile context. And this trend reflects all the work that we have done on our portfolio especially to improve the mix quarter after quarter.

I would now like to move a bit deeper through our category priorities. And I will start on Page 7 with the Dairy. I would like to cover 3 elements: the adaptation of our plans for Europe; the U.S. reignition of growth; and the restructuring plan in Brazil to prepare for the recovery.

So starting with Europe Dairy. As we shared earlier, the European Dairy performance continued to be impacted by the underperformance of Activia following the relaunch. So we have 2 priorities in the short term: The first one is to fix the execution issues on Activia relaunch; and the second one is to continue to accelerate our successful young brands, you have some example on the slide, Les 2 Vaches in France and Spain, Light and Free in the U.K., Danio in Poland and Italy. Overall, these young brands, which represent on a quarter basis, EUR 0.5 billion, have grown above mid-single digits, so we absolutely need to continue to accelerate this part of the portfolio.

Coming back to Activia, we are currently working on the improvement of certain elements of the mix. The first one, as we had the opportunity to share, is about improving the packaging identification both on flavors and subsegment, to make sure a consumer gets a clear subbranch differentiation. The second one is to be more local in the way we activate our campaigns, vs. a too global approach. The third one is to accelerate some specific innovations. And finally, to rebalance the campaigns towards the product rather than being overly centralized on the brand equity.

The new execution, especially on the pack and visual identity will be implemented in the course of Q2 in key countries like France, Spain, Germany, Italy and the U.K. Some platforms of communication will also be adjusted locally alongside product innovation such as Activia Double Zero in the U.K., the drink version of Activia in Italy and cereal version of Activia that here again will happen in the course of Q2.

At the same time, and as I said, Europe agenda is also to focus on acceleration of our successful local brands. Les 2 Vaches is growing at more than 15%, Danio at more than 10%, so we need to continue to work on those. In Europe, we need to keep working and ensure that the right conditions are put in place to progress towards stabilization without taking the risk to be too tactical in our plans and activation, so that's really the focus.

Moving to the U.S. We continue to face a slowing food category and more competitive market with tight pressure from competitors. Despite these slower market trends, the shelf continues to expand, and we lever our leadership, activate our brands and trade initiative to reignite growth in the quarters to come.

As a category leader, Danone will be focused on bringing the category back through growth with different drivers. I will mention two. The first one is the change of perception of the category through the improvement of the nutritional profile of its portfolio -- naturality, non-GMO ingredients, sugar reduction -- and starting to execute the Danone pledge on its 3 flagship brands, Oikos, Danimals and Dannon, converting each brand portfolio to non-GMO certified and all-natural.

The second one is to incorporate category-building messaging through each brand plan, reinforcing the positive and health benefit of the yogurt category.

Finally, moving to Brazil. There is no news but we are facing a strong deterioration in consumption context and an important slowdown of the Dairy category. We have decided to proceed, in order to react to the condition, to a thorough review of the portfolio. We will revisit assortment and redefine price promotion strategy for each of our brands. And at the same time, we will continue to work on adapting our cost structure to protect our profitability equation.

So overall for Dairy, with the right investment and continued adaptation of our brands and transformation of our marketing model, we have what it takes to make it happen. The direction is the right one, and we need to remain focused and disciplined and deliver perfect execution of our plans. For 2017, Dairy needs to continue to progress into its profitable growth agenda. We continue to forecast flattish performance for the year, with negative global volume performance driven by CIS, Lat Am and Europe. And considering the phasing of the adaptation plans that I have described, especially on Activia, Dairy in Q2 is likely to be still low single negative.

Let me move to Waters now on Page 8. With a growth of 1.7%, the Water category is still impacted by the transition of Mizone, and this quarter, by a lower performance in Europe compared to the previous quarter. This is due to a high basis of comparison and to some specific retailer activity last year, as well as leap year effect. However, as soon as Q2, Europe should regain its solid growth momentum. In Water, the agenda remains unchanged around developing healthier hydration opportunities for people, continuing to gain market share and strengthen our strong leadership. We have more than 24% of market share on the total global Danone universe. We rely on very strong platforms of growth, and at the same time we are developing new growth markets like evian in the U.S. It is the result of a permanent focus on innovation and activation of our brands around healthier hydration where we leverage both plain waters and also the development of aquadrinks where we remain the #1 operator across the global Danone universe.

Here on the slide, you have a few examples of the most successful aquadrinks performance of this quarter, with Sirma and Bonafont, which are growing at a very strong double-digit pace.

Moving to China, where we are now completing the transition of Mizone. Two priorities, which are not new. The first is protecting the market share and preparing the future by continuing to make sure we invest rightly behind the brand. On the bottom of the chart, you have an example of our latest activation initiative around Mizone this quarter, which was a new flavor campaign that we launched and some innovations. And second, we continue to make sure that we preserve and protect the profitability of the brand through continued saving plans, which include manufacturing, as I said, and adjustment on fixed costs at HQ level and on sales forces.

In 2017, we still forecast our Waters category to have an unbalanced profile of growth between H1 and H2. Bearing in mind that the basis of comparison is relatively high in Q2 due to last year, loading before a deceptive season in China. We will this year take a more cautious approach in loading for this season and that should lead us to accelerate in H2 with the relevant level of inventory for Mizone. So it should all in all, participate to a better H2 for the global water category and the full year performance should be solid.

Moving to Early Life Nutrition. As I mentioned, Early Life Nutrition growth at 4.1% is solid, slightly better than anticipated. This performance still includes slowdown of the indirect business, but to a lesser extent than expected this quarter. And on the other hand, we have a very strong performance of China, for the direct part of the business. Excluding the transition of the indirect channel for China, ELN has generated mid-single-digit growth.

As we shared in the full year results, we continue also to invest for new segments such as Tailored Nutrition to reinforce our global position and prepare for the growth of the long term. This segment already represent almost 10% of our total sales and continued to deliver strong growth in Q1. At the same time, we continue to grow at a strong pace in new markets such as the U.S., which has grown by more than 15% in Q1 through our organic brand, Happy Family, which is a key driver and it's the fastest growing brand within the organic category. It's the #1 organic brand outside of Walmart and of course #1 brand by far, in the natural channel.

In parallel, we continue to make key progress in developing a direct and more sustainable model for China. This is today, again, and continue to be our key priority. The platform is currently growing at a very strong double-digit pace. This is the result of a growing presence in specialized stores, direct e-commerce, and it's supported by successful initiatives, such as, you can see on your chart, the recent launch of Aptamil Platinum on the ultra premium segment.

A few words regarding the transition of the indirect business of China. There is actually no news. So as planned, the traders are continuing to adopt the model before the full implementation of the new regulation through destocking, which is impacting our sell-in. The indirect sales has therefore continued to decrease in Q1, but less than what we initially expected. So it's a good illustration on what I was describing when I said to you, be careful because you will see volatility from 1 quarter to the other. We were actually at a pace that was lower-than-expected in terms of decrease, but that doesn't prove anything for the quarters to come. So we continue to be really focused on the other part of the business, which is our direct Chinese model, which is growing strongly, and we will continue to do so.

So overall, turning back into an outlook. In Q2, we expect a low to mid-single-digit sales growth, which will continue to be driven by some volatility on the indirect part of the Chinese business. And on the full year basis, we expect 2017 sales growth to be slightly below 2016 as the transition in China really started in H2 last year.

Moving to Medical Nutrition, before wrapping up on the whole scope of Danone. We have a very high performance of 8.8% growth. The Medical Nutrition strong growth relies on dynamic segments, the Pediatric, as I mentioned earlier, but also the adult tube segment, still driven by Nutrison, which has boosted around 15% of growth. All the regions have contributed to this strong performance and continue to build resilience, leveraging some strong leaderships.

So Europe has delivered a solid sales growth mainly driven by Benelux, Turkey and U.K. ALMA, the other main region has generated, once again, a strong double-digit growth with a very strong performance of China. But in China, I just have to be more precise because on top of strong fundamentals, part of the performance this quarter is related to the preloading that we've made with key customers, because we are implementing a new SAP system, and we wanted to safely avoid any disruption. So you will see a phasing effect and no positive effect in Q2, probably leading to Medical category to a mid-single-digit growth performance in Q2.

So that's all for the Q1 results for the Danone scope. I would like now to spend a bit of time on the new chapter that we just opened in the transformation of Danone. Starting with Page 11 and starting to just remind why WhiteWave is creating a perfect combination to strengthen Danone 2020 plan.

Just as we had opportunity to share, it's a perfect match of vision, culture and businesses, and it also creates a truly unique global leader, very strongly aligned with long-lasting consumer trends, emerging more and more for healthier and more sustainable eating and drinking option. Second, it is enhancing our Danone portfolio in a significant way, serving the ambition for an Alimentation revolution as well as accelerating our strong sustainable profitable growth equation towards 2020. Indeed, it's about profitable growth in stable geographies. We are doubling the size of our U.S. business, for example, and it's also about significant synergies that I will confirm just now.

So as explained in July, this combination creates strong value and attractive financial benefits.

Moving to the current phase of the chapter, which is, really what is happening now. So from Day 1 after the actual closing, which was last week, Danone and WhiteWave have combined their activities for North America to operate as a unique strategic business unit that is named DanoneWave. As previously disclosed, the combination includes Danone Dairy's and WhiteWave's current North American businesses. It is placed under the leadership of Lorna Davis, who has been appointed Chief Executive Officer for the combined entity. As you know, the American part of the business, in Plant-Based and Fresh Foods continues to face the executional issues described in the WhiteWave Q4 results, not yet resolved in a slow growth environment of food category. In addition, the length of the closing window has led to some disruption, for example, on commercial deals and on talent retention. So we are very pleased now to have closed the transaction. The new organization is in place. It combines both teams' experiences and capabilities, and is perfectly scaled to solve the current business and execution challenges, put back the operational business in motion for acceleration and focus on delivering the synergy plan from Day 1.

In Europe, on the high part of the chart, Alpro is continuing to deliver strong growth, and it is paving the way for future rollout in many countries. In terms of organization, Alpro will join forces or has just joined forces with Danone Dairy as a key pillar of its new plant-based category that is managed by Gustavo Valle with the aim to sustain high growth in Europe and expand, of course, and grow the plant-based category around the world in the second phase.

Moving to Slide 13. On top of the stand-alone businesses, we have been putting in place, as you remember, as soon as we announced the deal, a dedicated team of executives that have been fully preparing the integration plan together with working and detailing the synergy plan to make sure that we will capture the expected level of synergies. So overall, with this new organization, we are set for immediately delivering the synergy plan and I will comment more on that just now. And making sure as well that we preserve and lever the WhiteWave entrepreneurial spirit and innovation capability.

Just Page 14. This is, on the left, nothing new. It's just to confirm fully the midterm metrics that we have announced at the time -- I mean, in July, when we signed the merger agreement. So we expect a $300 million run rate synergies at recurring operating income level on an annual basis as from 2020. That is confirmed. Regarding the other impact on the Danone model, we confirmed that the addition of WhiteWave growth will contribute to a next extra like-for-like growth of 0.5% to 1% on a full year basis, so starting in 2018. And the recurring operating margin will be accretive from 2018. No change in the ROIC metrics as we gave them in July. And last but not least, on the EPS, we confirm that midterm, the transaction will be accretive, more than 10% on the basis of run rate synergies.

Moving to the right part. In the short term, we gave you 2017 EPS accretion objective that we will be -- that WhiteWave will be solidly accretive to Danone. We are now upgrading that to WhiteWave being strongly accretive to Danone. It's basically because even despite the delay in closing, the preparation work that we've made on synergy are now enabling us to get them from Day 1, and you will have a first delivery in 2017. And second, because of the way we have made the financing, we have been having very good conditions and better-than-anticipated when we first announced the transaction.

So moving to Page 15 and to give you a bit more color on the synergies and the ramp-up. As I said earlier, after the signing we put in place a senior executive dedicated team in Danone, one in WhiteWave, with the support of consultants and they've been working on the synergy plan and the integration. After 9 months of work, they have fully confirmed the level of synergies, and we are fully prepared with a detailed plan and roadmap to integrate and implement the synergies.

Securing quickly cost synergies is today our primary focus. So we aim at achieving more than 10% already in 2017 despite the delay in closing. And we have overall been conservative in terms of revenue synergy, both in quantum and timing, which we are quite sure will lead to high-growth opportunities in the future. But we want to make sure that in the short term, we are fully focused on starting to deliver the cost synergy.

Back to the cost synergies. We've put a bit or a couple of elements to give more color on the main areas of synergies. The first one is around some high cost reduction. It's mainly related to executive compensations that are leaving the company, closure of the HQ and grounding of the corporate planes which will have an immediate impact in 2017. There are other G&A cost optimization, especially in adapting the supporting functions and reduction of the consulting costs. The next big chunk is around Sales & Marketing teams and some extra reduction of nonworking A&P spending. Procurement optimization will be made with the benefit of Danone's scale. And finally, logistic and manufacturing network optimization.

To conclude on this slide, we confirm a high level of synergies, highly achievable, twice the one of Numico, with a ratio of synergies of above 7% of WhiteWave net sales. So in the upper range of comparable recent transactions. The cost synergies are very concrete, precisely defined, highly executable. And on the revenue part of this synergy, we have taken a conservative approach, both in total and in the long term. And I'm sure, we'll have the opportunity to address those topics in our coming investor seminar.

So overall for WhiteWave, with the end of this closing window, the new organization and all the preparation work that has been made on synergies and integration, the team is fully ready to move. Q2 will be a kind of Q0, it will be a transition quarter and we should put back the business into motion, accelerate growth in H2, while starting delivering the cost synergies from Day 1.

So moving to Page 16. The levels of all this transformation and the new chapter of Danone has been reflected in our new organization, and we've decided to reflect it now in the way we will report to you on categories and regions to make sure that the way we follow the performance is consistent with actual performance and the right monitoring for the business.

So starting H1 2017, the way we will report the categories, you see them on the left part of your Page 16, basically 4 categories. The first one is the DanoneWave, which includes Danone Fresh Dairy Products and WhiteWave current North American businesses, and that will include the synergies.

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The second will be Fresh Dairy Products, which includes Danone's Fresh Dairy Products outside North America as well as current WhiteWave business outside North America and the synergies outside of North America. Third, Early Life Nutrition and Advanced Medical Nutrition will be now reported together, under the same category, to reflect the organization announcement that we did in February when we said that Advanced Medical Nutrition and Early Life Nutrition will be under the same leadership to make sure that we foster synergies and accelerate momentum in both categories. And finally, Water will continue to be reported as previously.

Moving to region. On the regional side, the performance will be reported based on 2 different regions: First, Europe and NORAM will be joined as a single region; and second, the rest of the world, which will be the current ALMA perimeter and CIS -- including CIS region.

We are totally convinced that reporting to you in a way that is consistent with the organization and the way the performance will be made is the most relevant choice that we can make. Now just one more on the tracking of the performance for WhiteWave, and then you can take it more off-line with Regis and the team. We will put WhiteWave in the like-for-like indicator, so we will include the contribution of WhiteWave in Danone's like-for-like growth and not in the scope as we would have done normally for the first year because we believe that given the materiality and the size of WhiteWave for a better reading of the performance, it's better to do it like this. And we have the synergies that will kick in very immediately, and of course, for the synergy, it's much better to have it in the global like-for-like performance.

So now moving to the guidance. And maybe before we move to the new guidance, I would just like to go through the Slide 17, which is basically what we shared in February when we guided on Danone before WhiteWave transaction. At this time, we shared that we have continued to make major progress in rebalancing our model of growth in order to make sure that we increase its resilience and deliver on our commitment of profitable growth. We started in 2014 in H2 to renew with profitable growth, and we continued through 2015 and 2016, always making sure that we had the right combination of sales and profit to deliver consistent EPS growth.

In a volatile environment with slower short-term growth, we have been very disciplined in managing our resources, especially well focused on our midterm destination and short-term results, not pushing for tactical short-term growth at any cost. So as we continue into 2017 to face a volatile environment, with still a transitioning market, some headwinds in our short-term growth, we have decided to decouple our midterm growth agenda and our short term efficiency agenda. We have accelerated our efficiency agenda through the launch of our Protein Program, which has now started. And that will reduce our cost by EUR 1 billion by 2020 in order to both fuel the growth and secure a consistent delivery of our commitments. We continue, of course, to be very careful in the way we allocate our resources behind growth, making sure that we are not too tactical on short-term action. Growth remains at the center of our model and our value creation agenda. We want to make sure that, however, we are not going into tactical decision for short-term benefit, but we are building and shaping the right growth model for Danone, its consumer, and its shareholder. And with WhiteWave, we are entering into a new phase of that growth model.

So in February, that led us to give the following elements. The first one is that we were expecting moderate growth for 2017. The second one is that we continue to be very strongly committed on the fact that growth needs to be profitable and that we need to continue and sustain margin improvement. And as a result, both of these elements will ensure that we provide an EPS growth that is on a like-for-like basis, more than 5%.

So moving to Page 18. Following the closing of the transaction of WhiteWave, with Q1 it is a good opportunity to upgrade our guidance and embark WhiteWave into our numbers. So taking into account what I just repeated on Danone and what I described around the WhiteWave metrics and the way we want to work in the short term, I am pleased to announce that we have decided to upgrade our guidance, moving our recurring EPS target to double-digit growth at constant exchange rate from the closing base of EUR 3.10 in 2016, which is basically the sum of the Danone standalone guidance, the base of integrating WhiteWave, the WhiteWave performance, the first delivery of synergies and the financial charges leading to the financing of the transaction.

One word on phasing. Given the delay of the closing, the ramp up of the synergies and what I commented on the low start of Danone's growth, you obviously have to expect an imbalance between H1 and H2. Now just to conclude, maybe to reiterate that 2017 is for us a year of construction that will continue to strengthen Danone in an even more resilient and balanced model, through continued disciplined resource allocation, efficiency acceleration and preparing for growth acceleration with an enhanced portfolio of products and brands to sell our consumer in a meaningful way.

Thank you for your attention. I might have been a bit long, but it was again, an eventful quarter, for us at least. I'm now fully available for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from Warren Ackerman from Societe Generale.

Warren Ackerman - *Societe Generale Cross Asset Research - Head of Global Staples Research and Equity Analyst*

A lot of information there Cecile, to kind of digest in terms of everything you're saying. Can I just cut back to the EPS guidance? So you've gone from 5% to above, what, double digits in constant currency. Can you maybe tell us what you said the currency impact will be on top of the kind of underlying? And then also, can you just be very clear with us as to the reasons for the upgrade? Is it just simply first-time consolidation of WhiteWave, is there any kind of underlying ex WhiteWave upgrade, I don't think there is, but can you just confirm that? And then also on the synergies, are you just bringing forward the synergies, or is the overall synergy number sort of going up? I'm just a little bit confused on the guidance on EPS. I've got a second question as well, but if you can just maybe answer that one first, it'd be great.

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

Yes, sure. So on -- to answer your question on currency impact and maybe I'll do it through each line. (inaudible) So on today's rate, on the sales part, we expect a low single-digit positive impact. On the margin, we overall expect no impact. And then on the EPS, there should be a slightly positive impact for the full year. Then, to your question around the building blocks of the EPS upgrade guidance, if you start from the EUR 3.10 of the closing of last year, and then you add the standalone of Danone, which was guided more than 5%, then basically the other blocks are, as you mentioned, the integration of WhiteWave on one side, then it's the performance, the standalone performance of WhiteWave. It's the first delivery of synergies and finally, the financial cost linked to the financing of the transaction. Maybe to give you a bit more color, if I -- if you go back to the slides where I describe the metrics, the midterm metrics of WhiteWave, and I said short-term accretion of WhiteWave is going from solid to strong. It's mostly because last year, when we announced the transaction, we had an assumption of financing rates that were higher than the one we actually managed to get by going at the right time into the market and doing a great success with the bond, so, that's one. And the second one is that yes, despite late closing in the year, so we will have only 9 months, basically. We have been able to, and we will be able to, overall, really make sure that we get the first significant chunk on synergies in H2. So as soon as the first year. So that's basically the building blocks that we have.

Warren Ackerman - *Societe Generale Cross Asset Research - Head of Global Staples Research and Equity Analyst*

Okay, thank you. I'll follow-up with Regis online -- off-line. The second one, Cecile, just on this like-for-like thing with WhiteWave, a bit surprised that you are putting the WhiteWave into the like-for-like, not into the scope as is normal. I heard you say it's very material, therefore, you want to do it. But I mean, if you do it this way, it's going to be very difficult for us to track the Danone Dairy business standalone. So can you maybe explain your reasons behind that. And are you saying it's going to be 50 to 100 bps accretive in the like for like straightaway in '17. If you can just clarify that, it would be great.

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

So for me the reason is obvious. It's a new chapter of Danone. It's a new way of organizing the way we do business and there is $300 million of synergies that we are going to get. So the Dairy business per se would not exist anymore. In NORAM, you will have one strategic business unit that will carry both WhiteWave operation and the Dairy operation. And there will be synergies. So for us, internally, to make sure that from Day 1, we follow the performance in a sound and in a good manner, make sure that the organization has a clear target, a clear perimeter. Then for us, it's the real important way to monitor it like this. Otherwise, we will spend our life to make reporting and work on the numbers, and we won't work on selling our products.

Warren Ackerman - *Societe Generale Cross Asset Research - Head of Global Staples Research and Equity Analyst*

Do you have a time frame for the restatement, when we should get all the information?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

I'll let you see that with Regis off-line, maybe.

Operator

The next question is coming from Martin Deboo from Jefferies.

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

Martin Deboo, Jefferies. I had similar questions to Warren on the synergies, just perhaps worth mentioning that. But the one that Warren didn't ask was, just where do we stand on Stonyfield? You're going to have to dispose of this business. I'm assuming it will be modestly dilutive. Is that reflected in the guidance? Or will that be an incremental impact on the guidance? And given the situation with Stonyfield, can you talk on the record in terms of the materiality of that business in terms of sales and EBIT?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

Sure. So on Stonyfield, we have already included in our older numbers that have confirmed our post, taking into account that Stonyfield will not be any more into the portfolio. So, for example, to be very precise, there were some synergies coming from Stonyfield that we have been able to replace by others so also actually the team went with more synergies, and then we have been able to get the same level of synergies, including the impact of the disposal of Stonyfield. So you won't have any more surprise, in terms of impact after the disposal. Then, in term of the order of magnitude, the sales are around 300 million.

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

Dollars, Cecile, or euro?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

Yes.

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

Doesn't really make any difference, does it, sorry.

Operator

Our next question is coming from Pierre Tegner from Natixis.

Pierre Tegner - *Natixis S.A., Research Division - Research Analyst*

It's Pierre Tegner from Natixis. Hi Cecile, hi Regis, just a follow-up on Warren's question, just to be clear. On the new guidance I view 2 blocks, with 1 block, including the like-for-like recurring EPS growth above 5% we had 8 weeks ago plus the WhiteWave?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

Yes. And in the WhiteWave, you have 3 building blocks, which are the impact of the integration, the performance on 9 months and the synergies. So we are comparing the double-digit -- is really comparing to your EUR 3.10 closing base of 2016.

Operator

The next question is coming from Alain Oberhuber from MainFirst.

Alain-Sebastian Oberhuber - *MainFirst Bank AG, Research Division - Senior Analyst*

Good evening, Cecile and Regis, Alain Oberhuber, MainFirst. I have smaller questions. What would be the FX impact at constant currencies for the full year? And regarding the scope effect, what would be the scope effect, excluding Stonyfield if we look into 2017?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

Okay. So on the FX impact, I just answered one but I'm happy to do it again. So for the full year, based on current rates, we expect low single-digit favorable impact on sales, no impact on margin and a slightly positive impact on EPS. The scope effect will be slightly negative on top line growth, but we anticipate a slightly positive impact on margin. And it's mainly Dumex, so (inaudible) deconsolidation of Dumex.

Operator

The next question is coming from Andreas von Arx from Baader-Helvea.

Andreas von Arx - *Baader-Helvea Equity Research - Analyst*

Two questions from my side. First one would be on, given your new divisional setup, how does this relate with your 2020 ambition, divisional targets you have set up with the investor seminar in 2015, where you gave divisional targets and above 5% organic growth rate for 2020? And more specifically, the 200 basis points margin improvement that you expected back then for the Dairy division? The second question will be on restructuring costs. I mean, your guidance is on the recurring EPS. Do we have to consider any significant below the line restructuring cost that you might book in 2017 or 2018?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

Sure. Thanks for that. Your first question is a very important one, and I don't think today is the right moment to go into that. So I would really like to do that in the right depth at the investor seminar, which is in less than a month. So I think it will be the right place to discuss our 2020 milestone and the consequence of the new Danone to this agenda. Overall, the agenda of -- that we set is not changing now. So it's really about the different stages that we put in there, starting with getting to profitable growth, making it sustainable and then accelerating. But we will have the opportunity to revisit that in our meeting in Evian next month. On the restructuring cost, yes, there will be restructuring costs associated to the output on synergies. The precise, I'm looking at Regis for the -- because I don't know what extent. So it will be 2017, around EUR 100 million, and it's overall EUR 200 million total cost.

Operator

The next question is coming from Celine Pannuti from JPMorgan.

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

My first question on the WhiteWave numbers. First of all, when you mentioned -- first of all, can you give us Q1 for WhiteWave to start with? That would be interesting. The second one is when you look at the 0.5% and the 1% incremental like-for-like benefit from WhiteWave, what is the underlying assumption that you have made, I presume, on both your business and on WhiteWave? And also, can you tell us beyond, I think, the COO that you are mentioning (inaudible)

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

That's 3 questions already.

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

Yes, it was all WhiteWave. Who are the key people from WhiteWave, who will as well remain?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

Okay. So we are not -- we have just closed on WhiteWave last week, so bear with us. I will still give you some qualitative comments on the current performance. If we take the U.S. on one side, it's basically a bit what I alluded to in my presentation. The business in plant-based and fresh food continues to face the executional issues that are not new, but that were described by WhiteWave in the Q4 results that are not yet resolved, in a slow growth environment of the food category in the U.S. On another side, coffee creamers continue to perform very strongly and gaining market share in a very dynamic segment. As a total, you also need to acknowledge that the length of the closing window has led to managerial and business short-term disruption. So on some commercial windows, we have probably not fully optimized the output on promo plans and the organization lost some operational people during the process. And overall, this has created some disruption. So what is really important is not so much the Q1 of WhiteWave, but what is really important is that the team is now fully involved since last week. That it combines both team experience and capabilities. That it's a team that is fully scaled to accelerate the growth, restart the business and solve the disruption that now that we've closed, will be actually easily solvable. And then, of course, be fully focused on starting to get the synergies out. So we really need to focus now on transitioning this quarter and then in H2, delivering the synergies, accelerating the growth, and we are considering that everything is in place in order to make it happen.

Regis Massuyeau

Second part of the question, whether 0.5% to 1%?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

On the 0.5% to 1%, sorry Celine, maybe you just want to rephrase your question, because --

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

Yes, I mean -- if you were to understand, how you get to 0.5% to 1% equation. I just want to know what is the underlying assumption that you've made for your own sales and for WhiteWave sales growth?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

Today, you just have to refer to what I said, which is for 2017, we expect moderate growth for Danone. And including WhiteWave, we continue to expect moderate growth. Given the fact that the closing is late in the year and that we won't reach in the 9 months the 0.5% acquisition impact, which will be a bit less. And then after, while growth will accelerate, we are on the same metrics than the one we were in July. So there is no news on that.

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

And lastly, who from the WhiteWave team has stayed in terms of the key personnel?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

We have Blaine who is taking the COO position next to Lorna and was already the COO for the NORAM activities of WhiteWave. And then we have many people in the teams, but that at the level as we put in the press release, Blaine McPeak will be with us.

Operator

Our next question is coming from David Hayes from Merrill Lynch.

David Hayes - *BofA Merrill Lynch, Research Division - MD*

Just to follow-up on that last question, just in case I've missed this, because there's obviously lots of numbers that have been given to us in the last hour. Have you got an organic sales growth number for WhiteWave in the first quarter? Just to get a feeling for the run rate, and together some of those comments you made earlier. And then secondly, just in terms of the revenue synergies that you've outlined. Are they only for Europe, or does that include a development into other markets? And I guess, if it is other markets, can you give us a sense of your plans to roll out over the next 9 months into new market opportunities? And at risk of asking too many, just on that, the Megniu joint venture that WhiteWave has in place, does that change with the ownership in terms of that can be renegotiated, is it something that you might look to address?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

So overall, the only comment I will make on WhiteWave Q1 is the one I made. Once again, we just closed. We are totally focused on what I called our Q0, which is really the transition quarter, to make sure that we get what we commit to in the next 9 months. And you know that before that, given the anti-trust process, we had absolutely no communication on the performance and commercial relationship. So for us we are starting, and we will not release Q1 numbers, which are not our own numbers to that extent. Then, I guess, your question was on revenue synergies in -- from Europe, is that correct?

Regis Massuyeau

Yes they are.

David Hayes - *BofA Merrill Lynch, Research Division - MD*

That's just Europe, OK?

Regis Massuyeau

No, the intention of Cecile was to rephrase your question, David, not give you an answer. I think your question -- sorry to get into the discussion -- but is it correct to say, David, your question was about the location where revenue synergies will be and whether they will start this year, is it correct?

David Hayes - *BofA Merrill Lynch, Research Division - MD*

Yes, whether the synergy you've outlined that basically just Europe, whether you included the idea of new market entry within those numbers and the timing of that through this year.

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

So very clearly, first, we have been very conservative on revenue synergies. So the first start of delivery of revenue synergy will only be '18. We have not put any revenue synergy for 2017 because we want to really make sure that we first get the cost out. On revenue synergies, we've been very conservative also with the quantums. So what we have taken so far is synergies only where both Danone and WhiteWave are operating. So today, there is nothing on new market expansion. So this is why I said in the presentation that there is some room for extra opportunities in growth. But the choice has been that instead of having a very high number, with many opportunities was to go for conservative number in very -- in highly achievable synergies and then get the rest as extra business and growth opportunities for the future.

Regis Massuyeau

The other part was on Megniu.

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

And then there is nothing specific on the JV, except to say that China is one of the country where there is a huge potential on plant-based, and that we expect to get growth opportunities significantly there in the future, but there's nothing in the plan.

Operator

Our next question is coming from Robert Waldschmidt from Liberum.

Robert Russell Waldschmidt - *Liberum Capital Limited, Research Division - Consumer Goods Analyst*

I wanted to see, in terms of the combined group, if you'd give any guidance on a tax rate? Does the addition of additional North American business change your guidance on tax for the combined entity going forward? Two, in addition to the restructuring question, is there going to be any incremental CapEx you may need to put in place to realize some of your objectives in the combined group? And third, on a non-WhiteWave basis, a question on ELN, which is one, in terms of China, the out turn in Q1 was clearly a bit better, it's something we've noticed at the competitors as well. Do you think that fades as we go through the year? I know you've commented in terms of volatility, but clearly if you could think that decreases or remain as strong as it is, could be a good point. And then also the ELN business in North America, highlighting Happy Family growing 15%. Can you give us some color in terms of how big your North American ELN business is currently?

Regis Massuyeau

Ex U.S?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

Okay, so on tax, we don't give any specific guidance for the U.S. and there are different things happening, so we are looking at that. But overall what you can expect in term of tax is a rate that will be comparable to the previous year for the total company. So no major change in there. In term of CapEx, there are plus and minuses, meaning that yes, there will be some requirements, an extra CapEx for IS/IT and for some of the integration part. But on the other hand, there will be some synergies as well. So overall, there shouldn't be a major impact, acknowledging that WhiteWave is a bit higher as a base in term of CapEx plan on sales than we are at Danone. So you will have this mixed effect. But other than that, we don't foresee any impact that would be created by the merger. On ELN China, it's basically still the same. So in term of the indirect business, we expect that the volatility will last until the regulation is fully in place in 2018. It can vary from one quarter to another, so Q1 happened, to a lesser extent, than we anticipated, even if it continued to be -- to drive negative sales on that front. It could be higher or the same in Q2. Very difficult to predict from one quarter to another, but quite certain to happen, until the regulation is fully in place in 2018. And that's the assumption that we take. That's why we really make sure that we are fully focused on pushing on the direct China part of the business, which is growing very nicely, both on specialized store and on e-commerce. And we are really confident of the continued potential for China and for the business, after this volatility period.

Regis Massuyeau

And Robert you had another question regarding the U.S.?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

The size of Happy Family was your question?

Robert Russell Waldschmidt - *Liberum Capital Limited, Research Division - Consumer Goods Analyst*

Or your total ELN business as it sits in the U.S.

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

It's mostly Happy Family because for us, the U.S. is still new market for Early Life Nutrition. So it's around USD 150 million on a full year basis.

Operator

We will now take our final question from Alex Smith from Barclays.

Alexander Piers Smith - *Barclays PLC, Research Division - Research Analyst*

Can I just clarify your EPS guidance? Is that based on WhiteWave being consolidated as of last week? Or is it based on a pro forma basis for the whole -- for the full year?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

So it's both actually, but it's based on WhiteWave being consolidated from last week. And it will be a pro forma on the 9 months, not on the full year.

Alexander Piers Smith - *Barclays PLC, Research Division - Research Analyst*

Okay. And if I may just ask a question on Dairy. We've not discussed that. Volumes were sequentially weaker. I think a lot of that was down to Brazil, but can you just clarify where the volumes were sequentially weaker in Europe as well? And if so, what sort of decline we're looking at, at European dairy volumes?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

Yes, so the negative volume in dairy is 3 areas. It's Brazil, CIS, which is something we know. And then Europe sequentially deteriorated from Q4, which was expected because it's the results of the underperformance of the Activia relaunch. So this is where we are, and it's what I commented in the presentation.

Operator

I would like now to turn the call back to our host for the conclusion.

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

Well, thanks a lot really because I'm sure it was a long day for you. And I am conscious that we've given you a lot of things. So thanks to the team here, and thanks to all of you for your interest.

Regis Massuyeau

And we may all have you on the phone in the coming hours and day. And obviously, we see you all at the seminar. Thank you very much.

Operator

Ladies and gentlemen, that will conclude today's conference call. Thank you very much for your participation. You may now disconnect.
