Creditreform Corporate Issuer / Issue Rating

Danone S.A

Creditreform Rating

Rating object	Rating information	
Danone S.A	Corporate Issuer Rating: **BBB+ / stable**	Type: Update unsolicited
Creditreform ID: 2000000660 Incorporation: 1966 Based in: Paris, France (Main) Industry: Food industry CEO: Emmanuel Faber	LT Senior Unsecured Issues, LC: **BBB+ / stable**	Other: **n.r.**
Rating objects: Long-term Corporate Issuer Rating: Danone S.A Long-term Local Currency (LT LC) Senior Unsecured Issues	Rating date: 5 March 2020 Monitoring until: withdrawal of the rating Initial rating: www.creditreform-rating.de Rating methodology: CRA "Corporate Ratings" CRA "Non-Financial Corporate Issue Ratings" CRA "Rating Criteria and Definitions" Rating history: www.creditreform-rating.de	

Content

Analysts

Elena Damijan
Lead Analyst
E.Damijan@creditreform-rating.de

Christina Sauerwein
Co-Analyst
C.Sauerwein@creditreform-rating.de

Neuss, Germany

Summary

Company

Danone S.A. – hereafter referred to as the Company, the Group or Danone – is a leading global food and beverage company located in Paris, France. Danone is specialized in the production and distribution of fresh dairy products, plant-based products and beverages, early and medical nutrition products, and waters. The Company operates under several brands in over 120 countries worldwide.

In a competitive and complex market environment, Danone S.A. generated EUR 24.7 billion in revenues in 2018 (2015: EUR 24.8 billion), of which 55.4% was generated in Europe and North America, and 44.6% in the rest of the world. Through financial discipline, improved product mix, synergies from the acquisition of WhiteWave and leveraging of operative efficiencies, the Company managed to offset the negative effects of the Morocco boycott and to maintain a solid level of EAT with EUR 2.4 billion (2017: EUR 2.4 billion).

Rating result

The current rating attests a highly satisfactory level of creditworthiness to Danone S.A.

Despite fragile consumption trends and a generally uncertain and volatile market environment, the Company should be able to further continue its stable business development. Relevant rating aspects are the leading market position of the Company as well as its product diversification and global presence. Additionally, the forward-looking strategy and innovative capacity of Danone, particularly in plant-based food and in health products, as well as its solid financial base, have a positive impact on our rating assessment. We also see Danone's declared commitment to financial discipline and controlled investments with a targeted maintaining of a net financial debt/EBITDA level of under 3x as positive. Through its engagement in the climate protection measures, Danone is able to create competitive advantages against the background of the overall awareness of environmental challenges. Risk factors comprise fierce competition and significant innovation pressure requiring high investments and intensive R&D, as well as the overall

inflationary prices of raw materials. We also see a high reputational risk should the Company fail to comply with safety measures. The current business development could be impaired by negative exogenous factors (such as adverse effects from the coronavirus) as well as by changes in regulation. Climate-related actions bear intrinsic significant costs, which puts additional pressure on the Company's financials.

Outlook

The yearlong outlook of the rating is stable. This outlook is based on our expectation of a generally stable development of Danone, underpinned mainly by its leading global position in the relevant markets and its sound strategy combining growth and commitment to financial discipline. The Outlook could be changed to negative if the macroeconomic and political environment in Danone's essential markets would be disrupted by exogenous factors (i.e. the coronavirus).

Relevant rating factors

Excerpts from the financial key figures analysis 2018

+ Equity ratio
+ Net total debt/EBITDA adj.
+ Ratio of interest expenses to total debt

- Slightly decrease in sales
- EBITDA
- Profitability ratios
- Slight decrease in EAT

Table 1: Financials of Danone S.A. (Group) I Source: Danone S.A annual financial report 2018, standardized by CRA

Danone S.A Selected key figures of the financial statement analysis Basis: Annual financial report of 31.12. (IFRS, Group)	CRA standardized figures[1]	
	2017	**2018**
Sales (EUR million)	24,812	24,651
EBITDA (EUR million)	4,880	3,704
EBIT (EUR million)	3,906	2,765
EAT (EUR million)	2,559	2,440
EAT after transfer (EUR million)	2,449	2,350
Total assets (EUR million)	34,581	34,745
Equity ratio (%)	18.21	24.00
Capital lock-up period (days)	57.43	54.41
Short-term capital lock-up (%)	26.43	25.51
Net total debt / EBITDA adj. (factor)	5.68	4.85
Ratio of interest expenses to total debt (%)	2.56	2.11
Return on Investment (%)	9.10	8.49

[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.

Please note:
General rating factors summarize the key issues that – according to the analysts as per the date of the rating – have a significant or long-term impact on the rating, positive (+) as well as negative (-).

General rating factors

+ Worldwide presence
+ Leading market position with well-recognized brands
+ Diversified product portfolio
+ Relatively low cyclical sensitivity
+ Granularity of customers
+ Commitment to profitable growth combined with financial discipline
+ High ESG-standards, triple-A CDP[2] ranking

– Low entry barriers and highly competitive environment, both locally and internationally
– Price volatility with regard to raw materials
– Dependence on weather conditions
– Costs associated with the implementation of ESG-standards
– Dependence on emotional bond between the user and products, and on consumers' needs and choices
– Reputational and food safety risks

Current rating factors are the key factors that have, in addition to the underlying rating factors, an impact on the current rating.

Current rating factors (rating 2020)

+ Overall stable development of Waters and EDP and very good performance of Special Nutrition in 2019
+ Stable growth with improved profitability (recurring earnings) in 2019
+ Savings realized in Protein Program and through other measures
+ Improved cash flow
+ Reported net financial debt/EBITDA 2.8 as of 31 December 2019, ahead of plan

– Inflationary raw materials prices (milk, PET)
– Regional (seasonal) volatilities in Waters business
– Impact of Morocco boycott
– Nonrecurring expenses

Prospective rating factors are factors and possible events that – according to the analysts as per the date of the rating – would most likely have a stabilizing or positive effect (+) and a weakening or negative effect (-) on future ratings, if they occurred. This is not a full list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

Prospective rating factors

+ Competitive advantages from climate actions
+ Valorisation of product portfolio, innovations in product range and in packaging
+ Synergies from the White Wave acquisition and the integration of Specialized Nutrition
+ Further growth potential in emerging markets
+ Further cost reduction potential, e.g. through digitaliization

– Integration and financial risks linked to acquisitions
– Partially volatile markets (CIS, Argentina)
– Dampened expectations because of coronavirus
– Accrued competition

[2] CDP - Carbon Disclosure Project - a non-profit organization that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

Best-case scenario	A-
Worst-case scenario:	BBB

Please note:

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

Best-case scenario

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

Worst-case scenario

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

Business development and outlook

In 2018, Danone registered consolidated sales of EUR 27.7 billion, a decrease of 0.7% (2017: EUR 24.8 billion). This development was impacted by negative currency effects (-6.6%), especially resulting from the appreciation of the euro against the Argentinian peso and the US dollar, and from consolidation effects, reflecting primarily the full-year consolidation of White Wave after its acquisition in April 2017. On a like-for-like basis, e.g. adjusted for the consolidation and exchange rate effects, as well as for the impact of IAS 29, sales growth amounted to +2.9%. Reflecting a mix and portfolio valorisation, like-for-like sales grew by 3.6% in value, which offset the 0.7% decrease in volumes. The Morocco boycott launched in April 2018 caused, according to the Company's estimations, a decrease in sales of EUR 178 million and a decrease in operating income of EUR 43 million compared with 2017 results.

Against the backdrop of the inflationary trends in commodities, especially in PET, the proportion of the cost of goods sold in consolidated revenues increased to 51.6% (2017: 50.9%). The cost of goods sold amounted to EUR 12,729 million (2017: EUR 12,630 million). The Company managed to reduce its selling expenses to EUR 5,640 million and to narrow their share in the revenues to 22.9% (2017: EUR 5,831 million, 23.5%). This was the result of Danone's selling, general and administrative efficiency program (Protein Efficiency Program), synergies from the integration of WhiteWave, as well as of an increase in digital marketing.

The results of the financial year 2018 were affected by a range of nonrecurring effects, primarily associated with the impairment of the Moroccan entity Central Danone, (EUR 690 million), as well as with restructuring and integration costs (EUR 165 million). The balance of nonrecurring effects, including positive ones, totaled EUR -812 million in 2018. In 2018, Danone partly disposed of its stake in Yakult, reducing its share capital from 21.29% to 6.61%, for a total amount of approximately EUR 1.3 billion. The disposal gain of EUR 701 million was recognized in the consolidated figures in share of profit from associates. In the financial year 2017, nonrecurring effects amounted to EUR 192 million: EUR 733 million in positive effects, of which EUR 628 million capital gain from the disposal of Stonyfield, and EUR 498 million negative effects, mainly connected with restructuring and integration costs, as well as impairments.

On a like-for-like basis, all business segments contributed positively to the sales growth.

Table 2: The development of individual corporate divisions in 2018 I Source: Consolidated annual financial report 2018

Danone S.A according to individual corporate divisions in 2018				
In million EUR	EDP International	EDP Noram	Specialized Nutrition	Waters
2017				
Sales	8,612	4,492	7,079	4,630
Recurring operating income	759	553	1,686	540
2018				
Sales	8,015	5,041	7,115	4,480
Recurring operating income	726	590	1,762	483

The development of EDP (Essential Dairy and Plant-Based) International was particularly affected by the Morocco boycott, which caused a sales decrease of 27% in that country. Other regions recorded a good performance in traditional dairy and plant-based products. Overall, like-for-like growth amounted to 0.1%, whereby the decline of 5.5% in volume was partly offset by a 5.6% increase in value. Adjusted for the Morocco boycott, EDP International sales increased by 2.1%.

EDP Noram recorded a growth in value of 1.5% and a growth in volume of 2.5%. Fresh dairy products posted moderate growth in a highly competitive environment, while the plant-based segment performed strongly in 2019. The fresh food segment's sales decreased in 2018.

Specialized Nutrition posted a sales growth of 5.9% on a like-for-like basis, with a 1.2% increase in volume and a 4.7% increase in value. This development was primarily driven by strong performance in China in both Early Life and Advanced Medical Nutrition, among others due to the new sales channels. Other regions - with the exception of Europe - made a positive contribution to the overall sales performance of the segment.

Waters registered a growth in sales of 5.3% on a like-for-like basis, which resulted from a 2.1% increase in volume and a 3.2% increase in value. All the regions posted positive development in international or in local brands, especially in North America, where Danone launched new distribution channels.

Table 3: The development of business of Danone S.A. Source: Full-year results, press-release from 26 February 2020

Danone S.A		
In EUR million	2018	2019
Sales	24,651	25,287
Recurring operating income	3,562	3,846
Non-recurring operating effects	(821)	(609)
Recurring net income	2,304	2,516
Cash flow from operating activities	3,111	3,444

In the financial year 2019, Danone achieved a further sales growth of 2.6% with net sales amounting to EUR 25.3 billion, including a negative consolidation effect (-1%), primarily from the deconsolidation of Earthbound Farm, and a positive currency effect (+0.7%). All business divisions contributed positively to this development, with significant increase in Specialized Nutrition (+5.8%) driven among others by high single-digit growth in China, moderate growth rates in EDP (both Noram and International, +1.1%), and in Waters (+1.5%). The Company's savings totaled EUR 900 million in 2019, of which EUR 400 million were savings in Protein program (optimization of sales, general and administrative expenses) and the remainder in productivity enhancement through product re-engineering and optimization of procurement and supply-chain, as well as organization adaption. The margin from operations improved by 76 bps to 15.21%. Danone reported a net income of EUR 1,929 million, which was negatively impacted by nonrecurring effects of the Earthbound Farm divestiture (EUR -609 million) and an impairment of Yashili (EUR -144 million). The adjusted recurring net income amounted to EUR 2,516 million, up 9.2% (2018: EUR 2,304 million).

Danone's main strategic priorities are aimed at strengthening the operating model based on three pillars: sales growth acceleration through further product innovations and portfolio valorization; maximization of efficiency through continuing implementation of cost saving program, leveraging synergies and enhancing productivity; as well as a disciplined capital allocation with around EUR 1.0 billion capex yearly. Climate efficiency remains in a focus of Danone's strategy, and is considered by the management as a competitive strength taking into account the overall increase in the awareness of environmental challenges. The Company plans to double its investments in climate-related issues to approx. EUR 2.0 billion in the period of 2020-2022, of which approximately EUR 900 million will be allocated for packaging transformation (using more recyclable packaging, new materials, and introducing new recycling models). Other priorities will be product innovation, brand strengthening (obtaining of B Corp-Status[3]), climate-efficient sourcing, and optimization of the value chain.

The initial outlook for 2020 was revised with a view to the impact of coronavirus, particularly on the Chinese market, which is currently Danone's second-largest market. Although the production of water has been resumed on all the sites except Wuhan, and the specialized nutrition business was not affected severely, the Company expects around EUR 100 million sales loss with negative consequences for the first half-year margin. Taking into consideration the impact of coronavirus on the sales and the product mix, Danone plans a like-for-like sales growth of 2%-4% instead of the previous 4%-5%, and a recurring operating margin of over 15% instead of the previously envisaged 16%.

We consider the Company's strategy, aimed at growth acceleration combined with the goal to retain the position of forerunner in terms of climate protection, while committing to financial discipline, to be sound and as a key to ensuring a leading global position in Danone's main businesses. The Company's wide-ranging climate actions are accompanied by considerable expenses and investments, which could put pressure on Danone's financials; on the other hand, they could create additional business benefits such as brand loyalty among consumers, or easier access to financial sources. The severity of the coronavirus impact remains to be seen.

[3] B-Corp certification is a third-party standard requiring companies to meet social sustainability and environmental performance standards, meet accountability standards, and be transparent to the public according to the score they receive on the assessment.

Structural risk

The Company is registered in the Paris Register of Commerce and Companies under the number 552 032 534. It prepares financial statements in accordance with IFRS as adopted by the European Union.

Four reporting entities make up Danone's structure:

• EDP (Essential Dairy & Plant-Based) International, which comprises Danone's Fresh Dairy Products activities in Europe, the CIS and ALMA[4] zones, as well as WhiteWave's activities in Europe, Latin America and China;

• EDP Noram, which includes the Fresh Dairy Products activities of Danone and of WhiteWave in North America;

• Specialized Nutrition, a new entity, which was created after the merger of the Early Life Nutrition and Advanced Medical Nutrition Businesses under common management in order to leverage potential synergies;

• Waters.

Danone employs approximately 106,000 people in over 55 countries and runs 194 production sites worldwide. The general policy of the Company is to own its production facilities. Its largest sites are located in Mexico, United States (Essential Dairy and Plant-Based products), France and Indonesia (Waters), Ireland (Early Life Nutrition), and The Netherlands (Medical Nutrition). The Company also rents some facilities, notably offices and warehouses.

As of 31 December 2018, 1.3% of the shares of Danone S.A. were held by employees, while 5.5% were treasury shares. The rest of the shares were floating and held by institutional and private investors, of which MFS with 7.8% and Black Rock with 5.5% of the shares were the biggest stakeholders. Besides Danone S.A, some of the subsidiaries in the Group, mainly active in the fresh dairy products division, are publicly traded.

The Board of Directors is composed of 16 members, of which two directors represent the Group's employees and eight directors are independent.

The widespread geographical diversification of the Group requires a high degree of organization and entails risks associated with local legal, political, cultural and social particularities. We assume that the Group's structure supports the implementation and monitoring of its strategy in accordance with the specific legislation and regulatory frameworks in the countries in which the Group operates. Based on publicly available information, we assume sufficiently developed structures with regard to risk management, accounting, and controlling, as well as other administrative and operational functional areas. Risks can also be associated with the integration of major acquisitions.

[4] ALMA: Asia/Pacific, Latin America, Middle East and Africa region

Business risk

Danone held leading positions worldwide in three business lines:

- Essential Dairy and Plant-Based Products: after the acquisition of White Wave in April 2017 the Company's traditional business - production and distribution of yogurts, fermented dairy products and other fresh dairy products - has been combined with natural or flavored beverages made from soy, almonds, coconuts, rice, oats, etc., as well as plant-based alternatives to yogurt and cream;
- Waters: production and distribution of natural, flavored and vitamin-enriched packaged water with international brands (Evian, Volvic) and a range of locally anchored brands worldwide;
- Early Life Nutrition & Advanced Medical Nutrition: a portfolio of science-based nutritional solutions, including optimal nutritional solutions for infants and young children and breastfeeding support products, as well as specialized food for people afflicted with certain illnesses, or for frail, elderly people.

Danone's business development mainly depends on consumer trends and cost of raw materials. Geopolitical and macroeconomic factors, but also consumer initiatives, influence consumption, fiscal treatment and/or reimbursement of medical products, which could severely affect Danone's activities. The geographical diversification of the Company helps to mitigate these risks. Danone's customer portfolio is highly granular.

The Company needs raw materials: milk and fruits, fruit-based preparations and sugar, plastics and cardboard (packaging), as well as energy supplies, and is affected by their cost volatility. These are mitigated by forward purchase agreements negotiated with the suppliers, since there are no financial markets, which would allow full hedging of the volatility of Danone's main raw materials' purchase prices. Danone strives to optimize its use of raw materials, and takes advantage of pooled purchasing for its various subsidiaries.

For liquid milk purchases, Danone entered into agreements with local producers and cooperatives. Liquid milk prices are set locally over contractual periods that vary from one country to another. Packaging purchases are managed through global and regional purchasing programs, making it possible to optimize skills and volume effects. Prices are influenced by supply and demand at the global and regional levels, as well as by economic cycles, production capacities and freight costs.

Reputational risks and food scandals (product contamination) are some of the most prominent business risks the Company faces. Should studies prove Danone's products to be unhealthy or pose public health risks, it could severely harm the reputation of the Company. This is mitigated by compliance with safety measures and an extensive food quality and safety policy, as well as controls and audits. Danone follows the guiding principles set by health authorities in the respective countries where it operates.

R&D and the need for constant innovation are key to Danone's business in order to stay competitive on the market. There are current trends towards more organically produced, vegan, and environmentally friendly products. Danone would be at risk if the protection of intellectual property rights were not respected.

The Danone Group operates in a competitive environment. The main competitors of the Group are General Mills, The Kraft Heinz Company, and Nestle S.A. Additionally, Danone faces competition from other business lines, i.e. food and beverage corporations such as Coca-Cola, Kellogg's, Mondelez, PepsiCo, and Unilever; medical nutrition corporations such as Abbott and

Mead Johnson; other companies specialized in certain product lines or markets; and retail chains offering generic or private label products.

The Company has an established product portfolio and, as well as we can assess, is able to anticipate changing consumer preferences and expectations. With the introduction of its plant-based product line, Danone has the opportunity to meet growing demand for diversified protein sources. The demand for Danone's products is generally non-cyclical. Against this background and given the high level of its product and geographical diversification, we assess the main business risks of Danone as moderate. Negative effects in particular regions or concerning particular products can be offset by the high degree of diversification. Nevertheless, pursuant negative macroeconomic conditions, inflationary raw material prices and/or new regulatory requirements could hamper further positive development of the Group.

Financial risks

For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. Contrary to our normal practice, we deducted the goodwill shown on the balance sheet from the equity only by 50%, suggesting a certain recoverability of the goodwill. The following descriptions and indicators are based on these adjustments.

As of December 31, 2018, the overall capital structure of the Group is solid, as the Company shows an adequate adjusted equity ratio of 24.0% (2017: 18.21%). The equity ratio improved significantly against the backdrop of increased adjusted equity, particularly by the amount of retained earnings, the nearly constant adjusted balance sheet total, and the decrease in adjusted total debt (EUR 26,407 million, 2017: EUR 28,284 million). In 2018, the Company paid EUR 428 million dividends relating to the fiscal year 2017. After the acquisition of WhiteWave at a price of EUR 12.1 billion, which was financed primarily through the bond issue in 2016, the Company managed to gradually reduce its total debt. The net financial debt stood at EUR 12,744 million as of 31 December 2018, EUR 2,628 million lower than as of 31 December 2017. This development was possible because of the improved cash flow from operating activities (EUR 3,111 million, 2017: EUR 2,958) and due to the disposal of 14.69% of its stake in Yakult during the first half of 2018. Danone had a cash outflow of EUR 2,157 million for bond repayments and issued a new social bond amounting to EUR 300 million. The net total debt/EBITDA adj. ratio was relatively low at 4.85 (2017: 5.68). The Company continues to pursue a controlled investment policy, with capex amounting to EUR 941 million in 2018 (2017: EUR 969 million). As a result of its policy of gradual debt reduction, Danone managed to decrease its cost of net debt from EUR 263 million in 2017 to EUR 231 million in 2018.

As of 31 December 2018, Danone disposed of cash and cash equivalents amounting to EUR 817 million and marketable securities (money market funds, bank deposits and other short-term investments) of EUR 4,199 million. The Company furthermore disposes a wide range of financing facilities: a syndicated credit facility of over EUR 2,000 million, committed credit facilities of EUR 1,037 million, both unused as of 31 December 2018, various bond and commercial paper programs, as well as an EMTN program. In 2017, Danone issued a hybrid perpetual bond totaling EUR 1,250 million with a first call date of 23 June 2023. We have accounted for half of this bond as equity.

Through the application of IFRS 16 Danone's net debt increased as of 1 January 2019 by EUR 0.7 billion to EUR 13,400 million. As of 31 December 2019, Danone further reduced its reported net financial debt to EUR 12,800 million and net financial debt/EBITDA to 2.8x, hence achieving its declared target of reducing the net financial debt/EBITDA under the 3x mark by 2020 ahead of initial plan. The capex amounted to EUR 951 million, on the same level as in 2018.

The Company benefits from diversified access to financial resources, and its liquidity is in our view not jeopardized in the short term. Danone's cash flows from operating activities of around EUR 3 billion yearly, available funds from confirmed credit lines, as well as the access to other financing sources are sufficient to cover the Company's expenses and investments, the payment of dividends, and to implement its strategy.

The Group is generally exposed to financial risks, e.g. credit, foreign currency, interest and commodity risks. Danone has a global insurance coverage policy. Overall, we assess the financial risks of Danone as moderate. The Company has managed to implement its announced target of debt reduction after the acquisition of WhiteWave and strives to maintain its reported net financial debt/EBITDA under the level of 3 in the future through controlled investment policy, leverage of operational efficiencies, expenses discipline and product portfolio management. This goal is feasible in our view, taking into consideration Danone's achievements regarding savings and controlled indebtedness of the last years.

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. (Issuer), 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 issues have been issued under the EMTN program with its latest prospectus from 12 April 2019 and supplement dated 28 August 2019. This EMTN program amounts to EUR 13 billion. The notes and coupons under the EMTN program constitute direct, unconditional, unsubordinated, unsecured obligations of the Issuer, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the Issuer. The Notes issued under the EMTN program benefit from a negative pledge provision and a cross-default mechanism. A redemption at the option of the noteholders following a change of control can be specified in the final terms of each series.

Corporate issue rating result

We have provided the debt securities issued by Danone S.A. with a rating of BBB+ / stable. The rating is based on the corporate rating of Danone S.A. Other types of debt instruments or issues denominated in other currencies by 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.

Creditreform Rating

Overview

Table 4: Overview of CRA Ratings I Source: CRA

Rating objects	Details	
	Date	Rating
Danone S.A (Issuer)	5 March 2020	BBB+ / stable
Long-term Local Currency (LT LC) Senior Unsecured Issues	5 March 2020	BBB+ / stable
Other	--	n.r.

Table 5: Overview of EMTN program I Source: Base Prospectus dated 12 April 2019, Prospectus Supplement dated 28 August 2019

Overview 2018 EMTN Programme			
Volume	EUR 13,000,000,000	Maturity	Depending on the respective bond
Issuer / Guarantor	Danone S.A.	Coupon	Depending on the respective bond
Arranger	BNP Paribas	Currency	Depending on the respective bond
Credit enhancement	none	ISIN	Depending on the respective bond

All future LT LC senior unsecured notes that will be issued by Danone S.A and that have similar conditions to the current EMTN program, denominated in euro and 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 program. Notes issued under the program 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 programs (such as commercial paper programs) and issues that do not denominate in euro will not be assessed.

Financial ratio analysis

Table 6: Financial key ratios I Source: Danone S.A consolidated annual report 2018, structured by CRA

Asset structure	2015	2016	2017	2018
Fixed asset intensity (%)	68.91	48.78	71.78	69.50
Asset turnover	0.84	0.70	0.69	0.71
Asset coverage ratio (%)	64.29	98.40	57.95	59.43
Liquid funds to total assets (%)	11.86	36.86	11.86	14.50
Capital structure				
Equity ratio (%)	28.27	21.00	18.21	24.00
Short-term-debt ratio (%)	35.50	24.46	29.25	28.68
Long-term-debt ratio (%)	16.04	27.01	23.39	17.31
Capital lock-up period (in days)	59.02	62.74	57.43	54.41
Trade-accounts-payable ratio (%)	13.98	10.20	11.29	10.58
Short-term capital lock-up (%)	24.89	24.05	25.03	25.51
Gearing	2.12	2.01	3.84	2.56
Leverage	3.40	4.17	5.09	4.74
FinancialsStability				
Cash flow margin (%)	10.12	12.14	15.88	16.41
Cash flow ROI (%)	8.75	7.20	11.39	11.64
Total debt / EBITDA adj.	5.43	7.88	6.64	5.99
Net total debt / EBITDA adj.	4.53	4.20	5.68	4.85
ROCE (%)	14.41	18.97	15.29	16.43
Total debt repayment period	25.06	-3.76	1.87	9.30
Profitability				
Gross profit margin (%)	49.97	51.04	100.00	100.00
EBIT interest coverage	8.07	5.97	5.39	4.96
EBITDA interest coverage	12.51	7.57	6.73	7.82
Ratio of personnel costs to total costs (%)	15.35	0.00	14.82	15.13
Ratio of material costs to total costs (%)	50.03	48.96	NA	NA
Cost income ratio (%)	90.14	86.68	84.73	88.81
Ratio of interest expenses to total debt (%)	1.47	1.68	2.56	2.11
Return on investment (%)	6.49	5.73	9.10	8.49
Return on equity (%)	17.93	24.21	36.39	33.35
Net profit margin (%)	6.24	8.33	10.31	9.90
Operating margin (%)	9.86	13.32	15.74	11.22
Liquidity				
Cash ratio (%)	5.64	6.15	6.31	8.42
Quick ratio (%)	71.28	192.48	79.84	87.60
Current ratio (%)	87.57	209.36	96.49	106.36

Appendix

Rating history

The rating history is available under:
https://www.creditreform-rating.de/de/ratings/published-ratings/

Table 7: Corporate issuer Rating of Danone S.A.

Event	Rating date	Publication date	Monitoring period	Result
Update	05.03.2020	www.creditreform-rating.de	Withdrawal of the rating	BBB+ / stable
Initial rating	29.03.2017	www.creditreform-rating.de	04.03.2020	BBB+ / stable

Table 8: LT LC Senior Unsecured issues issued by Danone S.A.

Event	Rating date	Publication date	Monitoring period	Result
Update	05.03.2020	www.creditreform-rating.de	Withdrawal of the rating	BBB+ / stable
Initial rating	28.09.2018	www.creditreform-rating.de	04.03.2020	BBB+ / stable

Regulatory requirements

The present rating[5] is an unsolicited rating. Creditreform Rating AG was not commissioned by the Issuer with the preparation of the rating. The present analysis was prepared on a voluntary basis.

The rating is based on the analysis of published information and on internal evaluation factors. The rating was conducted based on Creditreform Rating AG's "Corporate Ratings" methodology and the "Non-Financial Corporate Issue Rating" methodology, as well as on the "Rating Criteria and Definitions".

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies. A complete description of Creditreform Rating AG's rating methodologies and Creditreform Rating AG's basic document "Rating Criteria and Definitions" is published on the following internet page:

www.creditreform-rating.de/en/regulatory-requirements/

This rating was carried out by analysts Elena Damijan (e.damijan@creditreform-rating.de) and Christina Sauerwein (c.sauerwein@creditreform-rating.de), both located in Neuss, Germany. A management meeting did not take place.

On 5 March 2020, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 9 March 2020. 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.

[5] 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.

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.

Please note:

This report exists in an English version only.

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.

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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”.

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Creditreform Rating AG

Contact information

Creditreform Rating AG

Hellersbergstraße 11
D-41460 Neuss

Phone: +49 (0) 2131 / 109-626
Telefax: +49 (0) 2131 / 109-627

E-Mail: info@creditreform-rating.de
Web: www.creditreform-rating.de

CEO: Dr. Michael Munsch
Chairman of the Board: Prof. Dr. Helmut Rödl

HR Neuss B 10522