

**DANONE**  
ONE PLANET. ONE HEALTH

Liga de Investimentos  
Poli UFRJ



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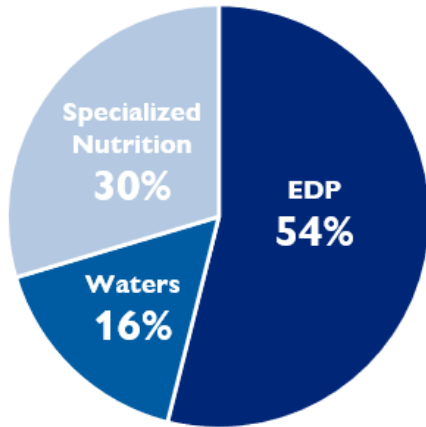
**May 2022**  
**LTS Challenge**  
*Video Link*

# Danone: a major player with underperformance struggles

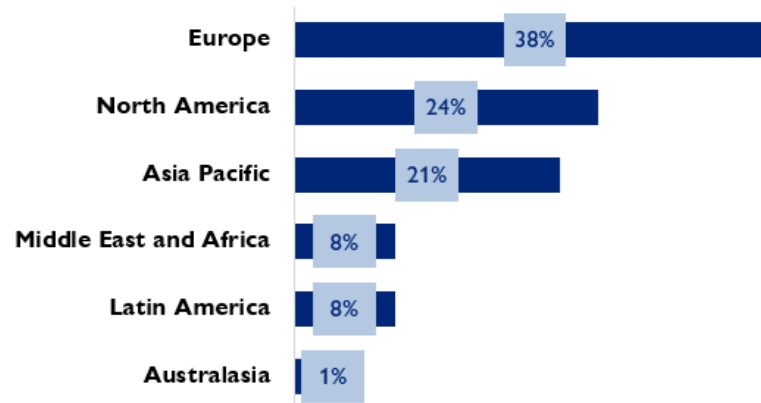
Founded in 1919, as a small family business, Danone has nowadays set their global presence in the health-focused F&B industry

**1** Over the years Danone has positioned themselves in **developed and emerging markets** and maintained an aligned mindset with **society's health and sustainability principles**. However, this model doesn't necessarily satisfy the shareholders and translate into **consistent results**.

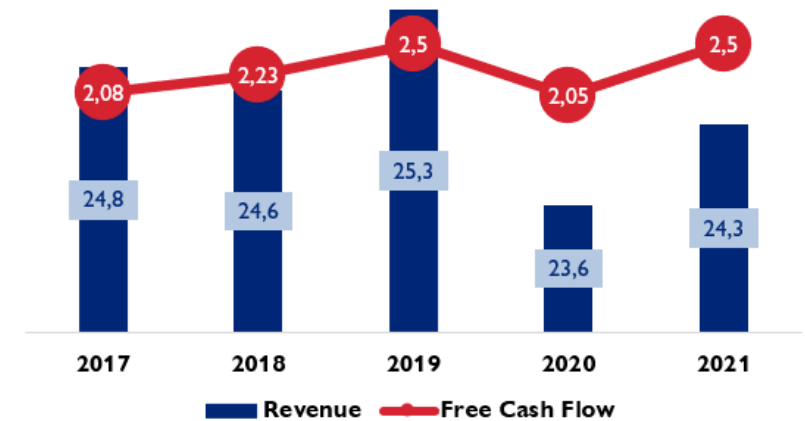
2021 Revenue Breakdown - %



2021 Revenue Breakdown per Region

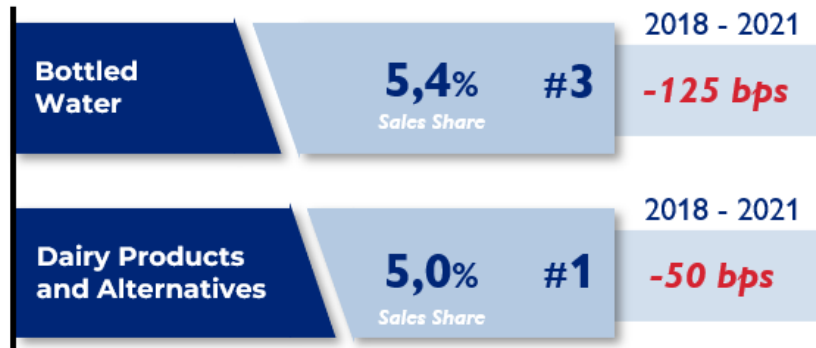


Revenue and FCF Evolution - € bn

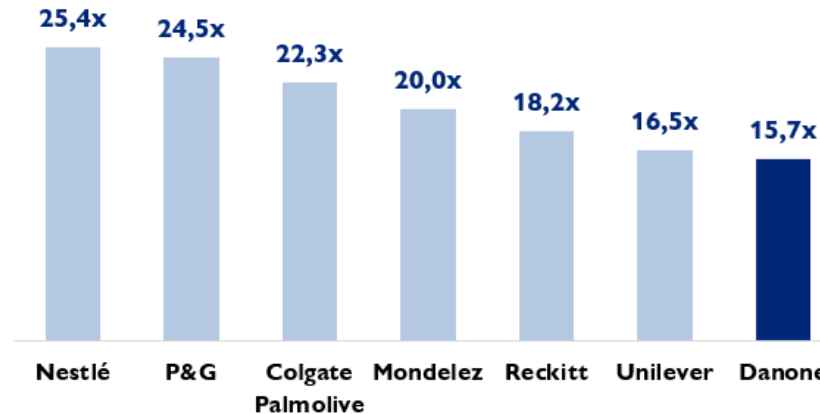


**2** Despite having an expressive presence in the segments in which they operate, Danone have been **losing market share** and achieving **lower growth rates** compared to their peers in recent years, due to operational disruptions and changes in the competitive dynamics of the sector. Given this, the market has been adopting a bearish view on the company, trading it at **lower multiples**.

Global Market Share per Segment



NTM P/E – Danone vs Peers



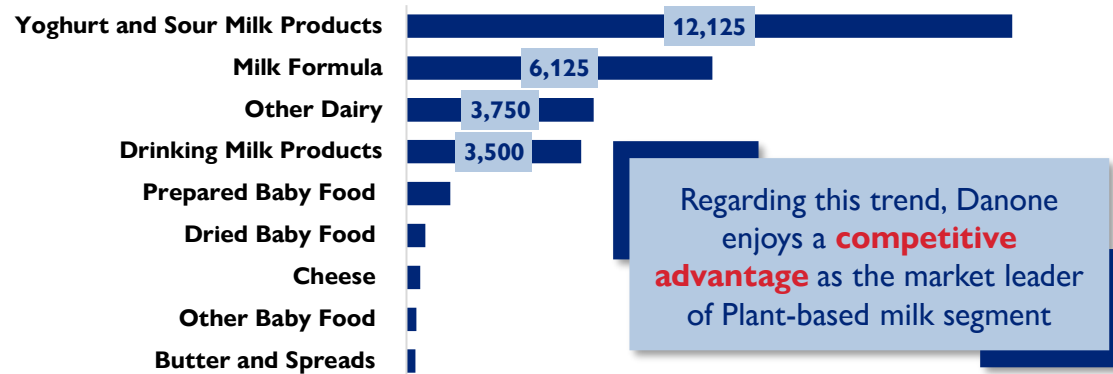
But objectively, what makes Danone an **underperformer** compared to their market competitors?

# How the players were affected by the near past events?

Aspects such as COVID-19 pandemic and input cost inflation have been impacting the dynamics of competitors

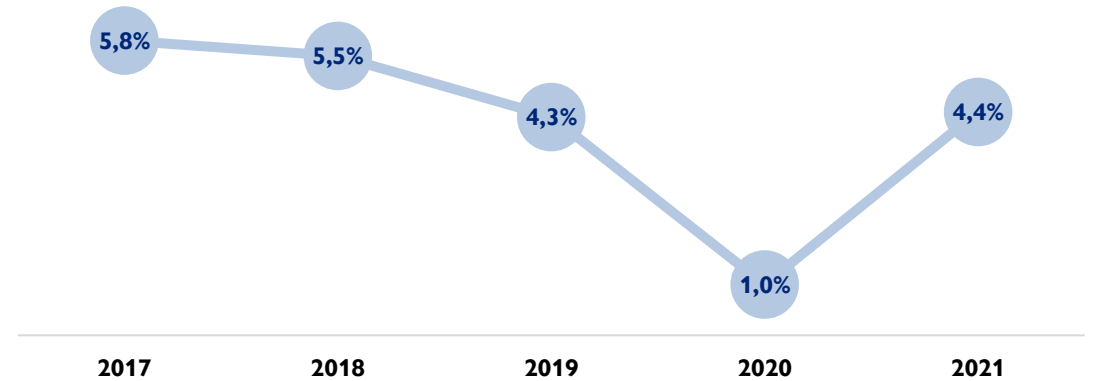
**1** With consumers increasingly concerned about their immunity, there has been an **increase in sales of immune-boosting products** such as Yoghurts and Sour milk products, in addition to the boom of plant-based products.

Danone Retail Sales 2021 on Top Categories – USD million



**2** However, with **little growth prospects in developed countries**, the **consumption of bottled water was strongly affected in the pandemic**. Due to the change in the behavior of consumers who switched to lower-value formats and water dispensers.

% y-o-y Bottled Water Volume Growth



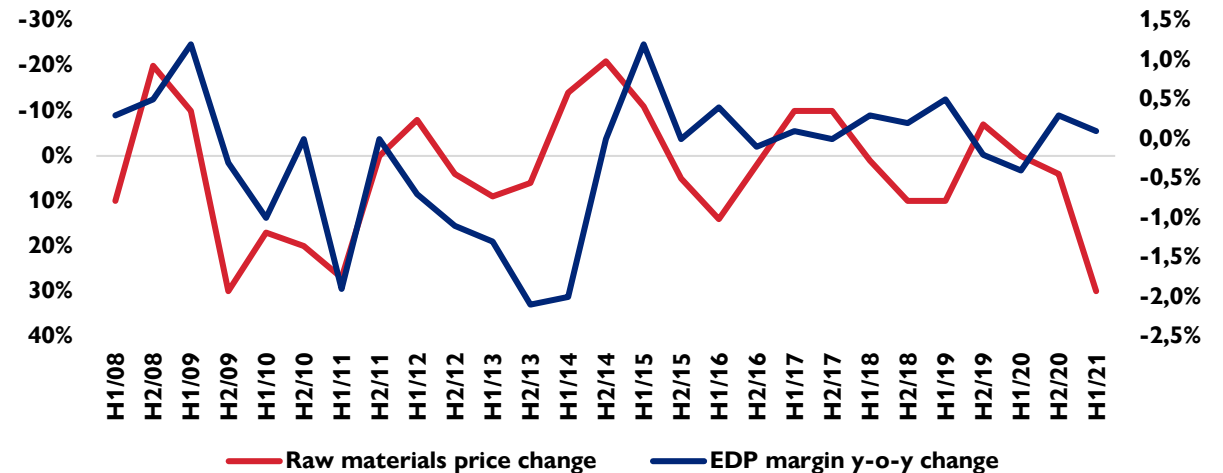
**3** The pandemic and recent geopolitical conflicts have led to several supply chain disruptions and expressive **increase in commodity prices**. This scenario affects different scopes of the sector and **inflates the input costs**, forcing companies to **pass along these expenses to the end consumer or lower their profit margins**.

In general, the dynamics of raw and packaging materials is relevant for the industry and could affect **the market and the companies in two ways**

**Price Repass**

**Margins Pressure**

Danone EDP margin vs Raw materials price change



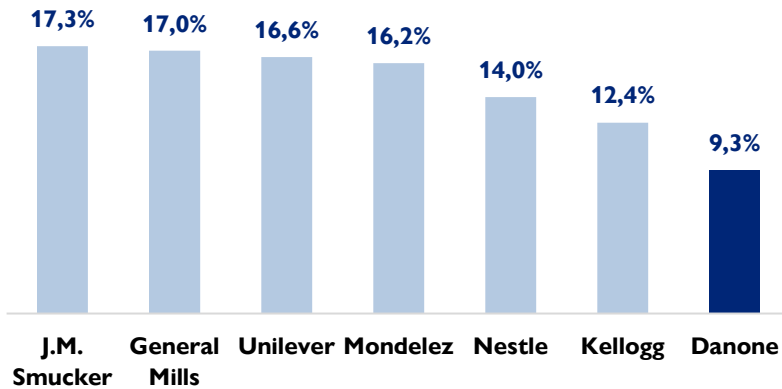
# But what makes Danone perform below its peers?

The inaccurate strategy in relation to the global operation, product portfolio and budget aspects reinforce this negative view

1

By the end of 2021, Danone was mainly adopting a strategy in its global operation that **failed in the competitive issue**. The company maintained a **centralized view of the regions in which it operates**, seeking to expand globally instead of focusing on the specifications of each location.

2021 Operating Profit Margin – Danone x Peers



A **low margin**, combined with a high exposure to inflation and raw material dynamics, puts Danone in an **uneasy position** in its strategy of **pass-through pricing** compared to its competitors.

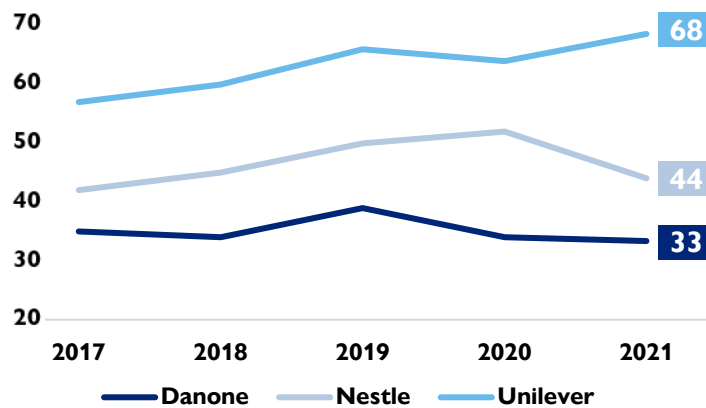
## How is this strategy related to the loss of share?

The **loss of focus** on Danone's operating locations, especially in developed markets, **makes small players** with local expertise **move forward with the sale of their products**, as the Dairy Market has weak entry barriers.

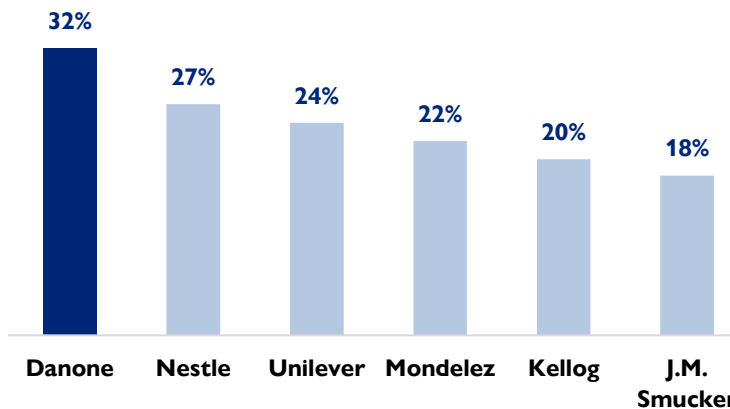
2

Looking more closely at the company's spending structure, the lack of assertiveness of its model is evident. When compared to the market, we see that **Danone's structure is much less efficient**. This is due to, besides the **lack of local focus**, to the fact that Danone had a **delayed positioning related to cost efficiency** compared to its peers.

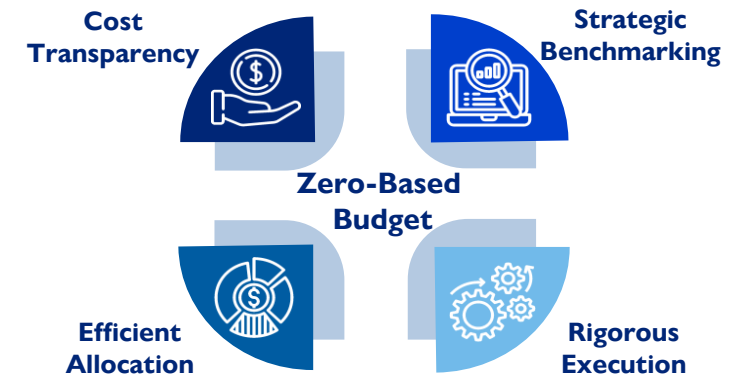
Danone EBIT per employee vs Peers - euro 000's



2021 SG&A as % of sales, large food companies



Danone also lags behind in terms of budget management, as some of its main peers such as Unilever already implement **Zero-Based Budget**.






# But what makes Danone perform below its peers?

The inaccurate strategy in relation to the global operation, product portfolio and budget aspects reinforce this negative view

**3** With a proposal to enter the Plant-based market strongly, Danone made the acquisition of WhiteWave. However, the **price above the historical** of similar acquisitions and a **poorly executed strategy** were determining factors for the **lack of assertiveness of the deal**.

Failed Strategy



**2015**

- 38% - Plant-based
- 34% - Organic
- 28% - Indulgence

**2015 Figures**

\$3.9 bn Net Sales

- Europe 14%
- NorthAm 86%

**Acquisition Highlights**

**\$12.5 bn** Enterprise Value

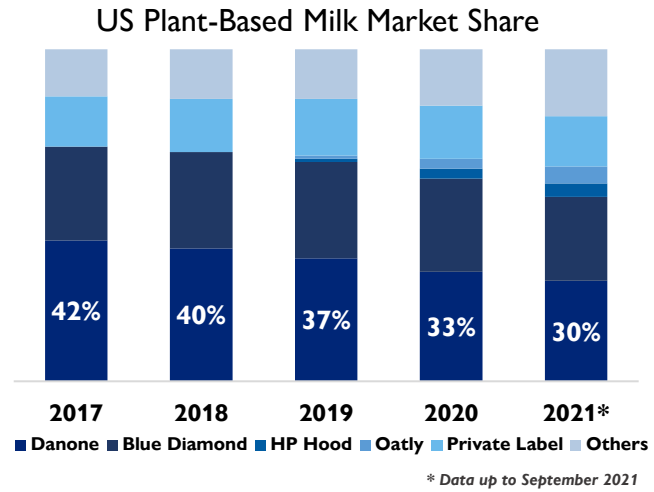
**100%** Debt Financed

**21.2x** EV/EBITDA

Based on a selection of large transactions\* in the food and beverage market, became clear that this acquisition was **overpriced**.

**Transactions EV/EBITDA**

median: **15.3x**      average: **15.8x**



The expansion of SKU's via acquisitions and the lack of focus on the different locations of operation, **make the company continue to lose share** to small regional players and some peers

**4** Without having expertise in certain local markets, Danone ends up **positioning itself in unfavorable markets with little prospects for growth**. Therefore, there is a **strong need to review certain SKUs and operating regions** in order to capture greater growth.

Danone is positioned in certain segments **with low growth prospects** and **high impact on its results**

	Mainstream Yoghurt	Liquid Milk	Water - Europe (mainstream)
% of Revenue	13%	5%	5%
CAGR 20-25	-0,5%	-3%	3%

With this **diversion of focus** on markets and regions that Danone could perform better, the company fails to take advantage of two aspects:



Capture growth in key markets



Maximize gains and results

\* [Gerber - 17.9x]; [Numco NV - 21.3x]; [Danone Biscuits - 14.5x]; [Wm. Wrigley Jr. - 19.3x]; [Arla Foods - 12.5x]; [Wm. S. Wm. - 13x]; [Cadbury Plc. - 13x]; [Wm. S. Wm. Dairy and Juicy Company - 16.3x]; [Pfizer Nutrition - 33.7x]; [Ralcorp Holdings - 12.1x]; [F. J. Heinz Company - 13.7x]; [D.E. Master Blenders 1753 - 18.2x]; [The Hillshire Brands - 16.3x]; [Big Heart Pet Brands - 12.9x]; [Kraft Foods Group - 12.5x]; [SABMiller - 16.3x]; [Keurig Green Mountain - 13.3x]

# ...and who was leading that failed strategy?

The unsuccessful performance of the ex-CEO raised investors' distrust about the company

1

The management changes during last year were permeated with **internal conflicts** and **insatisfaction from the company's major investors** with the last CEO Emmanuel Faber. Danone's performance against Nestle and Unilever, alongside with bad execution of "Local in First Place" strategy were the main reasons for the **old management's departure**.

*There were a few aspects to his exit...*



Emmanuel Faber, ex-CEO



Lack of product innovation



Loss of share in main markets



Inability to generate value

...and what were the consequences after this movement?



That internal tension over the ex-CEO and the executive board creates a **negative perspective** from the market and the **company's shareholders**



The arrival of a new CEO with high market expertise brings hope that Danone will return to its best years and **recover the confidence of investors**

2

In conclusion, many factors throughout recent years have collaborated for **Danone's poor performance as a strong worldwide player**, compared to its global peers.

Macro Headwinds

High Inflation and Negative Commodity Price Dynamics

Inassertive Market Strategy

Delayed implementation of a legally focused strategy and less than assertive acquisitions

**Why is Danone trading at lower multiples in comparison to its competitors?**

Operational Inefficiency

Weak cost management, with a much less efficient operation than its peers

Internal Turbulence

Internal and external pressure on the former CEO's performance