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 Public rating
Creditreform ID: 2000000660 Incorporation: 1908 Based in: Paris, France Main (Industry): Food industry CEO: Antoine de Saint-Affrique	LT LC Senior Unsecured Issues: **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: 19 June 2023 Monitoring until: withdrawal of the rating Rating methodology: CRA "Corporate Ratings" CRA "Non-Financial Corporate Issue Ratings" CRA "Rating Criteria and Definitions" Rating history: www.creditreform-rating.de	

Content

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Summary

Company

Danone S.A. – hereinafter also 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 essential dairy and plant-based products, early life nutrition and medical nutrition products, and waters. The Company operates under several international and local brands in over 120 countries worldwide. Danone has defined its Renew strategy to restore long-term growth, competitiveness, and value creation. By 2025, Danone aims to become one of the first multinational companies to obtain global B Corp™ certification.

In a competitive and complex market environment, Danone generated EUR 27.7 billion in revenues in 2022 (2021: EUR 24.3 billion), of which 32% was generated in Europe, 24% in North America, 12% in China, North Asia and Oceania, and 32% in the rest of the world.

Rating result

Creditreform Rating has affirmed the unsolicited corporate issuer rating of Danone at BBB+. This rating attests Danone´s highly satisfactory level of creditworthiness and a low to medium default risk. Despite significant sales growth, Danone was not able to fully compensate for high cost inflation in 2022, so that the recurring operating margin decreased as expected. In addition, special items, such as an impairment on its Russian business, weighed on net income, negatively impacting free cash flow and the overall result of our financial ratio analysis. Our stable rating assessment continues to take into account the Company's diversified product and brand portfolio, global presence, and strong market position in its relevant markets. In addition, Danone was able to further reduce net debt and improve its ratio to EBITDA. We see the slightly reduced, but nevertheless good, liquidity situation in conjunction with established capital market access as a stabilizing factor for the rating.

Outlook

The one-year outlook for the rating is stable, reflecting our expectation that Danone will be able to adequately deal with the challenging market conditions and realize overall business development according to plan, which foresees an increase in revenue and recurring operating margin.

Despite weakened operating margins compared to their pre-crisis levels, and the additional existing margin pressure, we assume that Danone will be able to maintain a solid liquidity position and recover its financial ratio level in line with the rating. The stable outlook is supported by Danone's commitment to disciplined capital allocation and financial policy as expressed, e.g., in a net debt to EBITDA ratio of lower than 3x. The currently difficult market conditions and geopolitical conflicts mean increased uncertainty with regard to further business development. If—contrary to expectation—earnings and internal financing power deteriorate further, or debt levels increase noticeably, an adjustment of the outlook or rating cannot be ruled out.

Reference:

The relevant rating factors (key drivers) mentioned in this section are predominantly based on internal analyses, evaluations from the rating process, the derived valuations of the analysts participating in the rating and, if applicable, other rating committee members. The fundamental external sources used are specified in the sections "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

Excerpts from the financial key figures analysis 2022:
+ Revenue growth
+ Stable equity ratio
+ Reduced net financial debt

- Asset cover ratio
- Decreasing net income
- Profitability ratios
- Decreasing margins
- Weaker cashflow generation

General rating factors summarize the key issues which – according to the analysts as of the date of the rating – have a significant or long-term impact on the rating, whether positive (+) or negative (-).

Relevant rating factors

Table 1: Financials of Danone S.A. I Source: Danone S.A. Annual Report 2022, standardized by CRA

Danone S.A. Selected key figures of the financial statement analysis Basis: Consolidated annual accounts and report of 31.12. (IFRS)	CRA standardized figures[1]	
	2021	2022
Sales (million EUR)	24,281.0	27,661.0
EBITDA (million EUR)	3,522.0	4,006.0
EBIT (million EUR)	2,257.0	2,143.0
EAT (million EUR)	1,991.0	1,023.0
EAT w/o non-controlling interests (million EUR)	1,924.0	959.0
Total assets (million EUR)	35,741.5	35,716.0
Equity ratio (%)	25.41	25.91
Capital lock-up period (days)	60.10	64.64
Short-term capital lock-up (%)	28.01	27.90
Net total debt / EBITDA adj. (factor)	4.53	4.92
Ratio of interest expenses to total debt (%)	1.68	1.95
Return on Investment (%)	6.30	3.73

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

– 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

[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 considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

- 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 which, in addition to the underlying rating factors, have an impact on the current rating.

Current rating factors

- \+ Net financial debt reduced compared to prior year
- \+ Sales growth in all segments in FY 2022 and Q1 2023 - mainly due to price increase with slightly reduced to stable volume/mix
- \+ Solid liquidity position in connection with established capital market access

- Deterioration in recurring operating profit margin as a result of disproportionate growth in costs.
- Overall result in 2022 additionally impacted by impairments on EDP business in Russia and further implementation of "Local First" and "Renew Danone"
- Lower operating cash flow and free cash flow in 2022
- Slight deterioration result of financial ratio analysis in 2022
- High level of uncertainty regarding the development in the relevant markets as a result of the economic slowdown, significant cost inflation, rising interest rates and the ongoing Russian war against Ukraine

Prospective rating factors are factors and possible events which – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+), or a weakening or negative effect (-) on future ratings if they occurred. This is not an exhaustive 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

- \+ Successful implementation of strategy and thus improvement of competitive position and profitable growth
- \+ Further cost reduction potential, e.g., through digitalization
- \+ Improvement in recurring operating profit margin above 2019 pre-crisis level
- \+ Further reduction of financial debt
- \+ Valorization of product portfolio, innovations in product range and in packaging

- Increasing price volatility and decreasing availability of essential raw materials
- Increasing and rapidly changing regulatory requirements (especially related to environment and sustainability)
- Further deterioration of recurring operating profit margin, e.g., due to persistent cost inflation
- Deterioration of competitiveness (e.g., due to quality problems, reputational damage, etc.)
- Significant increase in financial debt
- Sustained weakening of the economy in connection with increasing geopolitical conflicts
- Negative effects of cyber attacks

ESG-factors

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

CRA generally takes ESG factors (environment, social and governance) into account within its rating decisions. In the case of Danone S.A. we have not identified any ESG factors with significant influence.

Danone has average values for CO_2 emissions, energy, and water consumption as compared to the overall economy, but is one of the best companies of its size in an industry comparison. As an international company with production sites worldwide and complex supply chains in industries with a higher risk profile (e.g., cocoa production), violations of labor and human rights cannot be ruled out for Danone. The consideration of ESG factors, however, has been part of the corporate strategy for years, and was highlighted in 2020 by the adaptation of a newly-created form of company in France, an "entreprise á mission", which anchors in its statutes corporate goals in the areas of social, environmental and health factors. The Company's social and environmental goals follow the United Nations Sustainable Development Goals, which we generally assess as positive. By 2025, Danone aims to become one of the first multinational companies to obtain global B Corp™ certification. Although we generally assume that the strategic direction and focus on ESG factors will continue, it remains to be seen how they will be weighted in the future. Overall, we see Danone as solidly positioned with regard to ESG criteria, which has a stabilizing effect on the rating given the increasing focus in the market on sustainability. In November 2022, Danone announced a new global energy excellence program, Re-Fuel Danone, to transform the energy footprint of its sites worldwide and improve energy and cost-efficiency, resilience and decarbonization.

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

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Best-case scenario: A-

Please note:

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

In our best-case scenario for one year, we assume a rating of A-. This could be the case if the Company generates improved recurring operative results and cash flows following an increase in sales and the realization of further cost savings, while maintaining its expenses discipline and solid financing structure. However, taking into consideration the continuing circumstances of the Russian war against Ukraine and the resulting global macroeconomic turbulence, as well as its consequent adverse impact on cost inflation and supply chains, we assess the probability of a rating upgrade in the short term as low.

Worst-case scenario: BBB

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

Business development and outlook

The 2022 fiscal year was dominated by the war between Russia and Ukraine, which exacerbated a difficult market situation already characterized by the pandemic and disrupted supply chains. Further challenges arose from the significant rise in inflation and the interest rate hikes taken to curb it, which dampen the economic outlook in the short to medium term.

In this challenging fiscal year, Danone achieved sales growth of 13.9% to EUR 27,667 million (2021: EUR 24,281 million), exceeding the pre-crisis level of 2019 for the first time. This sales growth was largely due to significant price increases and positive currency effects. All segments and regions made a positive contribution to sales development, although slight declines in sales volumes were recorded in the main segment EDP (Essential Dairy & Plant-Based Category) and in the Europe and Rest of the World regions. The price increases implemented were not sufficient to compensate for the disproportionate increase in the cost of sales (by 16.9% to EUR 14,922 million; 2021: EUR 12,760 million) due to general cost inflation, resulting in a decline in operating profit (EBIT) to EUR 2,143 million (2021: EUR 2,257 million) and in the operating profit margin to 7.7% (2021: 9.3%). In addition to the strong, inflation-driven cost increase, higher distribution costs (EUR 6,294 million; 2021: EUR 5,516 million) and other operating expenses (EUR 1,234 million; 2021: EUR 1,080 million) were partly responsible for the year-on-year decline in EBIT. Other operating expenses consisted largely of costs related to the Local First Plan adopted in 2021 (EUR 227 million; 2021: EUR 727 million), the continuing transformation of business activities along the entire value chain (EUR 184 million; 2021: EUR 297 million), and impairments of intangible assets (EUR 658 million; 2021: EUR 52 million), which mainly include an impairment loss on the Russian business of roughly EUR 500 million. In this context, it should be mentioned that Russia remains one of Danone's largest markets, with a 6% share of sales (2021: 6%), which is associated with increasing risk.

If the EBIT is corrected for the other operating expenses (income) declared by Danone as non-recurring, the recurring operating income in 2022 was EUR 3,377 million (2021: EUR 3,337 million), at the previous year's level. Due to the higher sales basis, however, the recurring operating margin fell further from 13.7% to 12.2% compared to the previous year.

Table 2: The development of business of Danone S.A. I Source: Annual Reports 2019-2022, reported information

Danone S.A.				
In EUR million	**2019**	**2020**	**2021**	**2022**
Sales	25,287	23,620	24,281	27,661
Recurring operating income	3,846	3,317	3,337	3,377
Margin	*15.2%*	*14.0%*	*13.7%*	*12.u2%*
Operating income (EBIT)	3,237	2,798	2,257	2,143
Margin	*12.8%*	*11.8%*	*9.3%*	*7.7%*
Net income – group share	1,929	1,956	1,924	959

The EAT generated in 2022 amounted to EUR 1,023 million, thus significantly below the result of the previous year (2021: EUR 1,991 million). The negative result from investments (share of profit of associates) of EUR -32 million, which resulted primarily from a value adjustment (EUR -68 million) on the shares in Yashili held for sale (Danone holds a 25% stake in Yashili), had a particularly negative impact. By contrast, Danone reported positive income from investments of EUR 585 million in the previous year due to the sale of the 9.8% stake in Mengniu.

Overall, business performance in 2022 was in line with expectations, although net income was disproportionately impacted. This is also reflected in the slightly deteriorated result of our financial ratio analysis, which has a dampening effect on our rating assessment.

Against the backdrop of weak net income, the operating cash flow of EUR 2,964 million was below the level of the previous year (EUR 3,474 million). Changes in working capital also had a negative impact here. At EUR 2,127 million (2021: EUR 2,487 million), free cash flow was also weaker than in the previous year, despite slightly reduced capital expenditures (EUR 873 million; 2021: EUR 1,043 million). The Group's liquidity (defined as cash and short-term investments) decreased by EUR 1,174 million year-on-year to EUR 4,682 million as of December 31, 2022. However, Danone simultaneously reduced net debt from EUR 10,519 million in the previous year to EUR 10,107 million in 2022, so that net debt / EBITDA improved from 3.0x to 2.5x, according to Danone's calculations.

According to the strategic roadmap Renew Danone and the adjusted financial targets for the period 2023-2024, revenue growth (like-for-like) should continue to be 3%-5%, and recurring operating income should grow faster than revenue. In addition to a gradual ROIC (return on invested capital) improvement through capital allocation discipline, portfolio rotation, an increase in CAPEX to up to 4.5% of sales, and working-capital improvements, Danone expects to achieve a net debt to EBITDA ratio of under 3x. Based on the positive sales development in the first quarter of 2023, Danone has slightly raised the expected sales growth for the current fiscal year 2023 to 4%-6% and continues to expect a moderate improvement in the recurring operating margin.

We believe that Danone is fundamentally in a position to meet the current challenges in an adequate manner in order to achieve its strategic objectives and maintain its stable rating assessment. Consequently, the outlook remains stable for the time being. At the same time, we see elevated uncertainty with regard to the achievement of the Group's operational and strategic targets due to the decline in its recurring operating margin, continued high inflation, rising interest rates, and the subdued economic outlook in combination with the rising geopolitical conflicts and the ongoing war between Russia and Ukraine. If, contrary to expectations, earnings and internal financing power continue to deteriorate, an adjustment of the outlook or rating cannot be ruled out.

Structural risk

Danone is a leading global food and beverage company headquartered in Paris, France, specializing in the production and distribution of essential dairy and plant-based products, early life nutrition and medical nutrition products, and waters. The Company operates under several international and local brands in over 120 countries worldwide and has a balanced geographical footprint, generating roughly half of its sales in emerging markets and half in mature markets.

As of 31 December 2022, 1.5% of the shares of Danone S.A. were held by the employee savings fund (FCPE "Fonds Danone"), while 5.4% were treasury shares. The rest of the shares were floating and held by institutional and private investors, of which Artisan Partner with 7.0%, Black Rock with 5.7% and The Capital Group Companies with 5.2% of the shares were the largest shareholders. No other shareholder held a stake of more than 5% in the Company's share capital or voting rights as of 31 December 2022.

Pursuant to Danone's Corporate by-laws, the general management of the Company is assumed either by the Chairman of the Board of Directors or by the Chief Executive Officer (CEO). In 2021, Danone decided to separate the functions of Chairman of the Board of Directors and Chief Executive Officer, and appointed Antoine de Saint-Affrique as CEO. From a governance perspective, we consider this step to be beneficial. The Company's Board of Directors is composed of 10 members and is supported by several committees responsible for examining and monitoring key areas (Audit Committee, CSR Committee and Nomination, Compensation and Governance Committee). The Executive Committee of the Group, which is responsible for Danone's operational management, consists of 15 members with varied and complementary expertise and experience.

Danone employs approximately 96,000 staff in over 55 countries and runs 174 production sites worldwide. The relatively high employee turnover rate of 20% (2021: 19%) is striking, but must be put into perspective against the backdrop of the ongoing transformation process.

Danone is now well into the process of its ambitious transformation journey, including a new organization (Local First); transformation of its operations, notably through end-to-end integrated approaches; and a digital & data agenda. The objective of this transformation is to align Danone with new market and operating trends prompted by consumer preferences and competitive dynamics. From 2022, as part of its "Renew Danone" strategy, Danone monitors and evaluates its operational performance by geographical zones to reflect the implementation of its new Local First organization. As part of this process, the previous four geographical zones "Europe," "North America," "China, North Asia and Oceania," and "The Rest of the World" will be reorganized and restructured. From the first quarter of 2023, Danone will report in five adjusted operating segments or regions:

- Europe, which includes Ukraine (was previously part of Rest of the World zone);
- North America, which includes the United States and Canada (unchanged);
- China, North Asia, Oceania (unchanged);
- Latin America (was previously part of Rest of the World zone);
- Rest of the World, which includes AMEA (Asia, Middle East including Turkey, Africa) and CIS

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.

Business risk

Danone is one of the leading companies in the Food and Beverages industry, dividing its activities into three segments: Essential Dairy and Plant-Based products (EDP; 54% of the Group's sales in 2022), Specialized Nutrition (30% of the Group's sales in 2022) and Waters (16% of the Group's sales in 2022).

Danone's mission is to bring "health through food to as many people as possible". Against this backdrop, the strategic focus is on growing, healthy, and trendy categories and products in their respective segments. Themes such as immunity, intestinal health, enjoyment, and performance are also in focus, as is the growing trend towards flexitarianism. According to the company, roughly 91% of sales are related to health. Danone has a diversified product and brand portfolio with a large number of global brands, such as Aptamil, Actimel, Activia, YoPro, Neocate and Evian, as well as a balanced geographical footprint, which we take into account as positive in the rating. On the other hand, Danone operates in a very competitive market environment which requires continuous innovation to maintain competitiveness. Against this background, Danone opened a new Research and Innovation Center in Paris at the beginning of 2023.

In addition to rapidly changing consumer trends, Danone's business development is largely dependent on the cost and availability of raw materials. Cost volatilities are generally mitigated by negotiated forward purchase contracts with suppliers. Nevertheless, the enormous cost inflation in 2022, which had already become apparent as a result of the Corona pandemic and disrupted supply chains, and was further exacerbated by the war between Russia and Ukraine, weighed on Danone's operating profitability.

In order to manage cost volatility, Danone strives to optimize its use of raw materials and takes advantage of pooled purchasing for its various subsidiaries. For liquid milk purchases, as one of the main raw materials, 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.

Due to the fact that Danone's top 5 markets (USA, China, France, Russia and India) account for approximately 50% of its sales, negative effects on business development cannot be ruled out despite strong geographical diversification. We see increasing risks due to the war between Russia and Ukraine, especially with regard to the Group’s business in Russia, which remains one of Danone's largest markets, with a 6% share of sales (2021: 6%). On 14 October 2022, Danone announced its decision to initiate a process to transfer the effective control of its EDP business in Russia, which will result in the deconsolidation of its business. Corresponding write-downs on its Russian business were already made in the 2022 fiscal year. No sale has been announced to date, with further developments remaining to be seen.

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 to pose public health risks, it could severely harm its reputation. 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. Nevertheless, Danone carries out its activities in a complex, fast-changing, and increasingly stringent regulatory environment, where its products are subject to various local, national, and regional laws and regulations.

In general, the Company and its subsidiaries are parties to legal proceedings arising in the normal course of business, in particular by customs and competition authorities in certain countries. According to the information provided in the consolidated financial statements, there are no apparent significant risks or risks that might jeopardize the continued existence of the Group.

The Company has an established product portfolio and, as far as we can assess, is able to anticipate changing consumer preferences and expectations. 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 Danone’s main business risks as moderate. Negative effects in particular regions, or with regard to particular products, can be offset by the high degree of diversification. Nevertheless, negative macroeconomic conditions, the impact of the war between Russia and Ukraine, rising cost inflation and/or new regulatory requirements could hamper further positive development of the Group.

Financial risk

For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. Due to these adjustments, and generally to CRA's own calculation methods of key figures, they may differ from the original values and information provided by Danone.

The result of our key financial ratio analysis, which forms the basis for our rating assessment, deteriorated slightly year-on-year. This was largely due to the impact of high cost inflation and the impairment loss on the Group's Russian business, which in conjunction with increased working capital led to a deterioration in key financial indicators. Assuming that business develops as planned in 2023, we regard this deterioration as a short-term effect, particularly as the adjusted equity ratio was increased to 25.91% (2021: 25.41%) and net debt was reduced from EUR 10,519 million to EUR 10,107 million in the fiscal year 2022. As EBITDA (operating profit before depreciation and amortization, incl. impairment charges on the Russian business) increased, Danone's calculated net debt / EBITDA improved to 2.5x (2021: 3.0x), which we consider a stabilizing factor. The net total debt / EBITDA adj. used by CRA, with a value of 4.92x (2021: 4.53x), can be considered sufficient for the rating level assigned here, despite the increase.

The Group's financial debt amounted to EUR 14,866 million as of December 31, 2022 (2021: EUR 16,585 million) and consisted mainly of bonds of EUR 11,941 million (2021: EUR 9,620 million) issued under the existing EMTN program, commercial paper liabilities of EUR 786 million (2021: EUR 757 million) and lease liabilities of EUR 933 million (2021: EUR 982 million). The remainder consists of liabilities to banks, derivatives, and liabilities related to put options granted to non-controlling interests (these financial liabilities do not bear interest). Of the total financial liabilities, EUR 3,628 million (2021: EUR 4,408 million) was due in the short term.

In addition, there is subordinated financing (hybrid financing) totalling EUR 1,250 million, of which EUR 750 million already has a first call option on June 23, 2023, and is therefore to be regarded as debt. The remaining EUR 500 million has a minimum term until December 16, 2026 and is included in equity and debt at 50% each due to its medium-term residual term and subordination.

In addition to the financial liabilities existing off-balance sheet commitments, commitments to purchase goods and services of approximately EUR 6,553 million must be taken into account in particular.

Overall, the maturity structure of the Group's financing is relatively balanced and does not reveal any significant cluster risks. We also view the reduction in debt as positive, not least against the backdrop of rising global interest rates. .

As of 31 December 2022, Danone had at its disposal cash and cash equivalents amounting to EUR 1,051 million (2021: EUR 659 million) and short-term investments (money market funds, bank deposits and other short-term investments) of EUR 3,631 million (2021: EUR 5,197 million). The Company also has a wide range of financing facilities at its disposal: a syndicated credit facility of EUR 2,000 million, committed credit facilities of EUR 972 million (both unused as of 31 December 2022), various bond and commercial paper programs, and an EMTN program.

Danone's cash flow from operating activities decreased to EUR 2,964 million in 2022 (2021: EUR 3,474 million). At EUR 2,127 million, free cash flow was below the previous year's figure of EUR 2,489 million, despite a slight reduction in capital expenditure of EUR 873 million (2021: EUR 1,043 million). However, the Company benefits from diversified access to financial resources, and its liquidity is not jeopardized in the short term, in our view. According to the Company, Danone's cash flows from operating activities, along with the funds available through confirmed credit lines, will be sufficient to cover the necessary expenses and investments, as well as debt service and the payment of dividends. Disciplined and growth-oriented capital allocation and a relatively stable dividend policy also contribute to this.

Overall, we consider Danone's financial risk to be moderate. Despite weaker cash flow generation, Danone succeeded in reducing net debt in 2022, which has a compensating effect on interest expenses against the backdrop of rising interest rates. Taking into account the available financial facilities and established access to capital markets, we see the Group's liquidity position as a stabilizing factor for the rating.

Issue rating

Issue rating details

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

The Notes have been issued within the framework of the Euro Medium Term Note (EMTN) programme, of which the latest base prospectus dates from 3 May 2023. This EMTN programme amounts to EUR 13 bn. The notes under the EMTN programme are senior unsecured, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the issuer. Additionally, the notes benefit from a negative pledge provision, a change of control clause and a cross default mechanism. The terms of individual Notes or tranches depend on the respective final terms and conditions.

Result corporate issue rating

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

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

Overview

Table 3: Overview of CRA Ratings I Source: CRA

Rating Category	Details	
	Date	Rating
Danone S.A. (Issuer)	19.06.2023	BBB+ / stable
Long-term Local Currency (LC) Senior Unsecured Issues	19.06.2023	BBB+ / stable
Other	--	n.r.

Table 4: Overview of 2023 Euro Medium Term Note Programme I Source: Base Prospectus dated 03.05.2023

Overview of 2023 EMTN Programme			
Volume	EUR 13,000,000,000	Maturity	Depending on respective bond
Issuer / Guarantor	Danone S.A.	Coupon	Depending on respective bond
Arranger	BNP Paribas	Currency	Depending on respective bond
Credit enhancement	none	ISIN	Depending on respective bond

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

Financial ratio analysis

Table 5: Financial key ratios |Source: Danone S.A. annual report 2022, structured by CRA

Asset structure	2019	2020	2021	2022
Fixed asset intensity (%)	70.36	67.17	65.52	65.54
Asset turnover	0.72	0.68	0.70	0.77
Asset coverage ratio (%)	59.23	65.17	63.29	62.19
Liquid funds to total assets	11.97	12.71	16.38	13.11
Capital structure				
Equity ratio (%)	25.73	25.64	25.41	25.91
Short-term debt ratio (%)	31.52	30.74	30.99	36.06
Long-term debt ratio (%)	15.95	18.13	16.06	14.85
Capital lock-up period (in days)	57.15	53.58	60.10	64.64
Trade-accounts payable ratio (%)	11.09	10.31	11.19	13.72
Short-term capital lock-up (%)	26.99	27.59	28.01	27.90
Gearing	2.42	2.40	2.29	2.35
Leverage	3.88	3.89	3.92	3.90
Financial stability				
Cash flow margin (%)	12.05	14.51	16.38	9.57
Cash flow ROI (%)	8.53	10.19	11.13	7.41
Total debt / EBITDA adj.	5.10	5.24	5.80	5.98
Net total debt / EBITDA adj.	4.28	4.34	4.53	4.92
ROCE (%)	16.92	15.79	16.61	16.61
Total debt repayment period	6.57	10.70	7.69	5.31
Profitability				
Gross profit margin (%)	100.00	100.00	100.00	100.00
EBIT interest coverage	5.51	5.44	5.03	4.15
EBITDA interest coverage	7.86	8.27	7.84	7.76
Ratio of personnel costs to total costs (%)	15.75	17.14	17.15	15.93
Ratio of material costs to total costs (%)				
Cost income ratio (%)	87.21	88.18	90.71	92.25
Ratio of interest expenses to total debt (%)	2.22	2.06	1.68	1.95
Return on investment (%)	6.72	6.96	6.30	3.73
Return on equity (%)	22.35	22.80	22.49	11.16
Net profit margin (%)	8.02	8.59	8.20	3.70
Operating margin (%)	12.80	11.85	9.30	7.75
Liquidity				
Cash ratio (%)	5.72	5.74	5.95	8.16
Quick ratio (%)	74.46	86.50	92.25	75.09
Current ratio (%)	94.05	106.80	111.23	95.57

Appendix

Rating history

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

Table 6: Corporate Issuer Rating of Danone S.A.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	29.03.2017	05.04.2017	04.03.2020	BBB+ / stable

Table 7: LT LC Senior Unsecured Issues issued by Danone S.A.

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

Regulatory requirements

The rating[2] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

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

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

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

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

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

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

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

Rating methodology	Version number	Date
Corporate Ratings	2.4	July 2022
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

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

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

The rating was carried out by the following analysts:

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

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

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

On 19 June 2023, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 19 June 2023. There has not been a subsequent change to the rating.

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

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

ESG-factors

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

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report at this point:

No ancillary services in the regulatory sense were carried out for this rating object.

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:

<u>Corporate issuer rating:</u>

1. Annual report

2. Website

3. Internet research

<u>Corporate issue rating:</u>

1. Corporate issuer rating incl. information used for the corporate issuer rating

2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a “rating action”; initial release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade” or “downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website.

An explanatory statement of the meaning of Creditreform Rating AG’s default rates are available in the credit rating methodologies disclosed on the website.

Disclaimer

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We have assumed that the documents and information made available to us by the client are complete and accurate and that the copies provided to us represent the full and unchanged contents of the original documents. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

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