BRYAN, GARNIER & CO

INDEPENDENT RESEARCH UPDATE

11th July 2016

Food & Beverages

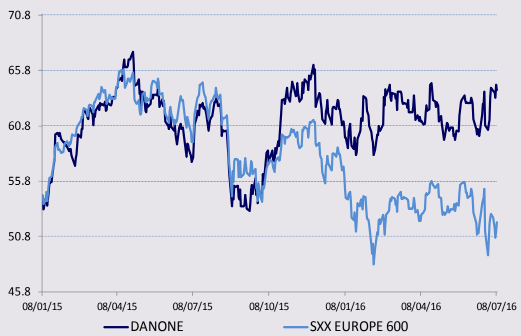
Danone

No redemption

Fair Value EUR67 vs. EUR71 (price EUR64.04) **NEUTRAL vs. BUY**

Bloomberg	BN FP
Reuters	DANO.PA
12-month High / Low (EUR)	66.3 / 53.1
Market capitalisation (EURm)	42,003
Enterprise Value (BG estimates EURm)	60,418
Avg. 6m daily volume ('000 shares)	1,689
Free Float	98.0%
3y EPS CAGR	9.4%
Gearing (12/15)	62%
Dividend yield (12/16e)	2.55%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	22,412	21,785	26,621	28,000
EBIT (EURm)	2,892	2,978	3,698	4,056
Basic EPS (EUR)	2.94	3.00	3.41	3.84
Diluted EPS (EUR)	2.93	3.00	3.40	3.84
EV/Sales	2.22x	2.77x	2.25x	2.12x
EV/EBIT	17.2x	20.3x	16.2x	14.7x
P/E	21.9x	21.4x	18.8x	16.7x
ROCE	10.7	10.8	13.1	14.1



Our view is that the acquisition of WhiteWave is value destructive for shareholders and will prevent Danone from focusing on the improvement of its organic performance. We downgrade our recommendation to Neutral and our Fair Value to EUR67.

- **What we liked about Danone was the redemption case.** The group was operating a culture shift by **focusing on the improvement in the organic performance** rather than carrying out expensive and value destructive acquisitions. There was finally no redemption and history seems to be repeating itself.

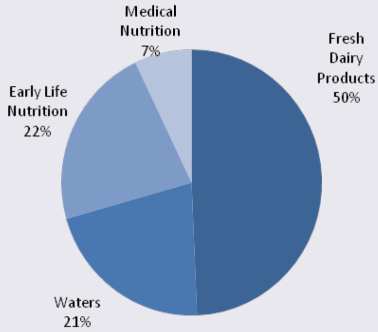
- **The financial rationale is not compelling. The return on invested capital is just over 4% in 2017 while the WACC of Danone is around 7%.** During the conference call, the group said that this acquisition will decrease its ROIC by 200bps in 2017. It had previously committed itself to gradually improving the ROIC which tumbled following the acquisition of Numico in 2007**. It also goes without saying that the M&A track record of Danone is poor.** We have already mentioned Numico but there was also the Wahaha case. **But the main reason why we are negative on this acquisition is that Danone will have too much work.** We do not believe the group will be able to integrate WhiteWave's operations while in the same time improving the performance of yoghurts and handling the shrinkage of the grey market in China.

- The transaction is accretive on EPS (2016-2018 estimates revised upwards by 4% on average), which is not a surprise given the low interest rates. But the financial situation of Danone has deteriorated strongly. The net debt of the company will reach EUR18bn, implying a net debt/EBITDA ratio of 4.0x in 2017. Our beta rises from 0.82 to 0.95. **We downgrade our Fair Value to EUR67 and our recommendation to Neutral.**

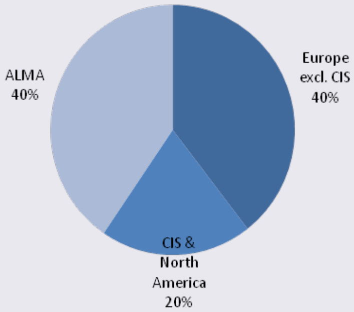
Analyst:
Virginie Roumage
33(0) 1.56.68.75.22
vroumage@bryangarnier.com

Sector Analyst Team:
Nikolaas Faes
Loïc Morvan
Cédric Rossi

2015 Sales breakdown by Division



2015 Sales breakdown by Region



Company description

Born in 1972 thanks to the merger of BSN and Gervais Danone, Danone has refocused on four core activities (Fresh Dairy products, Waters, Early Life Nutrition and Medical Nutrition) in a limited number of markets in which it intends to be the leader.

Simplified Profit & Loss Account (EURm)	2013	2014	2015	2016e	2017e	2018e
Sales	21,298	21,144	22,412	21,785	26,621	28,000
Change (%)	*2.1%*	*-0.7%*	*6.0%*	*-2.8%*	*22.2%*	*5.2%*
Like-for-like change (%)	*4.8%*	*4.7%*	*4.4%*	*3.2%*	*4.9%*	*5.2%*
Trading operating profit	2,809	2,662	2,892	2,978	3,698	4,056
Change (%)	*-5.1%*	*-5.2%*	*8.6%*	*3.0%*	*24.2%*	*9.7%*
Operating income						
Total financial expenses	(263)	(312)	(285)	(343)	(678)	(648)
Income before taxes	1,865	1,839	1,925	2,635	3,020	3,408
Reported income tax	(604)	(599)	(625)	(698)	(826)	(948)
Share of profit of associates	289	14.0	99.0	156	163	170
Net profit	1,550	1,253	1,399	2,093	2,357	2,630
Non-controlling interests	128	134	115	123	133	138
Net profit Group share	1,422	1,119	1,284	1,970	2,224	2,492
Underlying net income_group share	1,636	1,561	1,791	1,828	2,077	2,343
Change (%)	*-10.0%*	*-4.6%*	*14.7%*	*2.1%*	*13.6%*	*12.8%*
Cash flows from operating activities						
Working capital variation	(217)	(57.0)	162	(151)	161	161
Capex, net	(1,039)	(984)	(937)	(1,024)	(1,251)	(1,316)
Other	113	59.0	34.0	0.0	0.0	0.0
Free cash flow excluding exceptional items	1,549	1,401	1,528	1,562	1,450	1,659
Exceptionals	(121)	(123)	(61.0)	0.0	0.0	0.0
Free cash flow reported	1,428	1,277	1,467	1,562	1,450	1,659
M&A	(1,330)	(1,404)	(2,800)	(11,201)	0.0	0.0
Dividends	(953)	(417)	(400)	(976)	(998)	(1,134)
Other	(819)	746	1,697	0.0	0.0	0.0
Net debt	7,966	7,764	7,800	18,415	17,963	17,439
Property, plant and equipment						
Intangibles assets	16,308	16,234	15,778	15,778	15,778	15,778
Cash & equivalents	969	880	519	2,530	2,038	1,745
current assets	7,850	7,476	7,998	8,736	9,246	9,241
Total assets	30,928	31,747	32,712	33,762	34,490	34,697
L & ST Debt	11,927	11,142	11,078	22,699	21,756	20,939
Others liabilities	8,272	8,860	8,964	(1,914)	(1,214)	(1,280)
Shareholders' funds	10,694	11,696	12,606	12,914	13,885	14,975
Total Liabilities	20,199	20,002	20,042	20,785	20,542	19,659
Trading operating margin						
Reported tax rate	32.40	32.60	32.47	26.48	27.36	27.81
Underlying net income_group share	7.68	7.38	7.99	8.39	7.80	8.37
ROE	13.30	9.57	10.19	15.25	16.02	16.64
ROIC	10.42	9.77	10.67	10.76	13.07	14.09
Gearing based on net debt	74.25	66.34	61.57	142	129	116
Gearing based on net financial debt	44.01	44.56	54.76	128	116	104
Pay out ratio	52.11	57.27	54.61	54.61	54.61	54.61
Number of shares, diluted	588	596	610	610	610	610
Basic underlying EPS						
Diluted underlying EPS	2.78	2.62	2.93	3.00	3.40	3.84
% change	*-7.7%*	*-5.9%*	*11.9%*	*2.2%*	*13.6%*	*12.8%*
BVPS	18.19	19.62	20.66	21.16	22.76	24.54
Operating cash flows	3.84	3.81	4.25	3.99	4.69	5.14
FCF	2.63	2.35	2.50	2.56	2.38	2.72
Net dividend	1.45	1.50	1.60	1.64	1.86	2.10

Source: Company Data; Bryan, Garnier & Co ests.

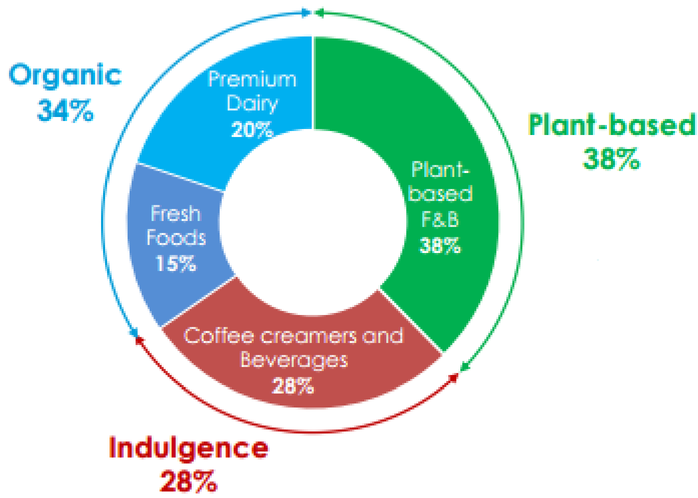
1. An acquisition with a questionable logic

The main reason why we are negative on the deal despite its strategic rationale is that we do not think the group will be able to integrate WhiteWave's operations while at the same time improving the performance of yoghurts and handling the shrinkage of the grey market in China. This is too much work.

1.1. Strategically, it makes sense…

WhiteWave was spun out of Dean Foods in 2013 and analysts have speculated that it could be a target for larger food companies. **Its portfolio is in line with recent consumer trends towards healthier food.** Organic food are growing three times more than normal packaged foods and plant-based alternatives to yoghurt and milk products are growing double digit. The group generates 34% of its sales in organic and 38% in plant-based.

Fig. 1: WhiteWave: Sales breakdown by category



Source: Danone

Since it became public in 2012, WhiteWave reported average sales growth of 19% and a doubling of its operating income.

Fig. 2: Sales of WhiteWave (USDbn)

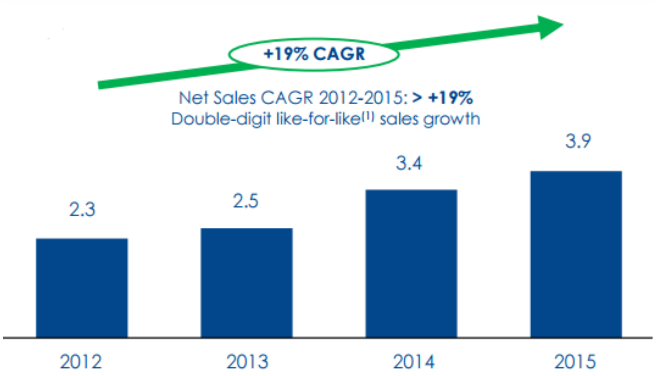
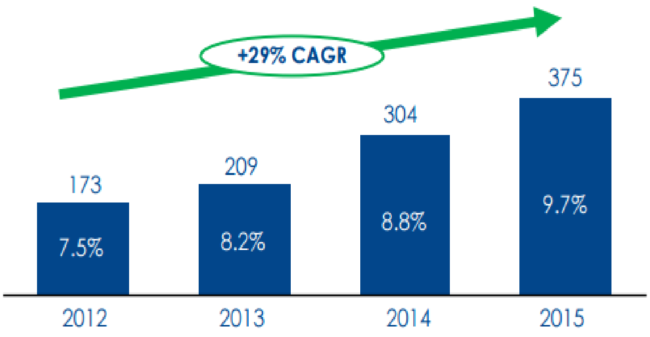


Fig. 3: Operating income of WhiteWave (USDm)



Source: Danone

Danone will become the leader in the key US refrigerated dairy market. Its higher scale will make the group able to control the shelf and to become category captain in dairy. **The weight of the United States will reach 22% of Danone's sales vs 12% currently.**

Fig. 4: Danone's 2015 sales breakdown

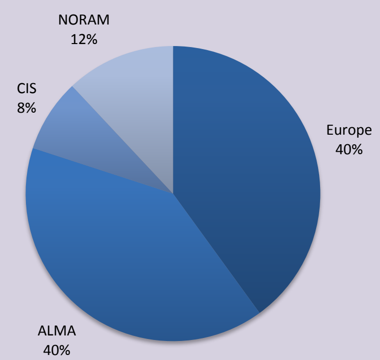
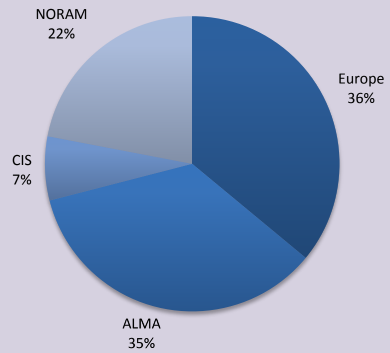


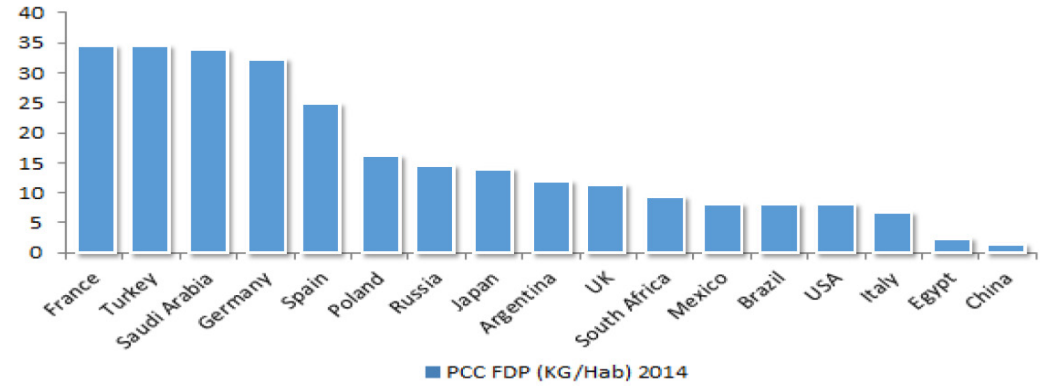
Fig. 5: Danone's 2015 sales breakdown after the acquisition of WhiteWave



Source: Danone

The US is a growth driver in the years to come. It is considered as "an emerging country" for yoghurts due to its very low consumption per capita.

Fig. 6: Low consumption of fresh dairy products in the United States



Source: Danone

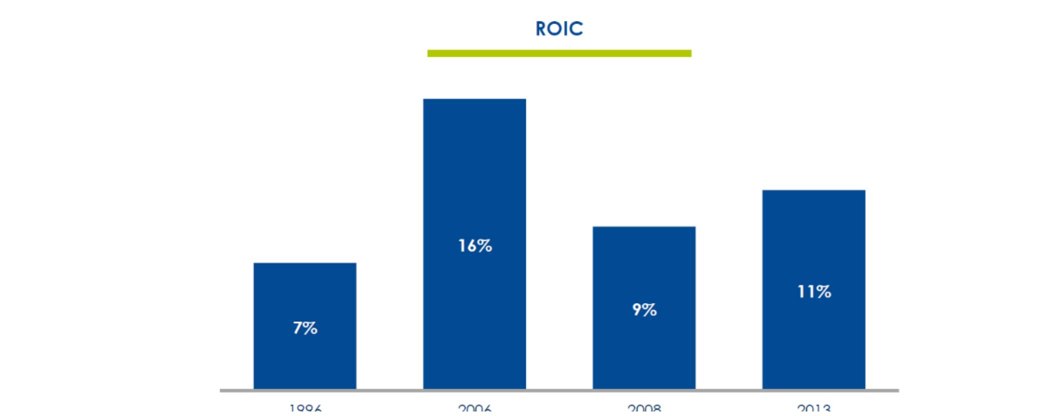
1.2. …but this is negative for us

There are five reasons why we are negative on the deal:

1. Financially, the logic is not compelling. The price paid is highly expensive. Danone has offered USD56.25 per share in cash, implying an EV of USD12.5bn (EUR11.2bn). It represents an EV/EBITDA of 21.3x or 14.0x including the synergies of USD300m. The return on invested capital is just over 4% in 2017 while the WACC of the company is around 7%. During the conference call, the group said that this acquisition will decrease its ROIC by 200bps in 2017 which is the first year of consolidation. It will only return to its 2016 level in 2019.

2. Management's credibility is questioned. The ROIC tumbled following the acquisition of Numico. At the 2014 Investors Day in New York, Danone released the graph which can be found below and committed itself to focusing on the improvement in the ROIC. It reiterated this objective during the Investors Day which was held in Evian in November 2015 where CEO Mr Emmanuel Faber said there was no need for a transformational deal and ROIC progression was not at risk. Our view is that the acquisition of WhiteWave undermines the credibility of the management.

Fig. 7: Change in ROIC



Source: Danone

3. The track record is bad. Everybody remembers Numico and Wahaha.

4. We think that WhiteWave's growth may have peaked. WhiteWave delivered 19% sales CAGR between 2012-2015. Consensus's sales estimates for 2016, 2017 and 2018 are 11%, 8% and 8%, respectively.

5. Danone will not be able to do everything. This is the main reason behind our negative view on the deal. We do not believe the group will be able to integrate WhiteWave's operations while at the same time improving the performance of yoghurts (challenge 1) and handling the shrinkage of the grey market in China (challenge 2).

2. Challenge 1: Yoghurts in Europe

During its Investors Day in November 2015, Danone detailed its five-year strategic plan to find its way back to profitable growth. Its aim for yogurts is to return to 3-5% growth by 2020 and to increase the EBIT margin by 200bps ex-FX between 2015 and 2020. So far, the results are promising but we think the acquisition of WhiteWave put in danger the improvement of the yoghurts performance as 1/ we are just at the year 1 of the five year plan (Activia has not even been relaunched) and 2/ a cannibalization of Danone's products by WhiteWave is possible.

Yoghurts are the group's first division, accounting for 49% of sales and 38% of EBIT. It witnessed major difficulties in recent years. Its organic sales growth decelerated from +7.7% in 2008 to +1.5% in 2014, while over the same period its EBIT margin dropped 480bps.

Fig. 8: Yoghurts: organic sales growth

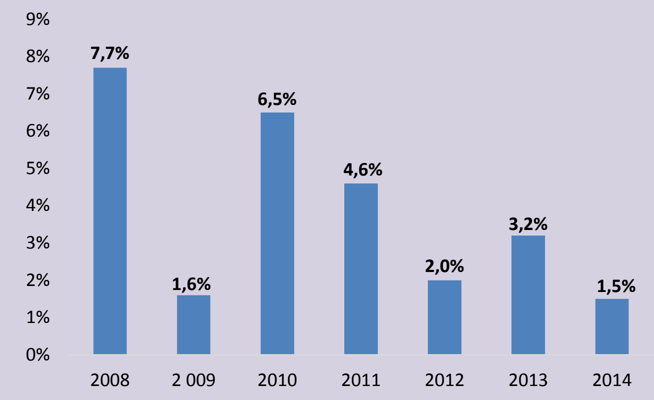
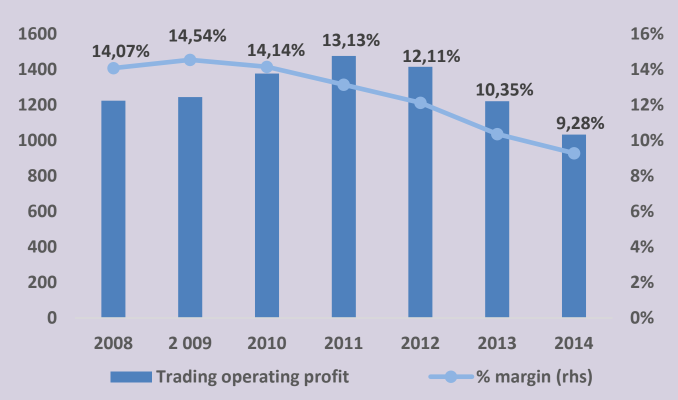


Fig. 9: Yoghurts: EBIT margin



Source: Danone

This weak performance has mainly resulted from the difficulties in Europe (33% of the division's sales and 16% of the group's sales):

- Danone was forced to withdraw its health allegations on Actimel and Activia under pressure from the European Union in 2010.
- The macro-economic environment deteriorated sharply in 2012.
- The milk price rose at the end of 2000s, while the group proved to be unable to pass on this increase to consumers.

The problems have been particularly acute for Activia, the group's first brand in Europe (30% of yoghurt sales in the region). It is facing:

- **Inconsistency in brand image.** The market positions of Activia are very different across Europe. This is due to the group's market by market approach to try to reinvent the brand.

- **Lack of clear positioning**. The brand does not have a clear purpose since the withdrawal of the health allegations.

To reach its goal of 3-5% organic sales growth for yoghurts in 2020, Danone…

- **…is focusing its resources on eight of its brands**

Although Danone's portfolio of fresh dairy products includes around 65 brands, eight of these generate more than 80% of sales and profits, namely Activia, Actimel, Vitalinea, Danio, Oikos, Danette, Danonino and Danone. The group has expressed its aim to focus on these eight brands which should benefit from more advertising spend in particular.

Fig. 10: The brands in the portfolio

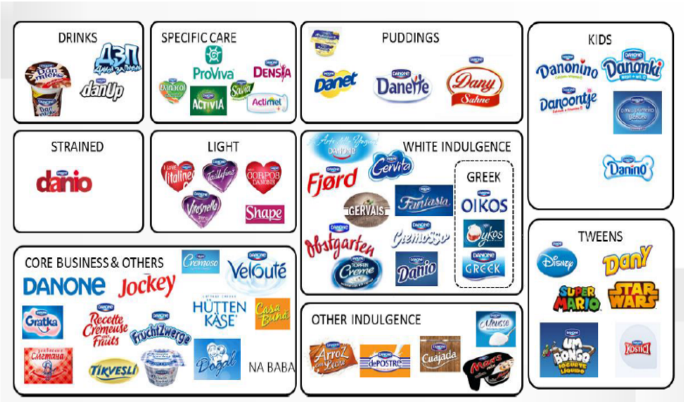


Fig. 11: Focus on eight of them

Source: Danone, Bryan, Garnier & Co

- **…is making intelligent changes to its marketing model**

Although consumers would like to eat healthily, they do not really want a yoghurt that is presented as being a medicine. Danone has therefore decided to refocus its advertising campaigns on emotion rather than reason. Actimel is a very good example of this. Instead of communicating on the presence of *L.Casei*, a bacteria that strengthens the immune system, the group is now putting the focus on how consumption of Actimel helps one to stay strong whatever the circumstances (*Stay strong* campaign).

Fig. 12: Refocusing of Actimel's marketing campaign on emotion

Source: Danone

- **…is using innovation**

The group has renewed the packaging for Actimel and aims to grasp new consumption occasions with the Danonino snacking pouch.

Fig. 13: The new Actimel packaging

Fig. 14: Danonino snacking pouch

Source: Danone

In order to grow the EBIT margin of yoghurts by 200bps ex-FX between 2015 and 2020, Danone…

- **…is rationalising its portfolio**

Danone has used processes to stimulate demand: it played on prices, held promotional campaigns and launched formats and assortments which were dilutive. The group has reviewed its portfolio and eliminated a number of SKUs through its product revenue growth management programme (PRGM) which is now almost complete.

- **…is optimising its operations**

The group has streamlined its manufacturing facilities in Europe by ending its one country-one plant model. Since 2013, it has reduced the number of plants from 24 to 15 in the region. It has reorganised its salesforce and distribution network, with the closing of six sites in 2015. Since the beginning of 2016, it has been implementing its One Danone organisational model which consists in the combination of support functions (Human Resources, Finance, and IT…), with the aim to cover 80% of the business by the end of the year.

- **…is saving on supplies**

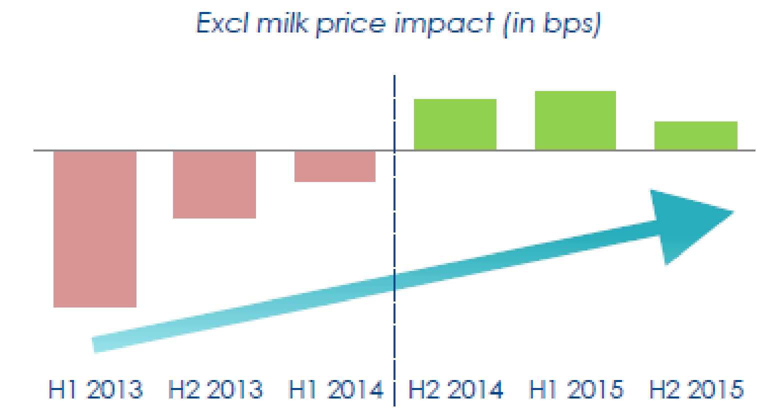
The group has implemented new supply measures and identified EUR100m in savings out to 2020.

- **…is incentivising its managers on margin improvement**

Previously management incentives were only focused on top-line performance.

The first results are promising. Volumes showed a sequential improvement over 2015 and organic sales returned into positive territory in Q3 2015. This performance is satisfying given that the environment proved to be unfavourable with the significant deflation in the price of milk. Yogurt sales should be up 1.9% in 2016, accelerating vs 2015 (+0.6%). In 2015, the group posted an increase in the gross margin of yoghurts in Europe which exceeded the short-term gain in milk prices.

Fig. 15: Change in gross margin in Europe excluding the impact of milk prices



Source: Danone

The EBIT margin of the yoghurts division rose for the first time in 2015 (+24bps in organic) after three years of decline. 2016 should see an acceleration in the margin improvement as Danone continues to reap the benefits of the reorganisation of its operations, and milk prices are still very low (they are anticipated to stabilise by the end of the year). In the middle of June 2016, the company revised upwards its group's EBIT guidance for 2016. Guidance is now for a 50/60bps organic increase (our estimate: +52bps). Previously, the group was expecting a "solid" improvement, with "solid" meaning higher than in 2015 (+17bps in organic).

We think the acquisition of WhiteWave put in danger the improvement of the yoghurts performance as there is still a lot of work to do (Activia has not even been relaunched) and we do not think Danone's management will be able to handle everything. Besides, a cannibalization of Danone's products by WhiteWave is possible.

3. Challenge 2: Chinese baby food

The regulation of the infant formula industry is a risk for Danone, as it is for other players. But we believe that the company is in a worse position than its peers due its overexposure to cross-border C2C. Our understanding is that there should be a shrinkage of this channel. It accounts for an estimated 7% of the group's EBIT.

3.1. Regulation of infant milk industry

In China, the public authorities are increasing their control over the infant milk industry, consistently with their key priorities around food safety and fair competition between channels. **They have already announced a number of regulatory changes:**

- **Registration.** All infant formula sold in China must be accredited with a formula registration certificate by the CFDA (China Food and Drug Administration), including those sold through cross-border e-commerce (CBEC). The registration dossier should include: 1/ an application form, 2/ quality safety standards for raw and auxiliary materials, 3/ R&D report for the IF recipe, 4/ production process description, 5/ test report, 6/ supporting documents for proving R&D, production and testing abilities, and 7/ other supporting documents for demonstrating the science and safety of the recipe. In addition to pre-market approval testing, they should test every batch of infant formula products shipped out of the factories.
- **The recipe registration rule.** Both domestic and overseas infant formula manufacturers can only hold three series – infant formula (0-6 months, stage 1), formula for elder infants (6-12 months, stage 2) and formula for young children stage 1 (12-36 months, stage 3)– and can only market three recipes for each series. The differences between the recipes must be significant and supported by solid scientific evidence.
- **More specific and stricter requirements for infant formula labelling**:
  - ✓ If a product name includes an animal source (goat, cow…), the types of raw material such as raw milk, milk powder and whey protein should be indicated in the ingredient list. If the raw materials used are derived from two animals, the percentage of each should be marked in the ingredient list.
  - ✓ Edible vegetable oils used should be listed in descending order of weight in the ingredient list.
  - ✓ In the nutrition information table on the label, the nutrients should be listed in the order they appear in the national standards GB 10765-2010 and GB 10767-2010, categorised by energy, protein, fat, carbohydrate, vitamins, minerals, optional ingredients…
  - ✓ The country of origin of milk has to be specified. Blurring terms like "imported milk source", "from foreign ranch", "environmentally friendly ranch", "imported raw materials"…are no longer allowed to be used.

More reforms are likely. The new regulatory framework should be in place at the beginning of 2018.

3.2. Regulation of cross-border e-commerce

In China, the surge of CBEC was impressive. The percentage of online shoppers who have cross-border shopping experience was 63% in 2015 vs 32% in 2014 and 2013. Their reasons are variety of products and high quality demands.

Fig. 16: % of online shoppers who have a cross boarder shopping experience

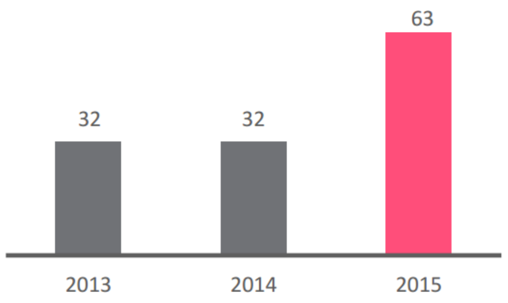
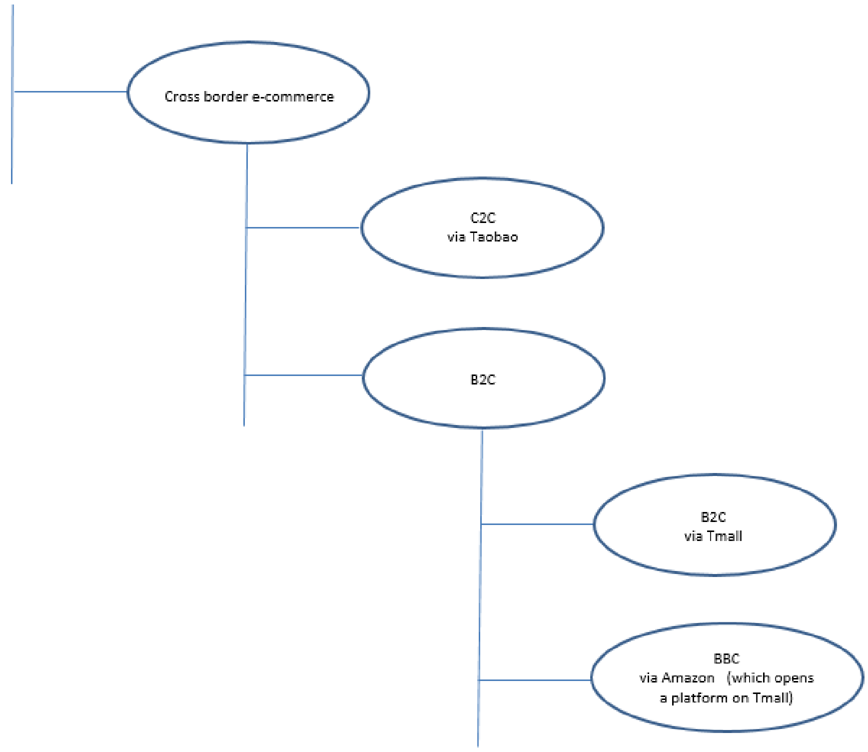


Fig. 17: Reasons for cross border online shopping (%)

Source: Nielsen

CBEC is made up of C2C and B2C. C2C transactions remain the majority and are mainly performed through Taobao. Amazon and Tmall are the favoured platforms for B2C.

Fig. 18: Organisation of CBEC



Source: Bryan, Garnier & Co

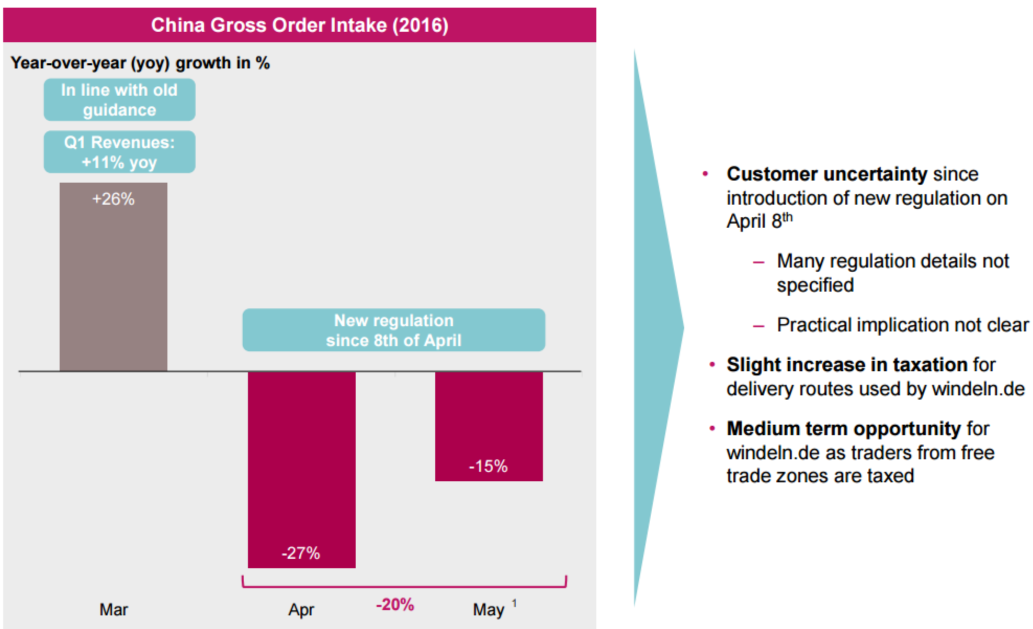
We have always been convinced that the Chinese government would at some point regulate CBEC better, but the recent regulatory/tax changes have increased our concerns:

- Under the reforms mentioned above, registration of infant formula products sold through CBEC will be required from January 2018.
- **A Circular on Tax Policy** has been released and changes the tax policies that had been applied to CBEC imports. A combination of import duty/consumption tax/VAT has replaced passenger parcel tax which was the main tax for CBEC. CBEC infant milk formula products are now taxed at 15% for C2C and 12% for B2C. Tax payable for products under RMB50 is no longer exempt for B2C.
- **The Chinese government issued a "positive list".** Only products that are listed on the positive list and compliant to Chinese regulations can pass China's customs and clearance. So far, infant formula is included.

3.3. Impact on the market

The current disruption of the market is related to uncertainty. At the moment, there is a reluctance to purchase among Chinese consumers as details of the revised regulation and its practical effect have yet to be clarified. It has impacted exporters to China and businesses distributing on China's CBEC (Alibaba, Tmall, JD Global…). The Chinese local player, Synutra, reported weak results, with Q4 sales down 21.8%. The e-commerce website, Windeln, gave a profit warning on May 18th, mentioning that "Chinese consumers are holding back their foreign purchases". The company's gross order intake from China dropped 20% in April and May. The company said that it now expects China to be flat in 2016 vs previous guidance of growth of 33%.

Fig. 19: Windeln: The regulation in China led to a significant impact on the business in April and May



1 May numbers extrapolated based on data until May 19.

Source: Windeln.de

In the medium term, the first practical consequence of the new regulation should be an increase in costs as a result of the tax hikes and the registration process. This should reduce the cost disparity between internet and brick and mortar retailers and may drive smaller players out of the infant milk market. Around 2,000 players have entered this highly profitable industry due to the decrease in milk prices. The Chinese government has already chosen eight local companies to be champions and lead the consolidation within the industry.

The second consequence should be a shrinkage of the grey market. There was no specific mention on how the authorities will deal with parallel imports. But the increased scrutiny of the Chinese authorities makes us really cautious. There is no secret that the new set of regulations are particularly aimed at reducing uncontrolled shipments of goods into China by unauthorised traders.

3.4. Impact on Danone

The regulation of the infant formula industry is a risk for Danone, as it is for other players. **But we believe that the company is in a worse position than its peers due its overexposure to cross-border C2C. The latter accounts for an estimated 7% of the group's EBIT. Danone's Chinese infant business rebounded after the Fonterra alert (2013) as the group was the principal beneficiary of the exceptional growth in cross-border C2C transactions.** This growth was driven by Chinese parents wanting non-Chinese brands bought abroad.

In the short-term, there is the risk of a sharp deceleration in the Early Life Nutrition trend as C2C traders are more careful about their inventories until they have further clarity on what the end game will be. This adds volatility and creates a lack of visibility into H2.

In the medium term, there a risk around the transfer of C2C sales into B2C sales. Danone reiterated many times that it is working on the transfer but it did not provide any details and we have no idea how quickly it can do it. We believe that the group will be unable to complete the transfer at 100% as it will lose the price advantage. Even if we are wrong, the margin will probably be lower due to higher costs. Besides, we do not see how the group will be able to maintain its 50% market share in e-commerce as the B2C market is going to be much more fragmented than the C2C market. Part of the leading position Danone enjoys on C2C is explained by the reluctance of its competitors to sell through this channel.

We expect 5% organic sales growth for Early Life Nutrition in 2017 and 2018. This is below the company's mid-term objective (7-10%).

4. Downgraded to Neutral

The group expects to generate very significant synergies of USD300m which are made up of 75% of cost synergies and 25% of growth synergies. Cost synergies should arise from scale in sourcing, supply chain optimisation, and fixed cost efficiencies while revenue synergies will arise from the acceleration of the existing platforms and the combination of R&D and technology. 85% of the synergies will be achieved in the US. During the call, the CFO indicated that most of the synergies should be realised by the end of 2018. **More details about the cost synergies would have been appreciated: they seem ambitious given the limited overlap.** They represent 8% of WhiteWave 2015 net sales and 80% of 2015 EBIT.

We include the acquisition of WhiteWave in our model. We assume the company is consolidated in 2017. In year 1, this acquisition will increase Danone's sales and EBIT by respectively 17.2% and 13.7%. We nudged up our organic sales growth assumptions (+40bps in 2017 and +50bps in 2018). Danone indicated that it expects the acquisition to boost group's organic sales growth by 50/100bps. By fully taking into account the synergies of USD300 (we assume 75% will be realized by the end of 2018), **we calculate that the acquisition has a total accretive impact of 11% on EPS in 2020.** This is not surprising given the low interest rates. **We raise our 2016-2018 EPS estimates by an average of 4%.**

Fig. 20: Change in estimates

	2016e		2017e		2018e	
	old	new	old	new	old	new
Sales	21 785	21 785	22 722	26 621	23 792	28 000
Organic sales growth	*3.2%*	*3.2%*	*4.5%*	*4.9%*	*4.7%*	*5.2%*
EBIT	2 978	2 978	3 183	3 698	3 388	4 056
Margin	13.7%	13.7%	14.0%	13.9%	14.2%	14.5%
Adjusted EPS	3.02	3.0	3.26	3.40	3.51	3.84
Revision of EPS		*-1%*		*+4%*		*+9%*

Source: Bryan, Garnier & Co

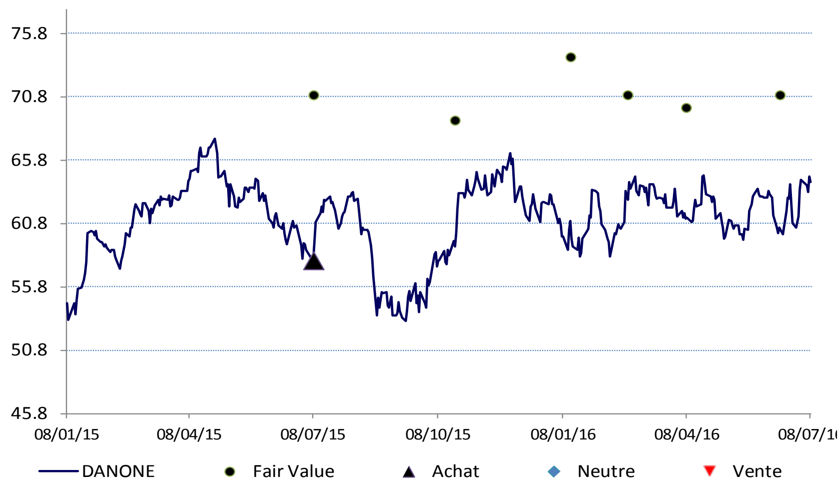
The financial situation of Danone has deteriorated strongly with the acquisition of WhiteWave. The deal will be financed entirely with debt. **The net debt of the company will reach EUR18bn, implying a net debt/EBITDA ratio of 4.0x in 2017.** Danone expects to maintain its investment grade status after discussions with rating agencies. The rating has been downgraded by S&P from A- to BBB+. It is possible that the group disposes some of the acquired business in order to deleverage. Fresh salad (15% of group's sales) do not seem to be core.

Our beta rises from 0.82 to 0.95 as a result of this higher risk. Our Fair Value is decreased to EUR67 and we downgrade our recommendation to Neutral.

Of note, the H1 2016 results should be strong. We expect organic sales to increase 3.8% in Q2, Life Nutrition. Fresh Dairy Products should post 2.8% organic sales growth in Q2 (+2.3% in Q1) mainly thanks to an improvement in volumes in Europe. Management also indicated that Q2 should be above Q1 for Early Life Nutrition. Our estimate is for 6% organic sales growth. Despite some deleveraging impact from water in China, Danone should post a substantial improvement in its EBIT margin (our estimate: +75bps). The company is benefiting from the favourable milk price environment and the group's initiatives in terms of rationalisation of the portfolio and cost efficiencies. The comparison base in the first half of the year is also very easy as last year was impacted by a fire in a factory and the Dumex adaptation plan.

Price Chart and Rating History

Danone



Ratings

Date	Ratings	Price
08/07/15	BUY	EUR58.09
27/07/11	end of coverage	EUR99
16/06/11	BUY	EUR51.38
19/03/10	SELL	EUR43.58

Target Price

Date	Target price
07/07/16	Under review
15/06/16	EUR71
07/04/16	EUR70
24/02/16	EUR71
13/01/16	EUR74
20/10/15	EUR69
08/07/15	EUR71

Page left blank intentionally

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 57.4% NEUTRAL ratings 33.1% SELL ratings 9.5%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

Summary of Investment Research Conflict Management Policy is available www.bryangarnier.com

BRYAN, GARNIER & CO

London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

Important information

This document is classified under the FCA Handbook as being investment research (independent research). Bryan Garnier & Co Limited has in place the measures and arrangements required for investment research as set out in the FCA's Conduct of Business Sourcebook.

This report is prepared by Bryan Garnier & Co Limited, registered in England Number 03034095 and its MIFID branch registered in France Number 452 605 512. Bryan Garnier & Co Limited is authorised and regulated by the Financial Conduct Authority (Firm Reference Number 178733) and is a member of the London Stock Exchange. Registered address: Beaufort House 15 St. Botolph Street, London EC3A 7BB, United Kingdom

This Report is provided for information purposes only and does not constitute an offer, or a solicitation of an offer, to buy or sell relevant securities, including securities mentioned in this Report and options, warrants or rights to or interests in any such securities. This Report is for general circulation to clients of the Firm and as such is not, and should not be construed as, investment advice or a personal recommendation. No account is taken of the investment objectives, financial situation or particular needs of any person.

The information and opinions contained in this Report have been compiled from and are based upon generally available information which the Firm believes to be reliable but the accuracy of which cannot be guaranteed. All components and estimates given are statements of the Firm, or an associated company's, opinion only and no express representation or warranty is given or should be implied from such statements. All opinions expressed in this Report are subject to change without notice. To the fullest extent permitted by law neither the Firm nor any associated company accept any liability whatsoever for any direct or consequential loss arising from the use of this Report. Information may be available to the Firm and/or associated companies which are not reflected in this Report. The Firm or an associated company may have a consulting relationship with a company which is the subject of this Report.

This Report may not be reproduced, distributed or published by you for any purpose except with the Firm's prior written permission. The Firm reserves all rights in relation to this Report.

Past performance information contained in this Report is not an indication of future performance. The information in this report has not been audited or verified by an independent party and should not be seen as an indication of returns which might be received by investors. Similarly, where projections, forecasts, targeted or illustrative returns or related statements or expressions of opinion are given ("Forward Looking Information") they should not be regarded as a guarantee, prediction or definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and will differ from assumptions. A number of factors, in addition to the risk factors stated in this Report, could cause actual results to differ materially from those in any Forward Looking Information.

Disclosures specific to clients in the United Kingdom

This Report has not been approved by Bryan Garnier & Co Limited for the purposes of section 21 of the Financial Services and Markets Act 2000 because it is being distributed in the United Kingdom only to persons who have been classified by Bryan Garnier & Co Limited as professional clients or eligible counterparties. Any recipient who is not such a person should return the Report to Bryan Garnier & Co Limited immediately and should not rely on it for any purposes whatsoever.

Notice to US investors

This research report (the "Report") was prepared by Bryan Garnier & Co Limited for information purposes only. The Report is intended for distribution in the United States to "Major US Institutional Investors" as defined in SEC Rule 15a-6 and may not be furnished to any other person in the United States. Each Major US Institutional Investor which receives a copy of this Report by its acceptance hereof represents and agrees that it shall not distribute or provide this Report to any other person. Any US person that desires to effect transactions in any security discussed in this Report should call or write to our US affiliated broker, Bryan Garnier Securities, LLC. 750 Lexington Avenue, New York NY 10022. Telephone: 1-212-337-7000.

This Report is based on information obtained from sources that Bryan Garnier & Co Limited believes to be reliable and, to the best of its knowledge, contains no misleading, untrue or false statements but which it has not independently verified. Neither Bryan Garnier & Co Limited and/or Bryan Garnier Securities LLC make no guarantee, representation or warranty as to its accuracy or completeness. Expressions of opinion herein are subject to change without notice. This Report is not an offer to buy or sell any security.

Bryan Garnier Securities, LLC and/or its affiliate, Bryan Garnier & Co Limited may own more than 1% of the securities of the company(ies) which is (are) the subject matter of this Report, may act as a market maker in the securities of the company(ies) discussed herein, may manage or co-manage a public offering of securities for the subject company(ies), may sell such securities to or buy them from customers on a principal basis and may also perform or seek to perform investment banking services for the company(ies).

Bryan Garnier Securities, LLC and/or Bryan Garnier & Co Limited are unaware of any actual, material conflict of interest of the research analyst who prepared this Report and are also not aware that the research analyst knew or had reason to know of any actual, material conflict of interest at the time this Report is distributed or made available..