

COMPANIES & MARKETS

Danone's activist coup reveals tricky quest to match ESG goals with profits

Investors say ousted chief should have followed rival Nestlé's lead as he sought to reconcile targets

LEILA ABOUD — PARIS

Emmanuel Faber's seven years at the top of Danone ended at about 1:30am on Monday after a marathon virtual board meeting during which he battled to keep his job.

As the French consumer goods group rapidly installed two joint interim chief executives, Faber's demise appeared to fit into a straightforward narrative.

It was a victory for the activist funds which since January have laid siege to Danone, pushing for a radical overhaul to fix what they called chronic under-performance.

But it marked a loss for those who prized the 57-year-old as a powerful advocate of the view that businesses must become more sustainable and forge a purpose alongside making profits. "His legendary leadership in promoting stakeholder capitalism and ESG should be remembered among all who supported those philosophies," tweeted Hiro Mizuno, former head of Japan's pension funds who serves on a Danone oversight committee.

But the saga at Danone is more complicated than a simple clash of greedy capitalists versus idealists, according to the investors, company executives and advisers involved. It comes at a critical juncture in the evolution of "purpose-driven" capitalism, as companies face pressure to hardwire efforts to combat climate change or improve public health into their operations.

Faber, a mountaineer and ascetic who eats little meat, is an advocate of a "humanist" capitalism, as he laid out in a speech at French business school HEC in 2016. He told a story about the death of his schizophrenic brother and how it had shaped his view that, "without social justice, there is no more economy". He concluded by asking the students, "Who is your brother?" — to call them to find their higher purpose.

But at the same time the charismatic executive, who joined Danone in 1997, was a demanding boss who churned through his top managers, according to people familiar with the matter. After initially pledging to protect jobs and boost employee benefits when Covid-19 hit, Faber announced a plan in October to slash 2,000 jobs, mostly in France.

Although he talked up Danone brands such as Evian bottled water and Activia yoghurt, Faber presided over cuts to advertising budgets — the lifeblood of consumer products — keeping them below the sector average, according to analysts at Bernstein.

Meanwhile, the board was complacent over a share price performance that lagged behind rivals such as Nestlé and Unilever, and did little as Faber cut annual profit forecasts three times in seven years, according to people familiar with the matter. Its oversight of management was hampered by poor governance, they said.

Faber had held both the chair and chief executive roles since 2017, and a quarter of the board seats are occupied by former executives, including Franck Riboud, the former chief executive and son of Danone's spiritual founder Antoine Riboud.

One of Faber's signature moments came last June, when shareholders voted to enshrine Danone's status as an *entreprise à mission*, or purpose-driven company, into its corporate bylaws.

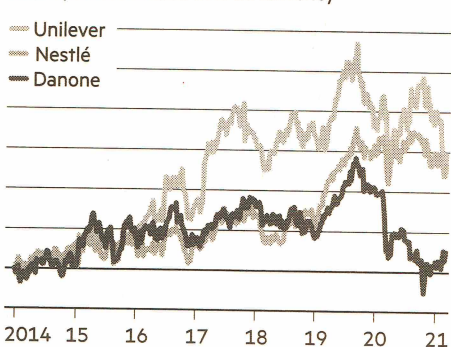
In doing so, Danone made official an internal culture that began in 1972 when Antoine Riboud declared that business had a responsibility to further social progress beyond "the factory gate or the office door".

"It is all well and good to topple the statue of Milton Friedman," said one adviser, referring to Faber's declaration at the time that the vote was a repudiation of the US economist's view that the



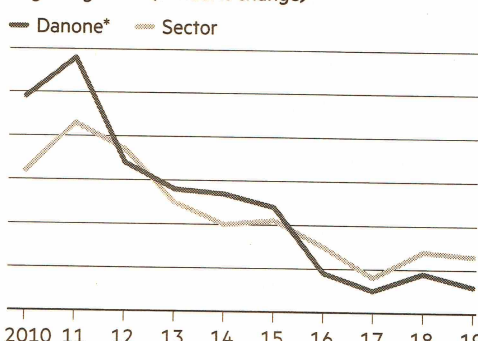
Danone has lost ground to rivals under Faber

Share prices rebased in local currency

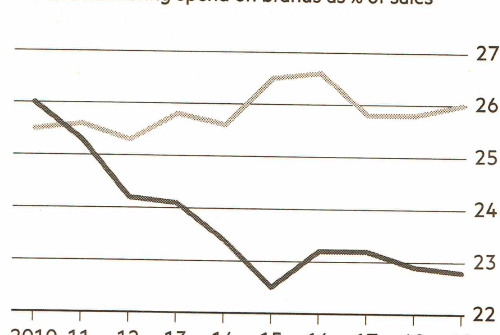


* Includes adjustment for impact of WhiteWave acquisition in 2017
Sources: Refinitiv, Bernstein

Organic growth (annual % change)



Ad and marketing spend on brands as % of sales



Emmanuel Faber talked up Danone brands such as Activia yoghurt but presided over cuts to advertising budgets, keeping them below the sector average

Thibault Camus/AP; Simon Dawson/Bloomberg

social responsibility companies have to make profits. "You can do that when your financial performance is better than competitors and your governance is above reproach, but if they aren't, then it is going to be a problem."

Further muddying any simple narrative is that the funds that called for Faber to go claim that they did not oppose Danone's work on environmental and social issues.

"Faber was trying to use sustainability as part of his defence," said Nicolas Ceron of Blue Bell Capital. "But we never called into question Danone's ESG investments, and we care a lot about these topics... Their competitors like Nestlé and Unilever also make ESG a priority, yet have better financial results. Our issue with Faber was not ideological but operational."

Ioannis Ioannou, who teaches at London Business School and advises asset managers on sustainability, said the saga showed the need to develop new ways to assess performance as companies tackled broader goals beyond maximising profits. "There is a need to develop new metrics to judge compa-

nies and management, and investors want more transparency and reliable data on ESG," he said.

Danone is far from being the only company struggling to chart this course. Orbia, a Mexican conglomerate, dismissed its chief executive and reversed his plan to make the business more green by selling the vinyls division that drove profits.

At Danone, Faber had begun to address the sagging share price by promising last year to sell slow-growing brands, cut €1bn in costs and embark on a reorganisation, dividing the group along geographical lines instead of categories.

But Faber's hand was weakened by the pandemic. Danone's businesses in dairy and yoghurts, baby formula and bottled water have been hit hard by lockdowns while pushing up costs.

Nor does it sell household cleaning products, which have turbocharged the performance of consumer goods groups such as Reckitt Benckiser and Procter & Gamble. "They have massively underperformed when every other grocery staple business has enjoyed a boom," said one banker in the sector.

The attacks from shareholders picked up pace last month. US fund Artisan Partners, Danone's third-largest investor, urged the board to ditch Faber, halt the reorganisation and sell more assets. The messenger was notable: Artisan's adviser was Jan Bennink, who spent years in Danone's dairy and medical nutrition businesses and knew some board members including Riboud.

As the crisis deepened, the board was split on what to do, according to people familiar with the matter. Leaks proliferated in the media as different factions on the board jostled.

'There is a need to develop new metrics to judge companies and [boards]'

By early March, Danone thought it had a solution that would end the fight with activists. The chair and chief executive roles, both then held by Faber, would be split and a new chief executive recruited, it announced. Faber would remain chair and his strategy and plan for the group would be maintained.

The fragile attempt at compromise lasted barely two weeks, with shareholders alarmed that any new chief executive would be hamstrung with Faber as chair. The activists began laying the groundwork for challenging the board at Danone's April shareholder meeting.

It would not come to that. At the meeting on Sunday, Gilles Schnepp, former chief executive of industrial group Legrand who joined the Danone board in December, was named chair and will lead the search for a new chief executive.

Warren Ackerman, an analyst at Barclays, said the boardroom coup would usher in a new era at Danone. But he cautioned that the task for the new boss would be challenging and any turnaround could take up to two years.

"Danone needs to restore competitiveness in many parts of their business where they have been losing share," he said. "It will be important to get a really big name as CEO that will make investors sit up and take notice."

In his first public comments since his exit, Faber late on Tuesday tweeted a thank you to the staff at Danone "who every day bring the mission to life".

Even without him, few people who know Danone expect it to abandon the pursuit of ideals that took root with Riboud decades ago.

Additional reporting by Arash Massoudi
See FT View

