

Danone Investment Memo

Return: 59.9% (5 Years) | 8.9% / Year

Neutral Rating

Investment Thesis

- I. Industry
- II. Company
- III. Turnaround
- IV. Valuation & Return

Appendix

BREQ Capital

Enrico Andrade Quinzani



DANONE
ONE PLANET. ONE HEALTH

Investment Thesis

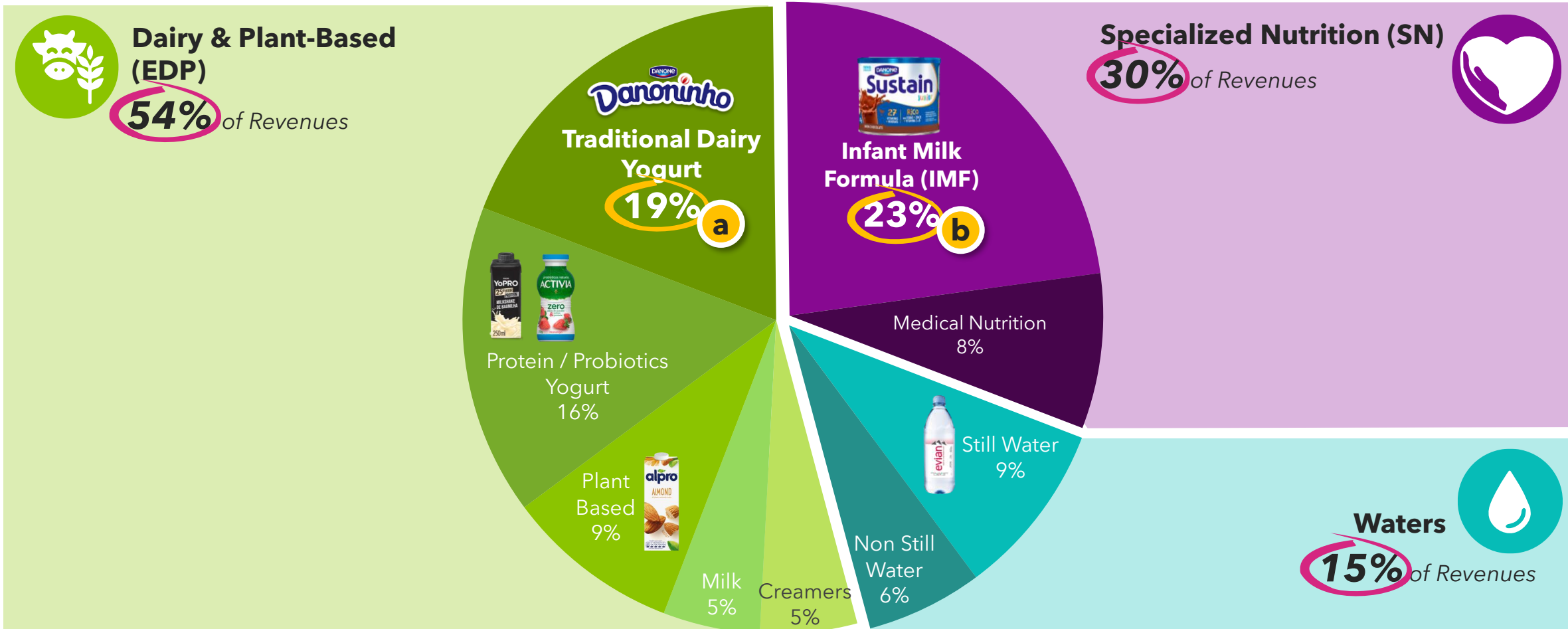
The thesis is based on the analysis of **4 key aspects**:



I Danone's Category Exposure

Revenues divided into **three business segments**

Breakdown of Danone's Revenues:

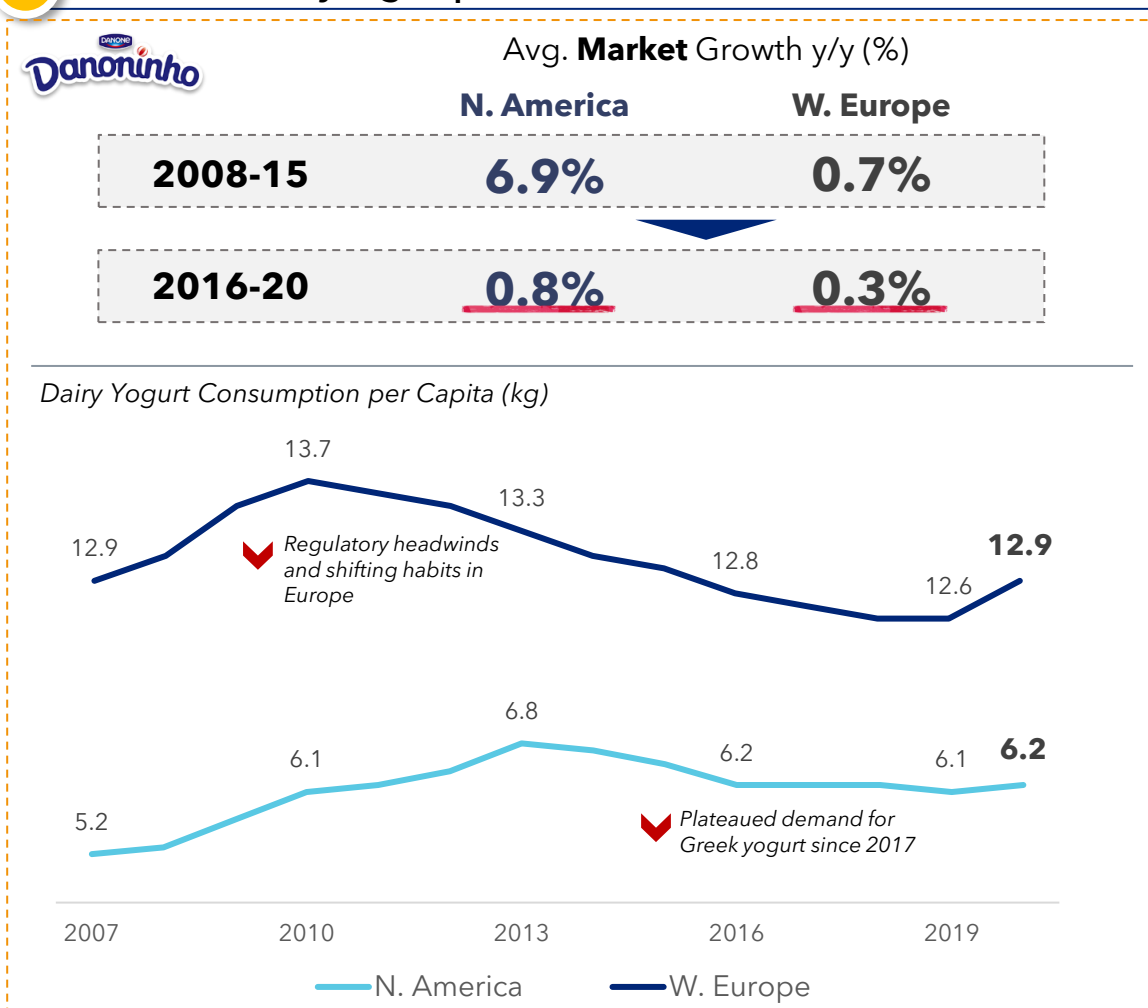


a and **b** represent **~40%** of Danone's revenue...

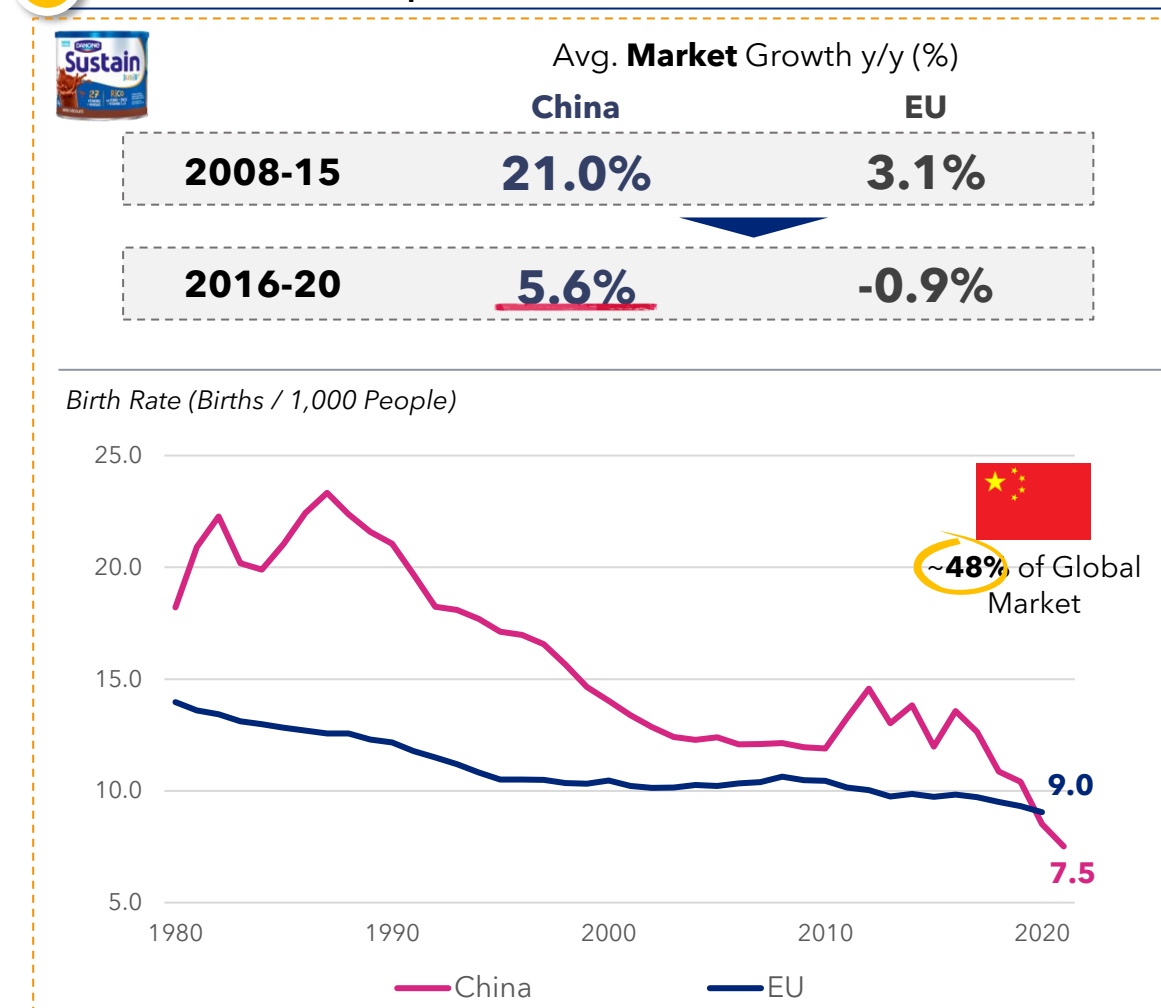
I Negative Trends Impacting Core Categories

Traditional Dairy Yogurt and Infant Milk Formula showed **declining end market growth** even before the pandemic, due to **secular trends**

a Traditional Dairy Yogurt | ~20% Sales



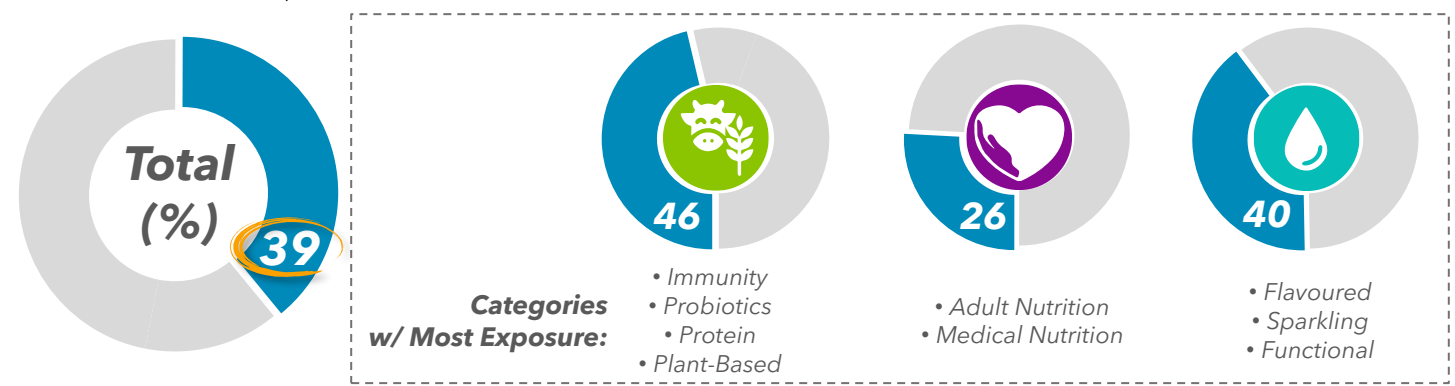
b Infant Milk Formula | ~20% Sales



Negative market dynamics could be partly offset by a consumer **Megatrend** in **Health & Wellness**

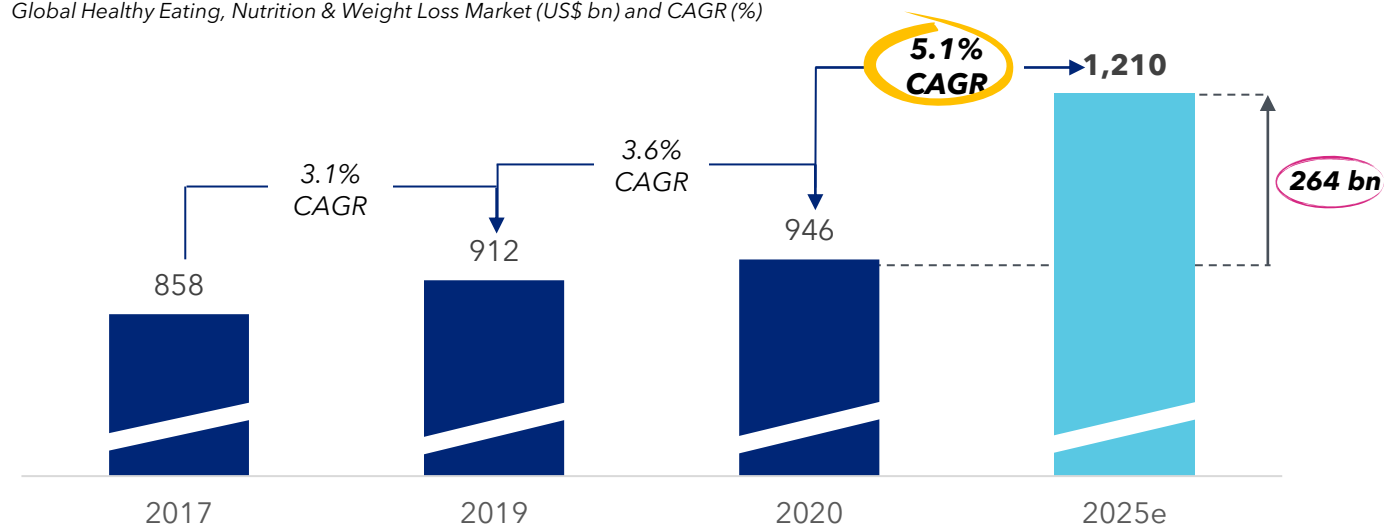
1. Danone has 39% of Revenues in Healthy Categories

% of Danone’s Revenue Exposed to Health & Wellness Trends (%)



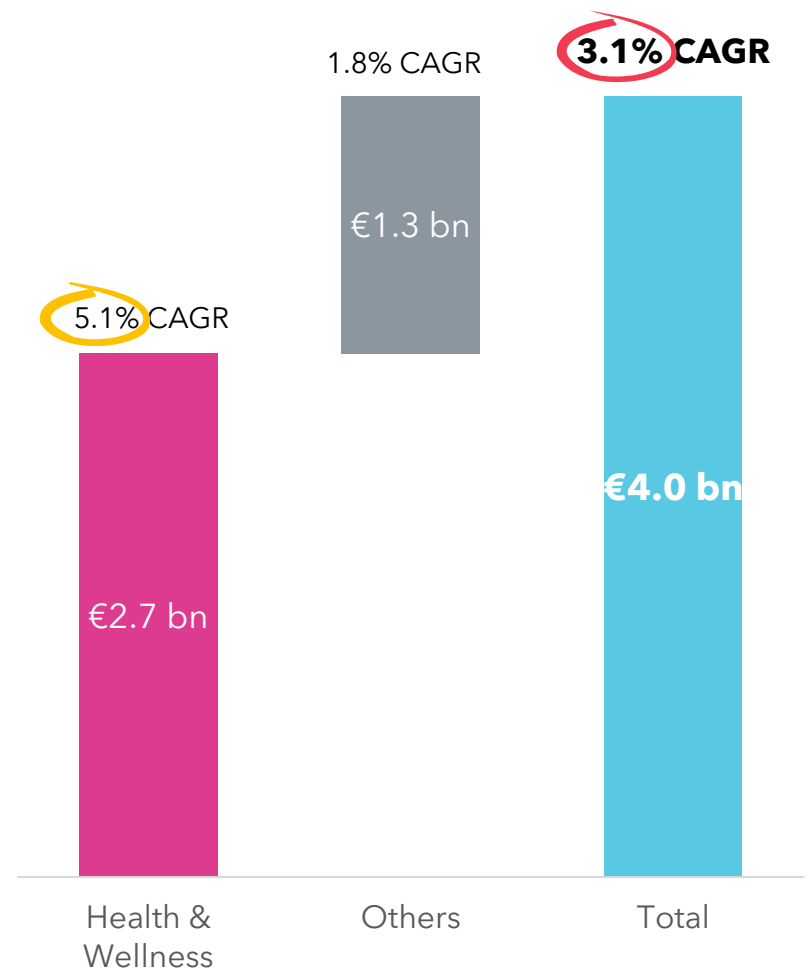
2. The Healthy Eating Market is Expected to Grow 5.1% per Year Until 2025

Global Healthy Eating, Nutrition & Weight Loss Market (US\$ bn) and CAGR (%)



3. Helping to Offset Negative Market Trends

Sales Growth in € billion and CAGR (%) between 2021-26



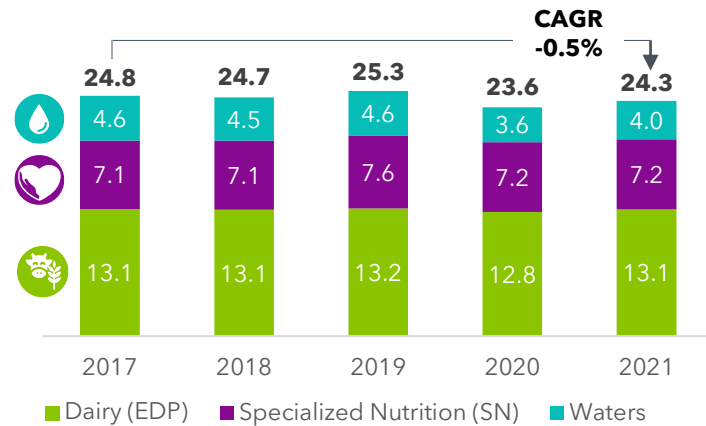
Source: Global Wellness Institute, JP Morgan Research Estimates, Company Reports, IRI Worldwide

II Company Overview

Danone has the industry's **2nd highest gross margin**, resulting from the company's exposure to Specialized Nutrition and Water segments

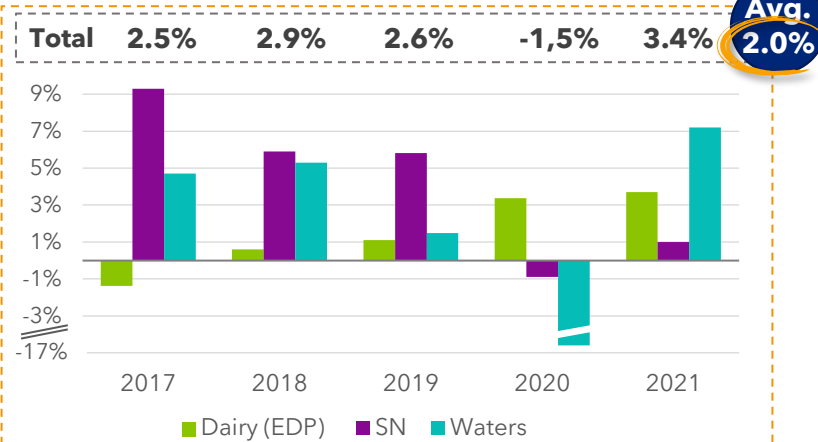
1. Reported Sales Declined, Mostly due to Negative FX

Reported Net Sales (€ bn) and CAGR (%)



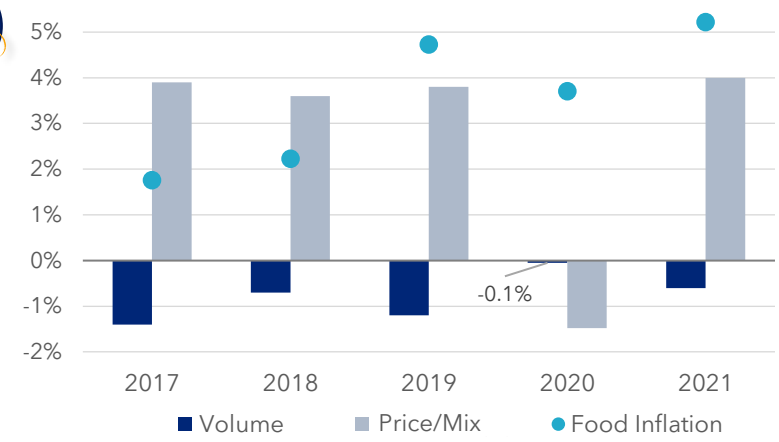
2. Market Headwinds Contributed to Weak Organic Growth

Like-for-Like (LFL) Sales Change by Segment (%)



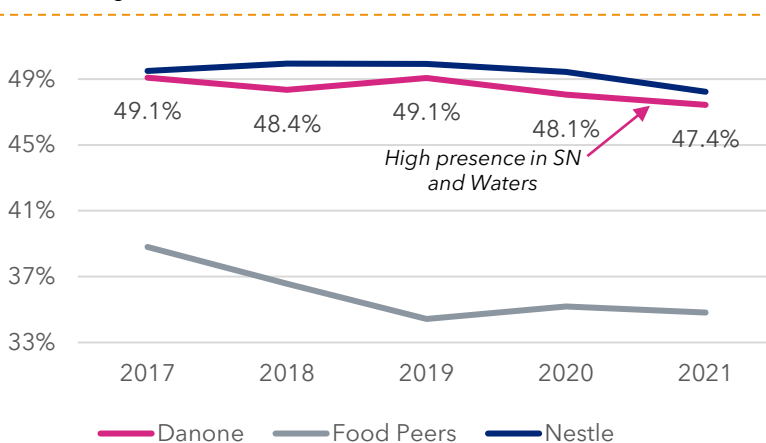
3. Pricing Growth Below Inflation, with Volumes Down

LFL Sales Change by Component (%) and End Markets Food Inflation¹ (%)



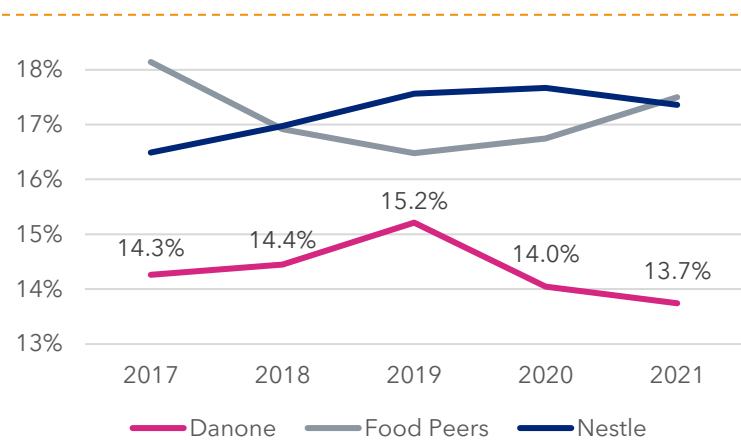
4. Sector Exposure Grants 2nd Highest Gross Margin

Gross Margin - Danone vs. Peers Median (%)



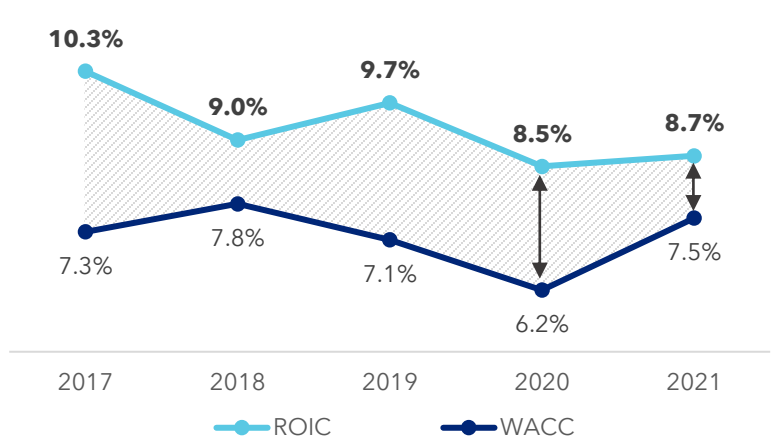
5. EBIT Margin is Pressured by High OpEx

Recurring Operating Margin - Danone vs. Peers Median (%)



6. ROIC Marginally Above WACC

Danone's ROIC vs. WACC (%)

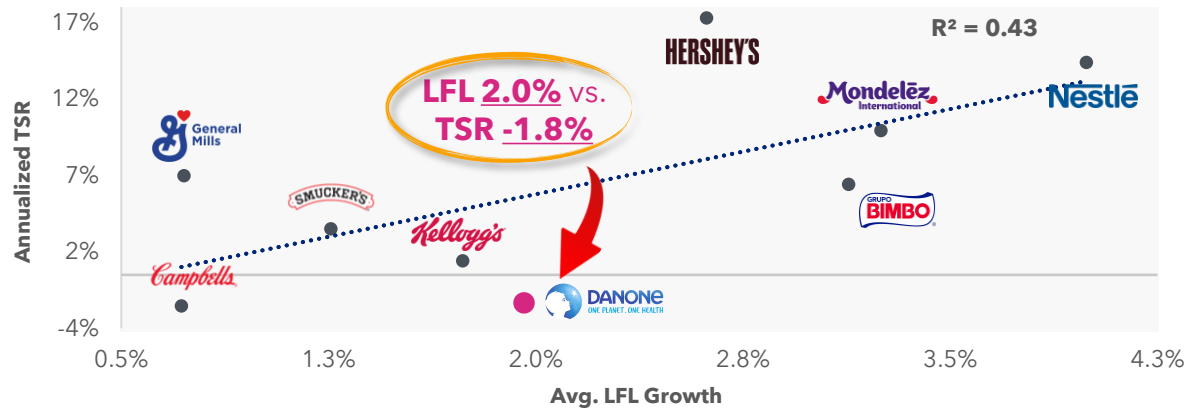


II Underperformance

Low organic sales growth helps to explain the share's underperformance. Total Shareholder Return is -1.8% p.a for the last 5 years

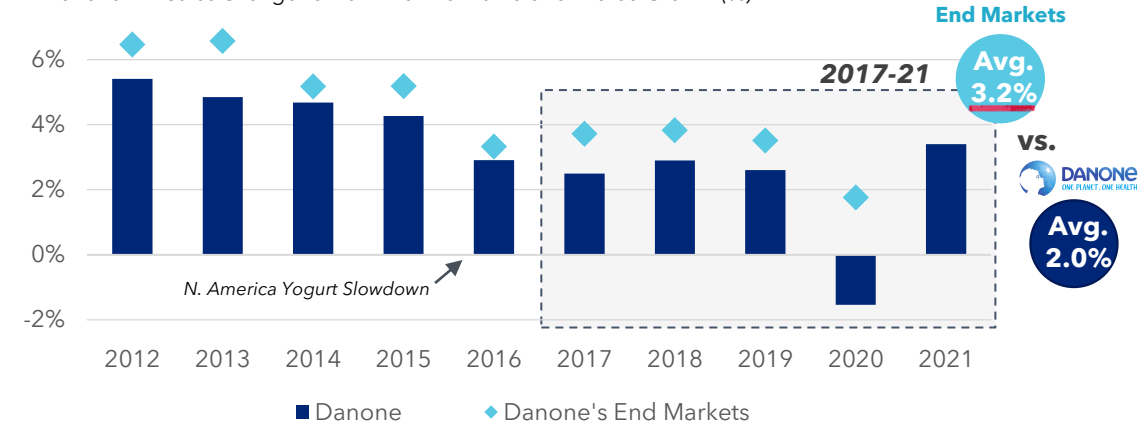
1. Shareholder's Return Reflects Low Sales Growth in the Period

2017-21 Annualized Total Shareholder Return (TSR) vs. Avg. Like-for-Like (LFL) Growth (%)



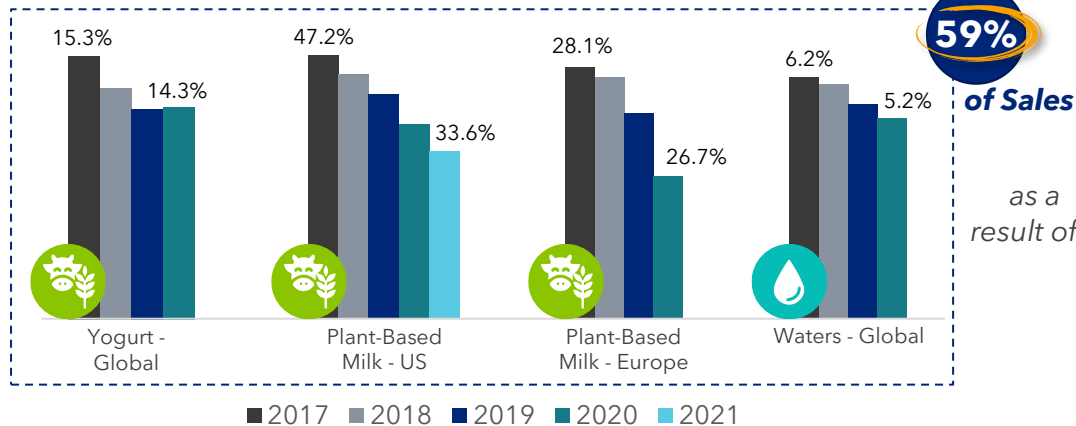
2. End Markets Slowdown is One of the Reasons, but not the Main One

Danone LFL Sales Change vs. 2012-20 End Markets Estimated Growth (%)



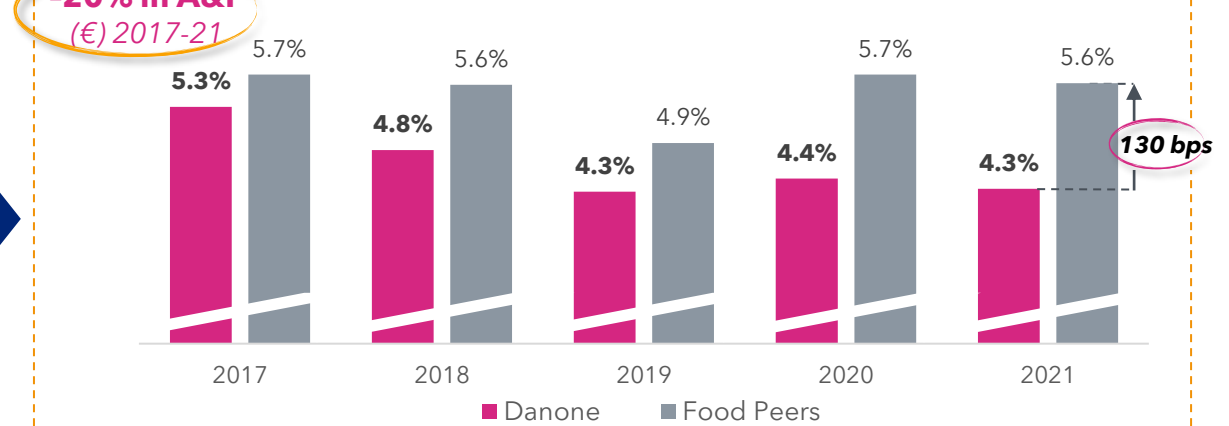
3. Danone Lost Market Share in Categories Representing ~59% of it's Sales

Danone's Market Share (%) by Category



4. Underinvestment in Advertising & Promotion (A&P) Led to Mkt. Share Losses

A&P as a % of Net Sales - Danone¹ vs. Peers

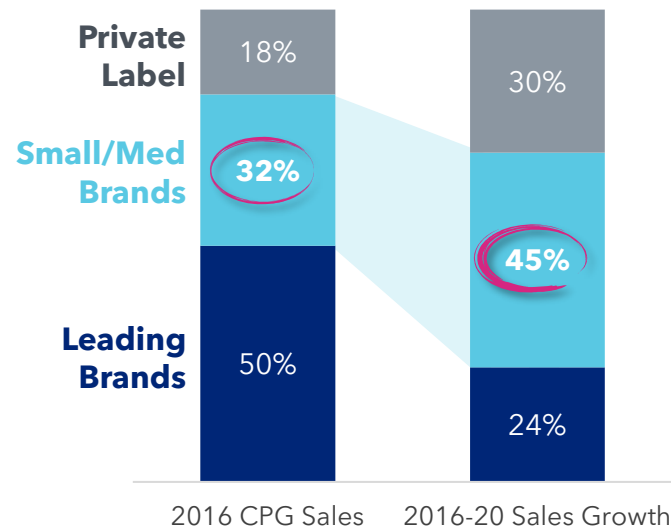


II Underperformance (cont.)

Low portfolio rotation contributed to lackluster sales growth

1. Small/Med Brands Grew Disproportionately

% of Total CPG Sales and Sales Growth

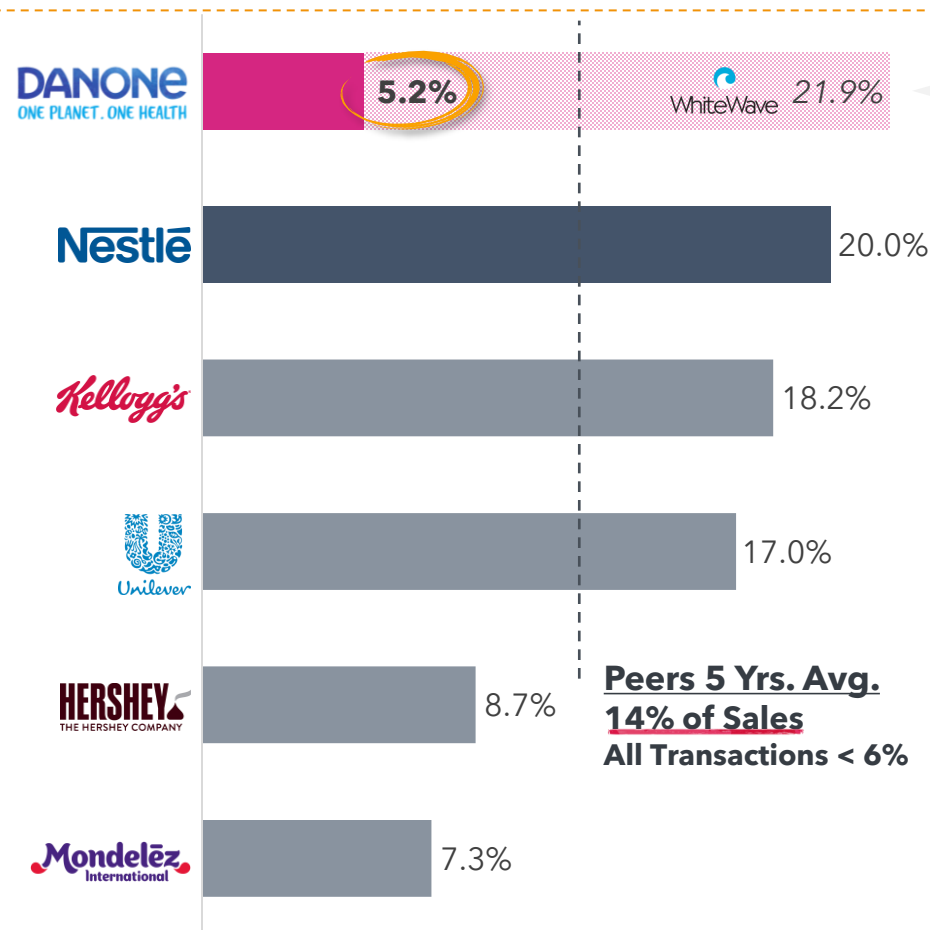


Bolt-On Acquisitions paid off for big names in Consumer Staples...

"Consumer goods companies that are **frequent acquirers outperform their peers**, with **twice the sales growth** rate, [...] and **1.2 times total shareholder return (TSR)** growth than the industry average" **BAIN & COMPANY**

2. Danone Lagged Peers in Portfolio Rotation

Estimated Portfolio Rotation Between 2017-21 (%)¹



Danone Portfolio Choices

Big and Expensive Acquisitions

WhiteWave €11.3 bn
EV/EBITDA **21.2x**

Too Few Bolt-On Acquisitions

HARROGATE
SPRING WATER

MICHEL & AUGUSTIN
Les tribulations du goût

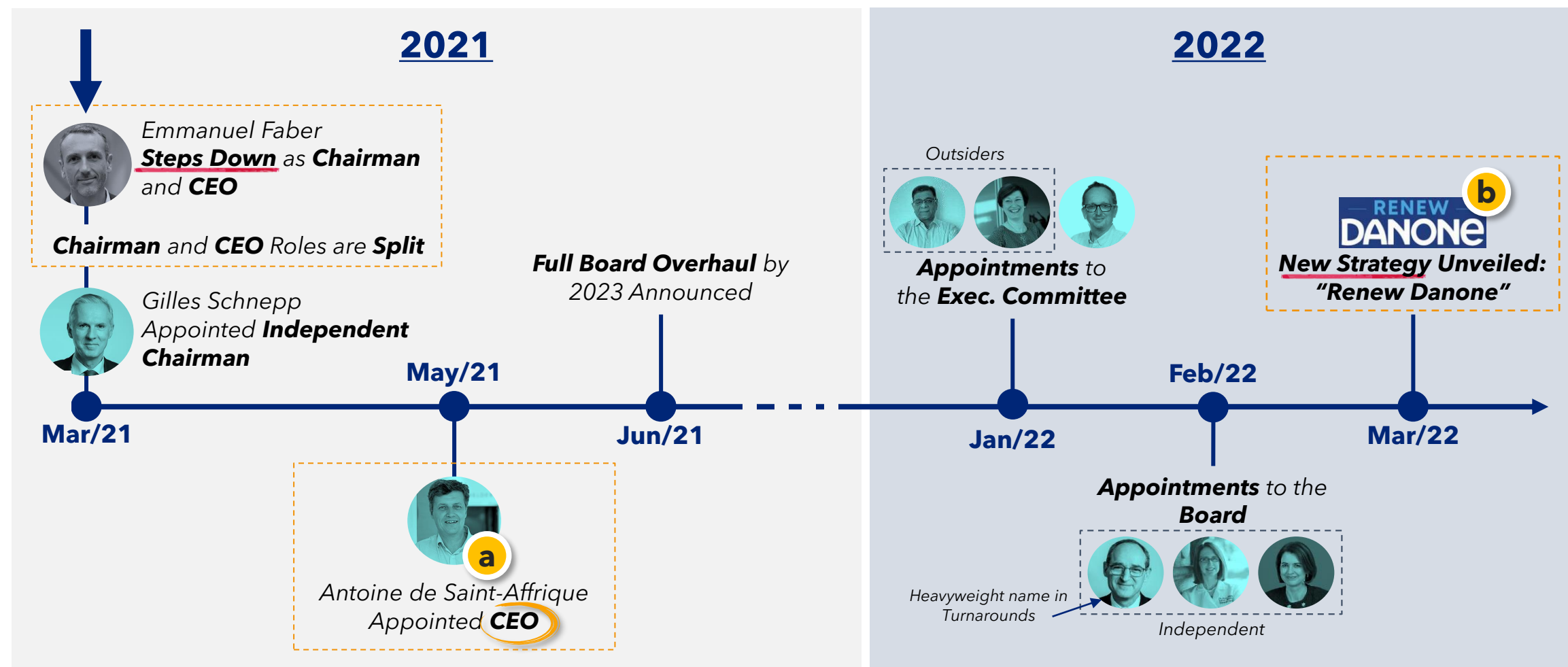
Maintain Underperforming Brands

HORIZON
ORGANIC



III Turnaround Timeline



Danone's poor performance resulted in the **removal** of its **former CEO and Chairman**, Emmanuel Faber



... the Turnaround depends on the success of **a** and **b**

III New CEO

a The turnaround **depends on the new CEO's ability** to successfully carry out the company's strategy

	Avg. Like-for-Like Sales Growth		EBIT Margin Chg.		ROIC Chg.		Avg. TSR	
	2016-19	2016-20	2016-19	2016-20	2016-19	2016-20	2016-19	2016-20
 <p><i>Antoine de Saint-Afrigue</i></p> <ul style="list-style-type: none"> 30+ Years in operating roles at Unilever CEO of Barry Callebaut from 2016-20: <ul style="list-style-type: none"> Focus on <u>sustainable accretive growth</u> 	3.5%	3.3%	2.2 p.p	1.0 p.p	3.0 p.p	0.8 p.p	19.7%	15.3%
 <p><i>Emmanuel Faber</i></p> <ul style="list-style-type: none"> Financial background CEO of Danone from 2015-20: 	2.2%	1.9%	1.4 p.p	0.3 p.p	-0.9 p.p	-2.1 p.p	6.9%	-0.1%

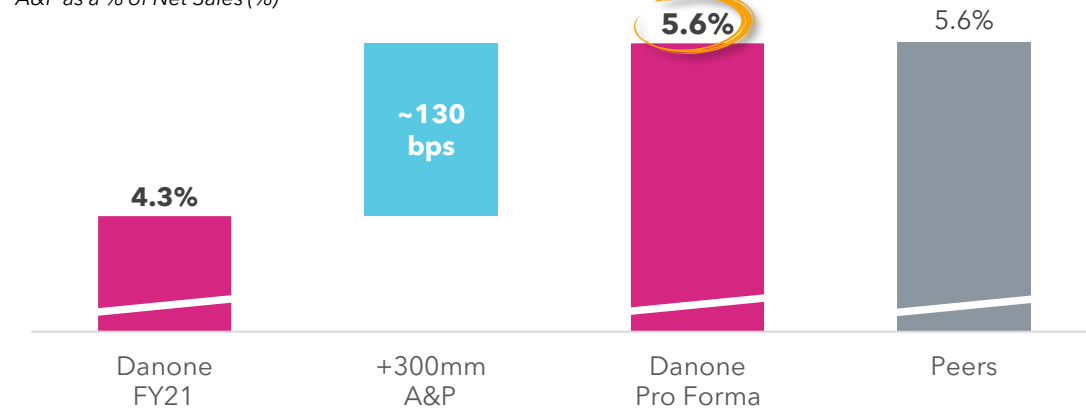
... the new CEO has good track record and seems qualified

III New Strategy: Renew Danone

b The turnaround **depends on the new strategy's capacity** to address the company's core reasons for underperformance

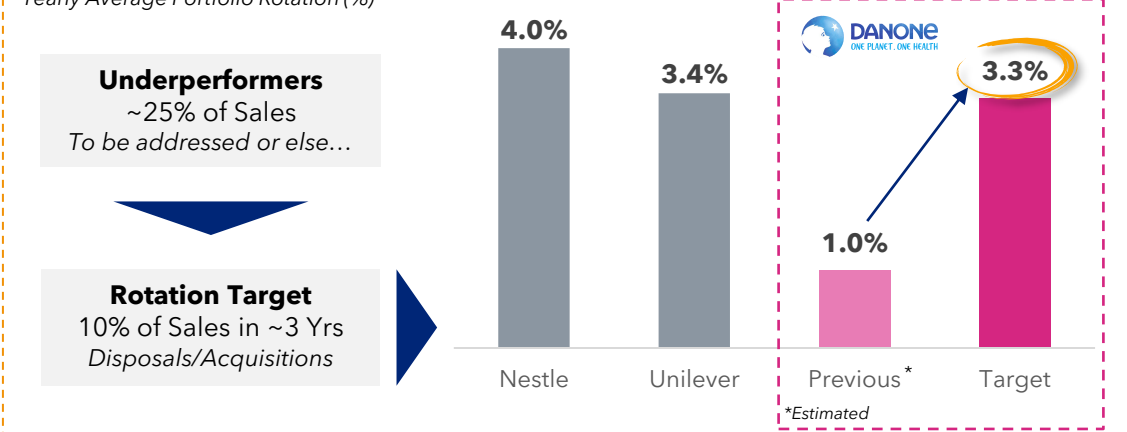
1. Advertising & Promotion (A&P) Back to Competitive Levels 1

A&P as a % of Net Sales (%)



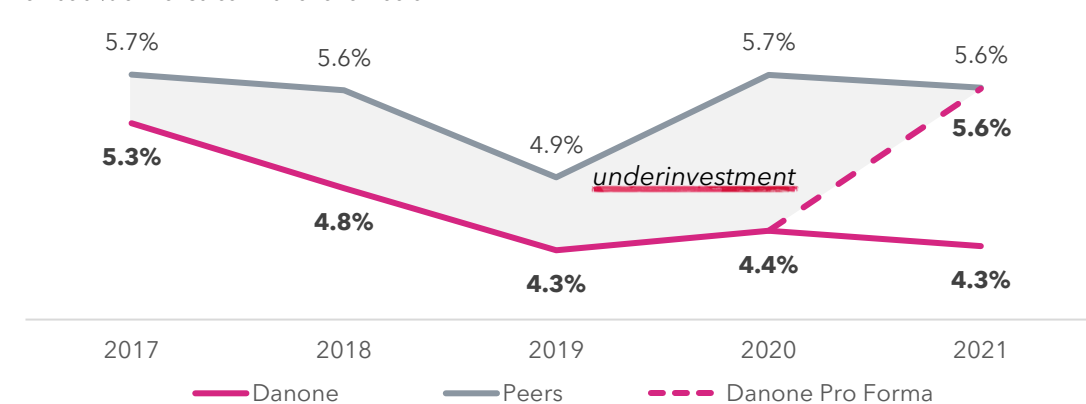
2. Portfolio Rotation Target in Line with Industry's Best 2

Yearly Average Portfolio Rotation (%)



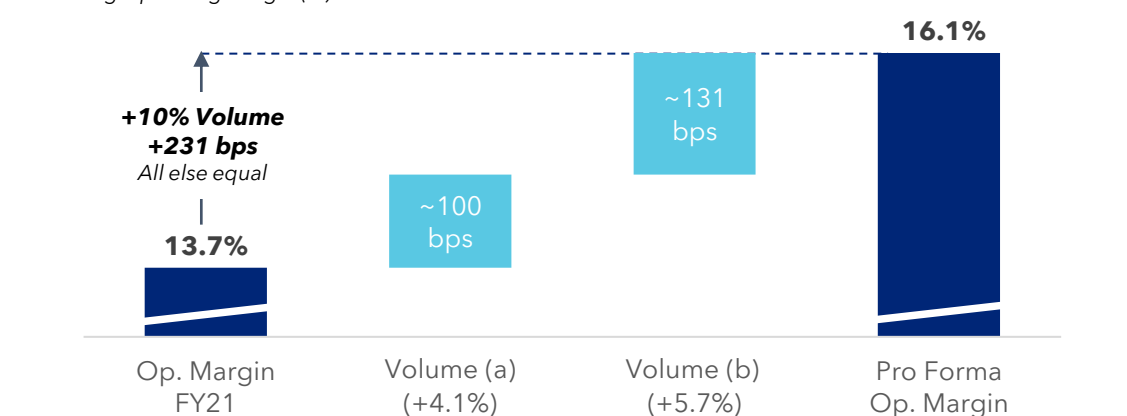
3. A&P Increases Could Have a Delayed / Limited Effect

A&P as a % of Net Sales - Danone vs. Peers



4. Operating Margin Upside from Focus on Growing Volume

Recurring Operating Margin (%)



III Turnaround Takeaways

The turnaround has **potential to be successful**. There are two main factors contributing to it

1. Current Restructuring is Different from Previous Ones

1st



First to address the company's real **causes for underperformance**:

Poor Strategic Planning:

Underinvestment in Brand/Innovation

Inactive Portfolio Management

Poor Capital Allocation Decisions

Inadequate Leadership:

Poor Corporate Governance

Inadequate Management / Board

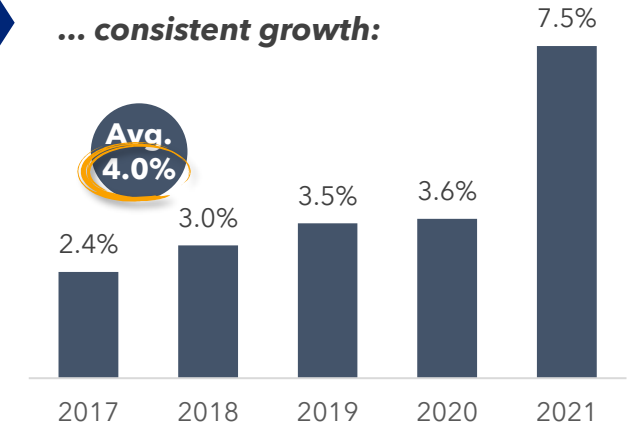
2. Danone Borrows from Nestle's 2017-22 Successful Playbook

2nd

Nestle 2017-22 Strategy:

1. Invest selectively in fast-growing categories / regions;
2. **Address underperformers;**
3. Product and business model innovation;
4. Embrace digital opportunities;
5. **Active portfolio management.**

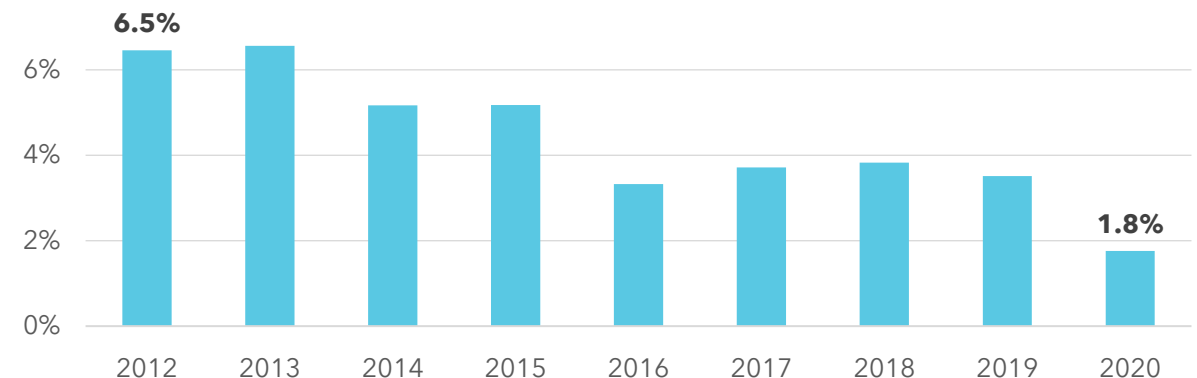
resulted in...
... **consistent growth:**



3. Health & Wellness Could Fail to Revitalize End Markets Growth

3rd

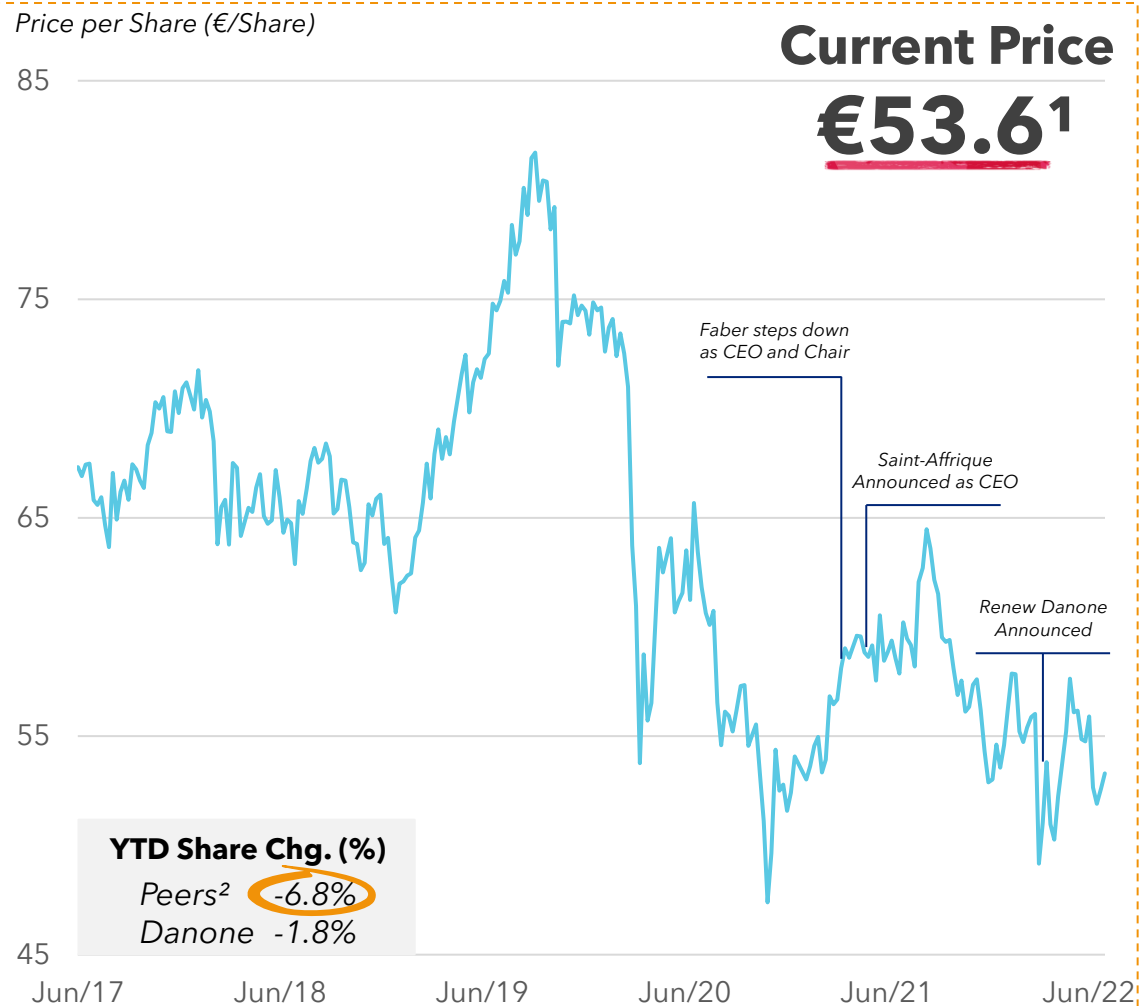
Danone's End Markets Estimated Growth (%)



IV Trading Multiples

Danone's shares are **trading at a discount** relative to 5-year average multiples

1. Shares Haven't Rerated Yet



2. On a P/E Basis, Shares are at a **~6% Discount** to Danone's Historical Avg.



3. Shares Trade at a **~12% Discount** to Danone's Historical EV/EBITDA





Source: Bloomberg, Bloomberg Consensus

1. Closing price as of Jul 08, 2022

2. MSCI Europe Consumer Staples Index

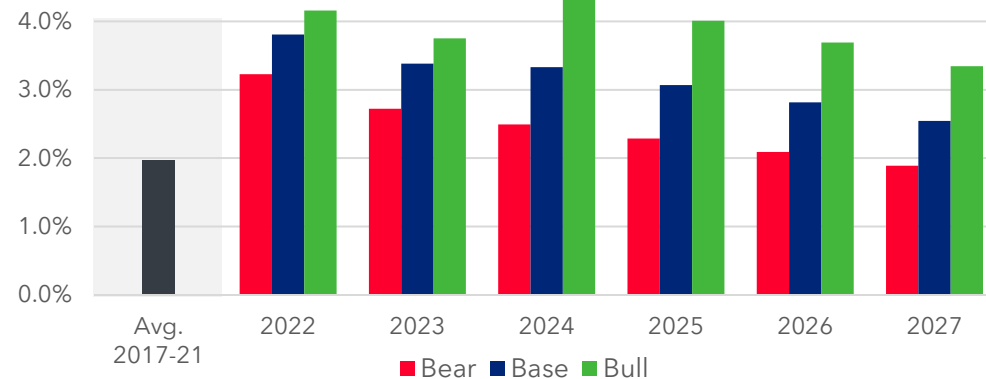
IV Scenarios

Base Case scenario indicates an expected **Total Shareholder Return** in ~5 years of **60%**, or **8.9% per year**

Projections 2022-27	Base Case	 Bear Case	 Bull Case
Total Shareholder Return (~5 yrs.)	59.9% (8.9% / year)	29.5% (4.8% / year)	102.5% (13.7% / year)
a Organic Sales Growth y-o-y (%)	3.2%	2.5%	3.9%
Danone Growth / Market Growth (%)	<u>In line with</u> the market	-25% <u>below</u> the market	+30% <u>above</u> the market
b EBIT Margin FY2027 (%)	14.8%	13.4%	16.8%

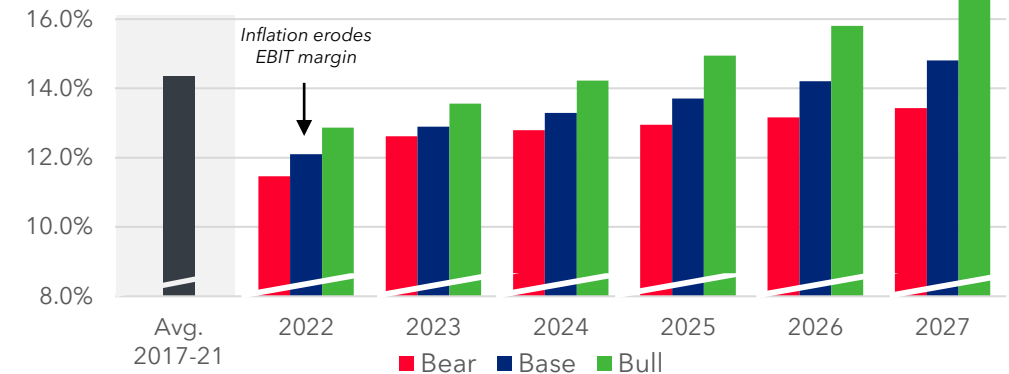
1. Projected Organic Sales Growth (%)

a



2. Projected Recurring EBIT Margin (%)

b



IV

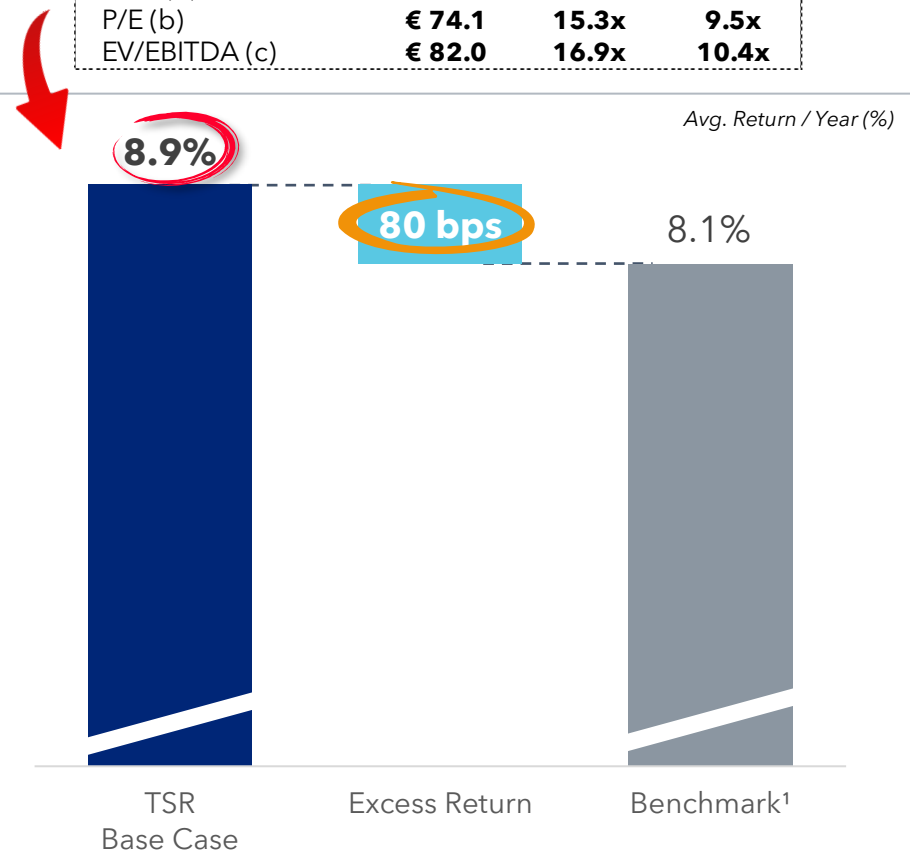
Risk and Return

Base Case yearly Total Shareholder Return (TSR) is **80 bps above the benchmark**

1. Base Case Yearly TSR is 80 bps Above the Benchmark

Investment at €54/Share and exit at €78.4/Share in Dec/27

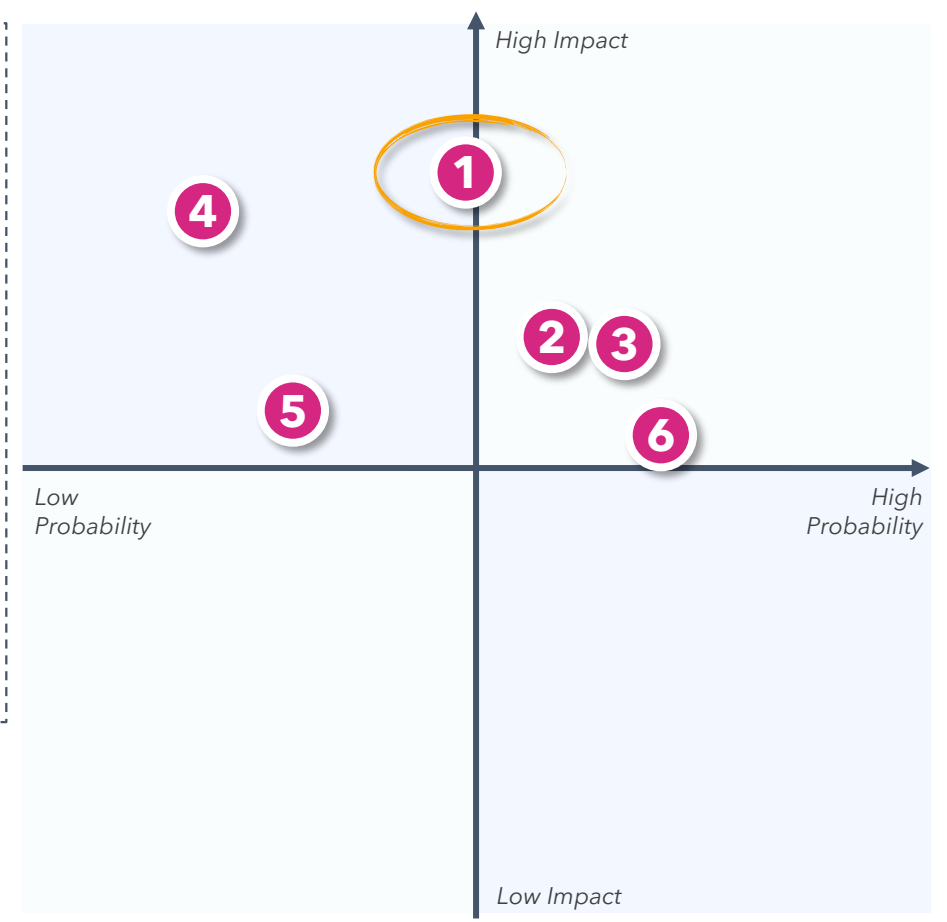
Valuation - Dec/27	€ / Share	P/E	EV/EBITDA
Simple Average	€ 78.4	16.2x	10.0x
DCF (a)	€ 79.2	16.4x	10.1x
P/E (b)	€ 74.1	15.3x	9.5x
EV/EBITDA (c)	€ 82.0	16.9x	10.4x



2. Excess Returns Don't Compensate the Risks

Main Downside Risks:

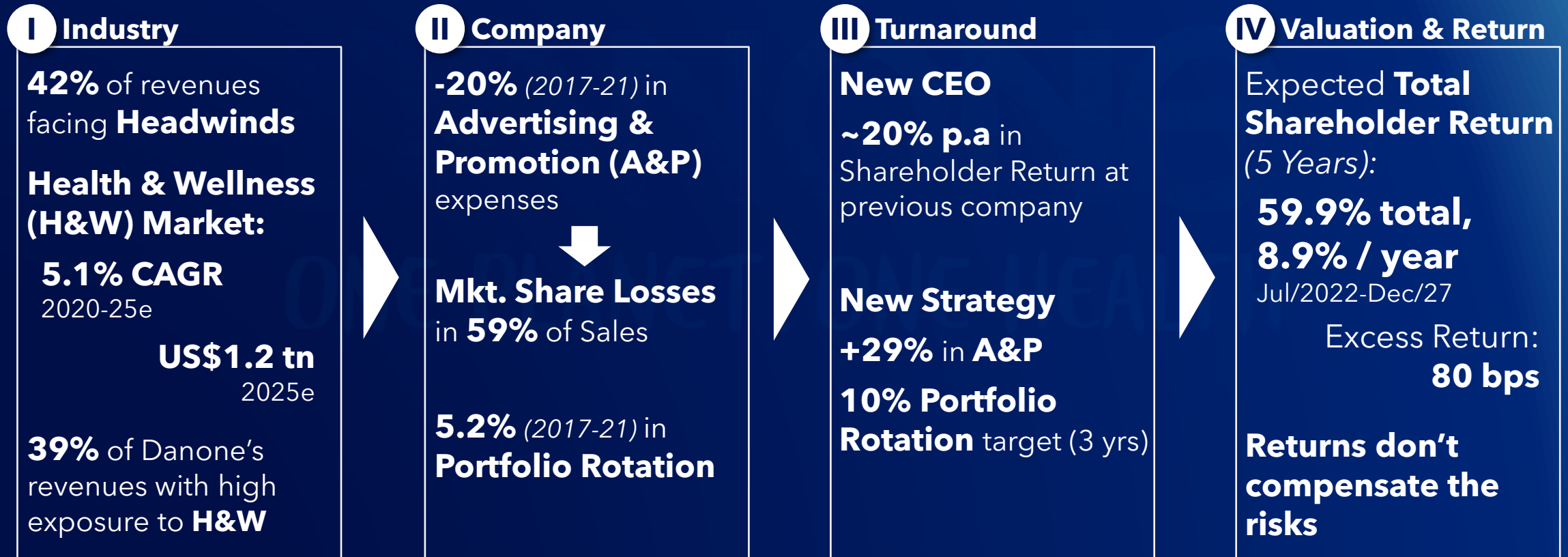
- 1 Execution
- 2 Inflation
- 3 Competition
- 4 Megatrends
- 5 Core Categories
- 6 Supply Chain



Source: Bloomberg
1. MSCI Europe Consumer Staples, from 12/27/99 to 07/01/22

Rating: **Neutral**

Why not now?



Thank You!

Q&A



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Appendix

- [Valuation](#)
- [Projections](#)
- [Fase 1](#)
- [Fase 2](#)
- [Whitewave](#)
- [Aldi](#)
- [Others](#)



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Valuation



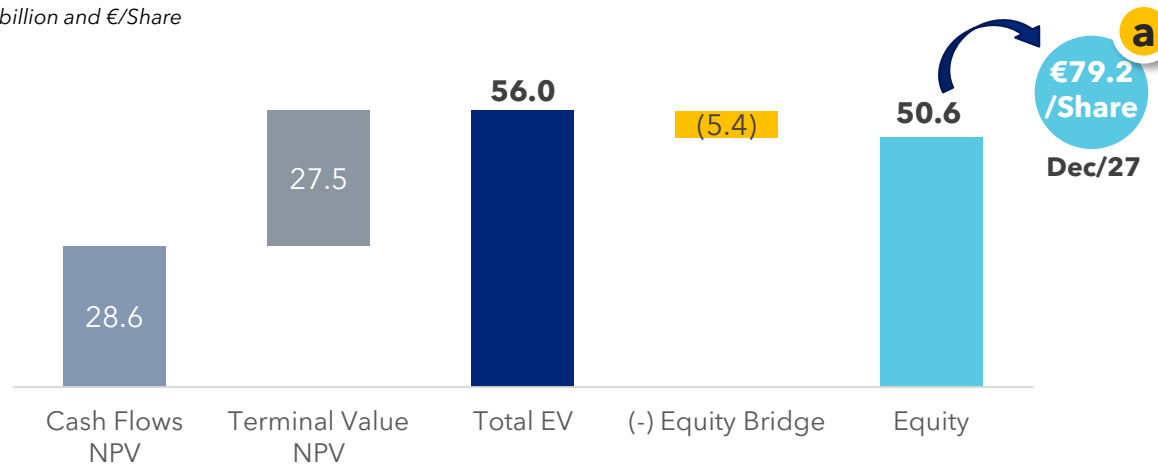
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Assuming an **investment at €54 / Share**
and **exit price of €78.4 / Share** in **Dec/27**

Valuation - Dec/27	€ / Share	P/E	EV/EBITDA
Simple Average	€ 78.4	16,2x	10,0x
DCF (a)	€ 79,2	16,4x	10,1x
P/E (b)	€ 74,1	15,3x	9,5x
EV/EBITDA (c)	€ 82,0	16,9x	10,4x

1. DCF Analysis - December/27

€ billion and €/Share



WACC	8.9%		
Target Equity (%)	85%		
Target Debt (%)	15%		
Cost of Equity	10.0%	Post tax cost of debt	2.9%
Risk free rate	3.3%	Cost of debt	4.0%
Equity risk premium	7.0%	Tax rate	27.5%
Multiplier beta	0.95		

2. Multiples Analysis - December/27

		Next Twelve Months (NTM)	
		P/E	EV/EBITDA
MSCI EU Staples ¹	x	18.0x	12.3x
Danone Discount / Staples	%	-15.0%	
Danone Multiple	x	15.3x	10.4x

Equity	€ bn	47.3	52.4
		€74.1 / Share	€82.0 / Share
		Dec/27	Dec/27

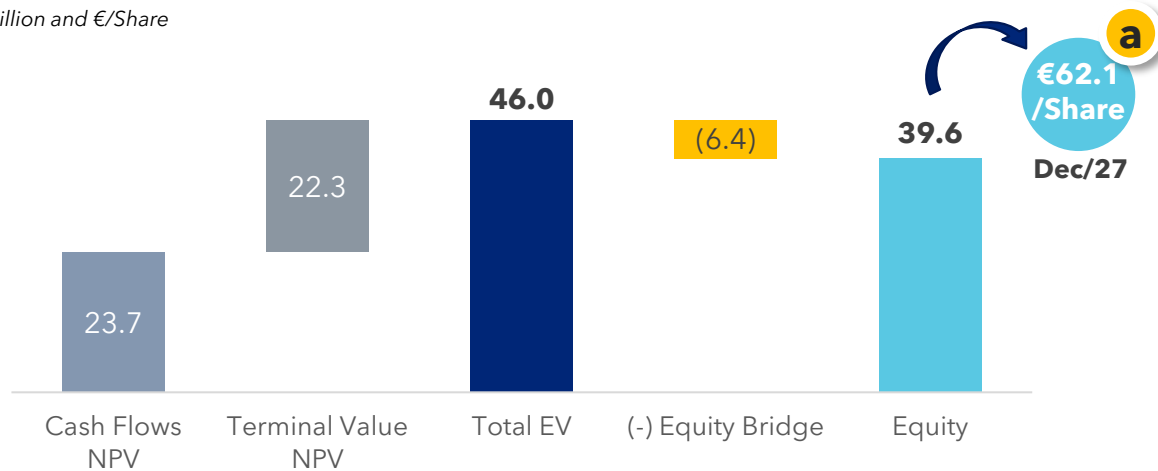
Callout 'b' points to €74.1 / Share Dec/27. Callout 'c' points to €82.0 / Share Dec/27.

Assuming an **investment at €54 / Share**
 and **exit price of €62.2 / Share** in **Dec/27**

Valuation - Dec/27	€ / Share	P/E	EV/EBITDA
Simple Average	€ 62,2	15,0x	9,4x
DCF (a)	€ 62,1	15,0x	9,4x
P/E (b)	€ 59,6	14,4x	9,1x
EV/EBITDA (c)	€ 65,0	15,7x	9,8x

1. DCF Analysis - December/27

€ billion and €/Share



2. Multiples Analysis - December/27

		Next Twelve Months (NTM)	
		P/E	EV/EBITDA
MSCI EU Staples ¹	x	18.0x	12.3x
Danone Discount / Staples	%	-20.0%	
Danone Multiple	x	14.4x	9.8x
Equity	€ bn	38.1	41.5
		<div> €59.6 /Share Dec/27 b </div>	<div> €65.0 /Share Dec/27 c </div>

Expected Return - Bear Case

1. Bear Case Assumptions

Total Shareholder Return (TSR)	%
Accumulated (5 years)	29,5%
Per Year	4,8%

vs.

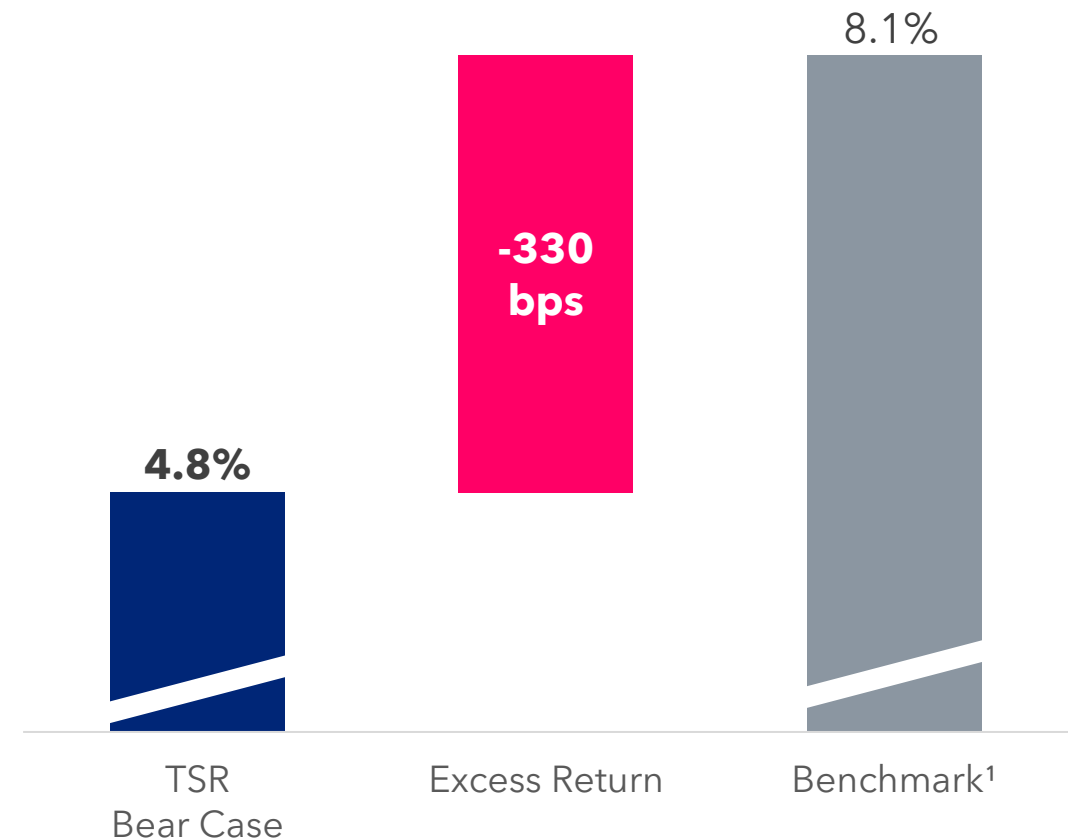
Benchmark ¹ / Year	8,1%
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Premium / Discount	(330 bps)
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Assumptions	Investment	Exit
Date	Jul/22	Dec/27
Price	€ 54,0	€ 62,2

Valuation - Dec/27	€ / Share	P/E	EV/EBITDA
Simple Average	€ 62,2	15,0x	9,4x
DCF (a)	€ 62,1	15,0x	9,4x
P/E (b)	€ 59,6	14,4x	9,1x
EV/EBITDA (c)	€ 65,0	15,7x	9,8x

2. Bear Case Return

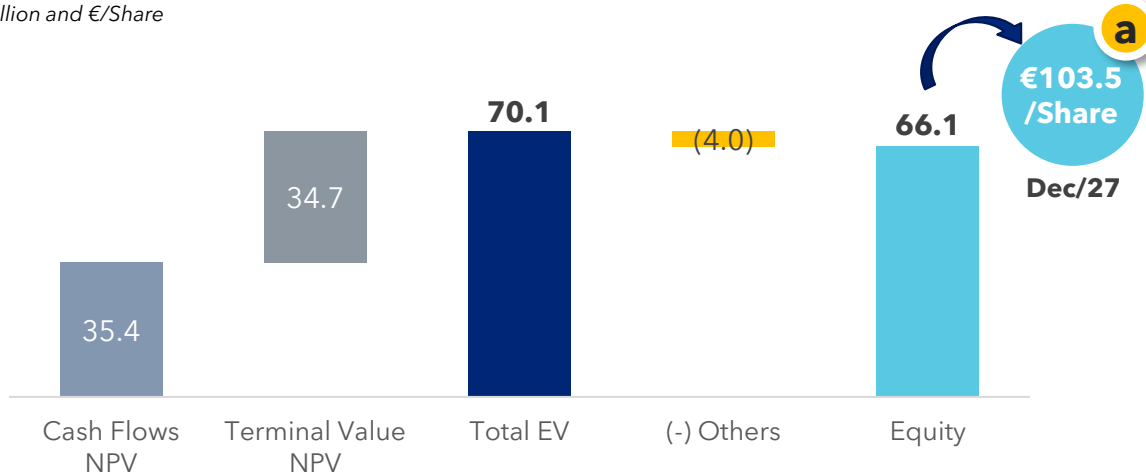


Assuming an **investment at €54 / Share**
 and **exit price of €101.2 / Share** in **Dec/27**

Valuation - Dec/27	€ / Share	P/E	EV/EBITDA
Simple Average	€ 101.2	17,3x	10,6x
DCF (a)	€ 103,5	17,7x	10,8x
P/E (b)	€ 94,6	16,2x	10,0x
EV/EBITDA (c)	€ 105,6	18,1x	11,0x

1. DCF Analysis - December/27

€ billion and €/Share



2. Multiples Analysis - December/27

		Next Twelve Months (NTM)	
		P/E	EV/EBITDA
MSCI EU Staples ¹	x	18.0x	12.3x
Danone Discount / Staples	%	-10.0%	
Danone Multiple	x	16.2x	11.0x
Equity	€ bn	60.4	67.4
		€94.6 /Share b	€105.6 /Share c
		Dec/27	Dec/27

Expected Return - Bull Case

1. Bull Case Assumptions

Total Shareholder Return (TSR)	%
Accumulated (5 years)	102,5%
Per Year	13,7%

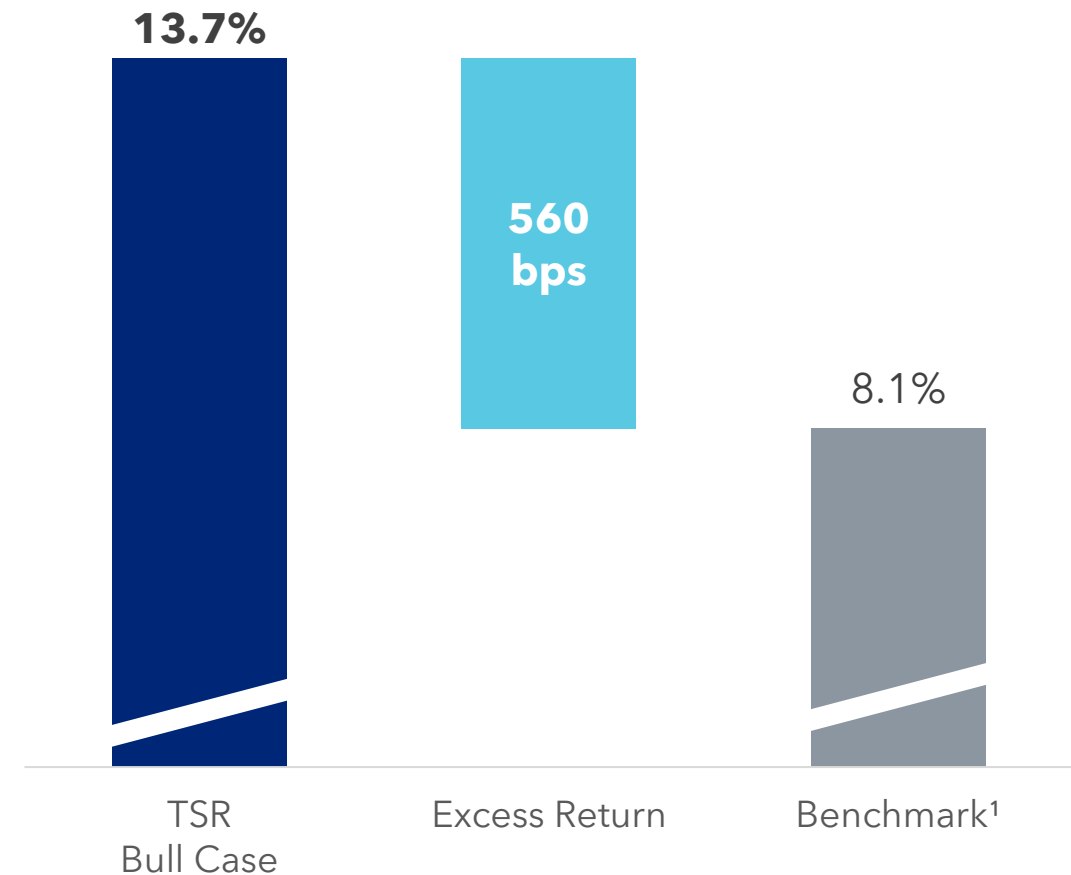
vs.

Benchmark ¹ / Year	8,1%
Premium / Discount	560 bps

Assumptions	Investment	Exit
Date	Jul/22	Dec/27
Price	€ 54,0	€ 101,2

Valuation - Dec/27	€ / Share	P/E	EV/EBITDA
Simple Average	€ 101,2	17,3x	10,6x
DCF (a)	€ 103,5	17,7x	10,8x
P/E (b)	€ 94,6	16,2x	10,0x
EV/EBITDA (c)	€ 105,6	18,1x	11,0x

2. Bull Case Return



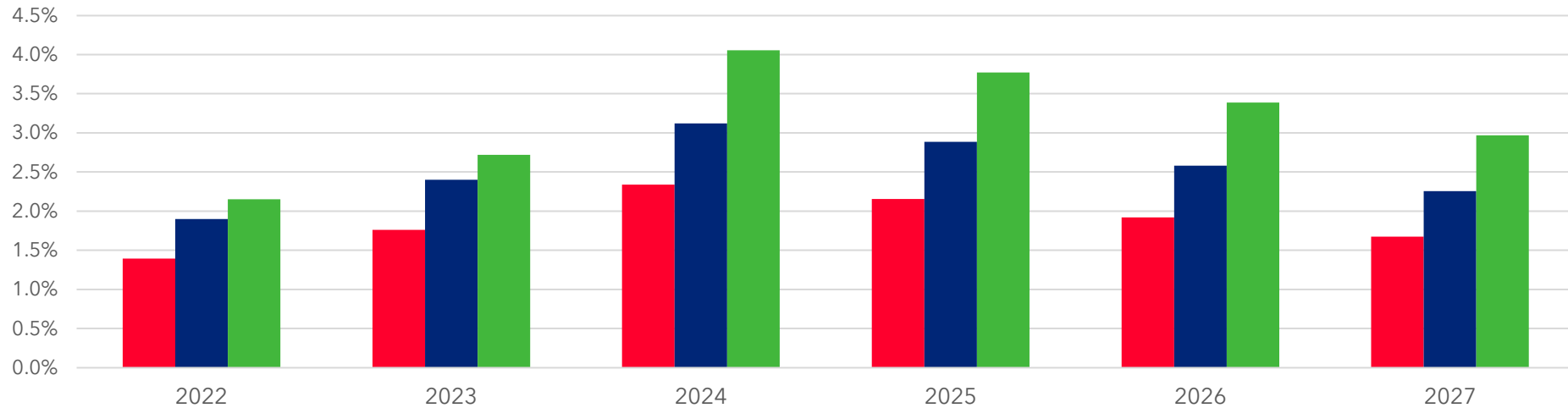
Projections



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1. Organic Sales Growth (%)



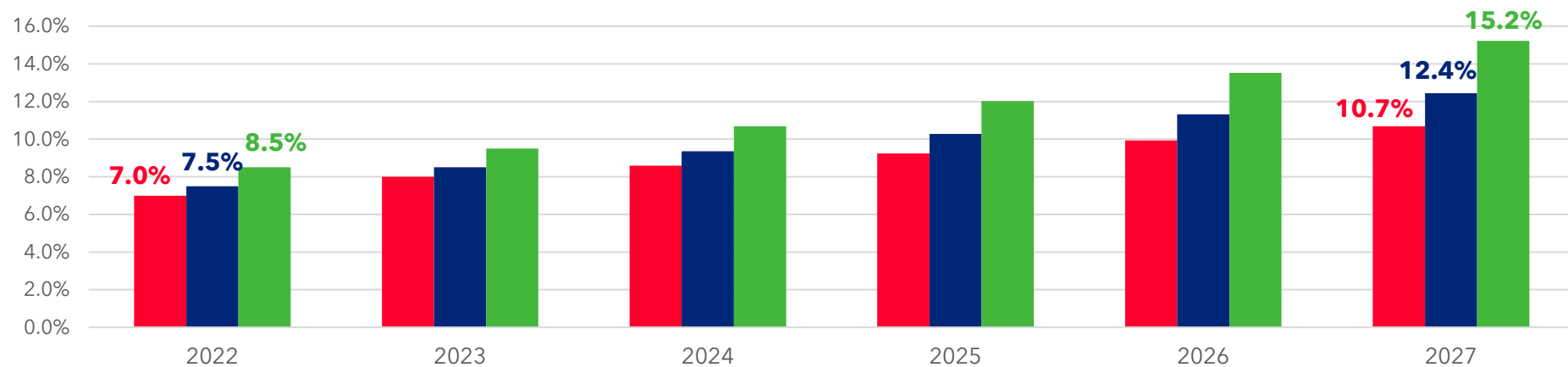
**Chg. YoY
2022-27**

3.2%

2.5%

1.9%

2. EBIT Margin (%)

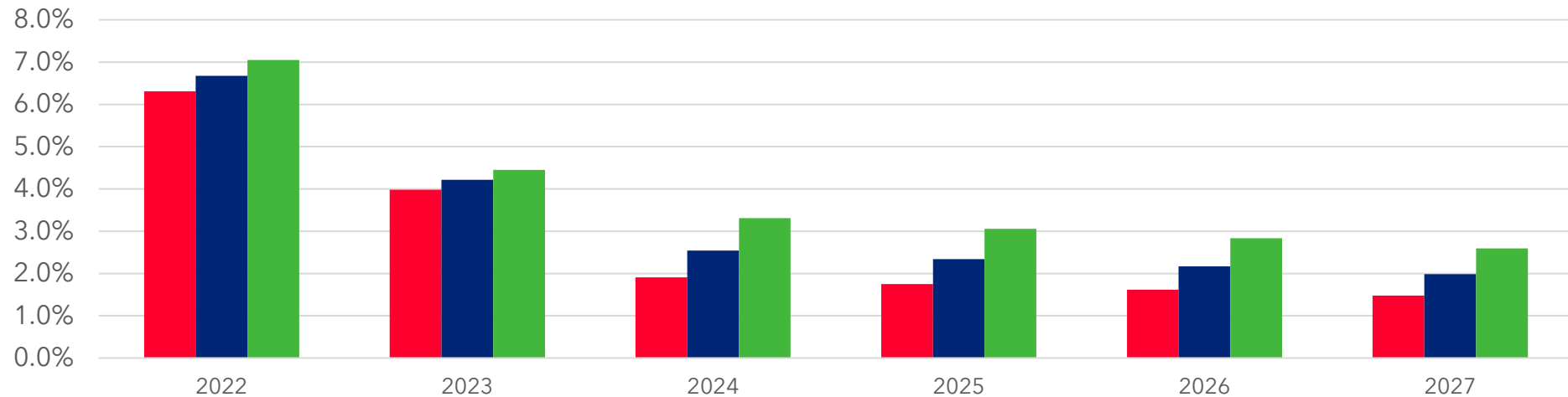


■ Bear ■ Base ■ Bull

Specialized Nutrition (SN) Projections



1. Organic Sales Growth (%)



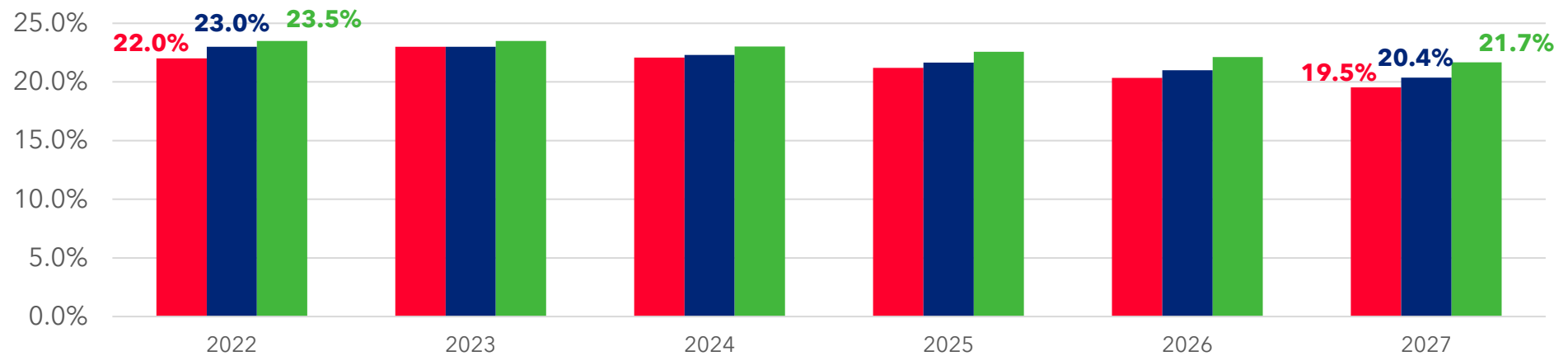
Chg. YoY
2022-27

3.9%

3.3%

2.8%

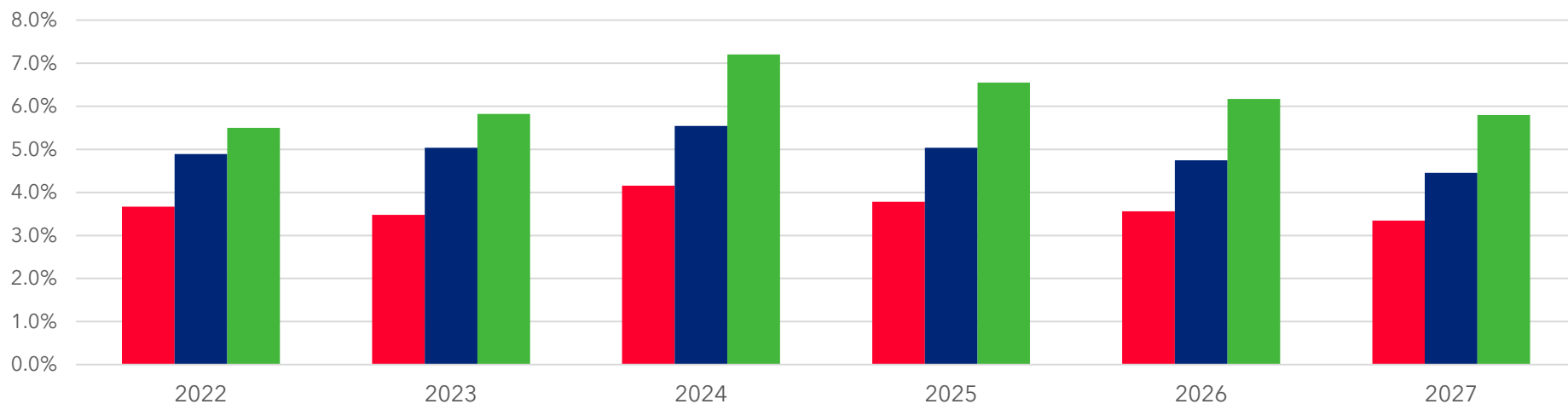
2. EBIT Margin (%)



■ Bear ■ Base ■ Bull



1. Organic Sales Growth (%)



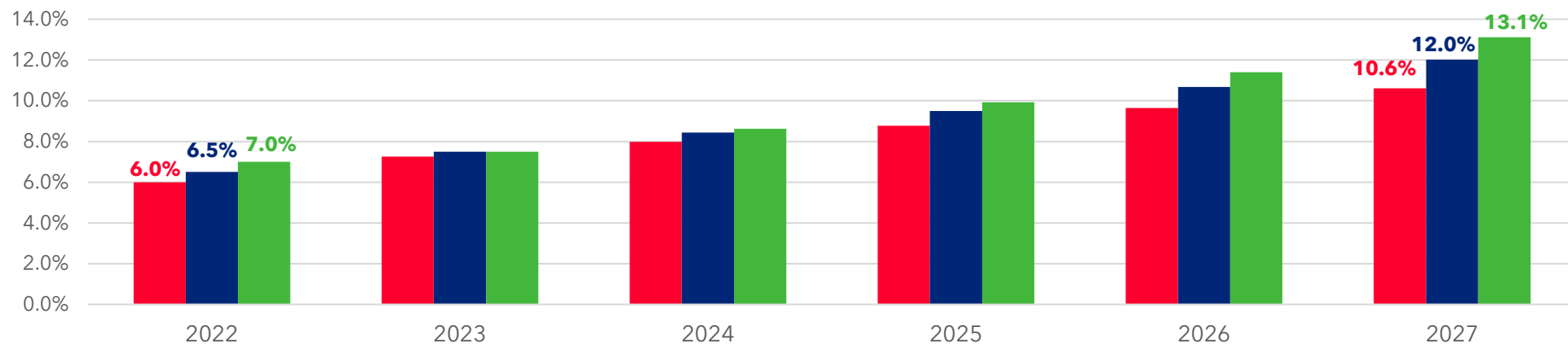
**Chg. YoY
2022-27**

6.2%

5.0%

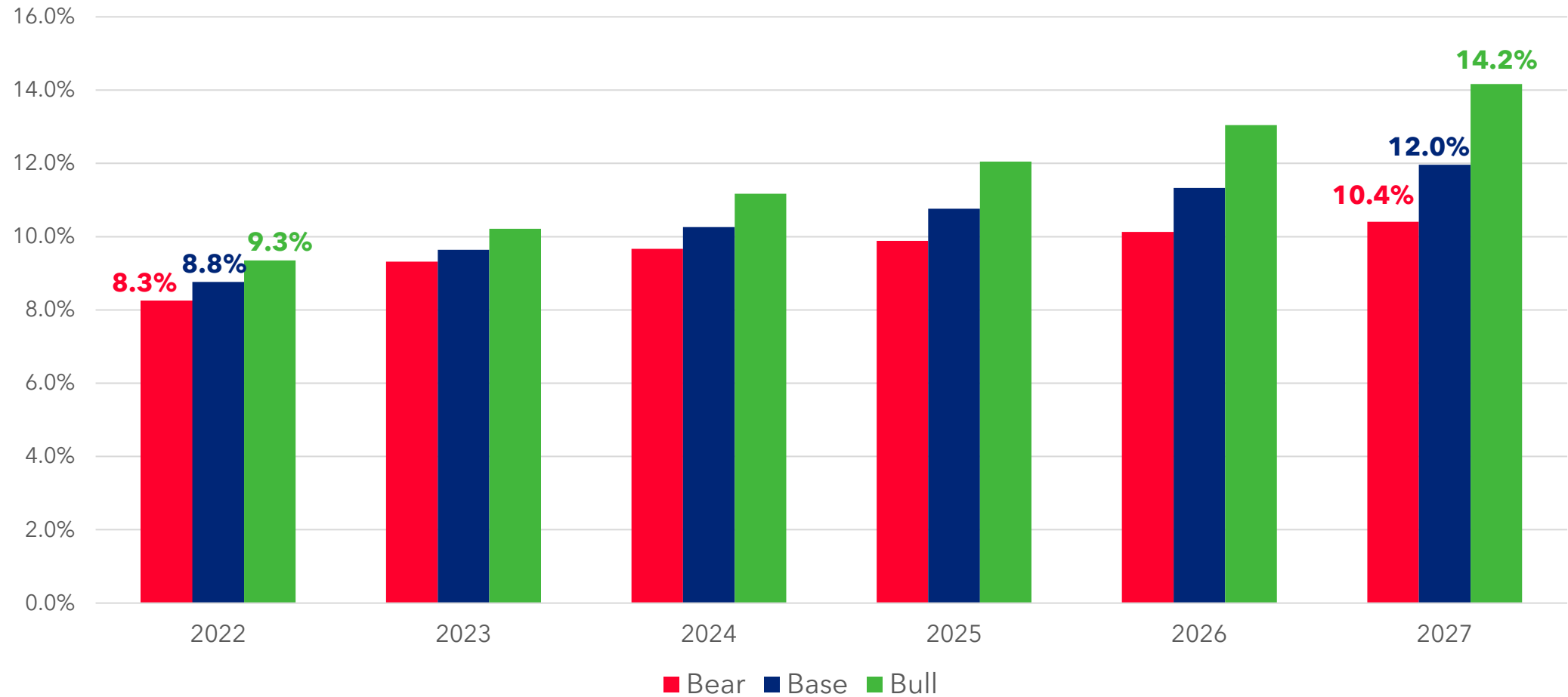
3.7%

2. EBIT Margin (%)



■ Bear ■ Base ■ Bull

1. Return on Invested Capital - ROIC (%)



Fase 1



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1 Industry Overview


Part of Danone's underperformance can be attributed to **unfavorable category dynamics** in its end markets rather than execution alone

Dairy and Plant-Based (EDP)

54%

Danone's Main Markets (2021)

% of Sales

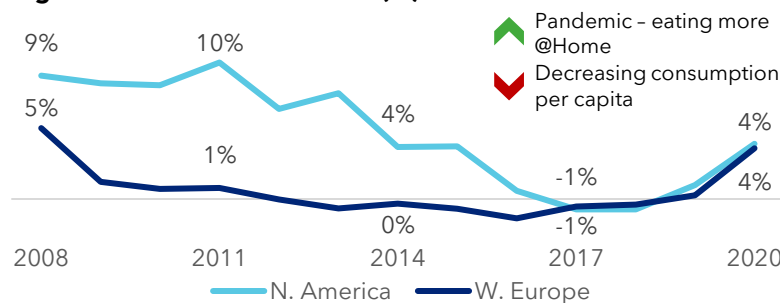
#1 
~39% of EDP Sales

#2 
~31% of EDP Sales

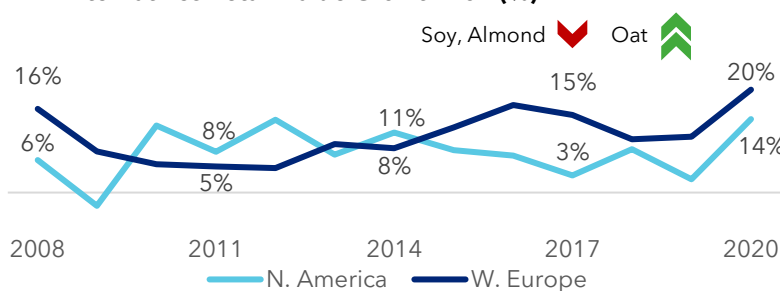


Yogurt, Ice Cream, Cheese

Yogurt Retail Value Growth YoY (%)



Milk Alternatives Retail Value Growth YoY (%)



Plant-Based Dairy represented ~5% of the Global Dairy market in 2020, at \$22.9 bn, but is estimated to grow to ~10% of it, at \$62.3 bn in 2030

Specialized Nutrition (SN)

30%

Danone's Main Markets (2021)

% of Sales



~75%
of SN Sales

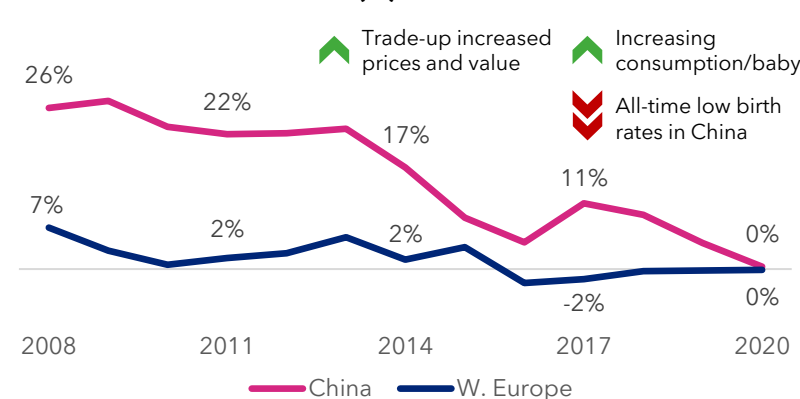
Infant Milk Formula (IMF)

#1 
~38% of Danone's SN Sales



#2
<28% of Danone's SN
~48% of Global IMF

IMF Retail Value Growth YoY (%)



The low number of babies (0-3 y.o.) had a ~5% negative effect...
... in the Chinese IMF growth in 2019 and 2020

Negative consequences of increasing regulation in China...

Regulatory measures increased the competition from local Chinese players

Locals Market Share
2019 29% → 2021 44%


Chinese Gov't's Target of 50% Breastfeeding Ratio by 2025

Waters

16%

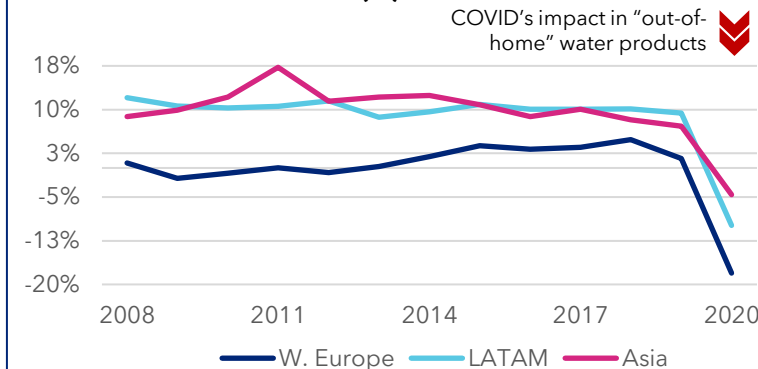
% of Sales

Danone's Main Markets (2021)

#1 
~40% of Danone's Water Sales

#2 
AMEA, LATAM, CIS & TURKEY
~39% of Danone's Water Sales

Waters Value Growth YoY (%)



In 2021 "61% of UK consumers have reduced their **usage of single-use plastics**" to adopt a more sustainable lifestyle.

Deloitte.



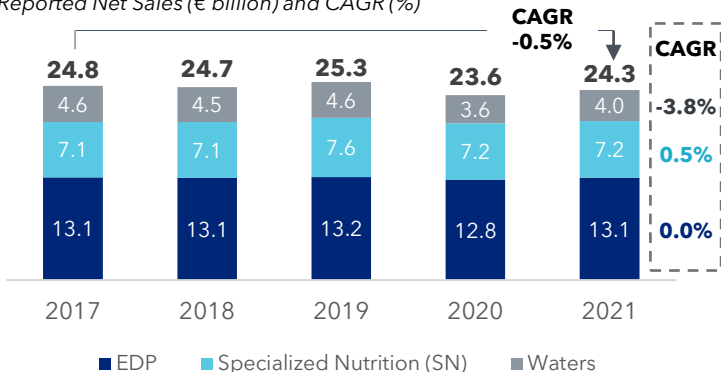
Still, consumers' increasing concerns about sustainability are yet to reflect on the demand for plastic bottled water.

2 Top Line

Weak organic sales growth, below end markets growth, resulted in market share losses

1. Sales had a Slight Decline Between 2017-21

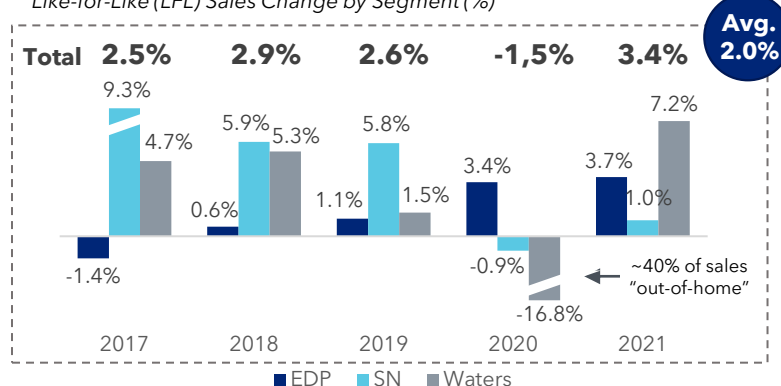
Reported Net Sales (€ billion) and CAGR (%)



Apart from **weak Like-for-Like (LFL) sales growth**, **FX** was the main reason for **poor top line performance**, with a negative impact of **~€3.2 bn** on the period. Danone has a strong presence in Emerging Markets, which have more volatile currencies

2. In a LFL Basis, Average Growth was Still Low at 2.0%

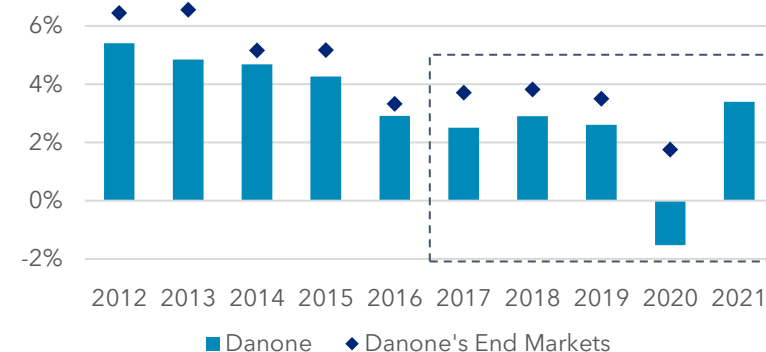
Like-for-Like (LFL) Sales Change by Segment (%)



Waters and SN were heavily impacted by the pandemic due to their high exposure to "out-of-home" formats and the Chinese market, respectively. Revenue growth sped up in EDP due to increased consumption of Yogurt and Dairy alternatives during the pandemic

3. Danone's Growth Remains Below End Markets'

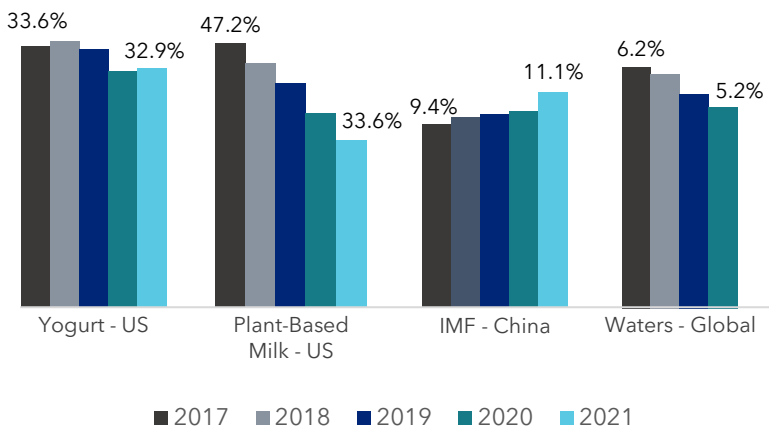
Like-for-Like (LFL) Sales Change vs 2012-20 End Markets Estimated Growth (%)



Even before the pandemic, Danone was showing lackluster growth, partially due to the **decelerating end markets**, but also to its **inability to grow in line with them**

4. Resulting in Market Share Losses in Some of its Main Categories

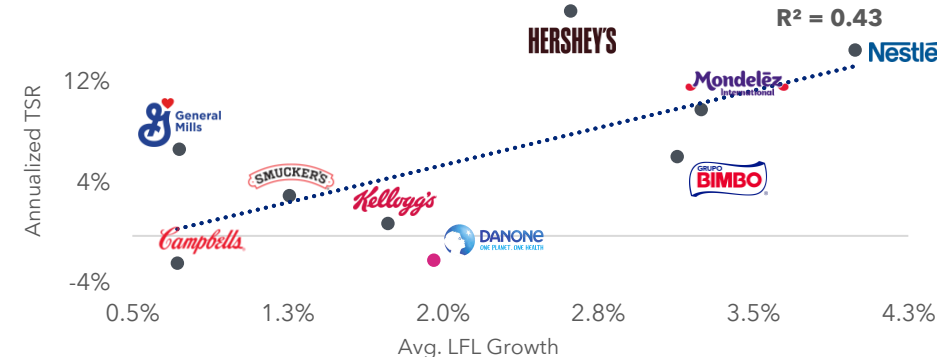
Danone's Market Share (%) by Product/Segment



- Danone is losing share in the **US Yogurt** market to Chobani, which is using aggressive marketing campaigns and more product innovations...
- ...with steeper share losses in **W. European Yogurt** markets;
- In the **US Plant-Based** market, share erosion comes from small players offering mainly Oat-based products;
- Danone over-indexes to Almond and Soy formats.
- In the **Chinese IMF** market, Danone has managed to **hold ground against local players**, while other international competitors have lost share;
- Backed by a **strong online presence**, an increasing offering in **China Labels**, and **premiumization** of its leading brands.
- In the **Waters** segment, Danone and the other 2 main global players have seen share erosion in the last years, mainly to **smaller/regional players**;
- Share erosion has been greatest in Asian countries.

5. Disappointing Growth led to Disappointing Returns

2017-21 Annualized Total Shareholder Return (TSR) vs. Avg. LFL Growth (%)



Lower revenue growth explains part of Danone's poor share performance. Peers like Nestle are exposed to higher growth categories, like Pet Food and Coffee, contributing to organic sales growth

3 Operational Performance

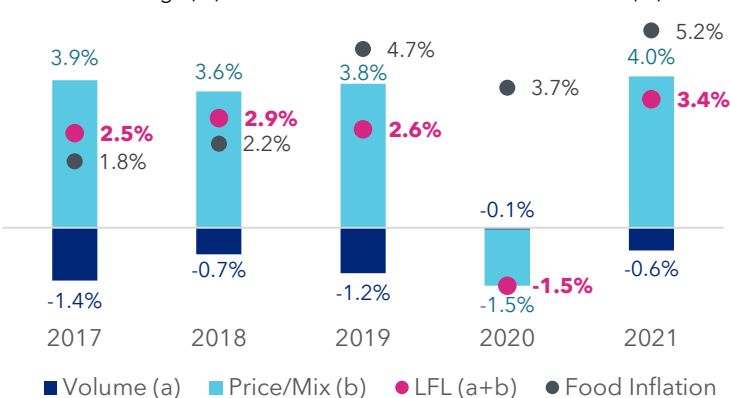
Danone's **limited pricing power** keeps it from passing on **rising input costs**, squeezing its margins

"Pricing power is one of the **key attributes of a quality compounder** (...) **Strong brands** are a well-known source of pricing power"; "In our view, a company has basic pricing power if it has the **ability to price to recover input cost inflation**."

Morgan Stanley

1. Since 2019 Danone is Showing Signs of Limited Pricing Power

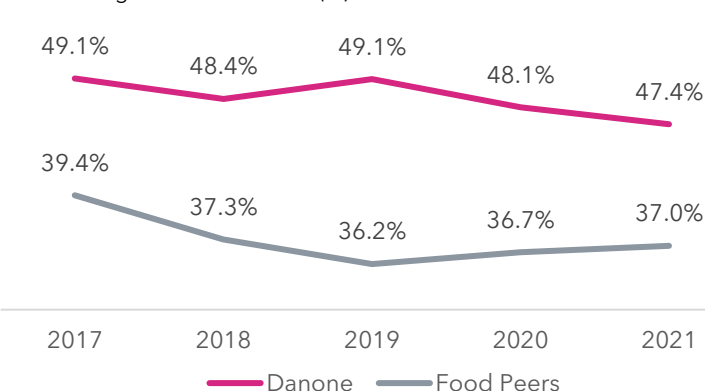
LFL Sales Change (%) and Estimated End Markets Food Inflation (%)



Since 2019, sales growth in Price/Mix has been below food inflation in end markets. This may be an indication of **limited pricing power**, despite the brand's strength, and a **limitation of passing on rising input costs**. When comparing inflation with LFL growth, which takes into account the impact of pricing decisions on sales volume, the conclusion is the same

2. Resulting in Gross Margin Erosion due to Rising Input Costs

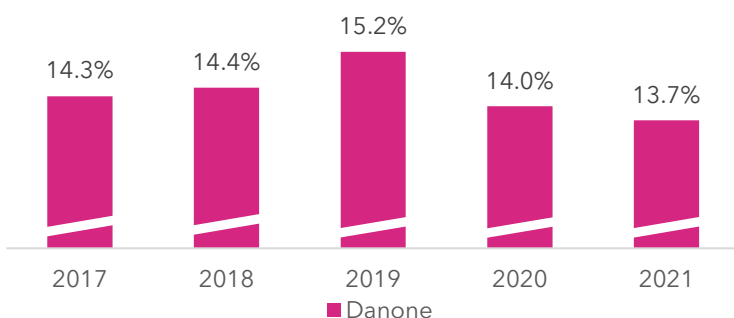
Gross Margin vs. Peers Median (%)



An analysis of gross margin against peers indicates that while Danone has been dealing with gross margin erosion since 2019, mostly due to increasing commodities prices, its **peers seem to be able to marginally pass on some of the costs to the consumer**

3. Pressured Operating Margins Despite Savings

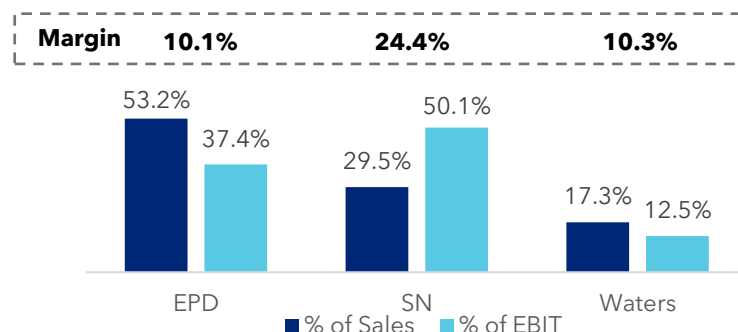
Recurring Operating Margin vs. Peers Median (%)



Initiatives to increase operational efficiencies and reduce spending, focused on COGS and SG&A, delivered an estimated recurring operating margin **gain of ~1,380 bps** between 2017-21, vs. inflation's estimated **impact of ~1,540 bps** (net loss of ~160 bps)

4. Segment Mix Partially Explains Margin Below Peers

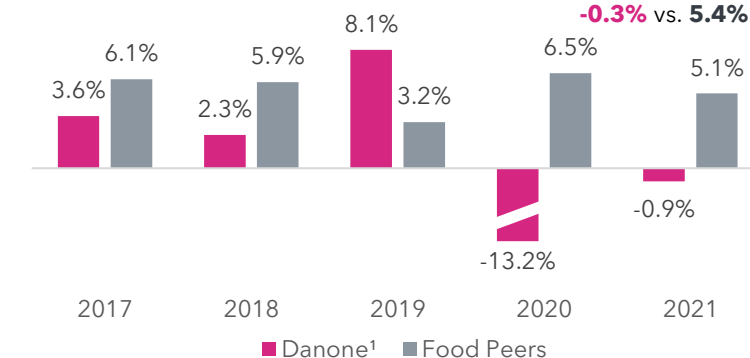
2017-21 Avg. Operating Margin (%) and Share of Sales and EBIT (%)



Segment mix also helps to explain margin below peers. **~70% of revenues come from segments with low margins** - EDP and Waters (~8.4% and 10.2% industry peers op. margins, respectively)

5. The Main EPS Detractor was Currency Depreciation

Recurring EPS Change vs. Peers Median (%)



Despite the effect of inflation on margins, the main detractor of Recurring EPS was currency depreciation, which also strongly impacted top line. **FX had an impact of approximately 17% of EPS decrease**, from 2017-21

All of Danone's 2017 figures have been restated for IFRS 15

Source: Company and Peers' Publications, Statista, OECD, FAOSTAT, Bloomberg, BREQ's Estimates,

1. Danone's 2017 EPS Growth was adjusted to exclude the effect of the Whitewave acquisition

4 Capital Allocation

Underinvestment in Advertising & Promotion (A&P) and **insufficient portfolio rotation** are the main reasons behind poor top line growth and low pricing power

"Advertising & Promotions spend is the real 'CapEx' of Fast Moving Consumer Goods (FMCG), fuelling future growth and creating barriers to entry (...). Spending more on A&P correlates with **faster organic sales growth**."

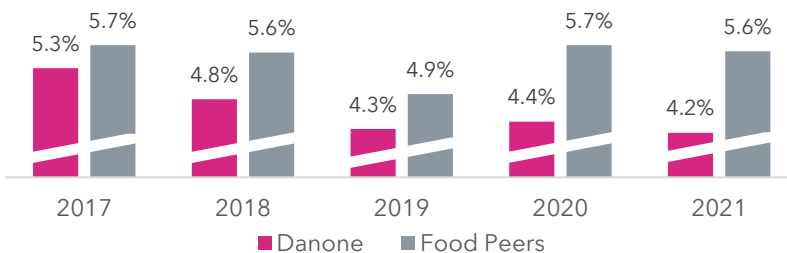
Morgan Stanley

"Consumer goods companies that are **frequent acquirers outperform their peers**, with twice the sales growth rate, 1.8 times profit growth, and 1.2 times total shareholder return (TSR) growth than the industry average"

BAIN & COMPANY

1. Underinvestment in A&P is Undermining Brand Value

A&P as a % of Net Sales (USA Only for Danone¹) (%)

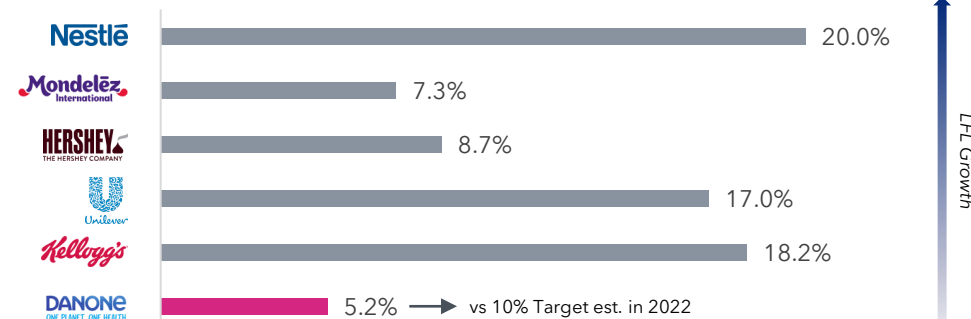


	As % of Net Sales (5 Yr Avg)		
	CapEx	R&D	A&P
Danone	3.9%	1.4%	4.6%
Peers	3.9%	1.1%	5.5%

Danone has reduced the level of investment in A&P (expense in the P&L), moving away from its peers and undermining brand value. This contributes to reduced sales growth, loss of market share and lower pricing power

2. The Lack of Portfolio Rotation Contributed to Stagnant Growth

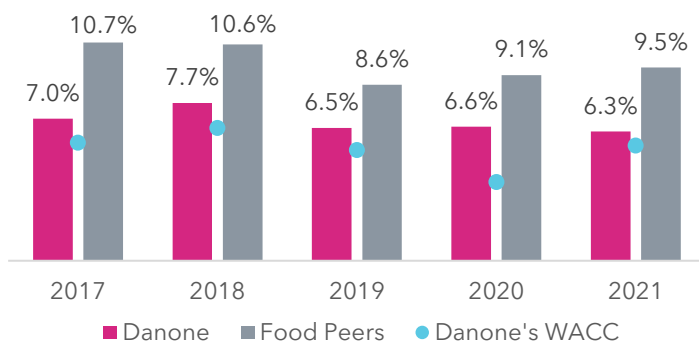
Estimated Portfolio Rotation Between 2017-21 (%)²



Danone has done very little in terms of pro-active portfolio management, "rotating" only ~5% of its portfolio between 2017-21 (ex-Whitewave). The lack of bolt-on acquisitions and strategic disposals contributed to stagnant growth, while players such as Nestle and Unilever used them to boost top line growth


3. Resulting in Minimal Value Creation

Danone's ROIC vs. Peers Median (%) and WACC (%)



Inappropriate capital allocation decisions contributed to return on capital barely covering the company's cost of capital, resulting in minimal value creation

Review of Capital Allocation Decisions



Positives:

- Entry point to high-growth categories;
- Enabled Danone to benefit from changing consumer habits using the edge of an already established player;
- Doubled Danone's US business revenue.

Negatives:

- The US Milk Alternatives market was already decelerating at the time and presented lower growth compared to Europe;
- Relatively expensive acquisition (~21x EV/EBITDA) of a company that was facing market share erosion and execution issues;
- Management has set unrealistic expectations of revenue growth, with a €5 bn revenue target for 2025 (withdrawn), up from €1.7 bn in 2018.

Acquired - US\$12.5 bn in 2017




Specialized Nutrition Business in China

Investment in a local Research Center and in IMF capabilities:

- Focus and commitment to one of its key markets;
- Dedicating required resources to sustain growth and continue to gain market share in its most profitable market.


Invested - ~€100 mm in 2020



Divestment of Strategic Partnerships

Sold

€1.8 bn in 2018-20



€1.6 bn in 2021

- Minority stakes in non-core EDP assets, with limited operating synergies;**
- Proceeds were used to pay off part of the debt raised to acquire Whitewave (Yakult) and to fund buybacks (Mengenil).



Mizone Water

Underperformer

- Losing market share for 6 Years straight, due to strong competition from international players, such as Coke and Pepsi, as well as from local players like Nongfu Spring;
- According to Euromonitor and Company Publications, Mizone's market share went from 7.2% in 2014 to 3.4% in 2021;
- Lost its premium status to Chinese consumers;
- Distraction from other better-performing businesses;
- Should be disinvested.**

Source: Morgan Stanley, Bain & Company, Company and Peers' Publications, Statista, BREQ's Estimates, Bloomberg

1. Danone's 2020-21 figures were estimated based on management's statements

2. Equivalent to the estimated sales from acquired/divested companies as a % of Danone's Avg. Sales (17-21); Nestle and Unilever figures were disclosed by the management

5 Corporate Governance

Poor corporate governance and **misalignment of interests** between management and investors led to the mismanagement of Danone

"Leadership's priorities were misguided. (...) executive incentives put in place by the board are inadequate drivers of operational performance."

ARTISAN PARTNERS

Other investors have come out in favor of management changes:

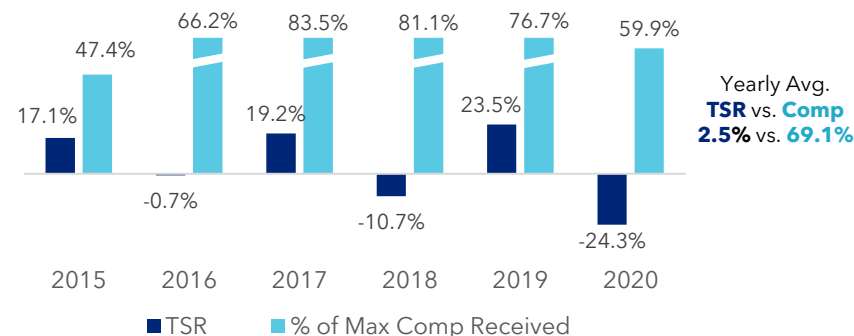
BLUEBELL

APICIL

Causeway

1. Emmanuel Faber: Overpaid to Underdeliver

Total Shareholder Return (TSR) and % of Max Compensation Received (%)



Danone's compensation structure enabled Emmanuel Faber to receive an average of **69% of his maximum variable compensation** in the years he was CEO, while shareholders had an **average TSR of only 2.5%**

2. Compensation wasn't Based on Relevant Metrics

Weight of Performance Conditions in Share Compensation (%)

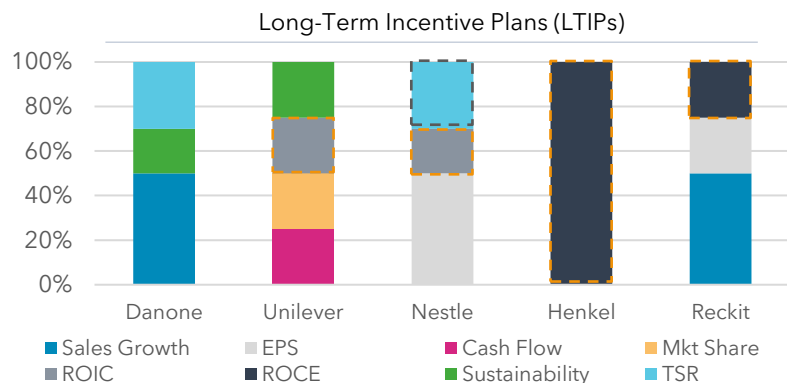
	Group Performance Shares (GPS) - Issue Year				
	2013-15	2016	2017	2018-20	2021
Sales Growth	67%	50%	50%	50%	50%
FCF	-	-	50%	30%	-
Environmental	-	-	-	20%	20%
Op. Margin	33%	50%	-	-	-
TSR	-	-	-	-	30%

GPS Granted to Faber

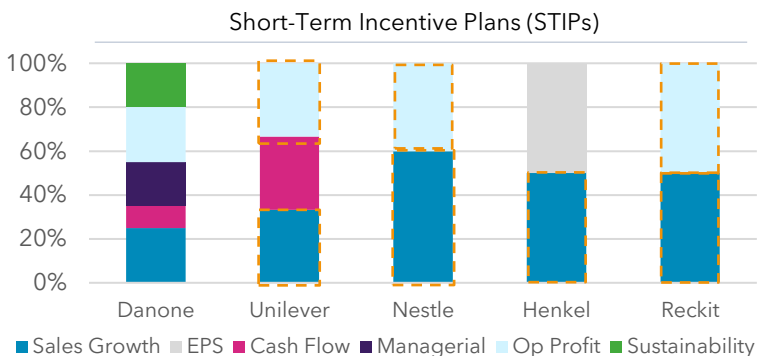
Most of Faber's variable compensation (granted between 2013-17) was dependent on the achievement of performance metrics that did not prioritize shareholder return nor the strategic allocation of capital. Total Shareholder Return (TSR) was only added as a condition to Group Performance Shares (GPS) in 2021.

3. The Compensation Structure Still Needs to Incorporate Return on Capital

Weight of Performance Conditions in Share Compensation (%)



The long-term compensation structure of key European Food & HPC peers highlights how return on capital (ROIC or ROCE) is a priority in other companies. Although also important, TSR is less frequent, used only at Nestle



Danone's short-term compensation is more in line with its peers. LFL sales growth and operating profit are prevalent among large European companies in the sector.

In Conclusion...

- Danone's weak organic sales growth can be attributed to two main causes:
 - High exposure to slowing markets and/or markets that were heavily impacted by the pandemic (External);
 - Growth below its end markets' growth, resulting in loss of market share (Internal);
- The company shows signs of limited pricing power, observed by the difficulty in passing on input price increases to customers. This has resulted in pressure on gross and operating margin;
- Danone's underperformance is directly linked to capital allocation decisions:
 - Reduction in brand investments (A&P expenses). This contributes directly to market share loss and pricing power decline;
 - The company doesn't proactively manage its portfolio, with low asset rotation, and prioritizes large and complex acquisitions (Whitewave);
- The previous management's decisions were not aligned with the company's best interests and that of its shareholders;
 - This was partly due to the inadequate incentive structure of the company's management

Fase 2



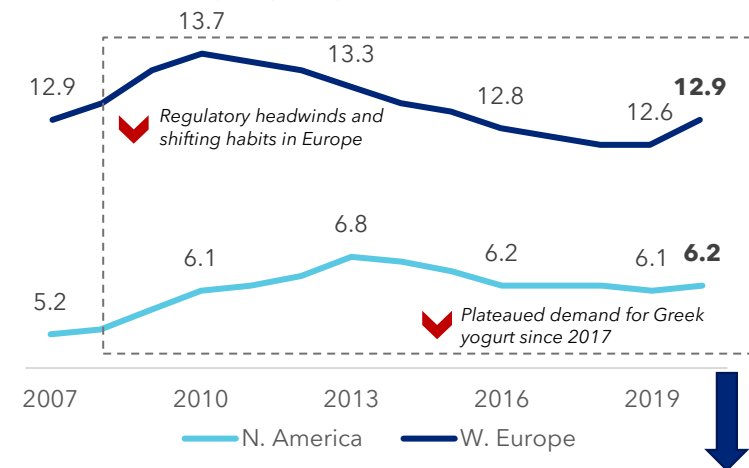
DANONE
ONE PLANET. ONE HEALTH

3 Growth Dynamics

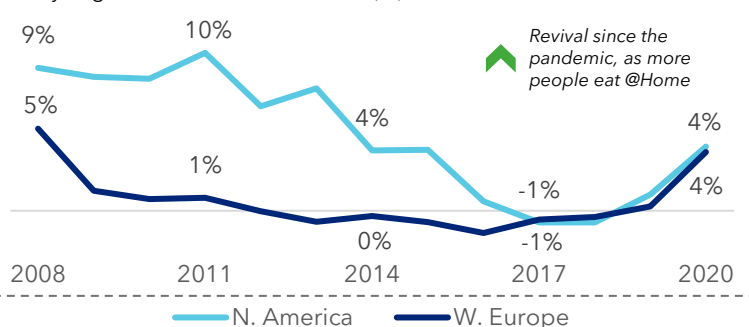
Structural decline in core category's growth has been a key driver of top-line weakness in recent years. We estimate ~58% of revenues should face secular headwinds, such as Traditional Yogurt and Infant Milk Formula (IMF)

1. Dairy Yogurt Should Return to its Lackluster Growth

Dairy Yogurt Consumption per Capita (kg)



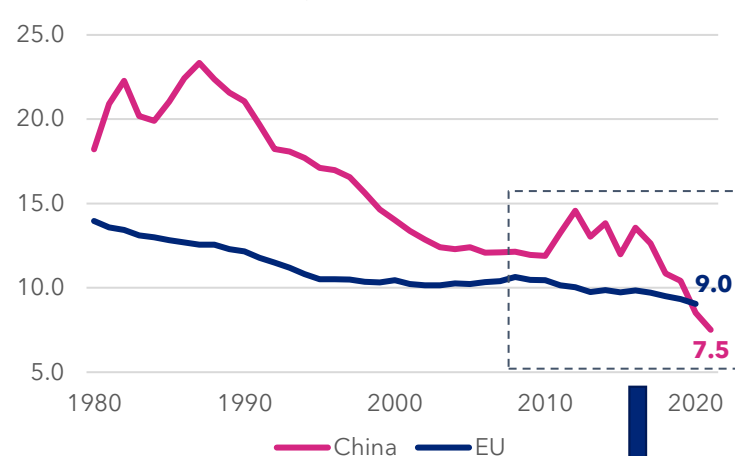
Dairy Yogurt Retail Value Growth YoY (%)



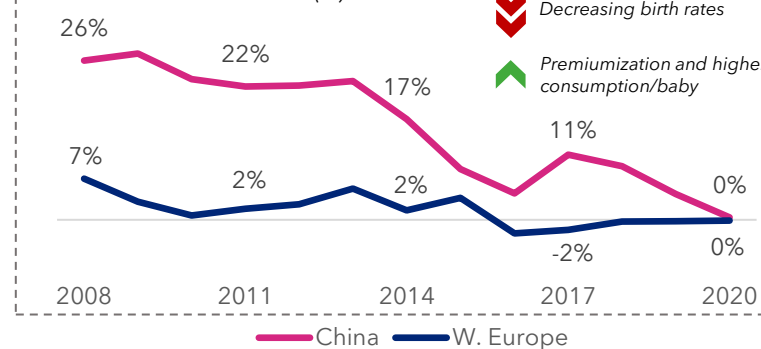
Prospects could be positive for Dairy Yogurt from 21 onwards if eating @Home habits remain. In our view, dairy yogurt growth will return to pre-pandemic levels, as nondairy varieties should benefit the most from a possible yogurt revival

2. IMF's Remarkable Years are in the Past

Birth Rate (Births / 1,000 People)



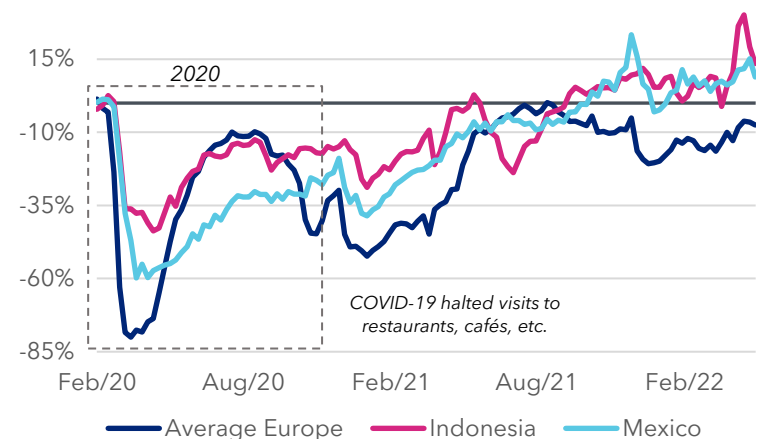
IMF Retail Value Growth YoY (%)



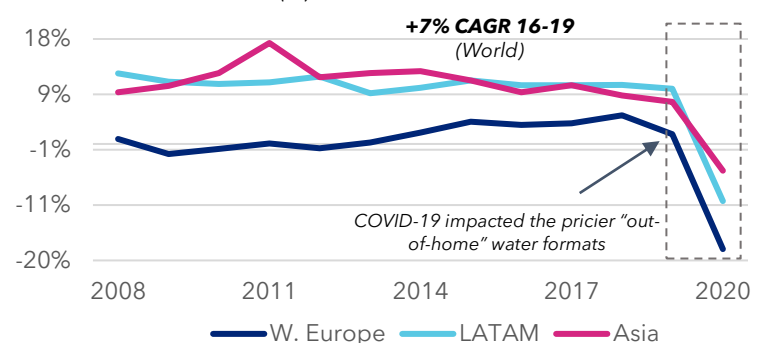
With birth rates at all time lows and consumption / baby ~stable, future growth in China's IMF market should come from premiumization, but at a much slower pace than historical levels

3. Waters' Growth Should Resume Post-COVID

% Change in the # of Visitors Compared to Jan/Feb 20 - Retail and Recreation



Waters Value Growth YoY (%)



Waters was one of the fastest growing categories, mostly led by volume in Emerging Markets, and premiumization in Developed Markets. We believe it should resume its high growth trajectory as the pandemic eases, and see no major structural headwind

3 Industry Overview

Lower market growth forces players to compete for market share in order to grow. We see most of Danone's markets as highly competitive

1. Most of Danone's Markets are Highly Competitive



Essential Dairy & Plant-Based (EDP)

54% of 2021 Sales

- **Yogurt** - Mature/Consolidated:
- US market divided among ~5 big players and high private label market share in Europe;
- **Plant-Based** - **Highly Competitive** :
- Still a concentrated market, but top 2 players lost ~17 p.p in 5 yrs. and new entrants gained ~16 p.p;



Specialized Nutrition (SN)

30% of 2021 Sales

- **Infant Milk Formula** - **Highly Competitive**:
- Increasing competition - local players gaining share from internationals in China;
- Chinese market moving towards consolidation (by local players, such as Feihe);
- High barriers to entry: regulation, high brand loyalty, high R&D costs;



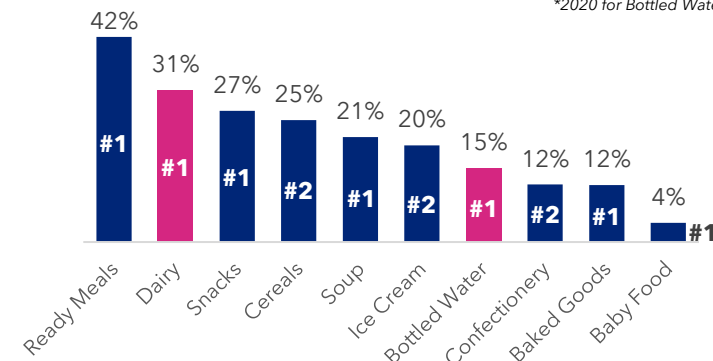
Waters

16% of 2021 Sales

- **Competitive Global Market**:
- Competitive market (top 3 < 20% share) with increasing competition from local players;
- Low barriers to entry: weaker brand loyalty, except for premium segments and non still waters where brand value is higher;

2. Pricing Power is Lower in >50% of Danone's Sales

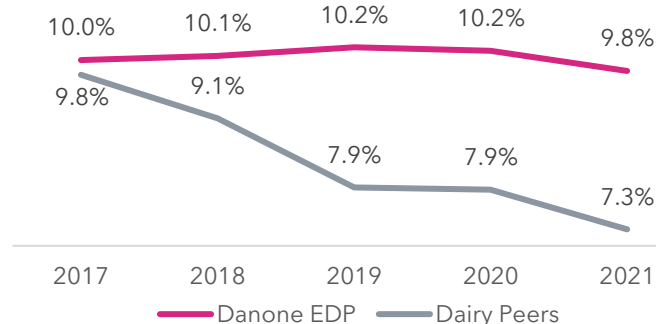
Europe Private Label (PL) Market Share (%) and Market Position (#) - 2021*
 *2020 for Bottled Water



Danone may have difficulty in passing on rising input costs in 2022. Higher PL share and/or absolute position results in **lower pricing power** for brands, as consumers can tradedown more easily

3. Margins Have Eroded in the Dairy Industry

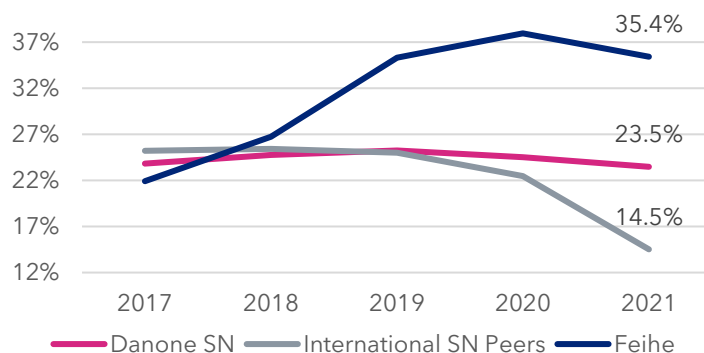
EDP Recurring Operating Margin vs. Peers Median (%)



Inflation and commodity prices shrunk peers' operating margins. Product mix also impacted profitability

4. International Players are Losing in China

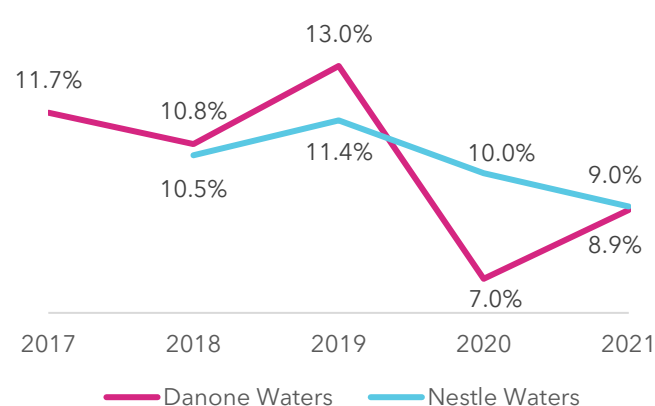
SN Recurring Operating Margin vs. Peers Median (%)



Competition in China puts the sustainability of Danone's margins >20% in question

5. Margins are Still Below Pre-COVID Levels

Waters Recurring Operating Margin - Danone vs. Nestle (%)



6. Danone Offers Low Exposure to DTC Opportunities

	Category	U\$ / Kg	U\$ 000 / m³	Recurrence	Temp Control
Danone	Infant Milk Formula	40.1	15.0	Medium	No
	Yogurt	8.1	2.4	Low	Yes
	Coffee Creamer	2.9	1.6	Low	No
	Plant Based Milk	1.5	1.2	Low	Yes
	Bottled Water	1.2	0.6	Medium	No
Others	Coffee Pods	60.6	5.8	High	No
	Meat Alternatives	16.0	5.6	Low	Yes
	Frozen Meals	8.3	2.8	Low	Yes
HPC	Facial Cosmetics	694.5	104.5	Medium	No
	Male Shaving	452.4	16.7	High	No
	Deodorant	70.2	18.7	High	No

Direct-to-Consumer (DTC) offers (i) margin upside (harvesting retailers margin) and (ii) consumer behavior data. Most FMCGs have high distribution costs due to products bulkiness and temperature control, offsetting DTC benefits. We believe Danone offers low upside to DTC

3 Consumer Megatrends

Consumer Megatrends in **Health & Wellness** and **Sustainable Living** (Environmental & Social causes) could (i) help to offset headwinds in core categories while (ii) offering upside from adjacencies

1. COVID-19 Boosted Personal and Environmental Health

% of Respondents

Would you say _____ **health** is more or less important to you today than it was in 2019?

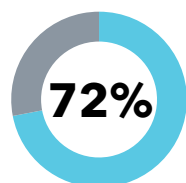


Source: New Hope Network, as of April 13, 2020

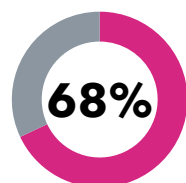
Chart excludes non-respondents

4. Consumers Put their Money Where Their Mouth Is

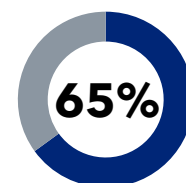
% of respondents willing to pay a price premium for products with the following attributes / features



Sustainable



Socially Responsible



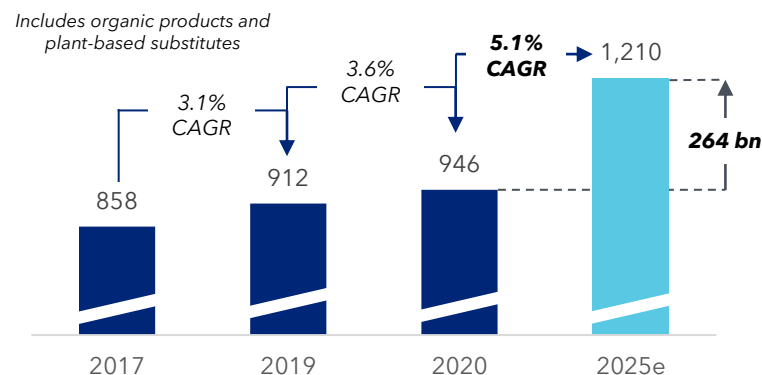
Plant-Based

63% of consumers are more likely to buy from companies that have a strong health agenda and focus across their whole portfolio



2. Creating a Huge Opportunity in Healthy FMCGs

Global Healthy Eating, Nutrition & Weight Loss Market (US\$ bn) and CAGR (%)



5. Danone is Uniquely Positioned to Capture These Trends

Leading Global Player in the Healthy Eating Megatrend

#1 in Plant-Based

#1 in Product Profile by ACCESS TO NUTRITION INITIATIVE
 (Measures the Healthiness of the Portfolio of Products)

Portfolio Well Positioned in Key Health and Wellness Sub-Categories:

- Protein • Immunity • Probiotics / Gut Health
- Hydration • Healthy Ageing

and a Strong Environmental & Social Agenda:



Largest B-Corp Company



3. Accelerating Sustainable Living Trends

September 2021

66% "of global consumers agree that environmental issues are having an adverse impact on their current and future health"

67% "of global consumers say that environmental health and how their choices impact the planet is important to them"

72% "consumers feel that companies have a big role to play in the availability and access of healthy food for all"



These trends could benefit Danone by (i) helping to offset lower growth and higher competitive pressure in Danone's 3 core categories if the company can explore growth pockets within them and (ii) provide upside from adjacencies in other Health & Wellness and Sustainable Living categories. For the company to benefit from these trends in a competitive and consistent fashion, they need to:

1. Invest in its Brand/Identity, through advertising and innovation (rather than solely relying on its identity);

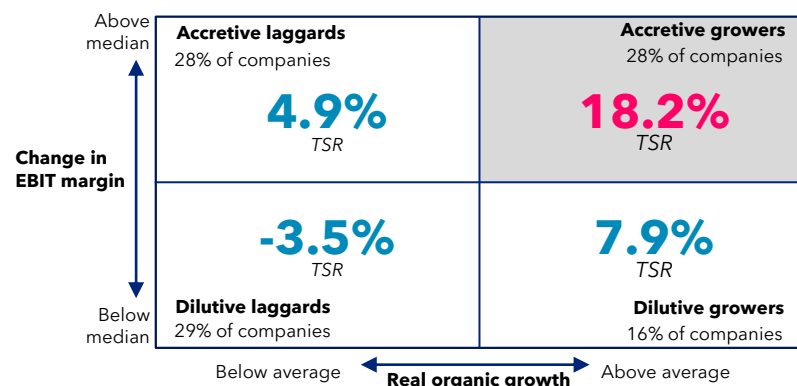
2. Manage the portfolio in order to be better positioned to capture these opportunities;

3 Consumer Staples 101

The main asset of any Consumer Packaged Goods (CPG) company is its brand/brands portfolio. **Managing** and **investing** in them in the right way is the **key to success**, and it will be no different for Danone...

1. Profitable Growth is the Main Driver of CPG Returns

Avg. Total Shareholder Return (TSR) - 2016-19 (%) and % of Companies



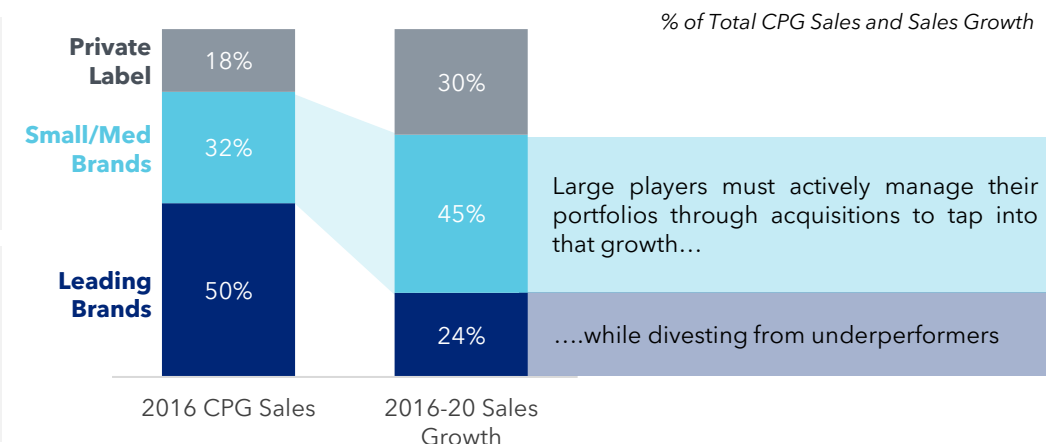
2. Active Portfolio Rotation/Management is at the Heart of Consistent Superior Growth

"Consumer goods companies that are **frequent acquirers outperform their peers**, with twice the sales growth rate, 1.8 times profit growth, and 1.2 times total shareholder return (TSR) growth than the industry average"

BAIN & COMPANY

"The most successful players employ a programmatic M&A approach focused on snapping up challengers, rather than market consolidation or expansion into adjacencies."

McKinsey & Company



3. Consistency is Key in Advertising - Effective Marketers Deliver in a Systematic Way

Companies ranked as the most effective marketers (below) also delivered consistent successful launches in 2020 (right)

N° of Times Ranked Among the Top 3 Most Effective Marketers (2014-20) - Effie Worldwide Index



Top 5 companies in IRI's 2020 Product Pacesetters Survey, which ranks the most successful brand launches

COMPANY	LAUNCHES (#)	MEAN LAUNCH SALES (US \$ mm)
1 P&G	22	30,7
2 Nestlé	12	26,5
3 L'ORÉAL	8	16,7
4 Unilever	7	19,7
5 REVLON	7	9,7
...		
NA DANONE	1	26,0

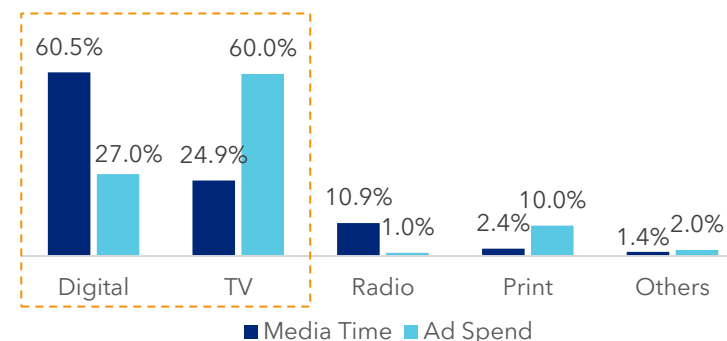
4. To be Consistent Players Need to Spend in the Right Way and in the Right Place

Consumer Staples Winners "(...) invest in 'Pull' marketing strategies, principally using **innovation** and media to create **brand loyalty** and **awareness**. 'Push' tactics that focus on promotion are far less durable (...)"

Morgan Stanley

67% of Trade Promotions don't Break Even
Nielsen

CPG Share of Advertising Spend by Media (%) and Avg. Consumer Time Using Media - US (%)



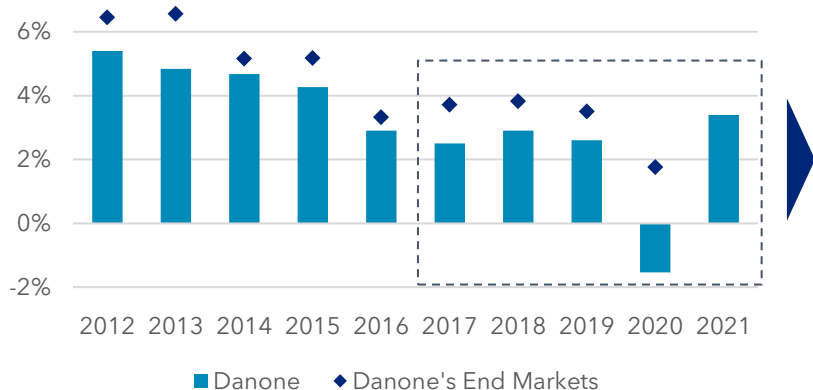
Effective spending in advertising leads to higher returns on investment (ROI)

4 Company Overview

We believe EDP will benefit the most from Health & Wellness (H&W) and Sustainable Living (SL) trends. Post-covid growth is an early promising signs of this.

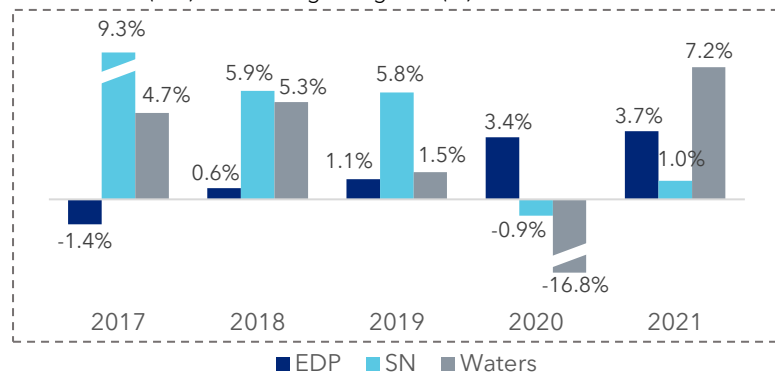
1. Vulnerability to End Markets Growth is a Major Risk

Like-for-Like (LFL) Sales Change vs 2012-20 End Markets Estimated Growth (%)



2. Growth Profile Switched to EDP / Waters Post-Covid

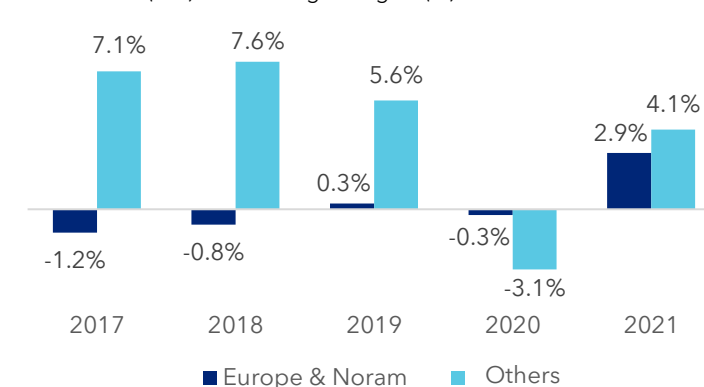
Like-for-Like (LFL) Sales Change - Segment (%)



Plant-Based saw strong growth since 2020 (15% LFL in 20) as H&W and SL trends went mainstream

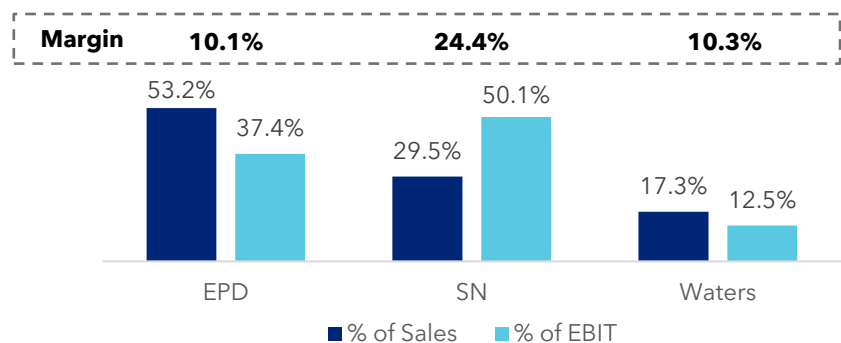
3. Developed Markets were a Major Drag on Growth

Like-for-Like (LFL) Sales Change - Region (%)



4. Profits are Highly Concentrated in SN and China

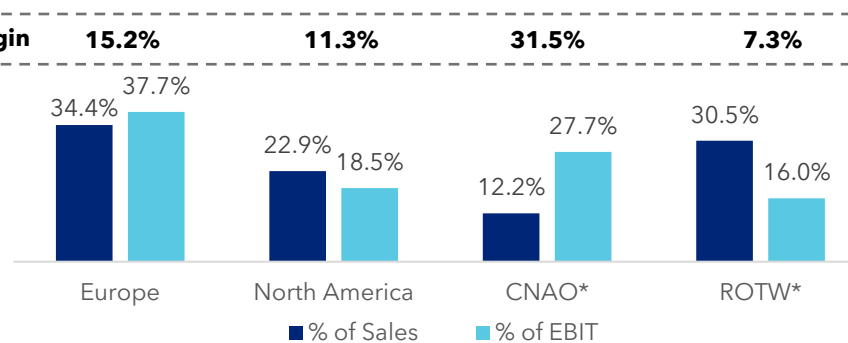
2017-21 Avg. Operating Margin (%) and Share of Sales and EBIT (%)



We see the dependence of profits in SN as an increasing risk as competition gets tougher in China

5. Strong Presence in Emerging Markets Increases FX Risk

2020-21 Avg. Operating Margin (%) and Share of Sales and EBIT (%)



FX depreciation washed away a big chunk of revenue growth between 2017-21

We believe the greatest exposures to H&W and SL are in EDP, SN and Waters, in that order

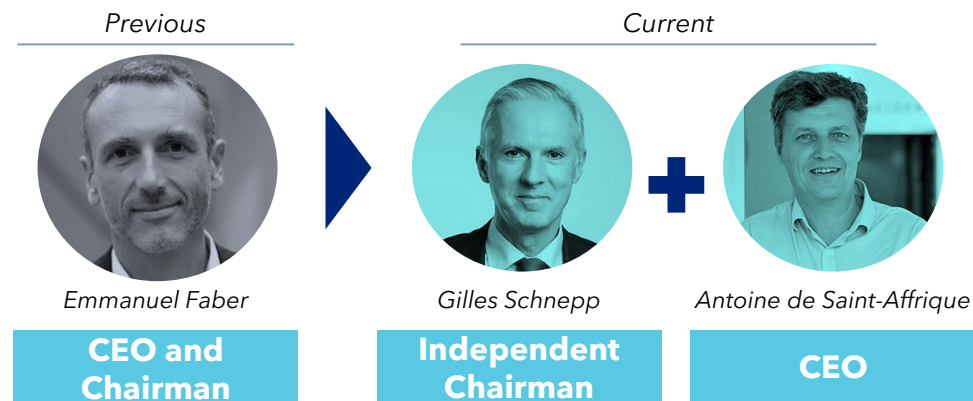
Our "Turnaround Story" heavily relies on the new strategy's / management's ability to (i) reduce vulnerability from end markets growth (i.e. gain share), (ii) restore growth and profitability in EDP, helping to mitigate dependence on China IMF. This will define whether Danone is a cyclical company or a compounder.

4 Corporate Governance

Inadequate incentives and **poor Corporate Governance** were major enablers of Danone's poor performance. These problems were the first ones to be fixed. **Corporate Governance has improved materially**

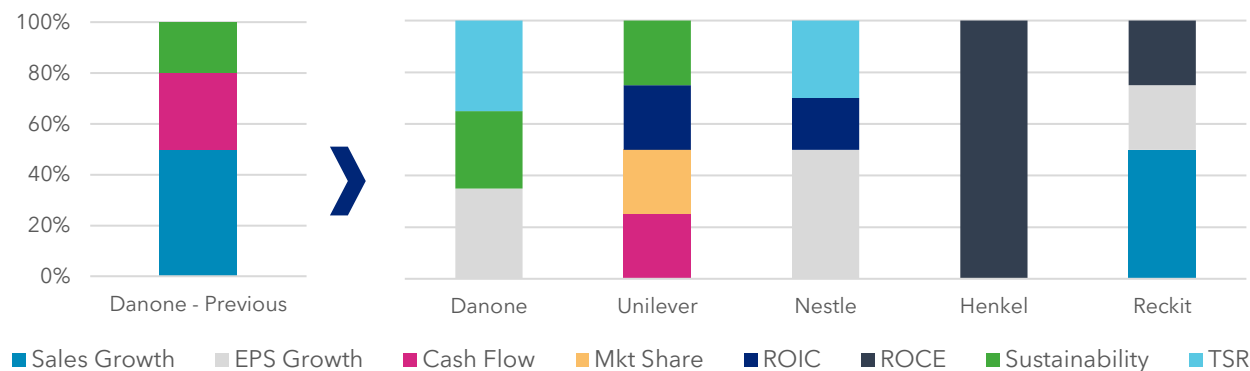
1. The Roles of CEO and Chairman were Split and an Independent Chairman was Appointed

CEO duality diminished the board's ability to exercise objective oversight over management. **The current structure leaves less room for conflicts of interest**



3. Incentives are Better Aligned to the Company's Needs and More in Line with Peers

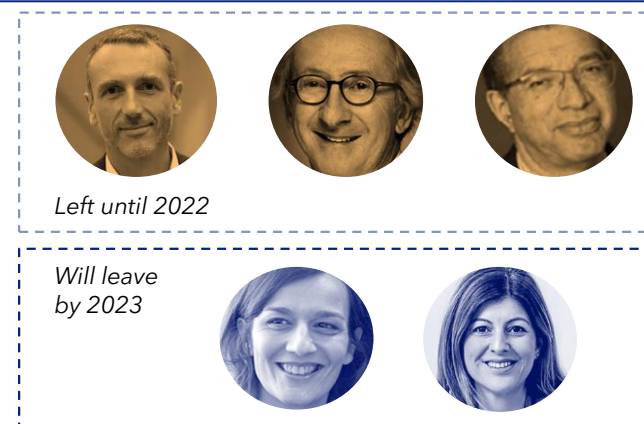
Weight of Performance Conditions in Long Term Share Compensation - LTSC (%)



The change in metrics represents an **improvement in the compensation structure**, addressing more pressing issues at Danone. In our view, the **LTSC still lacks a ROIC/ROCE metric**, currently only present in Danone's short-term variable compensation.

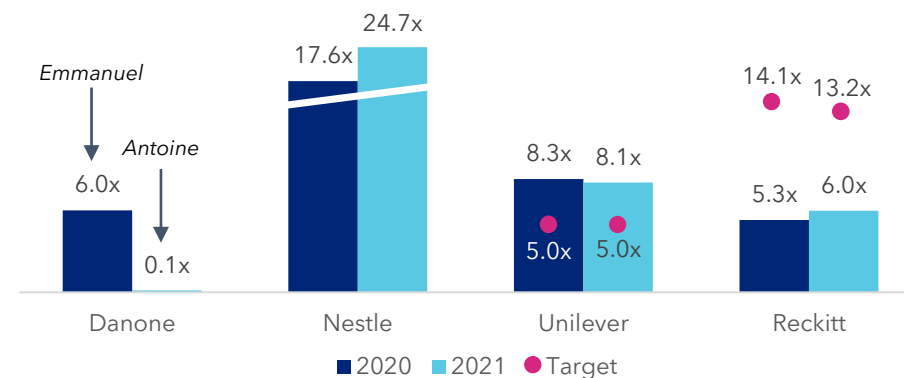
2. The Rest of the Board is Also Heading Towards Independence

Board members with varying degrees of involvement with the company further hindered an objective evaluation of the management. Most have left the Board, with the remainder to leave in 2023 and to be **replaced by independent members**



4. Shareholding Should Help Monitor the New CEO's Skin in the Game

Market Value of Shares Owned by the CEO as a Multiple of Fixed Compensation (x)



This indicator should be **closely monitored** to assess the new CEO's alignment with shareholders

4 Board of Directors and Executive Committee

The Management and Board are at better shape than before. We believe the new CEO has what it takes to turn the company around

Board of Directors | 12 Members

One main pushback investors shared was the Board's inexperience...

"(...) only a couple of the company's 14 board members had industry experience, making it near impossible for the board to challenge the CEO's strategies and economic outcomes."

ARTISAN PARTNERS

... this problem has been somewhat addressed

The # of Members with relevant FMCG experience increased, and the mix (independent vs. current/former employee) improved:

Appointed

Heavyweight names in FMCG turnaround stories



Patrice Louvet
Ralph Lauren



Valérie Floquet
Rémy Cointreau

Independent

Left

Members with no industry experience



Financial Background

Chairman | Gilles Schnepf



- No experience in the FMCG industry;
- Former CEO of Legrand (electronic components) between 2006-18;
- Delivering high Total Shareholder Return (TSR) (avg. ~14% p.a) in the period.

The current chair is a major improvement and has great track record, but **lacks industry experience**

Peers with Chairmans with industry experience:

Nestlé

Coca-Cola

reckitt

General Mills

Mondelēz International

Kellogg's

Campbells

Unilever

We believe the **current Board is appropriate**. The improvements are already significant, but there is room for more. Some improvements may be visible as early as 2023 - all members appointed prior to 2022 (ex-Chair and CEO) will be out by then

Executive Committee | 16 Members

The new CEO is an **excellent choice**: he is a good fit and has the **experience needed to turn Danone around**

CEO | Antoine de Saint-Affrique



- Has **operational background**, unlike his predecessor;
- Successful career at Unilever...
- ...and as Barry Callebaut's CEO (2015-21), delivering **impressive results**:

- Sequential operating margin and ROIC improvement, before a hard-hit by the pandemic...
- Still achieved an avg. TSR of ~16% p.a.

His experience in implementing the SMART Growth strategy at Barry Callebaut may prove useful:

Sustainable growth
Margin accretive
Accelerated growth in Gourmet & Specialties and Emerging Markets
Return on Capital and greater focus on free cash flow
Talent & Team

SMART resulted in greater capital allocation efficiency and improved ROIC (which was 50% of LT incentives), something missing from Danone's previous management

Antoine already has implemented positive changes to the management's structure:

Split roles, creating a dedicated officer for Research and Innovation, in line with FMCG peers:



Chief Operating Officer (COO) End-to-End Design to Delivery (included R&D)



COO End-to-End Design to Delivery



Chief Research, Innovation, Quality and Food Safety Officer

Both with 30+ years of consumer goods experience

- All other executives have extensive experience in operational roles (ex-CFO), mainly in Sales and Marketing;
- Most have 15+ years at Danone, and/or previous experience in other global FMCG companies;
- Many served across different Danone divisions and zones;
- **Management** team is **highly qualified** and seems to be able to execute the new CEO's strategy

4 Strategy: Renew Danone

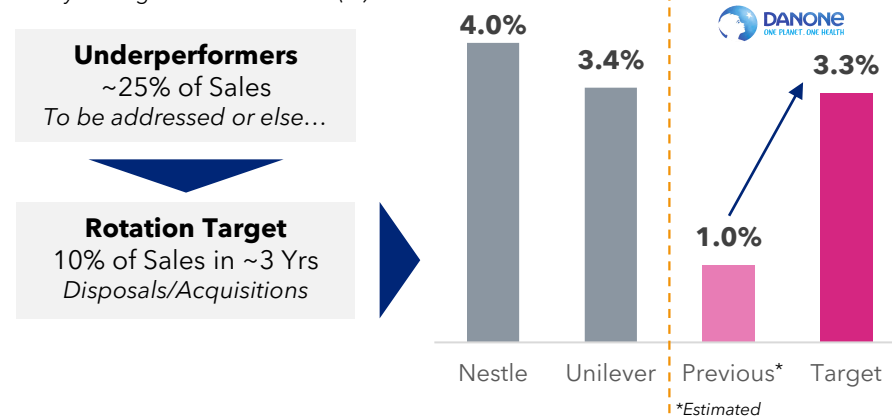
“Renew Danone”, the company’s new strategy, provides an honest assessment of the company’s core problems, as well as **clear paths** to tackle them:

Key positives in Renew Danone:

- Consumer Staples 101: the new strategy is simple and realistic;
- Borrows from strategies that have been successful in other FMCG companies;
- Different in many ways from previous restructurings...
- ... Addresses, for the first time, core problems that have been overlooked for many years...
- ... Whilst indicating a clear path to tackling them...
- ... **Such as actively managing and investing in the company's portfolio of brands:**

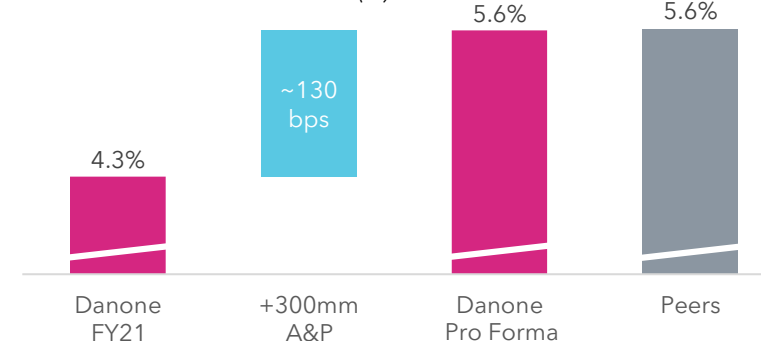
1. Proactive Portfolio Management and Rotation

Yearly Average Portfolio Rotation (%)



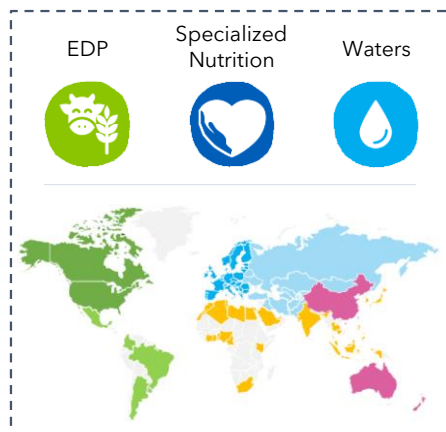
2. Brand Investment Back to Competitive Levels

Estimated A&P as a % of Net Sales (%)



One of Renew Danone’s most important changes, along with proactive portfolio management/rotation

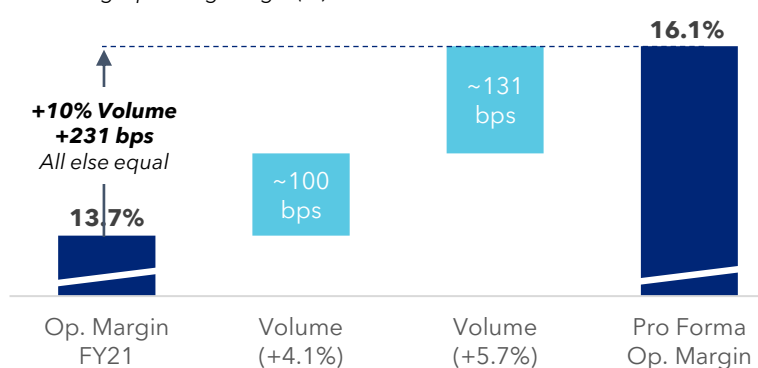
3. Fixing Current Categories and Geographies



Focus on current portfolio before fully venturing into new markets. We believe current categories have high to mid exposure in H&W and SL trends

4. Balanced Growth Mix, with Greater Focus on Volume

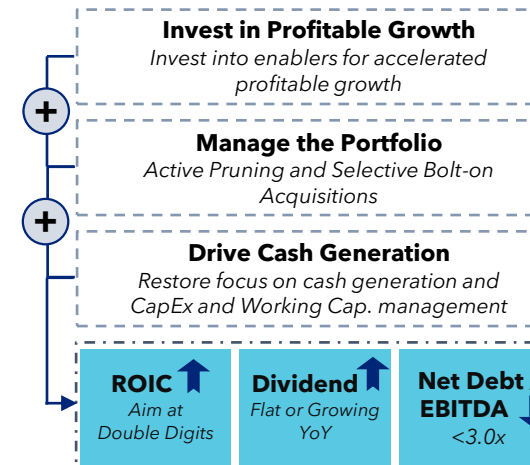
Recurring Operating Margin (%)



We estimate a 100bps gain in margins from restoring volumes to 2017 levels and 230bps from a 10% increase, due to higher asset turnover

5. Define Clear Capital Allocation Priorities

The first plan in years to offer a **realistic approach** to **improve capital allocation**



4 Strategy: Renew Danone (cont.)

We are **optimistic** about the new strategy. We believe it is the first one with **real turnaround potential** if properly implemented by the management

1. Renew Danone is Different from Previous Restructurings

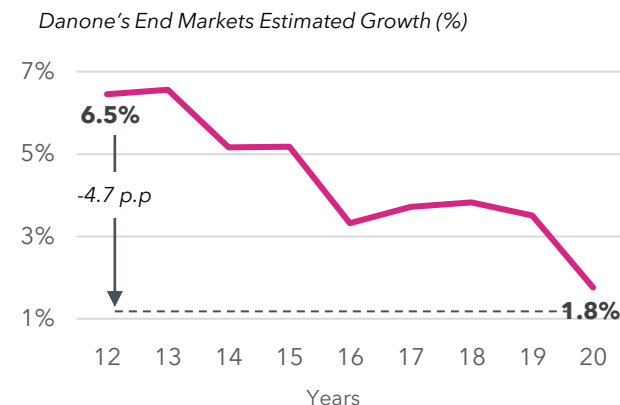


2. First to Acknowledge Causes for Underperformance

Renew Danone is the first to acknowledge and address (most of) the structural **causes for underperformance** we've identified:

- ✓ **Loss of Competitiveness**
- ✓ **Inactive Portfolio Management/Rotation**
- ✓ **Underinvestment in Brand/Innovation**
- ✓ **Poor Capital Allocation Decisions**
- ✓ **Poor Governance**
- ... except for one:
- ✗ **Adverse Category Dynamics**

3. Current Categories Still Pose a Risk



Despite tailwinds from H&W and SL trends, if core markets growth deteriorate further/stagnate it could limit Danone's growth potential and the effectiveness of Renew Danone

4. Danone Borrows from Nestle's 2017-22 Successful Playbook

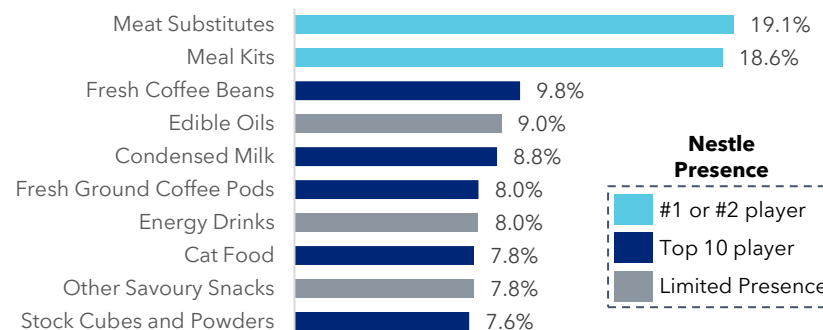
Nestle 2017-22 Strategy:

1. **Invest selectively in fast-growing categories / regions;**
2. **Address underperformers;**
3. Product and business model innovation;
4. Embrace digital opportunities;
5. **Active portfolio management.**

Some of Renew Danone's key strategic pillars have been **successfully tried and tested** by Nestle. Main difference being that **Nestle invested heavily in fast-growing markets**

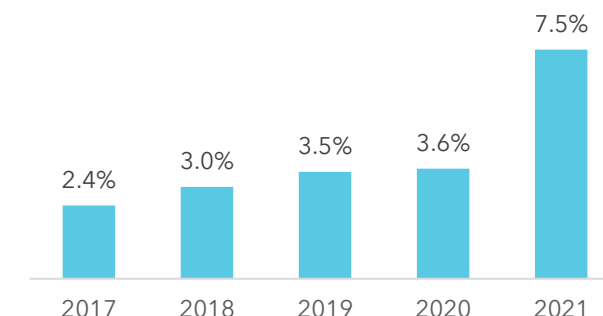
5. Nestle is Present in the Fastest Growing Categories

Category CAGR 2017-22 (%)



6. Resulting in Consistent Organic Growth

Like-for-Like Sales Change (%)



Whitewave



DANONE
ONE PLANET. ONE HEALTH

Transaction Summary

Acquisition Price	US\$12.5 bn / €11.3 bn EV
Premium	24% premium vs. 30-day avg. price
2016 EV/EBITDA	21.2x EV/EBITDA
2015 Net Sales	US\$3.9 bn

**Target of €5 bn in Plant-Based Sales
by 2025**

Withdrawn by new the management



Sold

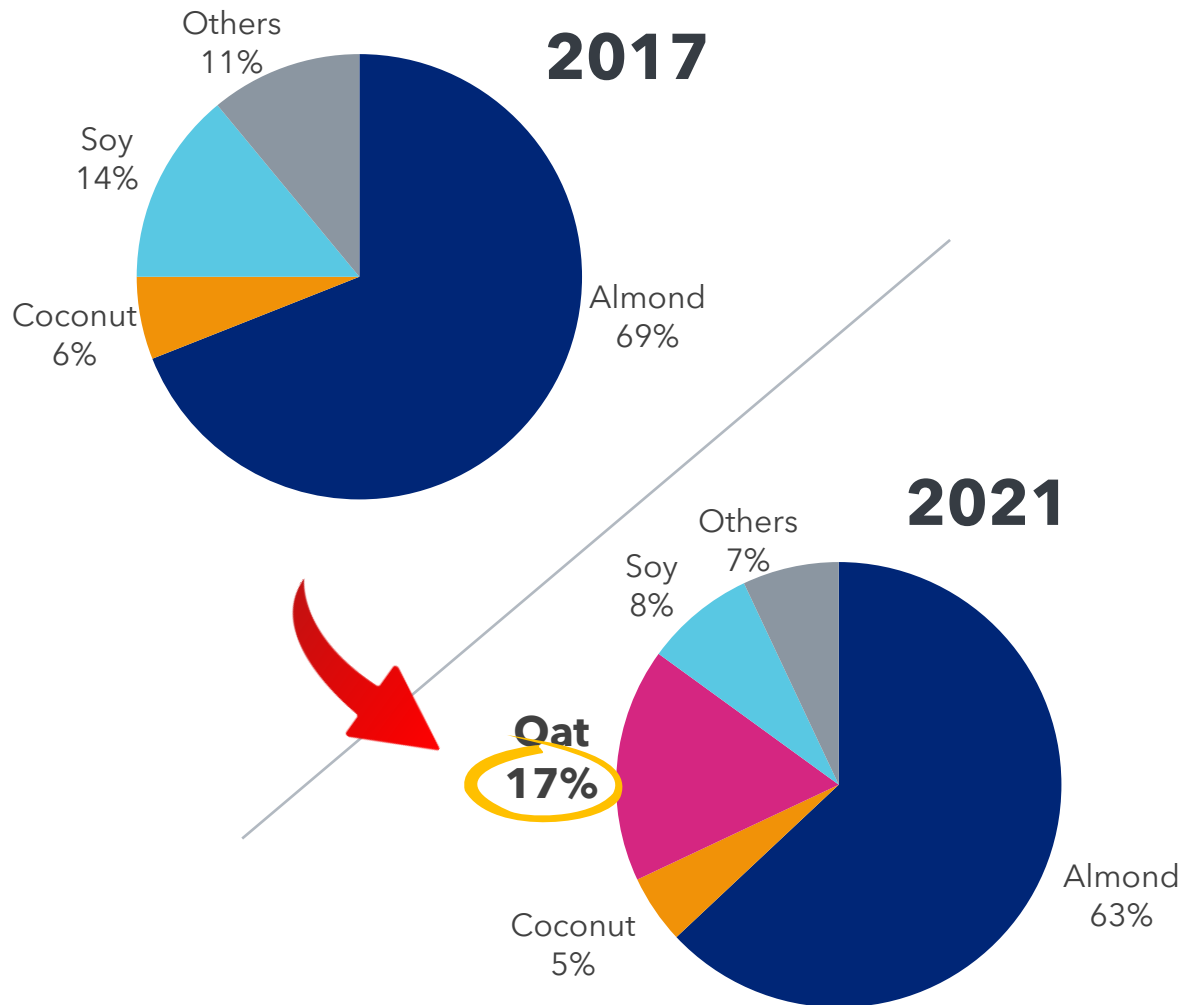
vegaTM



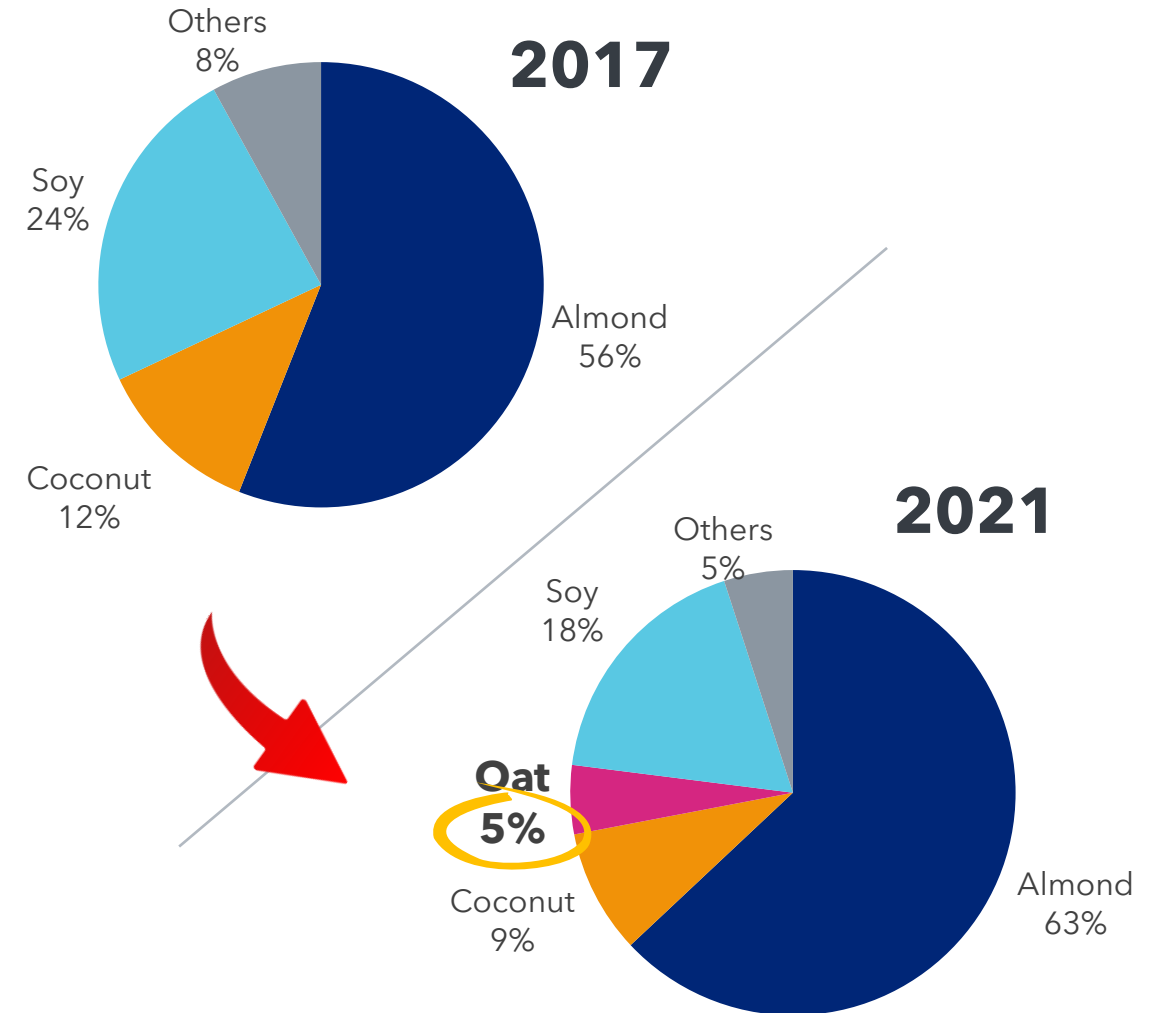
Underperformer



1. US Milk Alternatives Market - Sales by Format



2. Danone US Milk Alternatives - Sales by Format



Aldi



DANONE
ONE PLANET. ONE HEALTH

Aldi Analysis

Danone has limited presence in Europe's 2nd largest retailer (**2% of products**). **Private Label** is the **majority** of products on display (**53%**) and **costs almost half (45% of discount)** of other brands

Private Label Discount:

(Private Label Price / Brand Price)

Pvt Label vs. All Brands

45% of Discount

Pvt Label vs. Danone

37% of Discount

Share of Products:

(# of Products as % of Total)

Private Label ■

53%

Other Brands ■

46%



2%



Retailer: Aldi
Location: Munich, Germany
Dairy Aisle

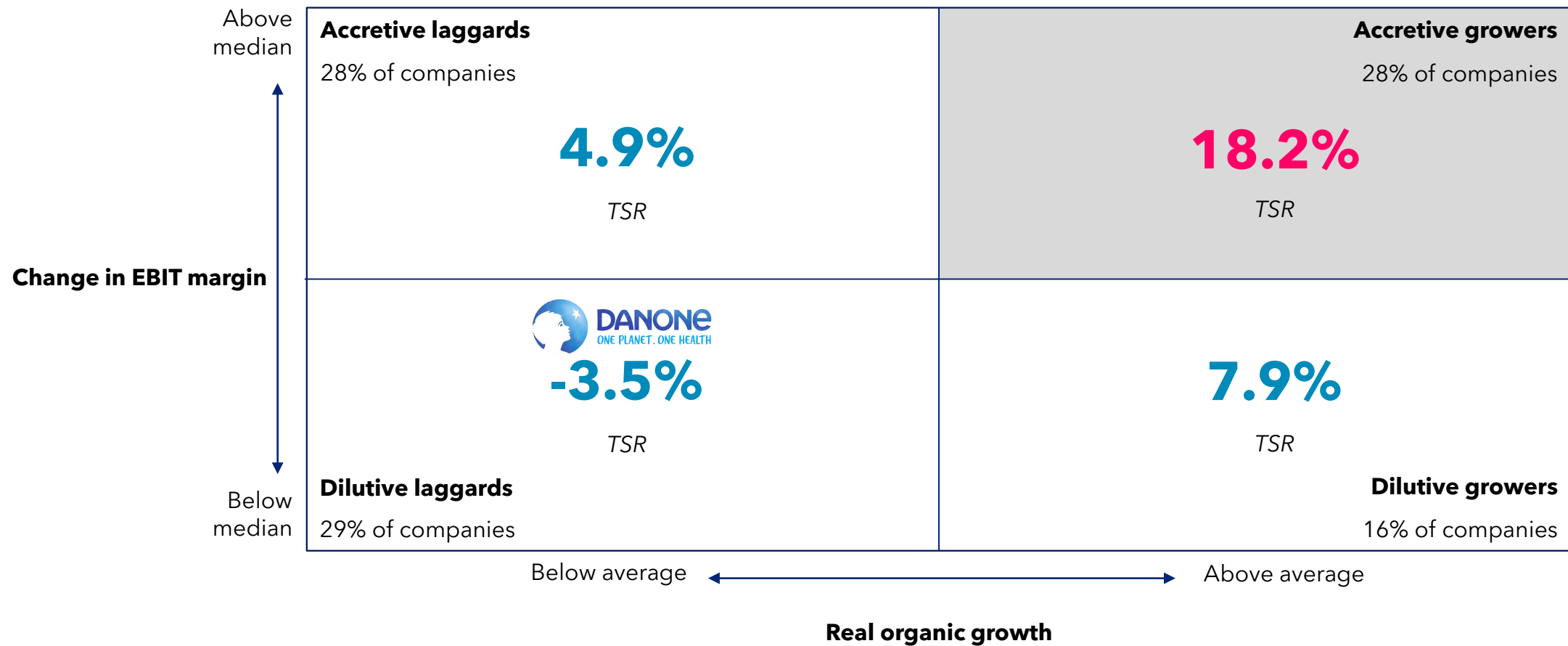
Others



DANONE
ONE PLANET. ONE HEALTH

1. Profitable Growth is the Main Driver of CPG Returns

Avg. Total Shareholder Return (TSR) - 2016-19 (%) and % of Companies



Health and Wellness

Attributes that promote healthful living should stay central to innovation strategies. In addition to plant-based, attributes and claims around low/no sugar, lower calories, digestive health and lifestyle (low carb/keto, gluten free) continue to show momentum among (New Product Pacesetters) NPP. And protein from all sources continues to hit the mark, with three of the top 10 and 41 of the top 100 food and beverage Pacesetters offering protein benefits.

NEW PRODUCT PACESETTERS 2021



Sustainability

Continued trends in sustainability indicate not only a broadening of attributes, such as carbon footprint and water conservation, but also that sustainability is deeply rooted as a consumer expectation. Innovators must recognize the value of sustainability and how it contributes to consumers' overall impression of a product, a brand, the manufacturer and the retailer.

NEW PRODUCT PACESETTERS 2021



Growth

Pockets of Growth

Growth within core categories (e.g Dairy and Waters)

Health & Wellness



Gut Health /
Probiotics



Protein



Non Still
Water

Sustainable Living



20%-25% of
Danone's Water
Bottles use rPET¹

Adjacencies

Expansion into non-core segments

Medical / Adult Nutrition



Plant Based



Brand

Leverage Danone's desirable attributes

#1
Product
Profile



#4 Global
Rank



ENTERPRISE
À MISSION

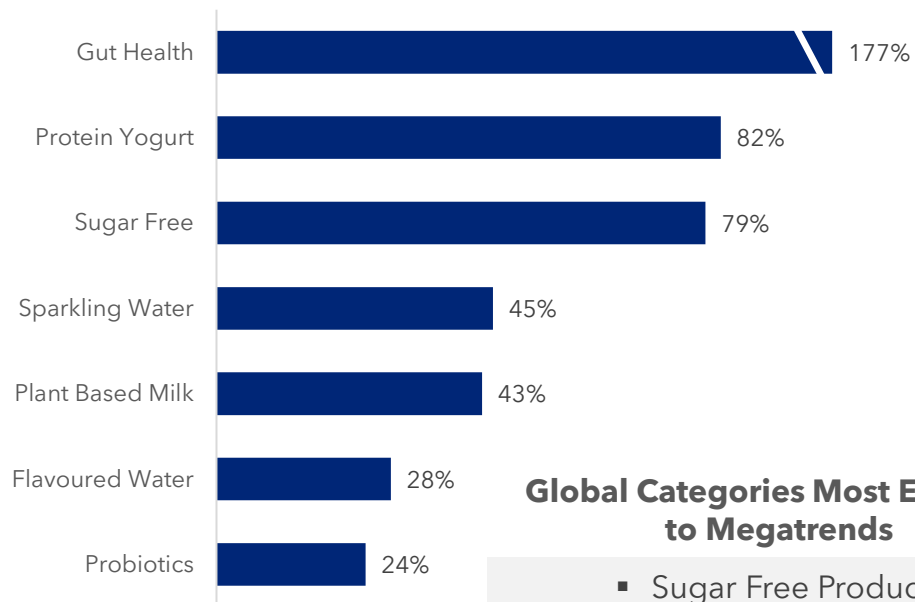


Largest
B-Corp
Company



1. Increase in Google Search Popularity - Rolling 52W (Jun/18 - Jun/22)

% Change in Google Search Popularity



Global Categories Most Exposed to Megatrends

- Sugar Free Products
- Gut Health / Probiotics
 - Non-still Water
- Protein Beverages
 - Plant Based
- Medical Nutrition

US Market - Oat Share

Oat Format Sales / US PB Sales

2017 → **2021**
0% → 17%

Danone US - Oat Share

Oat Format Sales / US PB Sales

2017 → **2021**
0% → 5%

Danone Market Share

Danone Market Share in US PBMarket

2017 → **2021**
47.2% → 33.6%

THE ORIGINAL
OATLY!
+3.9%

The **Economic Recession** could impact Megatrends growth in 2 main ways:

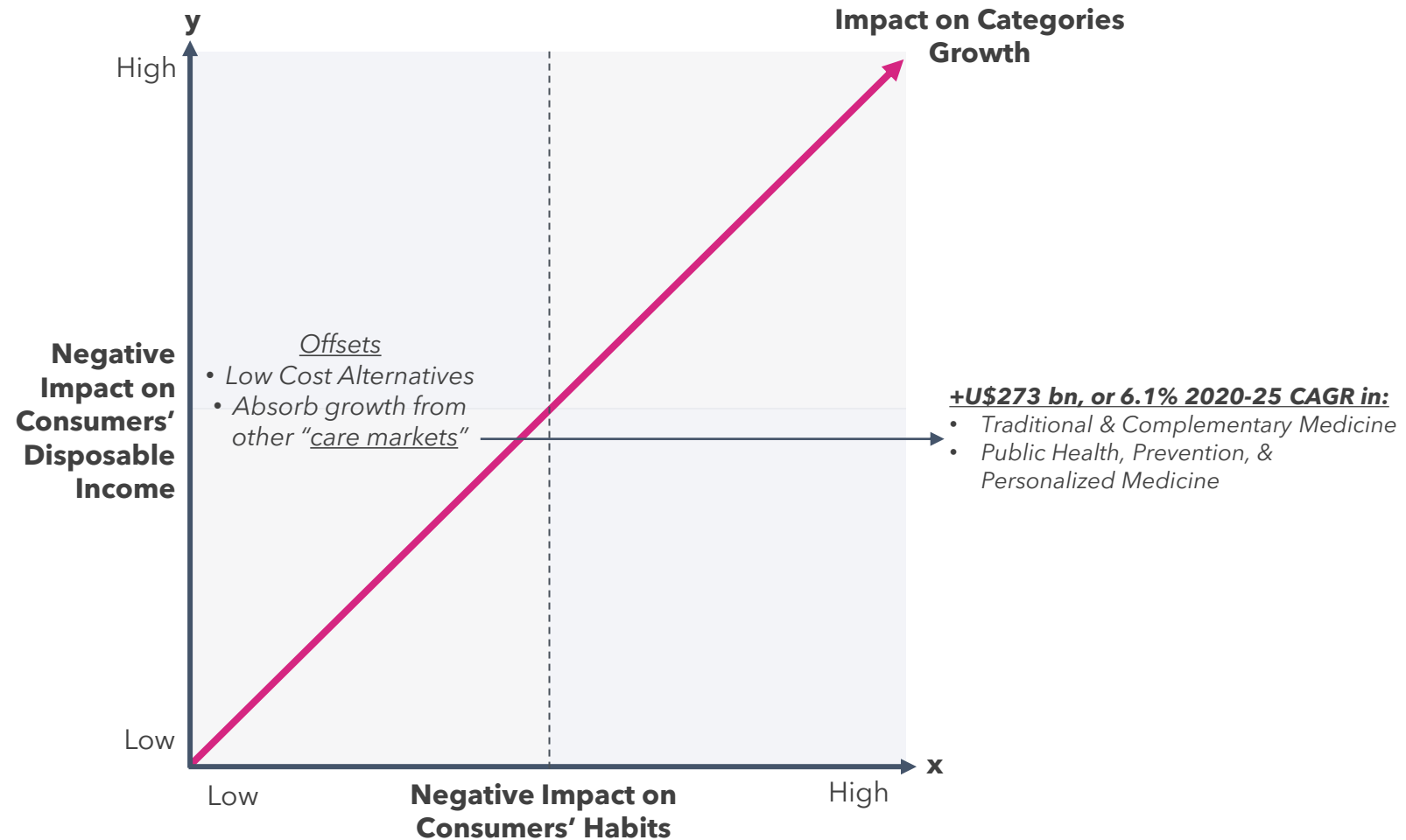
Negative Impact on Consumers' Disposable Income (y axis):

- Change in **spending habits**, due to constrained budgets;
- Lasts for the duration of the recession.

Negative Impact on Consumers' Habits

(x axis):

- Change in consumer **personal habits and preferences**, resulting in lasting changes in the way they spend;
- Consequence of longer term recessions.



PORTFOLIO ROTATION ~10% OF NET SALES

ACTIVE PRUNING OF THE PORTFOLIO

Selected disposals building on a holistic review of the portfolio

Key criteria: fit with strategy, growth and margin prospects, value creation

BOLT-ON ACQUISITIONS AND SEED INVESTMENTS

Value creative, contributing to mid-term guidance

Key criteria: strengthen market positions, bring market access, add new capabilities, technologies or brand assets

AT COMPANY LEVEL

DRIVE THE CORE

~ 55%
of revenues

**Fair
support**

FIX THE UNDERPERFORMERS

~ 25%
of revenues

**Pay as
you go**

BOOST THE WINNERS

~ 20%
of revenues

**Over-
allocation**

AT COUNTRY LEVEL

More agile and selective resource allocation to winning mixes and channels

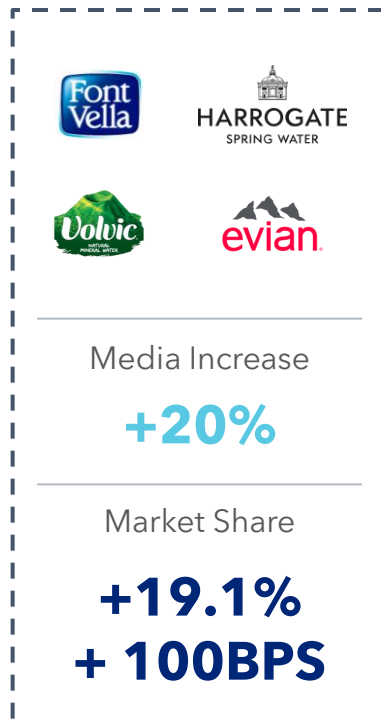
Media effectiveness tracker

Step up quality of content, leveraging global platforms for local execution

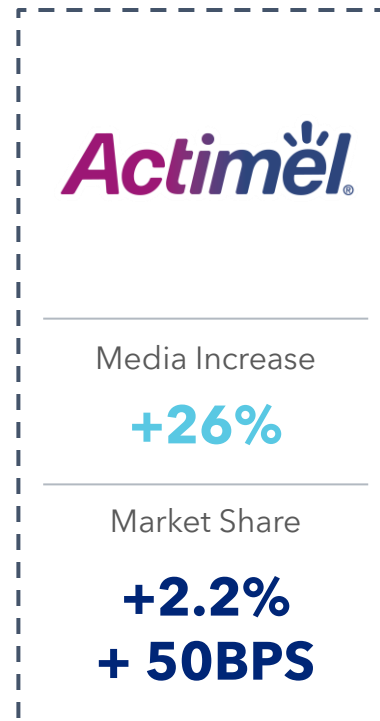
Improving our working /non-working A&P ratio

1. Selective Reinvestments in 2021 Drove and Growth and Share Gains

Waters in Europe



Actimel Worldwide



Aptamil Premium China



Execution Risk

Failure to adequately translate the strategy from high-level ambition to specific actions the organization must take to make that ambition a reality.

a

Failure to appropriately adapt the strategy when conditions change.

b

Failure to put in place the organizational capabilities required to sustain the strategy after it is enacted.

c