



Hydra Investments

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LTS Challenge 2022

The reasons why Danone's stock is underperforming

May 3rd, 2022

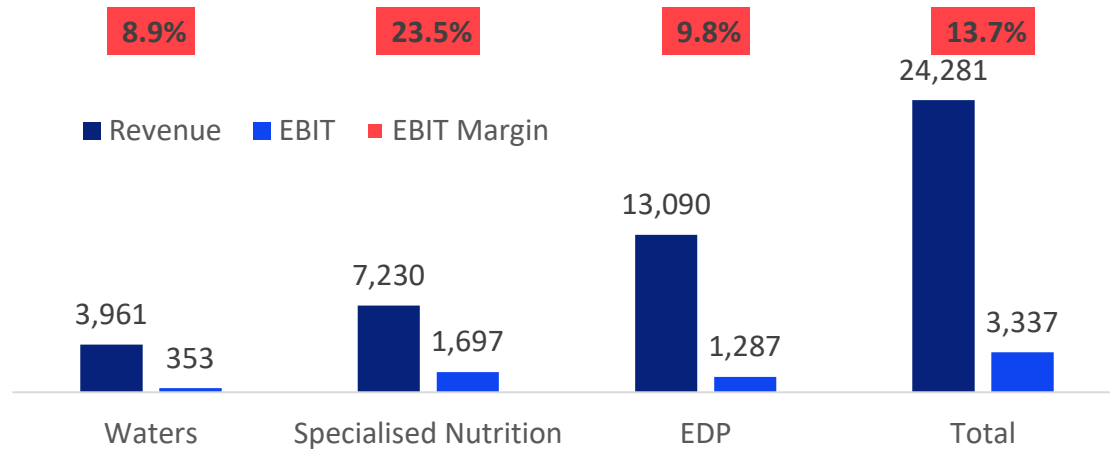


Danone at a glance

Danone is a global yogurt company, which is trading under its main peers

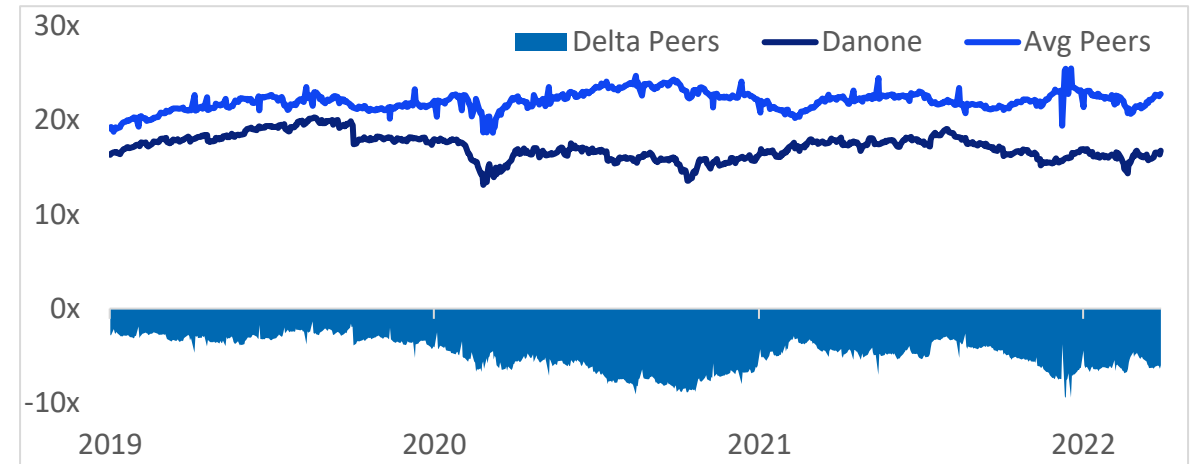
Danone has three main revenue lines: Water, Specialised Nutrition, EDP

Revenue & EBIT Breakdown (In EUR Mn) vs EBIT Margin 2021



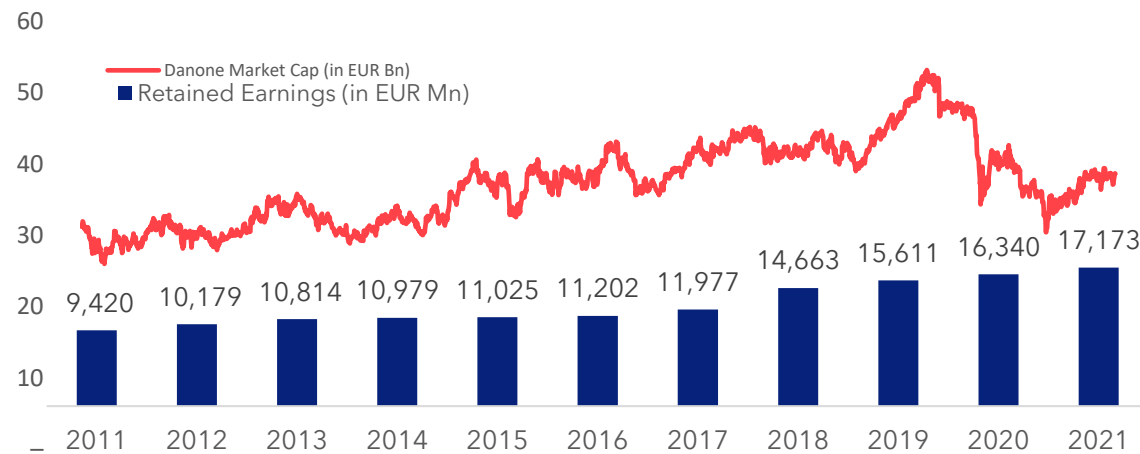
Danone is underperforming its main peers

Multiple PE forward



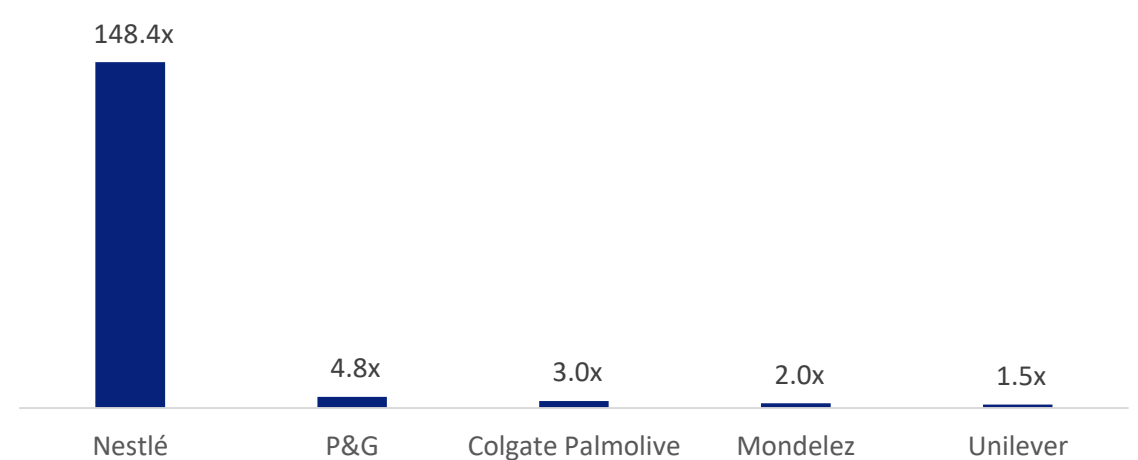
Buffet's One Dollar test shows BN has not created value in the past 10y

Danone's Market Capitalization vs Retained Earnings



While its main peers have created value since 2011

Peers Buffet's One Dollar Test

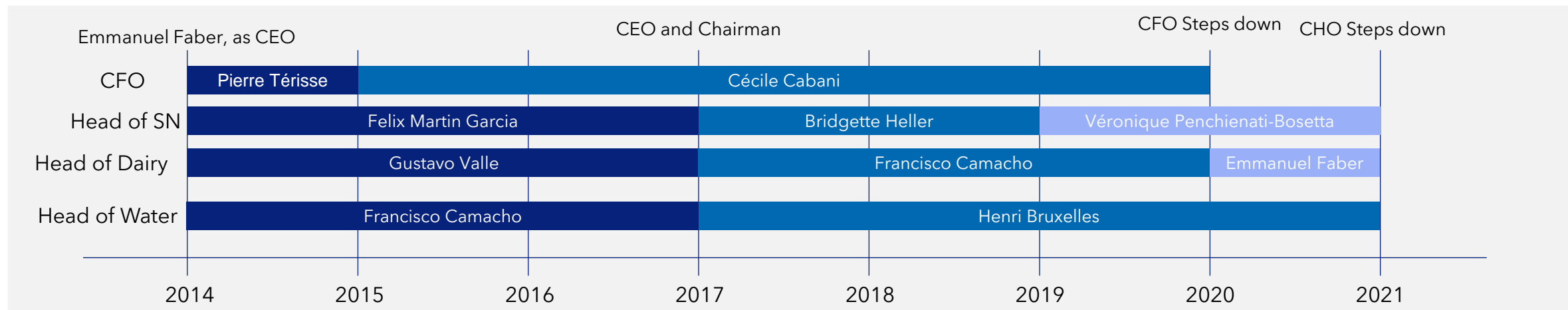


Curdled ESG to sour shareholders value

ESG was not aligned with long term growth and poor governance puts some questions about CEO's capacity to run a global Company

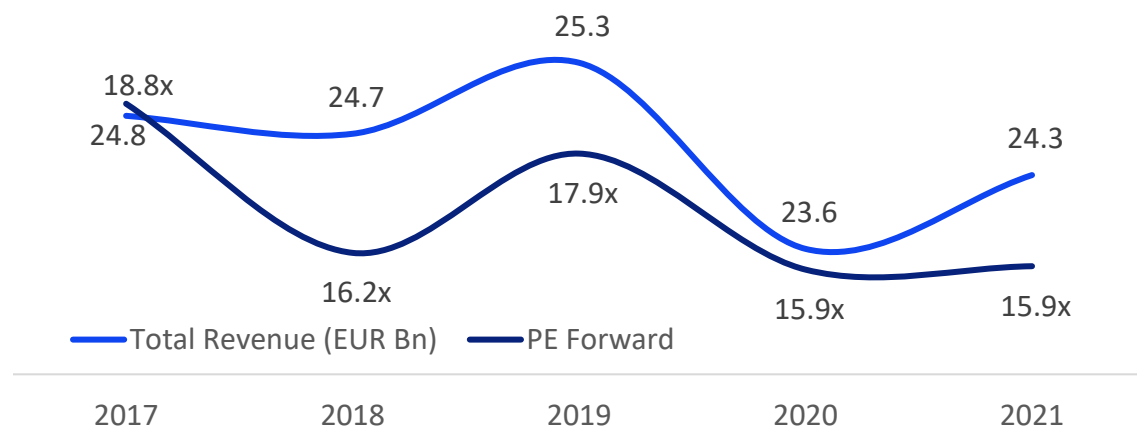
High Turnover shows incapacity of former CEO to manage and build an excellent team

Senior Team Turnover



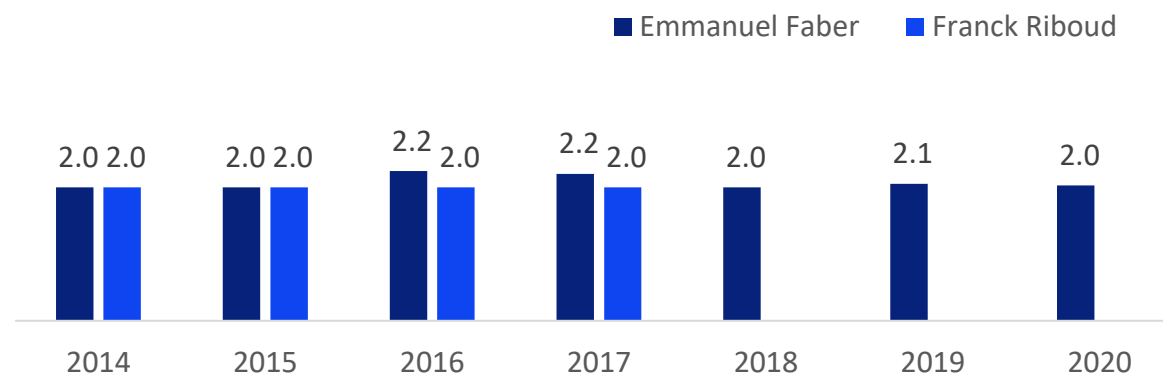
With a negative revenue CAGR₁₇₋₂₁ of -0.5%, BN's lack of focus has comprised its core business growth potential

Revenue & PE forward Evolution in the past 5y



Meanwhile, CEO's remuneration remained untouched

Former CEO & Chairman variable and fixed remuneration (in EUR mn)

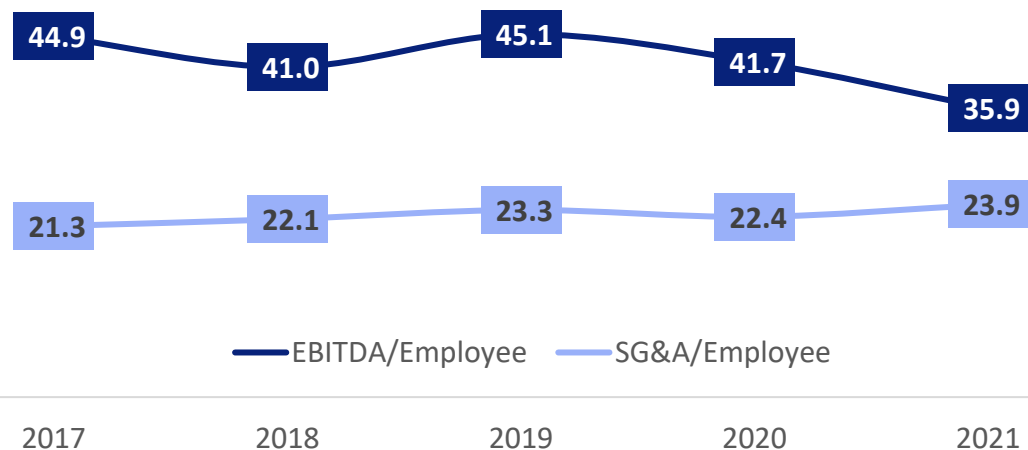


Poor efficiency and wrong capital allocation

Decreases in efficiency, lower budget in core businesses and structural global inflation to press gross margin

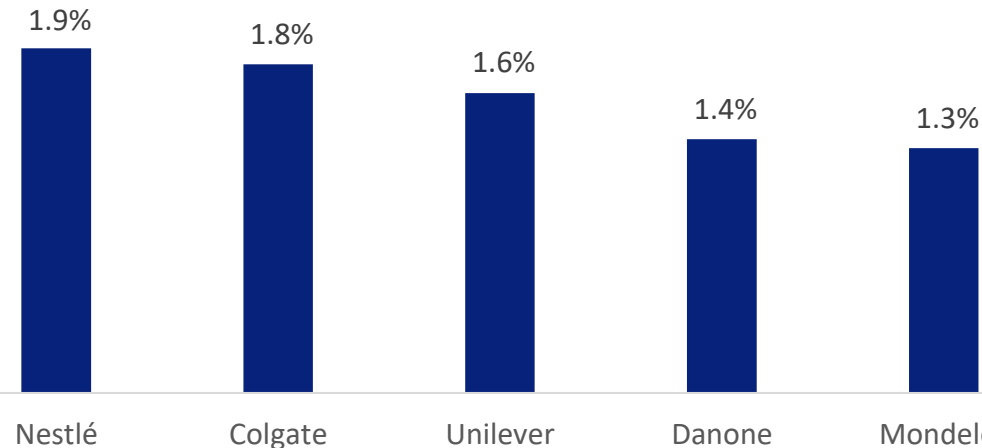
BN's efficiency has decreased in the past 5y, while SG&A has increased

EBITDA/Employee & SG&A/Employee (EUR 000')



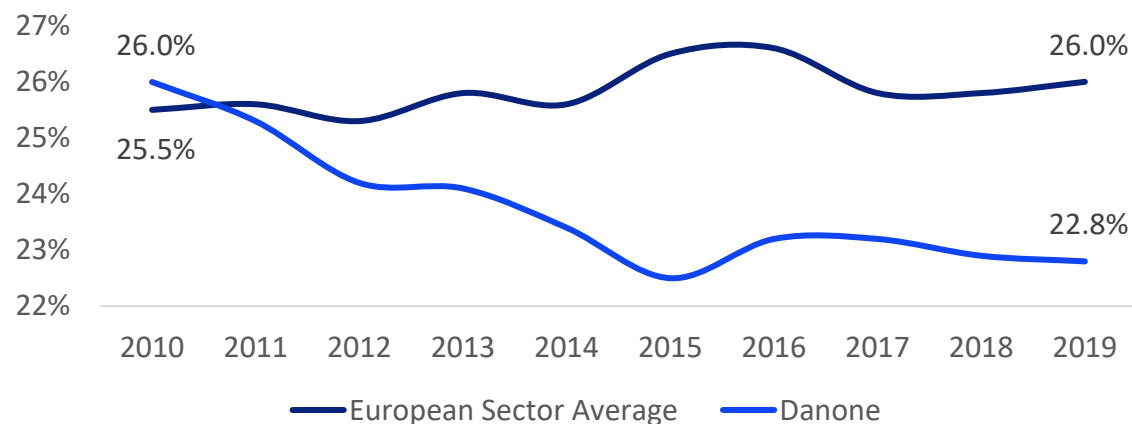
Danone has invested in R&D below its peers in the past five years

5y average R&D as % of sales



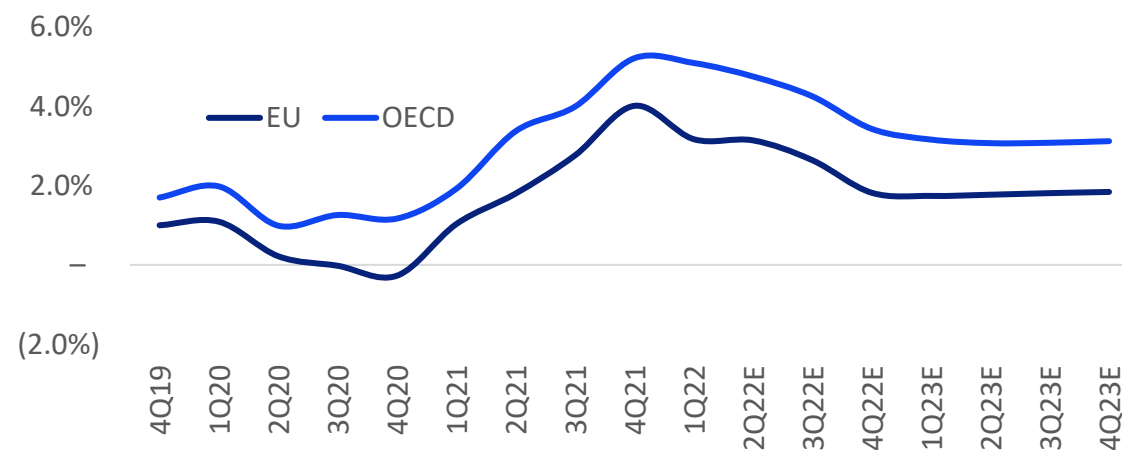
In the past years, Danone has allocated lower budget in brand vs its peers

Spending on brand investment as % of sales



Global inflation to put pressure in COGS in the short term

Inflation forecast

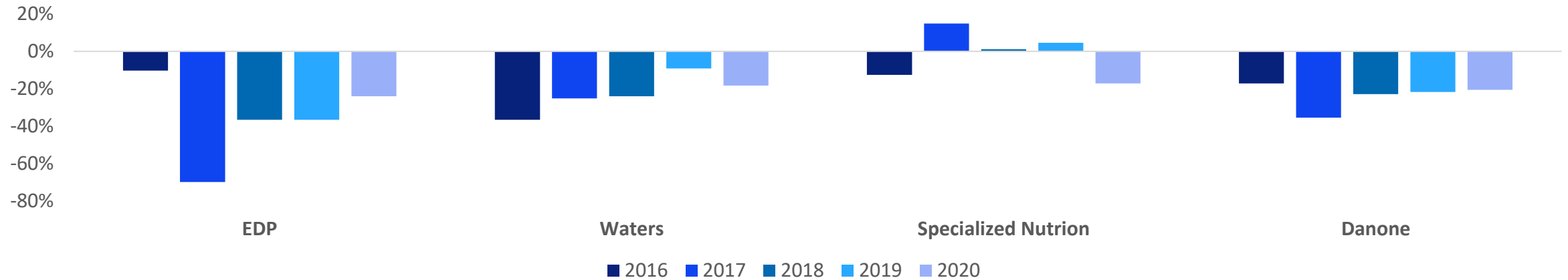


Hard to swallow M&A strategies

Market share loss, wrong M&A decisions, higher leverage and bad capital allocation

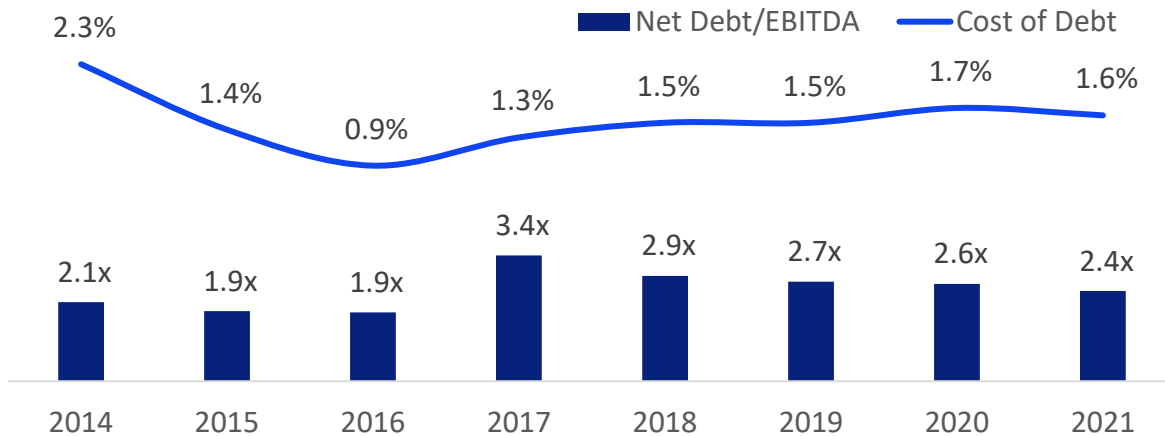
Danone has been losing share over the years

Market share by revenue line evolution



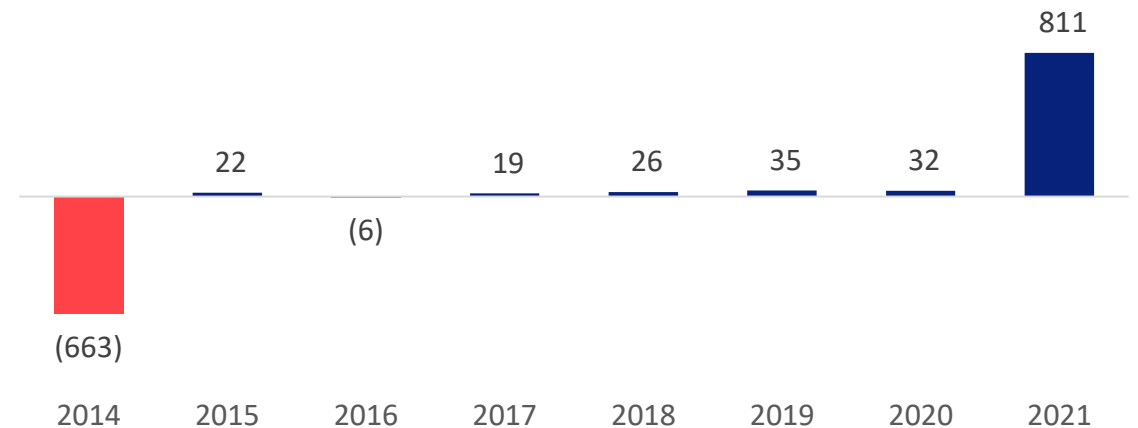
Total leverage has increased over the years

Net Debt/EBITDA & Cost of Debt



Mengniu investment has generated a negative NPV of USD -45,000

Mengniu acquisition and divestment NPV (USD mn)



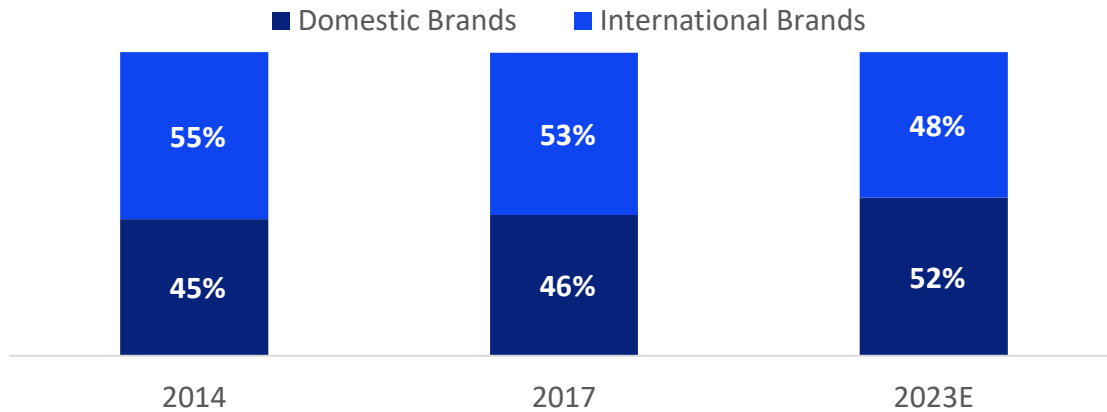
Limit long term growth and competition on the horizon



Main businesses with limit growth in the long run and competition to put in check Danone's dominance

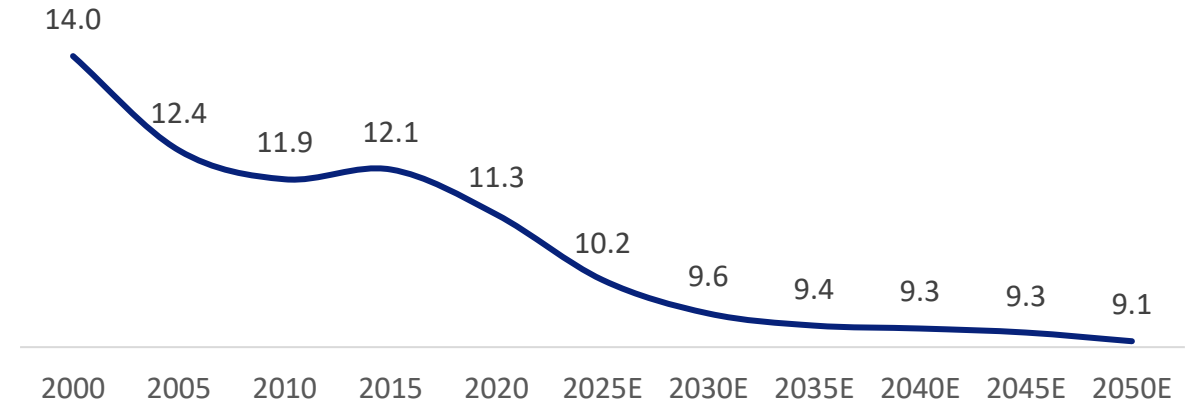
Domestic Brands in China will dominate the SN market

Retail sales of infant milk formula market share evolution



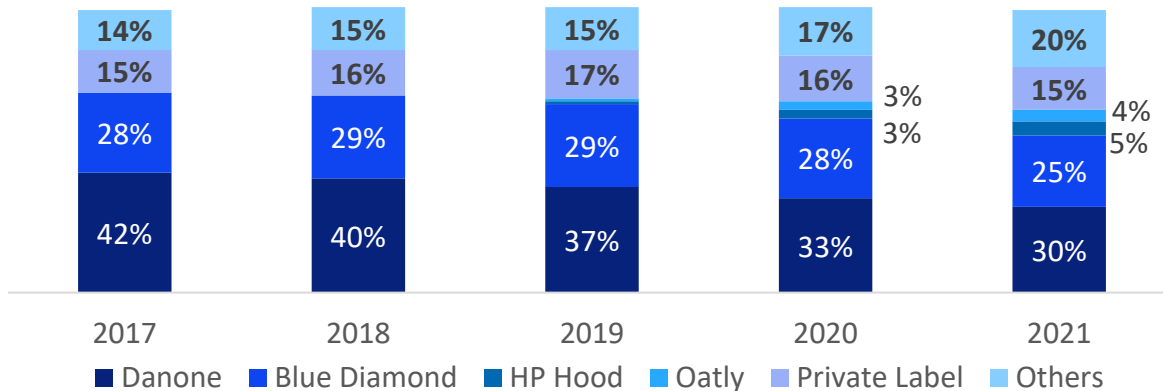
Decrease in China's birth rate puts in doubt Danone's SN growth in the long term

Birth rate in China (per 1,000 people)



Dairy war in the US market is getting fiercest

US Plant based Milk market share evolution



Dairy market will slow down its growth in the next decades

Milk Alternatives sales CAGR forecasts by region

