



Equity Research Division 3<sup>rd</sup> May 2022

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## Key Financials

Market Cap	€36.78B
Basic Shares O/S	€638mln
52-Wk High	€65.30
52-Wk Low	€46.47
Fiscal Year End	31-Dec-2021

(€m)	FY18A	FY19A	FY20A	FY21A
Sales	24,651	25,287	23,620	24,281
EBITDA	4,343	4,624	4,251	3,522
EBIT	2,742	3,238	2,799	2,257
Net Income	2,440	2,029	2,031	1,991

## Key Executives

Mr. Antoine Bernard  
de Saint-Affrique

Director & CEO

Mr. Juergen Esser

Chief Financial, Technology & Data Officer

## Basic Information

Last Closed Price	€57.64
Target Price	€53.17
+/- Potential	-7.7%
Bloomberg Ticker	BN:FP
GICS Sector	Packaged Foods
GICS Sub-Industry	Food Processing

## 2022 interim results Highlights

- Sustained supply disruptions and broad-based inflation
- Like-for-like sales growth of 5.7% in Europe and 5.5% in North America
- Net sales of €6,236m, with an increase of 7.1% on a like-for-like basis

## 12 Month Price Performance (Refinitiv)



## Investment Thesis

After having performed our valuations, our recommendation is a “HOLD”, indeed we believe that Danone’s share price will only moderately fluctuate around the current one. The target price is €53.17.

To compute the target price, we performed both an asset-side DCF analysis and a market multiples analysis. The forecasted price from the DCF analysis is €54.26 while the average forecasted price from the market multiple analysis results €51. Our target price is derived from a weighted average between the two prices, assigning to the DCF price a weight of  $\frac{2}{3}$ , reflecting our higher reliance on the DCF analysis rather than market multiples, due to fact that the industry in which Danone operates is consolidated and the peers are not perfectly representative.

## Company Description

Danone SA is a France-based food and beverage company with an international presence. The company operates through three business units: Essential Dairy and Plant-Based Products (EDP), Waters, and Specialized Nutrition.

## Company Overview

Danone SA is a France-based global food and beverage company. It has become a world leader in four businesses: Essential Dairy and Plant-Based Products (EDP), Waters, Early Life Nutrition, and Medical Nutrition. It is listed on Euronext Paris and it is a component of the CAC 40 Index and EURO STOXX 50 EUR Price Index.

EDP produces and distributes fresh fermented dairy products and other dairy specialties, plant-based products and beverages, coffee creamers and organic products; Waters sells bottled water and water sold in small and large containers; Early Life Nutrition offers baby formula (infant milk formula, follow-on milk, growing up milks), milk and fruit-based desserts, cereals, jars of baby food and ready-made baby food; Advanced Medical Nutrition offers adult or pediatric clinical nutrition products to be taken orally or through a tube in the event of malnutrition related to illness or other causes. The Company's brands portfolio includes Activia, Actimel, Alpro, Danette, Danonino, Danio, Evian, Volvic, Nutrilon/Aptamil, Nutricia, among others.

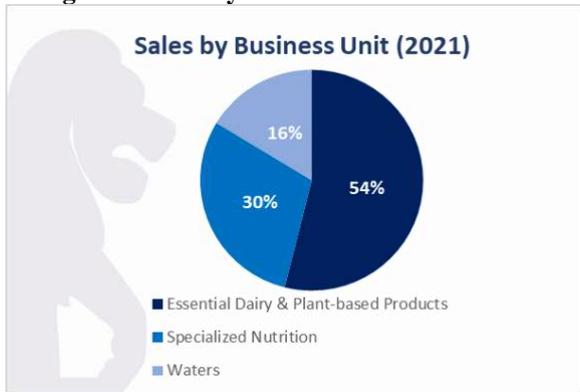
Danone's 2021 total revenues amounted to €24,281 million (+2.8%). It organizes its businesses and performance around three operating segments: EDP, Waters and Specialized Nutrition. Respectively, in 2021, they provided the group with 53.91%, 16.31%, and 29.78% of its total revenues. The multinational corporation sells its products worldwide, sales in Europe and North America accounted for 48% of net sales (8% in France) and the remaining 44% in the rest of the world.

In 2020, Danone's total revenues stood at €23,621 million, down by 6% from the previous year. The restrictions due to the pandemic, especially in Europe, Latin America, and Africa penalized out-of-home channels. Moreover, infant formula sales in China were decreased by the ongoing border closure with Hong Kong and travel limitations with China. In addition to this, €150 million incremental costs incurred during 2020 to keep employees safe.

## Industry Outlook

Being active in several differing industries, the outlook has been decomposed into the three main segments of Danone, namely Water, EDP, and Specialized Nutrition, to which the latter is proxied by means of the Baby Food market as infant formula makes up the bulk of this income stream. A general note to be considered is that raw material input costs have in general seen sizeable increases due to the ongoing global supply crunch. Soft commodities such as oil, wheat, and fertilizers to name a few, have been strongly affected. These inflationary pressures have been also considered by the cited reports as well as Danone's management who, in regard to 2022 prospects, expected "a low to mid-teens level of input cost inflation" (Danone press release), these figures are however highly uncertain due to our currently volatile macro-environment.

Figure 1. Sales by Business Unit in 2021



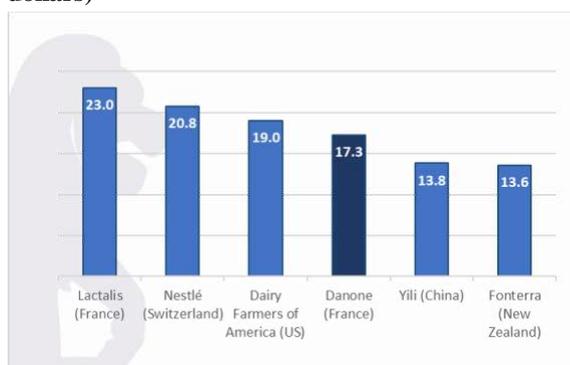
Source: Minerva Investment Management Society Estimates

Figure 2. EBIT in €mln



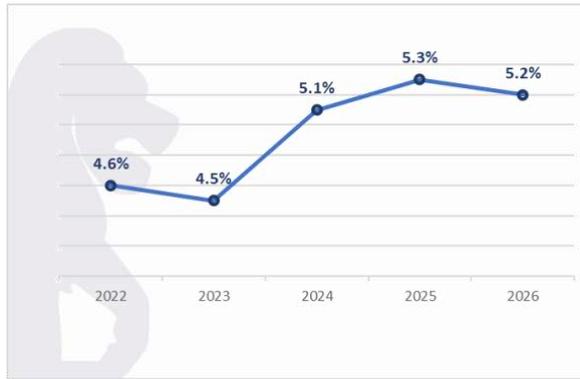
Source: Minerva Investment Management Society Estimates

Figure 3. Leading 20 dairy corporations worldwide in 2020, based on dairy sales (in billion U.S. dollars)



Source: Statista

**Figure 4. Sales of Dairy Products YoY Growth**



Source: Passport

### **Dairy & Alternatives**

One of the main drivers for dairy alternatives growth is the consumers' increasing preference for healthy and sustainable products, with a particular focus on oat milk, plant-based alternatives, yoghurt, and sour milk with healthy and sustainable features. The average year-on-year growth for this segment is forecasted to be 4.9% from 2022 to 2026 (Passport), mainly driven by growth in Asia.

In addition to this, a back-to-local trend is fragmenting the market further, driven by the fact that consumers tend to prefer dairy products made of local ingredients by local brands instead of their foreign competitors. Other key factors are the deglobalization process and the global supply chains disruption, which are driving companies to rediscover local supply chains in order to reduce raw materials supply risks.

### **Baby Food**

The world CAGR estimated for the Baby Food segment is 6.31% from 2022 to 2027 (Statista). Emerging Markets, in particular Asia, will continue to be the biggest market driving the growth. This is mainly due to the high and increasing population of the area, alongside the fact that women's participation in the workforce is increasing, which increases demand for infant formula and simultaneously provides the means to pay for baby food products.

In addition to this, there is an increasing awareness concerning the nutritional benefits offered by baby food whilst governmental subsidies further bolster this underlying growth (Statista). Danone's main competitors in this product area are Nestlé SA, Archer-Daniels-Midland Co., Unilever Plc, and JBS SA.

### **Bottled Water**

The most important companies in this segment are Nestlé (5.9%), Coca-Cola Co (5.5%), Danone (4.3%) and PepsiCo (2.6%). From 2023 to 2026, the worldwide revenue is expected to grow at a CAGR of 5.2%, reaching an amount of 419.4 billion US\$ in 2026 (Statista), while the volume sales have an estimated CAGR of 3.2% (Statista). From a geographic point of view, in 2021 the Americas had the greatest revenue share of 45%, while Europe and Asia accounted for 33% and 19% respectively. The main driver of the growth in the Bottled Water segment is the shift in consumer preference towards a healthier way of living, making consumers substitute soft drinks and other less healthy beverages with water.

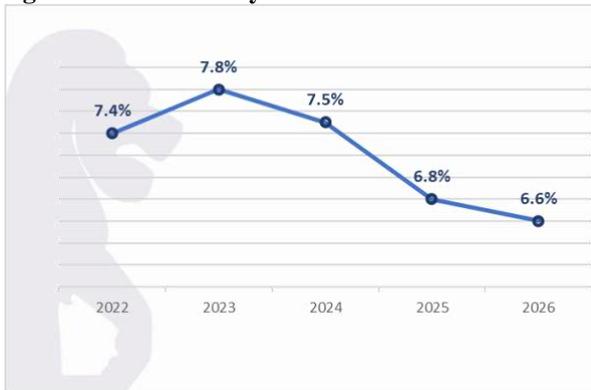
### SWOT Analysis

#### **Strengths**

**R&D** – Danone has proved several times its ability to innovate and develop new products being ahead of the competition. The company currently has a network of 530 Research & Innovation specialists which operate in 40 countries. More specifically, the company was able to anticipate two trends successfully: these are the increasing attention in healthy options and the change in consumption habits. R&D expenses were 338 mln in 2021 (1.5% of the total revenue) remarkably higher than its peer in absolute terms.

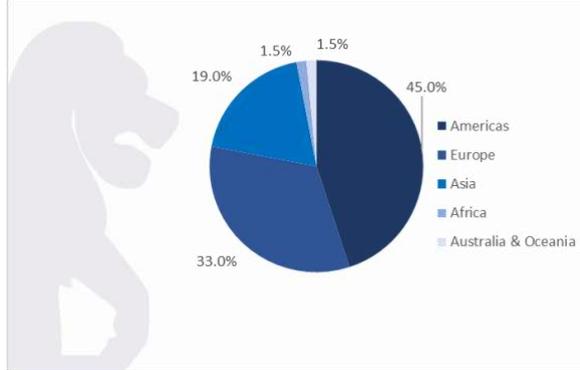
**SUCCESSFUL MERGERS AND ACQUISITIONS** - The company has consistently expanded with success by acquiring a great number of brands around the globe. A notable and successful acquisition was performed in 2017, when The WhiteWave Foods was acquired for \$12.5 bln. Linked to this strength, the company obtained the advantage of having a vast brand portfolio that allows it to reach several different product categories. Indeed, Danone owns brands which operate in Early Life Nutrition, Health and Nutrition, Medical Nutrition, Fresh Dairy Products and others.

**Figure 5. Sales of Baby Food YoY Growth**



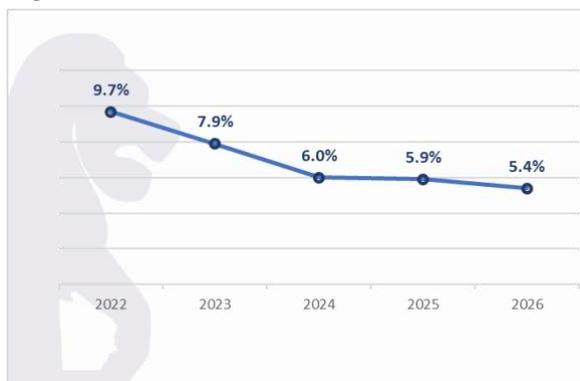
Source: Statista

**Figure 6. Bottled Water Revenue Share by Region**



Source: Statista

**Figure 7. Sales of Bottled Water YoY Growth**



Source: Statista

## **Weaknesses**

*REDUCED GROWTH FROM CHINA*- While different food processing companies have been focusing on Asian countries and are swiftly increasing their revenues from these countries, Danone has never shown a remarkable growth in the Asian Markets, and its growth has been slowing down in the recent years. This might represent a problem for the long-term growth of the company since the main opportunities for the sector are expected in those countries. It is expected that Danone will not be able to successfully capture the total growth forecasted for Baby Food, Dairy and Water industries, and expected to grow for only 70% of competitors' growth.

*LEADERSHIP TURBOLEANCE* - After 7 years as CEO, in March 2021 Emmanuel Faber was voted out by Danone's board of directors with immediate effect. Activist investors, who pushed towards the decision, cited as the cause governance issues (Faber was both Chairman and CEO) and the perception of business underperformance with respect of the firm's potential. The new CEO, Antoine De Saint-Affrique came with more changes in Leadership. Currently, the executive's situation is stable, however a few turbulences sided the ongoing "Local First" plan.

*INFLATION EXPOSURE* - In a recent press release the company declared that its ability to unload the increase in costs due to inflation to final consumers is limited to only 25% of the inflation on costs. With the strong forecasted inflation, profit margins could quickly be eroded.

## **Opportunities**

*HEALTHY NUTRITION TREND* - Recently, consumers showed a strong increase in the interest in healthy nutrition options and their attention to the issue is expected to increase. Danone has been already focusing on the trend, beginning before than its competitors. Thus, the company acquired an advantage that could result in an increase in sales and market share soon also thanks to its different Health focused brands.

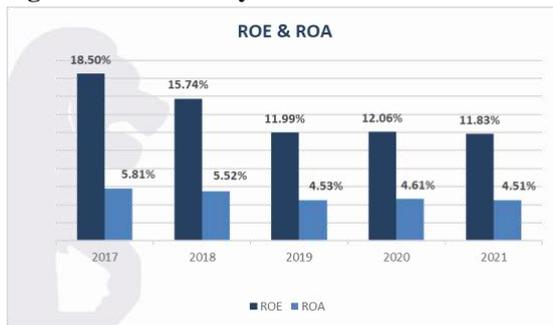
## **Threats**

*LOSS OF MARKET SHARE IN DAIRY PRODUCTS* - Even though Danone showed a considerable growth in retail sales and there have been favorable conditions for dairy products in the last years, the company did not manage to grow its market share globally. Furthermore, Danone has lost fractions of its market share to local produces, in a worrying trend that the company will be fighting also through the recent "local first" plan.

*LOSS OF MARKET SHARE IN SOFT DRINKS* - Danone saw its share decline in soft drinks in the last years falling from 2% to 1%. However, also the two main leaders of the industry, Coca-cola and PepsiCo, saw their sales increase rapidly over time they too saw their market share decline as consumers shifted towards healthier beverages even though their sales have been increasing rapidly.

## Financial Analysis

**Figure 8. Profitability**



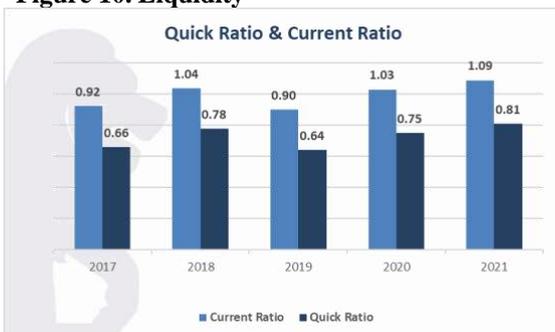
Source: Minerva Investment Management Society Estimates

**Figure 9. Profit Margins**



Source: Minerva Investment Management Society Estimates

**Figure 10. Liquidity**



Source: Minerva Investment Management Society Estimates

**Figure 11. Solvency**



Source: Minerva Investment Management Society Estimates

### Profitability:

In order to assess Danone's profitability, we firstly examined ROE and ROA. As we can see from the bar chart, both ratios have decreased. This is mainly due to net income's downward trend. From 2017 to 2021, the NI has decreased by 22.35% while total equity increased by 20%. Until 2020, the gross profit margin stayed constant at around 60.5%. During 2021 it dropped by 2.49% because of a higher cost of goods sold. However, the net profit margin has been decreasing due to lower EBITDA. Mainly affected by non-monetary expenses such as losses due to intangible assets impairment. 2021's EBITDA was reduced mainly because of "Danone's Local First Plan": the implementation of a new organization to best serve its strategy consisting in moving from a category-led global organization to a local geography-led organization.

### Liquidity:

For Danone, we chose to look at 5-year period from 2017 to 2021, in order to assess its ability to meet its short-term obligations over time. By examining the current ratio we observe a constant trend over time, ranging between 0.90 and 1.09: Danone's current assets are not always sufficient to cover its current liabilities. Moreover, inventories are increasing and, more specifically, finished goods stock increased by more than 17% over the 5-year period. If we then analyze the quick ratio, we can notice an increasing value, from 0.66 to 0.81, such trend is mainly driven by higher investments in money market funds (French OPC monétaires) and short-term money market funds (French OPC monétaires court terme), which are highly liquid, diversified and not rated.

However, Danone's operating cash flows are generally sufficient to finance Danone's business operations and organic growth. It may, however, take on additional debt to finance acquisitions or, occasionally, to manage its cash cycle, particularly when dividends are paid to the Company's shareholders. The Group's objective is always to keep this debt at a level enabling it to maintain the flexibility of its financing sources.

### Solvency:

In order to analyze solvency, 3 ratios have been used: debt to equity ratio, times interest earned ratio and cash coverage ratio. The times interest earned ratio compares the income available to pay interest in a period to a company's interest obligation for the same period. From the graph we can see that for each € 1.00 of interest expense, Danone generated more or less € 9.00 in income. However, interest is not paid with income, but with cash, hence it is worth examining the cash coverage ratio, which relates cash flows from operating activities to interest paid. As we can see, the ratio increased by 40% in 2021, reaching 20.93, meaning that Danone can cover its interest outflows with cash 21 times. A signal of strong and solid coverage.

Danone's debt to equity ratio is high. However, it is important to notice that Danone's operating cash flows are generally sufficient to finance Danone's business operations and organic growth. Additional debt is taken on to finance acquisitions or, occasionally, to manage its cash cycle, particularly when dividends are paid to the Company's shareholders. The Group's objective is always to keep this debt at a level enabling it to maintain the flexibility of its financing sources.

**Figure 12. Operational Efficiency**

Figures in € millions	2018	2019	2020	2021
Days of inventories outstanding	57	59	64	61
Days receivables outstanding	41	40	43	41
Days payables outstanding	124	121	125	119
Operating Cycle	-27	-22	-19	-17

Source: Minerva Investment Management Society Estimates

### Operational Efficiency:

When analyzing the operational efficiency of Danone, we studied the operating cycle and its components in terms of days outstanding. As can be seen in figure 12, they have all remained very stable historically. With an exceptionally high days payables outstanding, Danone manages to keep the cash operating cycle negative, which essentially means that suppliers are financing the firm's operations. It is a testimony of a strong bargaining position with their suppliers which frees up cash to be invested elsewhere. Although the cash operating cycle has been trending slightly upwards, the changes are so far relatively negligible and is not a cause for any concern yet. All in all, the negative cycle demonstrates a solid and stable operational efficiency that avoids trapped cash and provides a cushion in case of cyclical swings in Danone's operations.

**Figure 13. Computed Results**

Assumptions:	
Tax Rate:	26.5%
Exit Multiple EV/EBIT:	18.9x
Perpetual Growth Rate:	2.4%
Discount Rate:	5.06%
Current Price:	57.64
NOSH (mln):	638.09
Net Debt:	12,374
Minority Interests:	102
Associates:	771
Enterprise Value:	48,485
Beta:	0.79
Risk-free Rate:	2.88%
EMRP (US Damodaran):	4.90%
Cost of Equity:	6.77%
Ratings-Based Default	1.59%
Pre-Tax Cost of Debt:	4.47%
Cost of Debt:	3.28%
Debt/(Debt + Equity):	0.49
Equity/(Debt + Equity):	0.51
<b>WACC:</b>	<b>5.06%</b>

Source: Minerva Investment Management Society Estimates

## Valuation

Valuation Price Target: €53.17

Our analysis followed two main approaches:

- intrinsic valuation through the DCF model (FCFF)
- relative valuation with market multiples of comparable companies

In order to derive the price target we computed a weighted average of the values obtained from the two analysis, attributing a higher weight to the DCF result because of its stronger accuracy

### Free Cash Flow to Firm Approach

Between the different evaluation methods, the DCF asset side is used to conduct the analysis. To assess the expected sales growth of the company for the period 2022-2026 we have considered several assumptions:

- Sales distribution by geographic area for Danone mirrors the sale distribution of the market. We forecasted a sales growth rate (4,34%) by adjusting the weighted average contribution growth rate of each business unit to account for disruptions from Russia and China situations.
- The disruption related to the Russian-Ukrainian conflict is estimated to decrease the growth rate by an average of -1.39%.
- Danone is expected to only capture 70% of the total growth in China which accounts for approximately 10% of the total market for the three product segments. Resulting in a -0.18% from the forecasted aggregate growth rate.
- Inflation is going to reduce the company's profit margin in the short term as the company's pricing power only allows for partial push through on the final consumers by hiking prices, i.e., a big part of the inflationary pressures have to be absorbed through COGS. This effect is however expected to fade out.

The previous assumptions allowed us to compute the forecasted unlevered free cash flow for the period 2022-2026 through the indirect method. To compute the company's WACC used for discounting the unlevered free cash flows we adopted the following considerations:

*RISK FREE RATE* (2.88%): The 10-year US Treasury bond yield was chosen.

*TAX RATE* (26.5%): Which corresponds to the French Corporate Income Tax rate.

*LEVERED BETA* (0.79): It represents the risk specifically attached to the company, comparing the performance of the market with the performance of the company. The Beta was calculated through a bottom-up approach where we firstly considered the resulting average of the levered Beta for a selected pool of peers which we then unlevered with their average marginal tax rates and D/E-ratios (Hamada Equation). We then re-levered this Beta by applying Danone's Debt to Equity (96%) and Tax Rate (26.5%), using the same formula.

*PRETAX COST OF DEBT* (4.47%): Which results from the sum of the risk-free rate chosen and the rating-based Default Spread for BBB+ companies (source: Damodaran).

*CAPITAL STRUCTURE*: Weight of Debt 0.59, Weight of Equity 0.51.

The resulting WACC is 5.06%. We derived the terminal value through the Gordon Perpetuity Growth model with a perpetual growth rate of 2.4%, which represents the 2023 real GDP growth rate forecasted for industrial countries by the IMF. To assess the intrinsic PPS of Danone we sum the present value of the unlevered free cash flows with the present value of the terminal value, we then subtract Net Debt and Minorities and add back Associates and lastly divide the result by NOSH. The fair-value PPS based on this DCF-analysis is €54.26. Lastly, to highlight the effect changes in our estimated WACC and the perpetual growth applied have on our final DCF fair value, a sensitivity analysis was made. The sensitivity table in figure 14 clearly illustrates how even small changes in these two parameters affect the resulting fair value drastically.

**Figure 14. Sensitivity Analysis - Intrinsic PPS and Terminal Growth Rate vs. WACC**

		WACC:								
		5.50%	5.40%	5.30%	5.20%	5.06%	5.00%	4.90%	4.80%	4.70%
Terminal Growth Rate:	2.20%	41.8	43.5	45.4	47.3	50.2	51.6	54.0	56.6	59.4
	2.25%	42.5	44.3	46.2	48.2	51.2	52.6	55.1	57.8	60.7
	2.30%	43.2	45.0	47.0	49.1	52.2	53.7	56.2	59.0	62.0
	2.35%	44.0	45.8	47.8	50.0	53.2	54.7	57.4	60.3	63.4
	2.40%	44.7	46.7	48.7	50.9	54.3	55.8	58.6	61.6	64.8
	2.45%	45.5	47.5	49.6	51.9	55.4	57.0	59.9	63.0	66.3
	2.50%	46.4	48.4	50.6	52.9	56.5	58.2	61.2	64.4	67.9
	2.55%	47.2	49.3	51.6	54.0	57.7	59.5	62.6	65.9	69.6
	2.60%	48.1	50.3	52.6	55.1	58.9	60.8	64.0	67.5	71.3

Source: Minerva Investment Management Society Estimates

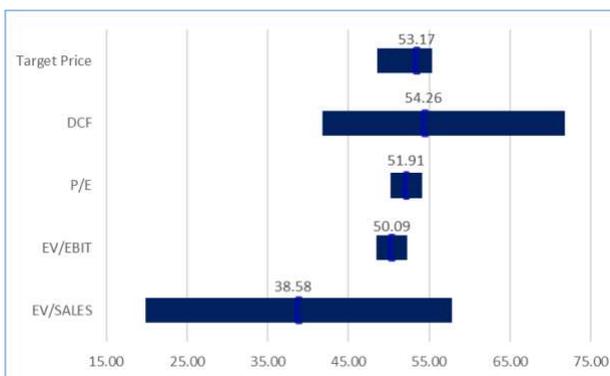
## Market Multiples Approach

**Figure 15. Comparables' Multiples**

Comparables	EV/Sales	EV/Ebit 2021	P/E Ratio
Nestle SA	4.45	25.95	20.76
Associated British Foods PLC	0.95	12.09	16.10
Archer-Daniels-Midland Co	0.71	19.81	17.08
Kerry Group PLC	2.82	26.11	24.30
Meiji Holdings Co Ltd	1.00	10.46	12.95
<b>Mean</b>	<b>1.99</b>	<b>18.88</b>	<b>18.24</b>
<b>Median</b>	<b>1.00</b>	<b>19.81</b>	<b>17.08</b>

Source: Minerva Investment Management Society Estimates

**Figure 16. Football Field**



Source: Minerva Investment Management Society Estimates

### Peers Group

Regarding the selection of the peer group for the multiples approach, we decided to focus on companies with the most similar product offerings, regardless of where the company is incorporated. The reason for this is that Danone's revenues are global, and the firm's stock is traded on multiple exchanges around the world, we therefore don't view valuation misalignments as significantly impacted by implied country risk premiums. Since EDP is Danone's largest product area, it should also be noted that peer selection focused mainly on having this as a common denominator, the industry is however highly consolidated on a global level, which lead to compromises also here in order to keep comps global.

*Nestle SA* is a Swiss multinational food and drink processing conglomerate, founded in 1886 and headquartered in Switzerland. It is the largest player in the industry with revenues of approximately €85B in the last FY. Although significantly larger than Danone, this is clearly the most similar of peers, covering all three of Danone's product areas.

*Associated British Foods Plc* is a British multinational food processing company, founded in 1935 and headquartered in London. Although they are big in sugar and baker's yeast production, they are also a major

producer of enzymes and lactose making them a relevant peer. In terms of size, they are quite similar to Danone with 2021 FY revenues of about €17B.

*Archer-Daniels-Midlands Co. (ADM)* is an American multinational food processing and commodities trading company, founded in 1902, with headquarters in Chicago. The products are mainly cereal grains and oilseeds but these are input materials used in beverages and nutraceuticals, making them comparable to Danone. In terms of size, ADM is far larger than all other peers, with 2021 revenues topping €270B.

*Kerry Group Plc* is a multinational Irish food manufacturer and distributor founded in 1972 with headquarters in Tralee, Ireland. It has two main business segments which are Taste & Nutrition and Consumer Foods, where the former is comparable to Danone's Specialized Nutrition and the latter encompasses products such as dairy spreads. It is about a third of Danone's size in terms of revenues, reaching €7.2B in 2021.

*Meiji Holdings Co. Ltd.* is a Japanese food and pharmaceutical company established in 2009 following an internal business combination with headquarters in Tokyo. Although the pharmaceutical business is not directly comparable, the bulk of revenues stem from confectionery, dairy products, and health foods (comparable to Danone's Specialized Nutrition). For 2021, the company had a revenue of approx. €11B.

### Computation

In order to check the results obtained through the DCF model, we perform a market multiples approach analysis. We decide to use both equity and asset side multiples to have a more complete view on the value of the company.

We choose to consider the P/E multiple as the equity side multiple to understand the market sentiment with respect to net income. We also looked at EV/S as this measure is relatively void of any accounting differences that could be present in our comparable group, more so than an EV/EBITDA measure which was also considered. Lastly, we look at EV/EBIT as EBIT is a good proxy for the underlying unlevered free cash flows of a given firm that also doesn't consider the volatile effective tax item. Although it does consider D&A, which could also differ due to accounting standards, we view the peers as mature companies where Capex should be comparable (relative to size). We take the market multiples of the set of comparables mentioned above and compute the average and median of the 2021 leading multiples, as you can see in Figure 15.

To derive the implied PPS of Danone based on the asset side multiples, we first multiply our average and median values from the peer table with Danone's FY 2021 Sales and EBIT respectively, we then subtract Net Debt and Minorities and add back Associates and lastly divide the result by NOSH. For the equity side multiple, we simply multiply the average P/E ratio with the 2021 EPS of Danone. To get a range of values for the football field chart, we use the 2021 leading average and median of the multiples as the upper and lower bound, respectively. Due to the extreme range in EV/Sales caused by our median we decided to exclude this in our final target price estimate.

A weighted average among the two midpoints for the estimated ranges of EV/EBIT and P/E, namely €50.09 and €51.91 (given a total weight of 33%), and the point estimate PPS of our DCF at €54.26 (given a weight of 67%), we arrive at a final target price of €53.17, which is about 8% below the current share price of Danone.

## Investment Risks

Overreliance on principal markets - Over 50% of Danone's sales were accounted for in its top 5 principal markets (US, China, France, Russia, Indonesia), and a poor performance of any one of these markets would result in big changes in Danone's performance. Such poor performance could come from a wide range of sources, such as economic slowdowns, increasing taxes, political stability. A great example of one of these is the war in Ukraine and the instability that it is causing in Russia, a very important market for Danone.

Packaging - Packaging is at the core of Danone's business and is essential for Danone's ability to deliver its goods to consumers. Danone produces around 1.5 million tons of packaging per year, of that around half being plastic. However, both short and long term this is not sustainable with the fast-changing regulations and consumer pressures. Danone has some problems; to reduce its use of one-time use plastic, to find appropriate substitute materials at reasonable prices and ensure its packaging is being recycled after being used.

Raw material price volatility and availability - Material costs represent around 80% of Danone's costs of goods sold, close to €10 billion annually. However, these markets can sometimes be very volatile and drive up these costs drastically negatively impacting Danone's bottom line. Some factors that impact these markets could be: weather conditions and natural disasters, government control and regulatory changes, geopolitical events, shifts in consumer preferences. These could potentially cause price increase for key raw materials that may not be passed on, either in full or in part, in the sales price of Danone's products, reduced availability of key raw materials which could adversely affect Danone's ability to meet consumer demand for its products, disruption in supplier ecosystem especially in packaging and logistics.

Unpredictability of Covid-19 pandemic - The Covid pandemic lockdowns seem to be ending in most parts of the world, however, some are still facing very stringent restrictions, such as China, one of Danone's most important markets. Continued lockdowns may impact consumer income and purchasing power, may increase delays in supply channels, may shift habits in consumer behavior and lifestyle, all affecting Danone's performance negatively. With the emergence of new variants and the uncertainty regarding vaccines, it is not yet clear when the pandemic and all the uncertainties around it will end.

## Valuation

Figures in € millions	Actual					Forecast				
Year:	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Period:	-	-	-	-	0	0.5	1.5	2.5	3.5	4.5
Sales:	24,677	24,651	25,287	23,620	24,281	25,821	26,943	28,059	29,166	30,258
Growth:		-0.1%	2.6%	-6.6%	2.8%	6.3%	4.3%	4.1%	3.9%	3.7%
(-) COGS:	-11,485	-11,128	-11,492	-10,815	-11,495	-12,666	-12,947	-13,202	-13,723	-14,237
Gross Margin:	53.5%	54.9%	54.6%	54.2%	52.7%	50.9%	51.9%	52.9%	52.9%	52.9%
(-) OPEX:	-8,484	-9,180	-9,171	-8,554	-9,264	-9,670	-9,956	-10,368	-10,777	-11,181
% of Sales:	34.4%	37.2%	36.3%	36.2%	38.2%	37.5%	37.0%	37.0%	37.0%	37.0%
EBITDA:	4,708	4,343	4,624	4,251	3,522	3,485	4,041	4,489	4,666	4,840
(-) D&A:	-974	-1,601	-1,386	-1,452	-1,265	-1,030	-1,075	-1,120	-1,164	-1,207
EBIT:	3,734	2,742	3,238	2,799	2,257	2,455	2,965	3,369	3,502	3,633
Margin %	15.1%	11.1%	12.8%	11.9%	9.3%	9.5%	11.0%	12.0%	12.0%	12.0%
NOPAT:	2,744	2,015	2,380	2,057	1,659	1,804	2,180	2,476	2,574	2,670
(-) CapEx:	-1,043	-962	-951	-941	-969	-1,030	-1,075	-1,120	-1,164	-1,207
(+) D&A	974	1,601	1,386	1,452	1,265	1,030	1,075	1,120	1,164	1,207
(+/-) Change in NWC		-245	-77	-101	135	95	101	5	30	-52
<b>Unlevered Free Cash Flow:</b>		<b>2,409</b>	<b>2,738</b>	<b>2,467</b>	<b>2,090</b>	<b>1,899</b>	<b>2,280</b>	<b>2,481</b>	<b>2,604</b>	<b>2,618</b>
<b>PV of UFCF:</b>						<b>1,853</b>	<b>2,117</b>	<b>2,193</b>	<b>2,191</b>	<b>2,097</b>
<b>Sum of PVs:</b>	<b>10,451</b>									
<b>PV of TV Perpetual:</b>	<b>35,877</b>									
<b>EV (Perpetual):</b>	<b>46,328</b>									
<b>Equity Value (Perpetual):</b>	<b>34,623</b>									
<b>Intrinsic PPS:</b>	<b>€ 54.26</b>									
<b>Δ Current Price:</b>	<b>-5.9%</b>									

	2022	2023	2024	2025	2026	Simple Avg.	BU Weight	Weighted Avg Contribution	
Sales of Baby Food (Passport)	4.2%	4.1%	4.0%	4.1%	4.1%	4.1%	29.8%	1.2%	
Sales of Baby Food (Statista)	7.4%	7.8%	7.5%	6.8%	6.6%	7.2%		2.1%	
Average								1.7%	
Sales of Dairy (Passport)	4.6%	4.5%	5.1%	5.3%	5.2%	4.9%	53.9%	2.7%	
Sales of Dairy (Statista)	6.3%	6.6%	6.5%	6.2%	6.1%	6.3%		3.4%	
Average								3.0%	
Sales of Bottled Water (Passport)	7.6%	8.3%	7.5%	7.2%	7.2%	7.6%	16.3%	1.2%	
Sales of Bottled Water (Statista)	9.7%	7.9%	6.0%	5.9%	5.4%	7.0%		1.1%	
Average								1.2%	
Russia effect on Revenue Growth*	-1.8%	-1.8%	-1.5%	-1.2%	-0.7%	-1.4%		-1.39%	
China Effect on Revenue Growth*								-0.18%	
<b>Total growth rate (top-down)</b>								<b>4.34%</b>	
Aggregate real growth rate	1.5%								
Price growth	2.5%								
<b>Total growth rate (mgmt. exp.)</b>	<b>4.0%</b>								
Russia share of Revenues	6%								
China share of Revenues	10%								
						<b>China Weight</b>	<b>0.59%</b>	<b>Exp. Effect</b>	<b>-0.18%</b>

We assume that Danone will only capture 70% of the total growth in China which accounts for approx. 10% of the total market for the 3 product segments

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