Danone shares rise as activist investor starts piling on the pressure

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By Lina Saigol

Danone's share price has lagged behind rivals Nestlé and Unilever

Danone chairman and CEO Emmanuel Faber.
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BN +0.85% OKFX -0.78% DANOY -2.51% SX3P +0.16% NESN +0.75%
ULVR -0.42% LHA -3.67% BOSS -3.58% CINE +1.66% CGX -1.75%

A London-based activist investor is calling for Danone to replace its chairman and chief executive Emmanuel Faber, following what it says has been a "disappointing" share-price performance under his leadership at the multinational food and drinks group.

In a letter sent to Michel Landel, lead independent director at Danone **BN, +0.85%**, on Nov. 19, Bluebell Capital Partners urged the company's board to start the search for a new chief executive and recommended that the chairman and CEO roles be split.

"The underperformance of Danone's share price has been driven, in our view, by a combination of poor operational track record and questionable capital allocation choices," Bluebell wrote in the letter, a copy of which has been seen by MarketWatch.

Based in Paris, Danone **0KFX, -0.78%** sells a portfolio of well-recognized products, which range from Danone — Dannon in the U.S. — yogurt brands, including Actimel and Activia, to Evian bottled water, and baby milk formulas, including Cow & Gate, to more than 130 countries across Europe, America, Asia and Africa.

Since Faber took over in 2014, Danone **DANOY, -2.51%** has delivered total shareholder returns of 21% compared with 56% for the Stoxx Europe 600 Food & Beverage **SX3P, +0.16%** index, 97% for Nestlé **NESN, +0.75%** and 101% for Unilever **ULVR, -0.42%**, Bluebell noted.

"In our view, this fails to reflect the quality of the group assets," Bluebell said in the letter, which was first reported by French business magazine Challenges.

Shares in Danone were up 2.16% on Tuesday in midmorning European trading.

Bluebell declined to comment. It hasn't disclosed the size of its stake in Danone, which would need to be reported to France's financial regulator if it passed the 5% threshold.

"We value constructive dialogue with all our shareholders. The leadership team of Danone is highly focused on delivering long-term sustainable value for our shareholders," a spokesperson for the company said in an emailed statement to MarketWatch.

In November, Faber announced a reorganization designed to reshape Danone for the post-COVID world.

Read: Danone to sell assets and shake up its management to cope with pandemic

This included cutting up to 2,000 jobs, or 2% of its global workforce, and carrying out a strategic review its portfolio of brands, which it said would start with Vega, the plant-based protein powders brand it acquired as part of its $10.4 billion takeover of U.S. organics food producer WhiteWave, as well as €500 million ($680 million) worth of assets in Argentina. Together, the two businesses account for about 2% of group sales.

"The first stage of this plan includes an ambitious adaptation plan to return Danone to profitable growth in less than 12 months, as soon as H2 2021 and for our recurring operating margin to return to its pre-COVID levels at more than 15% by 2022," the spokesperson for the company said.

It will update investors on how it plans to accelerate profitable sales growth toward its midterm objectives on Mar. 25.

Read: Nestlé Could Sell Most of Its North American Water Brands. Finding a Buyer May Fall Flat.

Analysts at Barclays said investors would want clarity on Danone's water division, which was down 28% in the second quarter of 2020 and 13% in the third quarter, as the COVID-19 pandemic shut down bars and restaurants — a key revenue stream. Rival Nestlé announced a strategic review of its North American water brands in June last year, as it looks to focus on premium brands.

"We think it is imperative that management provide confidence that margins can quickly return to double digits. The new lockdown restrictions are likely to mean that the margin recovery might take longer," said the equity research team at Barclays.

Bluebell also highlighted its concerns over Faber's dual-focus on financial performance and environmental and social goals, claiming the company "Did not manage to strike the right balance between shareholder value creation and sustainability."

Read: What Danone's CEO Says About Health Food and Having a Mission

In June 2020, Danone became the first listed company to adopt the "Entreprise à Mission" status in France, which officially embeds environmental, social and governance goals (ESG) in the company's bylaws.

Bluebell isn't the first activist to amass a stake in Danone. In 2012, Nelson Peltz's Trian Partners built a 1% holding in the company in the company and agitated for change, selling the stake a year later after then chief executive Franck Riboud departed the company. Five years later, activist hedge fund Corvex, run by Keith Meister, took a $400 million stake in the French group, "but again it didn't really change anything," said Barclays analysts.

However, they noted that Bluebell, which is run by the former chief executive of Italian jeweler Bulgari, Francesco Trapani, together with ex-investment bankers Giuseppe Bivona and Marco Taricco, has had some success agitating for change in other companies such as airline Lufthansa **LHA,** -3.67% and luxury-fashion house Hugo Boss **BOSS,** -3.58%.

In March last year, the fund opposed the proposed $2.1 billion acquisition by Regal-cinema owner Cineworld **CINE,** +1.66% of Toronto-based rival Cineplex **CGX,** -1.75%.

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