

## UPDATE: Lindt 1H Oper Profit Margin Up; Input Costs Weigh

ZURICH (Dow Jones)--Swiss premium chocolate producer Chocoladefabriken Lindt & Spruengli AG (LISN.EB) Tuesday reported a 4.6% rise in first-half net profit - despite higher raw material prices, adverse currency effects and sluggishness in some markets - and reiterated its medium-term goals.

Net profit for the January-to-June period rose to 22.9 million Swiss francs (\$20.8 million) for the first half from CHF21.9 million in the year-ago period, broadly in line with analyst expectations of CHF22 million.

Lindt, which sells a variety of milk and dark chocolate products under the Lindor, Excellence and Ghirardelli brands, generates most of its profit in the second half.

Half-year sales rose 3% to CHF1.17 billion from CHF1.14 billion, below expectations of CHF1.19 billion. The closely-watched organic growth rate was 7.9%, below the 13% plus increase the company posted last year.

Operating profit growth was 12%, clearly above the increase in the top line, due to efficiency programs. In addition, the fall of the dollar against the Swiss franc had a positive effect on the cost side by helping to keep personnel costs under control despite rising employee numbers, Lindt said.

The company reported a 30-basis-point rise in the first-half operating profit margin. It confirmed its medium-term guidance of an organic sales growth of 6% to 8% and an operating profit margin improvement of 20 to 40 basis points.

For full-year 2008, the organic growth rate should be 8% to 10%, above the firm's 7.9% growth rate in the first half, Chief Executive Ernst Tanner told Dow Jones Newswires in a telephone interview. "We've grown 7.9% in organic terms in the first half, which is already strong if you consider the currency impact and a negative economic environment in some parts. We see an improvement in consumer spending in some markets such as the U.K. in the second half," Tanner said.

Analysts have said the recent rise in raw material prices, particularly cocoa, and tough comparative figures put the bar high for this year's interim report. Seasonal factors such as a very early Easter also depressed the top line, because of fewer selling days compared with the year-ago period.

Lindt's premium positioning and business model provides a good base for continuous gains in market share, said *James Amoroso* of consultancy *Amoroso*. "Most of Lindt's products are given as gifts, and you don't cut down on such expenses even when times are tough," he noted.

Lindt also had to compete against heavy price competition from rivals such as Kraft Foods Inc. (KFT), which in Germany cut the price for its Milka brand products by close to 30% in the first half, *Amoroso* said.

The company's first-half report showed a positive profit trend, Bank Vontobel analyst Claudia Lenz said, pointing to the clear increase in the operating margin to 2.9% from 2.6%. She has a hold rating and a CHF32,000 price target.

Investors liked the company's news and pushed its shares higher in a lower Swiss market. At 1100 GMT the Lindt & Spruengli certificate - the more liquid of its two share categories - was up 2.7% or CHF71 at CHF2708.

Earlier this year, Lindt announced a three-year investment program totaling more than CHF750 million to improve manufacturing processes and innovation. Part of the money will be used for a new factory in the U.S., a move allowing it to become less susceptible to swings in the dollar.

In the fourth quarter of 2009, new capacity at Lindt's factory in New Hampshire will allow it to produce well over half of its U.S.-sold items locally, Tanner said.

Company Web site: <http://www.lindt.com>

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