BusinessWeek

Europe, September 21, 2007, 3:07PM EST

Nestlé Has a Winning Team

Shares of the Swiss food giant rebound after passed-over CFO Polman confirms he'll stay on with Nestlé veteran Bulcke as the chief

by Carol Matlack

Could Nestlé (NESN.F) have a winning recipe after all? Yes, shares in the world's biggest food company sank more than 3.5% on Sept. 20, on news a longtime Nestlé executive, Paul Bulcke, 53, would replace Peter Brabeck as chief executive next April. The announcement surprised Nestlé-watchers who had expected the job to go to Chief Financial Officer Paul Polman, a relative newcomer who has won plaudits for his push to boost operating margins.

But analysts were relieved, and on Sept. 21 the stock regained about one-third of the ground it had lost, when Polman confirmed he'll stay on as CFO of the $83.6 billion Swiss-based company. The strengths of Polman, a veteran Procter & Gamble (PG) executive, are a good complement to those of Bulcke, a skilled manager and strategic thinker, says ***James Amoroso***, an analyst with the brokerage Helvea in Geneva. "It's the very best of both worlds," ***Amoroso*** says.

Polman, who arrived at Nestlé in 2005, had impressed investors with his candor about the need to improve efficiency in the company's far-flung empire. On his watch, Nestlé has improved operating margins that historically lagged its rivals'. In first-half results reported on Aug. 15, margins grew to 13.5%, not far behind those of competitors Danone (DANO.PA), Kraft (KFT), and Unilever (UN).

CEO Choice 'Has Delivered Results'

Yet Bulcke shares in the credit for that improvement. Margins in the Americas region — which he has overseen for the past four years — grew faster than in any other region, to 14.5% during the first half.

Bulcke also spearheaded Nestlé's recent acquisition of baby-food maker Gerber, which is expected to accelerate the company's push into higher value-added specialty nutrition products (BusinessWeek.com, 6/22/06). In choosing Bulcke, Brabeck told analysts during a conference call on Sept. 21, "We have chosen the man who has delivered results."

One reason for the market's early skepticism about Bulcke may be his relatively low profile. In contrast to the dynamic and charismatic Polman, he has rarely met with analysts and investors. But ***Amoroso*** says he is impressed by Bulcke's keen understanding of the company and the food industry. "He is deliberate and thoughtful, but when he makes a decision, it is going to be quick," the analyst says.

Matlack is *BusinessWeek*'s Paris bureau chief.

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