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BN.PA - Q1 2016 Danone SA Corporate Sales Call

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OVERVIEW:

Co. reported 1Q16 negative sales growth of 3%. Expects 2016 sales growth to be 3-5%.

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PRESENTATION

Operator

Good day and welcome to the Q1 2016 conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Cecile Cabanis, Chief Financial Officer. Please go ahead.

Regis Massuyeau - *Danone SA - IR Director*

Good morning, all. Basically it's Regis Massuyeau, Head of the IR team speaking. Welcome, everybody, to the Danone's first-quarter 2016 webcast. I'm here with Cecile Cabanis, CFO of Danone, and Celia, part of the IR team.

Before we go through the presentation and your questions in a second step, I would like you to go through the Safe Harbor and read it, page 2. You're very familiar with it so I think we can start now. And I hand over now to Cecile.

Cecile Cabanis - *Danone SA - CFO*

Thank you, Regis. Good morning, everyone. Thanks a lot for your attendance. I propose that we start on page 3. And maybe before getting into the details, I would like to summarize our Q1 results that we have published this morning. And I will start by the bottom of the chart.

Just to remind that our agenda continues to be about rebalancing our model of growth and making progress in our journey towards 2020, which means, as you're familiar, being on one side a drive to grasp all opportunities for growth, because ultimately growth will be the main element for a long-term story value creation, and on the other side being disciplined in resource allocation to make sure that we fuel appropriately and at the right pace short-, mid- and long-term initiatives.

Q1 results are overall fully in line with our expectations, of course at the low range of the guidance, with some situations that were better than expected, as the case for Russia, which continues to display a very strong resilience and we still have a complex environment in Brazil. So overall there is no change versus our expectations. We are progressing on our key priorities across businesses and across geographies.

On the chart I stated four of our key battles. The first one is the US Dairy platform which confirms a solid reacceleration of growth. The second one is about our European dairy platform, which continues to move positively on its agenda. And lastly, regarding China, the continued transition of Mizone and another step towards sustainable growth for our ELN business in China.

So overall what I can say is that I am pleased with the first quarter, which is fully in line with our short-term but also our mid-term and long-term agenda.

So let me now go to the details of the performance, and I will start on page 4 by the sales bridge. So on a reported basis we are delivering a negative growth of 3% for Q1. As you can see, currencies have an unfavorable impact of 7.2%, as expected, with negative impact mainly on the Russian ruble, the Brazilian reais and Argentinean and Mexican peso. The scope effect is positive 0.7%, mainly due to the integration of Fan Milk at the end of 2015.

And then moving back to the organic growth. The result of 3.5% is a combination of a positive volume effect of 0.8% and a positive value effect of 2.7%. The value part continued to be the result of the work we do on improving our overall mix. So this reflects different dynamics between category and regions, but overall continued to build our agenda towards a sustainable profitable growth.

Now let's move into regional dynamics on page 5, and I will start with Europe, which is, as expected, flat this quarter. This is a mix of different realities depending on each of our business, but let's say that globally the underlying trends are unchanged.

If we look at Dairy, the results are comparable to Q4 2015. We keep managing the portfolio and we are now entering into a period of the relaunches of our global brands that will support progressive and sequential improvement, and I will come back on that in a minute.

In Europe, in Water division, we still have strong growth both in volume and value, and we have the same in Medical. And still in Europe but for Early Life Nutrition, the growth is flat and we are closing the loop with high base of comparison driven by the Chinese demand on international brands that you remember strongly accelerated at the same period last year.

Moving to NORAM/CIS. We have a strong 5.1% sales growth, which reflects confirmed and successful reacceleration in the US, where our initiatives keep on delivering strong results. And at the same time, in CIS, Danone continued to show extraordinary resilience in a persistent, difficult consumer environment. The efforts to enhance the portfolio mix more than offset once again declining volumes in the low part of the value-added segments.

Finally, moving to ALMA. Strong growth of 6.3%, which confirms very solid dynamics of growth despite expected softness in some countries, especially Brazil, where the context continued to be a drag, mainly in Dairy. We continue to transition Mizone brand in China. And the rest of our businesses are growing strongly at high single digit.

I propose that we move to divisional dynamics on page 6. And I will start with Dairy.

So Dairy is delivering for the second quarter in a row a growth above 2%, which is well on track with its journey towards 2020 destination, which is to restore a safe and sustainable profitable growth equation. To that extent we are focused on pursuing our efforts in improving gross margin, because this is what will enable to first structurally and consistently create good conditions for investment and, second, deliver every year margin improvement.

So despite still negative volume, on the back of the CIS region, Brazil and Europe, the continuous effort on portfolio and price is bringing a good value equation. And I will come back on the US and Europe regions in more details.

In Waters, the growth remained really strong. We are around 10% excluding China, mainly in volume. Each region is growing strongly. And the success of aquadrinks continued to be a positive contributor to the mix of the division. At the same time we progressed in the transition of Mizone, fully on track with our plan.

In Early Life Nutrition, with a growth of 4.8%, the start of the year is impacted by the high base of comparison that I mentioned earlier from 2015, but the underlying trends are unchanged. Fundamentals remained very solid and poised for future growth. Q2, to that extent, should accelerate.

In China, Danone continues to work on building a sustainable growth model for its international brands, and I will come back on that.

In the rest of the world for Early Life Nutrition, there is strong growth in countries like Brazil, Indonesia, as well as countries like New Zealand and Australia, taking benefit here as well from the Chinese demand.

Finally, the Medical division delivered another quarter of solid 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, the results across divisions show a good momentum, each of them moving ahead at the right rhythm on their agenda 2016. And what I will do now is to go into our key battles, and I will start with Dairy.

And moving on page 7 with one of our key events of this month in Dairy, which is the relaunch of Actimel, with here one illustration of the new digital campaign around the platform "Stay Strong", which already received some positive feedback from consumers.

So going into our Dairy key battle, I will start with the US. In the US, Q1 2016 had confirmed the reacceleration that started in Q4 2015, with mid single-digit growth. It reflects the success of our plans to accelerate the growth in this important market.

Our plan, and you have it on the left part of the chart, page 8, includes strong and disciplined allocation of resources to make sure that we invest behind the right bets for accelerating the growth. In the store, a very close dialogue with retailer where, in a growing category, we continue to increase the size of the shelf. And very strong innovations. You have here a few examples with Oikos Triple Zero, which continues to be very successful; Activia Fruit Fusion; and the Light & Fit Greek Crunch.

So overall in the US our efforts to support the development of the category and investment behind brands bring very strong results. We continue to improve market share, with the leading position at more than 35% market share at the end of March. As a result, we can say that US Dairy has successfully reaccelerated growth to a solid mid single digit. And this trend should continue in the quarters to come. We are very focused on continuing growing this market because, as you know, it's a market where we still see a big potential for the future.

So let's turn to Europe. In Europe we continue to progress in our agenda to return to a safe profitable growth. And for that, it is important to make sure we take the time to build solid and sustainable solutions behind our global brands.

What I put on this slide is an overall summary of our plan and our journey, most of which you are familiar with because this is a journey that started in 2014 with our global plan for adaptation of our cost, and followed by our intensive profitable revenue growth management program on our portfolio optimization.

Also, moving to the middle of the chart, as part of building an efficient model we have set up a global purchasing organization called DanTrade. And in addition, of course, and being clear that milk is a key strategic resource for Dairy, both for license to operate and competitive advantage, we have started to change the way we source milk with, for example, one initiative around the cost-plus model that is currently being deployed, and that we had the opportunity to share with you.

Moving down, and I'm here really about 2016 key focus, which is the relaunch of our global brands. So the Actimel relaunch has started. It's in progress. You've seen one visual from the digital campaign on the previous page. The campaign is starting well. We have good feedback, but it's early stage. And we are currently preparing the relaunch of Activia that will come at the end of the year.

Today it's also an important day for Danonino because we are launching the Danonino campaign around the platform "Say Yes".

So in terms of performance, we have some good signs of progress. The trends are moving in the right direction on our global brands and we are fully aligned with the plan. 2016 will be another year of investment behind our global brands. And we think thank we have what it takes in order to complete the transformation of Dairy in Europe and stabilize sales by the end of 2016.

I will now switch to Water. And on page 10 I will start with a nice picture of our new packaging of Evian Prestige, which is about avoiding plastic overwrap and allowing to bring together four water bottles in a very innovative adhesive system.

So going on slide 11 about Water, on Water division we have another solid growth quarter based especially on 6.4% of volume growth and despite the impact of continued transition of Mizone in China that we continue to manage according to plan. The solid performance relies on very strong platforms of growth and is a result of a permanent focus on innovation and activations of our brands.

So on the left part of the chart, outside China, the global performance of Water is strong again at 9%, well balanced across regions and across segments. Plain bottled water have generated more than 9% growth and continued to deliver a strong pattern of growth, both in Europe and outside Europe. You can see an illustration of one of our last initiatives with the new brand image of Bonafont in Mexico.

Aquadrinks remain still a key engine of growth for the division, with more than 10% of growth, and keeps outperforming plain water, improving the mix of the division. And here you have also two illustrations. The first one, which is the recent launch of Evian Fruits & Plants and the renovation of the aquadrink WE by SERin Argentina.

Moving to the right part of the chart. In China we are pursuing the transition of Mizone, in track with our plan. And as you know, we have three clear priorities.

The first one is to finalize the adjustment of the level of inventories in the Chinese distribution network. And on that, things are progressing in line with our agenda and growth should gradually improve in H2 to end the year at a new normal rate approach.

The second one is of course to continue to leverage activation plan and reinforce and protect our brand equity, while making sure we maintain a strict control of cost. And you have here an example of our last activation with a new packaging identity for Mizone.

And the third one is to leverage innovations to make sure we continue to capture growth opportunity in the market.

So overall for Water, it is another solid quarter, which posts strong results. And Water continued to execute efficiently all the plans set for 2016. Q2 should show the same trend but with even higher base of comparison in China with last year pre-season loading.

So let's move now to the early life nutrition, with, on page 12, a quick stop on one of our main innovations this quarter, which is the Jewelbox packaging innovation, which is supporting the premiumization of our portfolio. The first launch was in November 2015 in Germany and we are currently rolling it out in UK and Ireland.

So moving on page 13, as mentioned, Early Life Nutrition growth at 4.8% was impacted by high basis of comparison. But overall the underlying trends are the same and the fundamentals of this category continue to be very strong.

I would like to focus on China, where many news have been out recently. And I will start by reminding the consumer dynamic. The consumer dynamics remain solid. On the left you have the different trends.

First the mom-and-baby stores, which is 50% of the category, still dynamic and represents for us a key driver of growth for our international brands. We have continued to develop our position on this segment where we are accelerating our sales growth.

The second one is e-commerce, which relies on continued positive underlying trends. It is still predominantly consumer to consumer, but business to consumer is getting traction. The conversion has started and is now in progress.

As you know, new elements on regulation have been communicated by the authorities over the last few weeks and days. Basically it was expected. Overall this news on regulation only confirms that the Chinese government is moving towards more control, consistently with their key priorities around food safety and fair competition. It is both a positive and an expected move for us and our interests are fully aligned. It will support the rationalization of the market and will protect the consumer.

Now you have to keep in mind that there will be other measures. This is not yet the end game and this is still a work in progress. What is important for us at Danone is that we continue to adapt and design the relevant distribution and supply chain model in order to channel efficiently and properly our international brands to China, which is what we've been discussing with you since the beginning of last year.

Regarding tax, we do not envisage any major impact in consumer behavior. The reason to buy on e-commerce remains trust in our brands and origin of the product; it's not price or tax by itself.

And finally, on China, just one word on Dumex. We continue to prepare the transition of Dumex to Yashili, which should happen around the end of May.

So let's turn now to the Advanced Medical Nutrition division. And on page 14 you've heard that the results of an independent EU-funded clinical trial on Souvenaid that was presented at the International Alzheimer Conference in March in Athens. And it shows that there is some evidence that Souvenaid helps mild and early Alzheimer patients in maintaining their short-term memory. This is very important, not only from Souvenaid, but this is very important because it is the first time that there is evidence that a nutrition product can do that.

So moving on page 15, another strong quarter for Medical Nutrition, with an organic growth of 6.6% and a consistent volume and value contribution. We have mentioned many times how important innovation and R&D are to fuel future growth and make it sustainable. On the left part of the chart you see one of our recent innovations in Q1 2016 with the launch of NeoForte in Brazil. It is a product for children with cow milk allergy.

At the same time we continue to work on establishing advanced nutrition as an integral part of healthcare. Indeed, nutrition still does not have its rightful place on the healthcare system and we are pioneers and we're battling to make sure that doctors are better educated on what nutrition can offer. And to that extent, the news on Souvenaid are a progress to that.

As a result of all our initiatives, we are able to generate, quarter after quarter, a strong balanced growth across geographies, in Europe; CIS/NORAM, where the growth is around mid-single digit; and in ALMA, being around low teens.

That's it for the category dynamic highlights. And following that, it will be no surprise for you that I do confirm the 2016 guidance, meaning the sales growth within a range of 3% to 5% and a solid margin improvement. On sales, we expect sequential improvement quarter after quarter, with still some effect of base of comparison in waters for Q2, as I mentioned earlier.

On the margin, we expect the year to be de-balanced, with H1 being significantly above the full-year ambition. The reason for that is simple and it's mainly linked to the specific elements of H1 last year, especially on ELN, if you remember, the big negative effect on Dumex in China and the fire that we had in one of our ELN plant in Cuijk last year.

Just on Dumex, as we are moving closer to the transition of Dumex to Yashili, we now expect the closing of the transaction to be completed by the end of May or around end of May. And therefore it means that it will create a favorable scope effect that we foresee around 15 basis points compared to the 20 basis points mentioned at the full-year results. It's purely linked to the timing effect of the completion of the transaction.

Lastly, and before answering your question, I really would like to re-emphasize that 2016 is a step in our journey towards 2020. And to that extent, a key year to continue to build a more dynamic and resilient model of profitable growth. So is where our attention is placed every day in ensuring that we keep transforming the Company, that we keep taking decisive steps and relevant initiatives along this path. That is what ultimately, of course, will create value long term for all stakeholders. And making sure that, on one side, we invest rightly short term, mid term, long term and that, on the other side, we make sure that we will deliver the commitment we made to you.

So that's it for the presentation. Thanks a lot for your attention. And I propose that we move to the questions.

QUESTIONS AND ANSWERS

Regis Massuyeau - *Danone SA - IR Director*

Thank you. So, Gillian, if we can go for the questions now?

Operator

(Operator Instructions). Warren Ackerman, Societe Generale.

Warren Ackerman - *Societe Generale - Analyst*

Good morning, Regis. Good morning, Cecile. It's Warren Ackerman here at SocGen. Two questions, please. The first one is on Dairy volumes for the Q1. It came in at down 2%, which was quite a big difference versus consensus. I'm just interested in -- are you able to say what the volumes were in dairy between Europe, ALMA and NORAM? It seems like if the European trends are unchanged and the US is still confirmed to be good, it must be Brazil that was much weaker in the first quarter. Are you able to say what Brazilian Dairy volumes did in Q1 to help us understand the variants on Dairy volumes versus consensus? That's the first question.

And then just secondly, just going back to Mizone, thank you for your comments about your plan. Are you able to isolate what the Mizone volumes did in the first quarter? And do you still confirm that you think that Mizone volumes will be back to 5% to 10% once we get through the destocking? Thank you.

Cecile Cabanis - *Danone SA - CFO*

Thank you, Warren. So on your question, and I will start with the Dairy volume in Q1, you're right to mention that there have been different dynamics. First we continued to have volumes that are under pressure in CIS, even if we've been extraordinarily resilient with the very major work on our portfolio mix, which has more than offset this volume. But it has an impact overall on the Q1 volume from Dairy.

In term of Europe, basically the trend was in line with Q4. And remember that all the relaunches of our global brand are starting now and we should see sequential improvement in Q2. Then in NORAM, the volumes were strong, mid single-digit positive. And you're right to mention that Brazil was negative and weighing overall on the volume of Dairy.

So basically there is absolutely no alarm versus the plan and versus the agenda on which we are committed, whether it's Europe or global Dairy. And you should see the volume trend improving in Q2 in Dairy.

Now moving to your question on Water, so Mizone is still negative obviously in volume because we are continuing the destocking and we continue to adjust the level of stock. We said it will probably end somewhere at the end of Q2 and then it will reaccelerate progressively. So to your point, we still see indeed that we will exit the full year 2016 at a rhythm volume growth that will be in line with the new normal pattern of growth. So that's basically on your two questions why.

Warren Ackerman - *Societe Generale - Analyst*

And just to follow up on that quickly, if I may, just on the value elements within Dairy, which was higher than consensus, can you confirm that all of that value element is mix and that there was no in-quarter additional pricing in Q1? I'm just trying to understand. Mix seems to be getting more and more positive, I guess because of Russia and because of what you've been doing in Europe. Just can you confirm? What I'm trying to get at is what is the difference between the price and the mix?

Cecile Cabanis - *Danone SA - CFO*

Yes. It was very mostly mix and exactly what you said around improving the mix in Russia and in Europe.

Warren Ackerman - *Societe Generale - Analyst*

Okay. All right. Thank you. Helpful.

Operator

Eileen Khoo, Morgan Stanley,

Eileen Khoo - *Morgan Stanley - Analyst*

Good morning, Regis. Eileen Khoo here from Morgan Stanley. A quick question on ELN. Obviously 4.8% like-for-like in Q1, the comp was tough. But can you give us a sense of what kind of run rate you expect for the remainder of the year and also give us more color on the actions you are taking in order to prepare for the transition to business and consumer sales? For example, how are you dealing with the retailers, for example, whether stock-outs are still an issue in Europe? And also just update us on how much of your sales are actually coming from Australia and New Zealand now because it seems like your European sales are coming down a little bit. Thanks very much.

Cecile Cabanis - *Danone SA - CFO*

Yes. So I think there are a few questions in your question, Eileen. Thanks for that. So first, overall, ? and once again, the dynamics and the fundamentals behind ELN growth have not changed. So what you see in the deceleration is really about the basis of comparison of last year. So to that extent you should see an acceleration in Q2 around the business.

Then in China, basically we continue to do what we commented in the previous quarter, because what has been going out from the Chinese regulation is an output of what we did expect and what we were working on in working around the conversion of the indirect business into more direct business.

So today we continue to work on that. As I said, the conversion has started, so there is a conversion that is happening between both. For us it's important that we make sure that we build an efficient and competitive distribution system and supply chain.

And again on China, the trend and the underlying dynamics have not changed, meaning that our international brands are still tracking demand. And we continue to have a successful brand demand.

So the other part of the work is to continue to build the equity of our brand. And yes, we are working with retailers. You've seen that we have signed a partnership with Alibaba, who is one of our preferred suppliers, and that will be also key in the way the conversion is happening.

So we are moving ahead. There's nothing that is different than, I would say, in previous quarter except that now it's some news are published. And again, it's still work in progress. So we are moving quarter after quarter to make sure that we are moving in the right direction and securing our supply chain in order to make sure we create a more sustainable growth for our business and successful brands in China.

On your last question around the split between Europe and New Zealand, on New Zealand and Australia we have a strong double-digit growth coming from the Chinese demand. And it's still around our brand equity mostly.

Regis Massuyeau - *Danone SA - IR Director*

Next question, Gillian.

Operator

Cathal Kenny, Davy.

Cathal Kenny - *Davy - Analyst*

Good morning, Regis. Good morning, Cecile. Just one question, if I may, just back on Russia. Has the volume environment deteriorated relative to Q4? And just a little bit of commentary on the pricing environment, because I think raw materials, in terms of milk, is still increasing.

Cecile Cabanis - *Danone SA - CFO*

So overall the volume is around what it was in Q4, around mid single-digit negative. So it has not materially deteriorated, but it continues to be negative. However, together with all the work that we have done on the mix of the portfolio, the value part is more than offsetting the negative volume on the low end of the value-added part and hence creating value and sales growth for this quarter still.

Cathal Kenny - *Davy - Analyst*

Thank you.

Cecile Cabanis - *Danone SA - CFO*

And -- on the price of milk, it continues to be up, but of course much less than it used to be. You remember in 2014 it has raised 20% increase. We are more into a mid single-digit increase type of range.

Cathal Kenny - *Davy - Analyst*

That's very helpful. Thank you.

Operator

Adam Spielman, Citi.

Adam Spielman - *Citi - Analyst*

Thank you very much. I have two questions. The first one is on the water business. And relative to my expectations, your sales growth like for like was well ahead. And as far as I can work out, that was because there was probably less destocking in China than I had predicted. And I guess if there's any way you can quantify actually how much that destocking was. And I guess related to that, do you expect the destocking in 2Q to be more or less than it was in Q1? So that's the first question.

The second question concerns Dairy in Europe. Now you've said that sequentially it was a little bit better than Q4 and yet the Nielsen readings showed that it was worse. You've often said Nielsen isn't a good indicator. It wasn't a good indicator. But if you can just explain why you think Nielsen was wrong, because it showed things getting worse when the reality was it was getting slightly better. Thank you.

Cecile Cabanis - *Danone SA - CFO*

Okay. Thank you, Adam. So on Water, I don't think we can say that there is more or less destocking regarding Mizone. I think Mizone is totally in the range of the plan and what we have set as an agenda. So basically the impact is really about acceleration on some other countries like Mexico, which was very strong, and Indonesia as well. And you've seen on the chart on the left part that we had 9% and more than 10% growth on the aquadrinks.

So it's not so much the fact that we had less destocking of Mizone; it's really about a stronger performance of the rest, which is really moving in the right direction. And saying that, all the fundamentals and all the work that we do on water is successfully bringing growth to a strong level. So that's for Water.

For Europe, overall I will say three things. Overall, as I have been saying, we need to be clear that in Europe it is important that we take the time to have the right and solid and sustainable solutions for our global brand. And that's why we have set up an agenda of relaunch of our three global brands.

It has just started for Actimel a few weeks ago around the platform Stay Strong and a full relaunch. And it will be deployed gradually. It is starting today for Danonino. And here again it will be deployed gradually. And we do expect Activia, which is a big one, at the end of the year, well starting September, as we mentioned in the full year.

So overall in Q1, sequentially the volume performance is around the same than in Q4, moving in the right direction but around the same. And it will accelerate in Q2. So today we are fully in line with the plan to stabilize sales at the exit of 2016.

Now the Nielsen, every time someone reads it he has not the same conclusion than the other. So I don't think you can really draw conclusions based on Nielsen reading. But, okay, so the plan on Europe is what I said. And then we have still good news in the overall trend of our brands that we monitor every day. So that's all I can tell you for that.

Adam Spielman - *Citi - Analyst*

Just very quickly --.

Regis Massuyeau - *Danone SA - IR Director*

Adam, I think we switched. There is a long list.

Cecile Cabanis - *Danone SA - CFO*

Okay, Adam. Regis is managing.

Regis Massuyeau - *Danone SA - IR Director*

Thanks, Adam. So Gillian, I think we have still some people on the line queuing for questions. Can you switch to the next one?

Operator

Jeremy Fialko, Redburn Partners.

Jeremy Fialko - *Redburn Partners - Analyst*

Good morning. It's Jeremy Fialko at Redburn here. So a couple of questions on Dairy. The first one is on pricing within Europe. Can you talk about the pricing promotional trends there, whether there are any markets where you're seeing deflation, whether that's changed from where you were at the year end?

And then just coming back to this point on the Dairy volumes from Warren's question, so you're saying that Europe pretty similar to Q4, Russia pretty similar to Q4. So does that mean it is just down to a huge volume decline in Brazil? Or are there one or two other markets where your Dairy volumes have been sequentially weaker? Thanks.

Cecile Cabanis - *Danone SA - CFO*

So on the pricing of Europe, the negotiation with the retailers are now fully completed. We have not seen a very different dynamic from what we've seen in previous years. So we have not seen a particular event relating to pricing pressure this year.

And we continue to really be convinced that today our price positioning is the right one and that we don't expect, for all the reasons we detailed earlier, which are because the situation in the milk price is not here to stay and because of the overall market dynamics and the fact that Dairy is not a commodity, we do not foresee any material impact on prices and on overall volume for -- value, sorry, value part for our business in Europe Dairy.

Then on the volume, yes, you're right to say that Brazil was highly negative and it has weighed on volume. Now once again, Q2 will improve because Europe will sequentially improve. So this is basically where we are.

But overall in the rest of the countries, to make sure I answer fully your point, there was no topic around volumes. So it's really Brazil, it's Russia and it's Europe.

Jeremy Fialko - *Redburn Partners - Analyst*

And so, you said that Brazil should be better in Q2 or just the overall division, or both?

Cecile Cabanis - *Danone SA - CFO*

No, the overall -- the overall division, driven by Europe being better in Q2.

Jeremy Fialko - *Redburn Partners - Analyst*

Okay. Thanks.

Regis Massuyeau - *Danone SA - IR Director*

Thank you, Jeremy.

Operator

Jon Cox, Kepler.

Jon Cox - *Kepler Cheuvreux - Analyst*

Yes. Good morning guys, Jon Cox, Kepler Cheuvreux, here. Just a couple of questions for you. One is probably the obvious one. You're saying that organic sales will accelerate as we go through the year. You came in at 3.5% in Q1 but your guidance is 3% to 5% for the year as a whole. Just wondering why you haven't actually increased your guidance band given the fact you're telling us that sequentially organic sales will actually improve. That's my first question.

Second question just really on what's happening in China with the B2C, C2C. You were talking a lot about free trade zones being the fastest-growing category within the e-commerce channel. Is that still the case? And I presume that the new tax measures won't actually be applied to the free trade zones. I wonder if you can just -- I understand that your brands are super-strong so pricing shouldn't make much of an impact. But if it's still duty free from those free trade zones, then I assume that's where most of the growth will come, because obviously the Chinese will be looking to get the cheapest, even if it is the best brand. Thanks very much.

Cecile Cabanis - *Danone SA - CFO*

Okay. Thank you, Jon. On the sales, first for us, the 3.5% that we have in Q1 is exactly in line with what we say when we said Q1 will be at the bottom of the range. The main difference is that there is some countries where it went better than expected and basically Russian overall sales, and some countries that are complicated, as expected, which is like Brazil. But overall for us, 3.2%, 3.5%, this is the low end of the range. It's not like 3.5% is any different from what we expected.

There is some volatility happening in between quarters because of comparison basis or because of different topics. I don't think it puts in question our guidance and our agenda. So we have absolutely no reason today to change the guidance or the agenda on which we committed ourselves in the full year. And we continue to be committed behind that.

So when I said it will accelerate sequentially, Q2 will accelerate and then it will accelerate maybe a bit less and then be stable in Q4. But overall, today we are spot on with our agenda and our guidance and there is absolutely no reason to change that.

On your question in China, in fact there has been a bit of mixing in using the different terms. So yes, you're right that we mention a lot a free trade zone. It's now what we called cross-border e-commerce now, so this is the same thing. And it continues to be a channel on which we are converting from indirect to direct.

And on this channel there is some tax impact with the new tax regulation. However, we do not believe this is material for the consumer. And it is today not going, we believe, to drive a change in behavior in terms of brand purchasing because they were paying tax already. So it's the differential that will matter and we do not think it's so material.

Jon Cox - *Kepler Cheuvreux - Analyst*

Thank you.

Regis Massuyeau - *Danone SA - IR Director*

Okay. Thank you, Jon. Gillian, I think we go for the last question if you're okay.

Operator

Martin Deboo, Jefferies.

Martin Deboo - *Jefferies - Analyst*

Yes. Morning, everybody. Morning, Cecile. I had a question on China Early Life but your answers to Eileen and Jon Cox pretty much answered my questions. Let me -- I've just got one small one which is I just wanted to talk about FX.

FX in Q1 was quite a bit worse than consensus was looking for. And I wonder if you're going to give any full-year guidance based on what you'd expect FX to be for the full year based on current spot rates and whether there's any particular currencies that you think the market is under-scoping, because the FX line was quite a bit worse than consensus was looking for. That's the question. Thanks.

Cecile Cabanis - *Danone SA - CFO*

Sure. So to answer your question, basically talking about sales on a full-year basis, if we look at the rate as they are today, and they can move, but if we look at the rates as they are today, we expect around 6% negative effect for the full year in sales. You have to keep in mind that given the geographical mix there will not be a negative impact on margin.

And regarding EPS, still based on today's rate we expect a mid single-negative-digit impact, but it will be mitigated by the scope impact that will be favorable. So overall the EPS will translate the profitable growth equation that we will deliver for the year end.

Martin Deboo - *Jefferies - Analyst*

That's very clear. Thanks, Cecile. Thank you.

Regis Massuyeau - *Danone SA - IR Director*

Thanks to all of you. Thanks, Gillian, for the coordination. Thank you for the call. And obviously Celia and myself are here to follow up on your questions. So I wish you a good day.

Cecile Cabanis - *Danone SA - CFO*

Thanks a lot and have a good day.

Regis Massuyeau - *Danone SA - IR Director*

Bye-bye, everybody.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.
