

27 May 2022 – Neuss, Germany

Rating Action / Update:

Creditreform Rating has affirmed the unsolicited corporate issuer rating of Danone at **BBB+** / **stable**.

Creditreform Rating (CRA) has affirmed the rating of the unsolicited, public corporate issuer rating of Danone S.A., as well as the unsolicited corporate issue rating of long-term local currency senior unsecured notes issued by Danone S.A. at **BBB+**. The outlook for the ratings remains **stable**.

Analysts

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Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

- Globally strong market position with a well-diversified product and brand portfolio
- Restrained business development in FY 2021; sales and earnings still below pre-crisis level
- Operating income burdened by cost inflation and implementation of the Local First strategy; recurring operating margin (excluding special charges) declining again
- Stable result of financial key figure analysis in 2021 - although individual financial ratios show a slightly negative trend
- Solid liquidity position based on improved cash flow generation in connection with established capital market access
- Net debt noticeably reduced at the end of 2021 compared to previous year; the ratio net debt to EBITDA has nevertheless deteriorated
- New strategic plan "Renew Danone" should enable Danone to reconnect with a sustainable profitable growth model and to restore its competitiveness, recurring operating margin and a stronger discipline on capital allocation
- High level of uncertainty regarding global market development as a result of the ongoing pandemic situation, disrupted supply chains, significant cost inflation and the Russian war against Ukraine
- Appointment of a new CEO in 2021 and separation of the functions of Chairman of the Board of Directors and CEO

ESG factors are factors related to environment, social issues and, governance. For more information, please see the "Regulatory requirements". CRA generally takes ESG relevant factors into account, when assessing the rating object and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or the outlook.

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 industries with a higher risk profile (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 à mission", which anchors in its statutes corporate goals in the areas of social, environmental and health factors. The Company's social and environmental goals follow the United

Nations Sustainable Development Goals, which we generally assess as positive. 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.

Overall, in our opinion, there are a number of aspects to be observed with regard to the ESG factors, although we cannot derive an effect from them at the moment which would impact the rating. In the future, ESG factors may have an impact on our rating assessment, depending on the company's achievement of self-imposed goals and on regulatory changes.

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 result

Creditreform Rating has affirmed the unsolicited corporate issuer rating of Danone at **BBB+**. This rating attests Danone's highly satisfactory level of creditworthiness and a low to medium default risk. Our rating is based on Danone's diversified product and brand portfolio, global presence and strong market position. The overall stable result of the financial key figure analysis for the 2021 financial year also has a positive effect, although key financial figures showed a slightly negative trend due to restrained operating performance. The transformation of the organization (Local First) that began in 2020 and the strategic orientation (Renew Danone) that was adjusted at the end of 2021 are primarily intended to strengthen Danone's competitive position and to return the company to a sustainable, profitable growth path over the next two years. We see this as plausible - however, against the background of the ongoing pandemic situation, the disrupted supply chains, cost inflation and the Russian war against Ukraine, which is further exacerbating the difficult market conditions, we think it will be difficult to achieve this target for the time being. With an improved free cash flow compared to the previous year, sufficient credit facilities and established access to the capital market, we assess Danone's liquidity position as solid and see this as a stabilizing factor for the rating.

Outlook

The one-year outlook for the rating is **stable** and reflects our expectation that Danone will be able to adequately deal with the challenging market conditions and realize an overall business development according to plan. Despite the weakened operating margins compared to the pre-crisis level and the additional existing margin pressure, we assume that Danone can maintain a solid liquidity position and financial ratio level in line with the rating. The stable outlook is supported by Danone's commitment to disciplined capital allocation and financial policy as expressed, for example, in a net debt to EBITDA ratio of < 3x – even if the ratio could be exceeded temporarily in 2022. Due to the difficult market conditions and geopolitical conflicts, there is increased uncertainty with regard to further business development, so that a deterioration in the outlook or rating cannot be ruled out.

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 generates improved recurring operative results and cash flows following an increase in sales and the realization of further cost savings while maintaining its expenses discipline and solid financing structure. However, taking into consideration the continuing circumstances of the pandemic, as well as the Russian war against Ukraine and the resulting global macroeconomic turbulence and its consequent adverse impact on cost inflation and supply chains, we assess the probability of a rating upgrade in the short-term as low, particularly as the implementation of the local first transformation will entail additional cost burdens in the coming years and Danone expects a margin below the previous year's level due to reinvestments of Local First savings in product, execution, A&P and capabilities.

Worst-case scenario: BBB

In our worst-case scenario for one year, we assume a rating of BBB. We assume that the pandemic situation will continue and that cost inflation will further intensify as a result of the war between Russia and Ukraine, without Danone being able to compensate for the cost inflation through corresponding price adjustments and cost savings. These factors would result in a significant drop in operating income (margins), a significant increase in debt, and a significant deterioration in key financial ratios, which in total could lead to a downgrade. Negative effects could also arise in the course of the Company's continued Russian business.

Business development and outlook

Table 1: Financials of Danone S.A. | Source: Danone S.A. Annual report 2021, standardized by CRA

Danone S.A. Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (IAS, Group)	CRA standardized figures ¹	
	2020	2021
Sales (million EUR)	23,620.0	24,281.0
EBITDA (million EUR)	4,250.0	3,522.0
EBIT (million EUR)	2,798.0	2,257.0
EAT (million EUR)	2,030.0	1,991.0
EAT w/o non-controlling interests (million EUR)	1,956.0	1,924.0
Total assets (million EUR)	33,626.0	35,741.5
Equity ratio (%)	25.64	25.41
Capital lock-up period (days)	53.58	60.10
Short-term capital lock-up (%)	27.59	28.01
Net total debt / EBITDA adj. (factor)	4.34	4.53
Ratio of interest expenses to total debt (%)	2.06	1.68
Return on Investment (%)	6.96	6.30

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 takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

In the past 2021 financial year, Danone recorded sales growth of 2.8% to EUR 24.3 billion (previous year: EUR 23.6 billion). On a like-for-like basis (mainly adjusted for currency and consolidation effects), sales growth was 3.4%. The main reason for this positive sales development was price increases which more than compensated for the decline in sales volume (-0.6%) realized in the same period. The slight decline in sales at Group level is attributable to the "Specialized Nutrition" division, which saw significant impairments, especially in the sale of baby food in China and Hong Kong due to the pandemic-related restrictions on cross-border sales channels and the freedom to travel. By contrast, the other two areas, "Essential Dairy & Plant-based" (EDP) and "Waters", recorded slight increases in sales.

All three core segments show increases in sales compared to the previous year, but were not able to reach the pre-crisis level in 2019. Despite the growth in sales, EBITDA at EUR 3.5 billion (previous year: EUR 4.3 billion) and EBIT at EUR 2.3 billion (previous year: EUR 2.8 billion) were noticeably below the comparative values for the previous year. The EBIT margin fell from 11.8% in the previous year to 9.3%. This was primarily due to general cost inflation, which led to a disproportionate increase in cost of goods sold compared to sales and could only be partially offset by increases in productivity and cost reductions. On the other hand, selling and administrative expenses rose in proportion to sales. In addition, other operating expenses of around EUR 1.1 billion (previous year: around EUR 0.6 billion), which mainly arose in connection with the Local First Transformation, burdened the result. It should be noted here that the expenses resulted in part from the formation of provisions and were therefore liquidity-neutral in 2021. If the EBIT is corrected for the other operating expenses (income) declared by Danone as non-recurring, the recurring operating income in 2021 was EUR 3.3 billion, at the previous year's level. Due to the higher sales basis, however, the recurring operating margin fell further from 14.0% to 13.7% compared to the previous year.

Table 2: Development of operating segments | Source: Danone S.A. Annual reports 2019-2021

EUR million		Essential Dairy & Plant-based (EDP)	Specialized Nutrition	Waters	Total
Sales	2021	13.090	7.230	3.961	24.281
	2020	12.823	7.192	3.605	23.620
	2019	13.163	7.556	4.568	25.287
Recurring Operating Income	2021	1.287	1.697	353	3.337
	2020	1.303	1.763	251	3.317
	2019	1.345	1.908	593	3.846
Margin (%)	2021	9.8%	23.5%	8.9%	13.7%
	2020	10.2%	24.5%	7.0%	14.0%
	2019	10.2%	25.3%	13.0%	15.2%

In contrast to the EBIT, the EAT of EUR 2.0 billion was at the level of the previous year (EUR 2.0 billion). In addition to the lower interest and tax expenses, this was mainly due to the improved share of profit of associates, which was positively influenced by the sale of the shares in the Chinese milk producer Mengniu. With the sale of Mengniu, Danone achieved proceeds of EUR 1.6 billion and a gain, after selling expenses, of EUR 0.6 billion.

Against the background of the stable development of the EAT and positive translation differences of roughly EUR 1.0 billion (previous year: EUR -1.8 billion) which are posted in other comprehensive income (OCI), Danone was able to increase equity despite unchanged dividend payments (EUR 1.4 billion) and the implemented share buyback program (EUR 0.8 billion). However, the adjusted equity ratio used by CRA fell slightly, amounting to 25.4% at the end of 2021 (previous year: 25.6%). The main reason for this is the disproportionate increase in total assets and the increase in goodwill (half of which is deducted from equity according to CRA methodologies).

According to the company, net debt fell from EUR 11.9 billion in the previous year to EUR 10.5 billion due to increased liquidity, thus corresponding to 3.0 times EBITDA (previous year 2.8x). Danone itself has committed to maintaining a net debt to EBITDA ratio of less than 3x. The key financial figure "net total debt / EBITDA adj." used by CRA also increased slightly to 4.53x (previous year: 4.34x).

Overall, despite the difficult macroeconomic conditions caused by the pandemic, Danone has achieved a stable result from the analysis of financial indicators for the 2021 financial year, although key financial ratios have deteriorated slightly due to the restrained operating performance. Based on the 2021 consolidated financial statements, we continue to assess the liquidity situation as solid. We see the improved free cash flow and the increased liquidity combined with the available financial facilities, the diversified maturity structure of the Company's financing and the established access to the capital market as a stabilizing factor for the rating.

Against the background of the adjusted strategic orientation (Renew Danone) and the ongoing Local First Transformation, Danone describes the current financial year 2022 as a "foundational year". Danone expects sales growth driven by price increases on a comparable basis (like-for-like) of 3%-5% and a recurring operating margin of over 12%, which will primarily reflect the high (low to mid-teens) cost inflation, full reinvestment of Local First's savings and modest productivity gains. Danone is therefore noticeably lowering its previous margin expectations for 2022 of over 15%, which we consider plausible and understandable against the background of the current geopolitical and macroeconomic framework and the ongoing transformation process. For the following years 2023-2024, revenue growth (like-for-like) should continue to be 3%-5% and recurring operating income should grow faster than revenue. In addition to a gradual ROIC (return on invested capital) improvement through capital allocation discipline, portfolio rotation, an increase in CAPEX to up to 4.5% of sales and working-capital improvements, Danone expects to achieve a net debt to EBITDA ratio of under 3x. In view of the expected deterioration in margins, further investment requirements and liquidity burdens, we consider compliance with the net debt to EBITDA ratio in the current financial year to be very ambitious, especially with regard to the Company's business in Russia, one of Danone's largest markets (in terms of sales), where there are increased uncertainties.

Overall, we see Danone in a position to meet the current challenges in an adequate manner and to achieve its strategic goals, thus maintaining the stability of the rating. The positive sales development in the first quarter of 2022 supports our assessment.

Issue rating

Issue rating details

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in euro, issued by Danone S.A. which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB.

The notes have been issued within the framework of the Euro Medium Term Note (EMTN) programme, of which the latest base prospectus dates from 18. May 2022. This EMTN programme amounts to EUR 13 bn. The notes under the EMTN programme are senior unsecured, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the issuer. Additionally, the notes benefit from a negative pledge provision, a change of control clause and a cross default mechanism. The terms of individual Notes or tranches depend on the respective final terms and conditions.

Result corporate issue rating

We have provided the EUR-denominated, unsubordinated and unsecured debt securities issued by Danone S.A. with an unsolicited corporate issue rating of **BBB+**, having strongly satisfactory credit quality and a low to medium risk of default. The outlook is also **stable**. In consideration of our corporate issue rating methodology, the rating is based on the unsolicited corporate issuer rating of Danone S.A. The terms and conditions did not give rise to the application of an extraordinary notching to the unsolicited corporate issuer rating.

Other types of debt instruments or issues denominated in other currencies of the issuer have not been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Overview

Table 3: Overview of CRA Ratings | Source: CRA

Rating Category	Details	
	Date	Rating
Danone S.A. (Issuer)	27.05.2022	BBB+ / stable
Long-term Local Currency (LC) Senior Unsecured Issues	27.05.2022	BBB+ / stable
Other	--	n.r.

Table 4: Overview of Euro Medium Term Note Programme | Source: Base Prospectus dated 18.05.2022

Overview of 2022 EMTN Programme			
Volume	EUR 13,000,000,000	Maturity	Depending on respective bond
Issuer / Guarantor	Danone S.A.	Coupon	Depending on respective bond
Arranger	BNP Paribas	Currency	Depending on respective bond
Credit enhancement	none	ISIN	Depending on respective bond

All future LT LC senior unsecured Notes issued by Danone S.A. which have similar conditions to the current EMTN programme, denominated in euro and are included in the list of ECB-eligible marketable assets will, until further notice, receive the same rating as the current LT LC senior unsecured Notes issued under the EMTN programme. Notes issued under the programme in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG. For the time being, other emission classes or programmes and issues that do not denominate in euro will not be assessed.

Appendix

Rating history

The rating history is available under:

<https://www.creditreform-rating.de/en/ratings/published-ratings.html>

Table 3: Corporate issuer rating of Danone S.A. | Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	29.03.2017	05.04.2017	04.03.2022	BBB+ / stable

Table 4: LT LC senior unsecured issues issued by Danone S.A. | Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	28.09.2018	08.10.2018	04.03.2020	BBB+ / stable

Regulatory requirements

The rating² was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an public unsolicited rating. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

With Rated Entity or Related Third Party Participation	No
With access to Internal Documents	No
With Access to Management	No

A management meeting did not take place within the framework of the rating process.

The documents and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

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

The documents contain a description of the rating categories and a definition of default.

² In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Artur Kapica	Lead-analyst	A.Kapica@creditreform-rating.de
Sabrina Mascher de Lima	Analyst	S.Mascher@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Tobias Stroetges	PAC	T.Stroetges@creditreform-rating.de

On 27 May 2022, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 30 May 2022. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for 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](#).

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.

Disclaimer

Any rating performed by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct, which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the enterprise or the issue under review.

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