Rating object	Rating incl. outlook / watch
Danone S.A.	BBB+ / stable
Long term local currency senior unsecured issues issued by Danone S.A.	BBB+ / stable

The present rating is, in the regulatory sense, a public unsolicited rating.

Date of inception / disclosure to rated entity / maximum validity:

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
Danone S.A.	07.05.2021	07.05.2021	Withdrawal of the rating
Long term local currency senior unsecured issues issued by Danone S.A.	07.05.2021	07.05.2021	Withdrawal of the rating

There occured no changes after the communication of the rating to the rating object.

Rating summary:

Creditreform Rating has confirmed the unsolicited corporate issuer rating of Danone S.A., as well as the unsolicited corporate issue rating of the euro-denominated, long-term, senior unsecured Notes issued by Danone S.A., at BBB+. The outlook remains stable.

Significant for the confirmation of the rating and outlook are the Company's strong market position in the relevant markets, its regional and product diversification, as well as the overall stable result of the financial key figure analysis for the 2020 financial year. The Company's adequate financial position, in conjunction with established access to capital markets, also has a stabilizing effect.

In the financial year 2020, Danone recorded a decline in sales of 6.6% to EUR 23.6 billion (previous year: EUR 25.3 billion), mainly due to negative exchange rate effects and negative effects in connection with the COVID-19 pandemic and the lockdown measures implemented to contain it. On a comparable basis (like-for-like, essentially adjusted for currency and consolidation effects), the decline in sales was 1.5%. All three core segments showed sales losses, although at least the segment with the highest sales, EDP (Essential Dairy & Plant-based), recorded sales growth on a comparable basis (3.4% like-for-like; reported -2.6%). This reflects the relatively stable development in the food retail sector, which has been less affected by the pandemic than other industries. In the Waters segment, on the other hand - due to the "out of home" and "impulse" sales channels, which were significantly affected by the lockdown measures - Danone had to cope with a revenue loss of 21.1% and 16.8% on a like-for-like basis, respectively. In its high-margin Specialized Nutrition division, Danone posted a decline in sales of 4.8% or 0.9% on a like-for-like basis. The main reason for this was the sharp slump in baby food sales via cross-border sales channels, due to the ongoing border closings in Hong Kong and travel restrictions with China. The decline in sales was accompanied by a noticeable deterioration in the operating result (recurring operating income EUR 3.3 billion; previous year: EUR 3.8 billion) and the recurring operating margin (14.0%; previous year: 15.2) %), which resulted mainly from a product mix adversely affected by COVID-19, and additional costs caused by the pandemic. The countermeasures introduced in the second half of the year to cut costs and improve efficiency were only able to compensate for these losses to a limited extent. Due to the sale of the Company's stake in Yakult and a slight reduction in interest expenses, EAT remained at the previous year's level of EUR 2.0 billion in the 2020 financial year (previous year: EUR 2.0 billion). Despite the positive result, equity was reduced as of December 31, 2020. The main reasons for this were noticeable exchange differences (EUR -1.8 billion), which were posted in other comprehensive income (OCI) and which largely offset the positive EAT, as well as the unchanged high dividend distribution (EUR 1.4 billion). On the other hand, Danone was able to significantly reduce debt in the past financial year, so that the adjusted equity ratio used by Creditreform Rating (CRA) is only slightly below the previous year's figure at 25.6%[1] (previous year: 25.7%). According to the Company, net financial debt fell from EUR 12.8 billion in the previous year to EUR 11.9 billion and, according to its calculations, was 2.8 times EBITDA, in line with the previous year's figure as well as with expectations. The key financial figure "net total debt / EBIDAT adj." used by CRA also showed only a marginal increase with a value of 4.34x (previous year: 4.28x). All in all, despite the adverse effects caused by COVID-19, we have recorded a stable result in the key financial figure analysis for Danone in the 2020 financial year. On the basis

[1] For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

of the 2020 consolidated financial statements, we continue to assess the liquidity position as solid. We see the slightly reduced cash balance and noticeably reduced free cash flow as currently unproblematic against the background of available financial facilities, the diversified maturity structure of the Company's financing, and its established access to the capital market.

For the current financial year, Danone expects a return to profitable growth from the second half of the year and an operating profit margin at the lower end of that of the previous year. From 2022, it should be possible to achieve sales growth of 3% -5% and a sustainable operating profit margin of over 15%. In order to achieve this, Danone is planning investments of approximately EUR 3.4 billion between 2020 and 2023, which should contribute to sustainability, climate resistance, competitiveness, and thus future security of the business model through product differentiation, optimization of the value chain, and reorganization of the Group. In the same period of time, cost savings of around EUR 1.0 billion are to be generated. We consider the planned measures to be comprehensible and appropriate, although their successful implementation remains to be seen - especially since the CEO position has to be filled and, in our opinion, an adjustment of the Group's strategic orientation cannot be ruled out in this context. In addition, further business development and the attainment of the Company's goals depend to a considerable extent on whether the restrictions on social life implemented to contain the COVID-19 pandemic continue, and on whether or not the desired economic recovery is further delayed. Even though the Q1 figures for 2021 do not yet show a turnaround, and the market environment remains uncertain and difficult in some areas, especially with regard to the Specialized Nutrition and Waters segments, we generally see Danone in a position to achieve stable business development.

Primary key rating drivers:

+ Leading market position, product diversification and global presence
+ Commitment to profitable growth combined with financial discipline
+ Overall stable result of the key financial figure analysis for the 2020 financial year
+ EAT at the previous year's level due to positive one-off effects from the sale of the stake in Yakult
+ Positive development in the EDP (like-for-like) division, driven in particular by the growth in plant-based products
+ Reduced net financial debt as of December 31, 2020
+ Stable financial situation based on established access to the capital market

- Decline in sales in 2020 - mainly due to the COVID-19 pandemic - in particular in the Specialized Nutrition and Waters segment
- Noticeable deterioration in the operating result and operating margin (recurring operating margin), mainly due to the COVID-19-related product mix, and additional costs which could only be partially offset by countermeasures introduced to save costs
- Declining sales, also in the first quarter of 2021
- Burden from necessary (restructuring) investments of around EUR 3.4 billion by 2023 in order to resume the course of profitable growth announced by Danone; the investments are offset by planned cost savings of EUR 1 billion over the same period
- Uncertainty regarding the replacement of the CEO, who left the company in March 2021
- Uncertainty related to Group reorganization (local first)

ESG-criteria:

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Danone S.A. we have not identified any ESG factor with significant influence.

Danone has average values overall for CO2 emissions, energy and water consumption, but is one of the best companies of its size in an industry comparison. As an international company with worldwide production sites and complex supply chains in risky industries (e.g. cocoa production), violations of labor and human rights cannot be ruled out for Danone. The consideration of ESG factors, however, has been part of the corporate strategy for years, and was highlighted in 2020 by the adaptation of a newly-created type of company in France, an "entreprise á mission", which anchors in its statutes corporate goals in the areas of social, environmental and health. The social and environmental goals follow the United Nations Sustainable Development Goals, which we generally assess as positive. A key driver of Danone's ESG orientation was Emmanuel Faber, former CEO and Chairman of the Board of Directors, who, however, was relieved of his functions in March 2021. Although we generally assume that the strategic direction and focus on ESG factors will continue, it remains to be seen how they will be weighted in the future. Overall, we see Danone as solidly positioned with regard to ESG criteria, which has a stabilizing effect on the rating given the increasing focus on sustainability in the market.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Rating scenarios:

Please note: The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Best-case scenario: A-

In our best-case scenario for one year, we assume a rating of A-. This could be the case if the Company would generate improved operative results following increase in sales and realization of further cost savings while maintaining its expenses discipline and solid financing structure. However, taking into consideration the overall inflationary raw material prices, changing consumer trends, the Company's climate protection commitments, as well as the negative effects of the coronavirus outbreak, we assess the probability of short-term rating upgrade as low.

Worst-case scenario: BBB

In our worst-case scenario for one year, we assume a rating of BBB. This could be the case if Danone's key financials deteriorate as a result of a weakening demand for Danone's products, following the coronavirus outbreak, economic downturns or changes in consumer preferences in some markets or increase in cost of production, as well because of increase in capex and/or debt.

Analysts / Person approving (PAC):

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Initial rating:

Rating object	Event	Rating created	Publication date	Monitoring until	Result
Corporate Issuer Rating of Danone S.A.	Initial rating	29.03.2017	05.04.2017	04.03.2020	BBB+ / stable
LT LC Senior Unsecured Issues issued by Danone S.A.	Initial rating	28.09.2018	08.10.2018	04.03.2020	BBB+ / stable

Status of solicitation and information basis:

The present rating is, in the regulatory sense, a public **unsolicited** rating. The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

Rating methodology / Version / Date of application:

Rating methodology	Version number	Date
Corporate Ratings	2.3	29.05.2019
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

Regulatory requirements:

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report

2. Website

3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating

2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website.

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

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