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Lindt 1st Half Net Down 88%, Fails To Offset Cost Rise

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ZURICH -(Dow Jones)- Swiss chocolate maker Chocoladefabriken Lindt & Spruengli AG (LISN.EB) Tuesday revealed that it had suffered from a failure to raise prices late last year to offset higher cocoa prices, underperforming rivals with an 88% drop in net profit and lower overall sales.

The company, which specializes in quality milk and dark chocolates marketed as gifts, said it would boost advertising in the second half to try and win more market share, while cost cutting should lift profitability.

"We will invest into marketing, primarily in the U.S. and in Europe, and we expect this to translate into substantial market share gains," said Chief Executive Ernst Tanner. "We are debt-free so we can afford it, contrary to some of our rivals."

Lindt, best known for its Lindor, Excellence and Ghirardelli brands and the chocolate bunnies wrapped in gold foil, said net profit fell to 2.7 million Swiss francs ($2.5 million) in the six months to June 30, from CHF22.9 million a year earlier as sales fell to CHF979 million from CHF1.03 billion. The bottom line was also hit by CHF22.2 million in charges for closing shops in the U.S. and an impairment on a warehouse in Italy.

Organic sales growth, which excludes acquisitions and currency fluctuations, was 0.2%, below analysts' expectations for growth of between 1% and 4% and clearly lagging rivals like Cadbury PLC (CBRY.LN) and Nestle SA (NESN.VX).

"Lindt merely missed its chance last year when such price increases would have been readily accepted, as was the case for Cadbury, Nestle, Hershey Co. (HSY) and the others," said food industry analyst James Amoroso, who thinks the strength of the Lindt brand remains intact.

He said he doesn't expect the company to face any pressure from private label manufacturers because "consumers love Lindt products and they are not expensive relative to what they deliver."

Chocolate makers have reported fairly resilient sales during the economic downturn as consumers have kept spending on groceries. Earlier this year, Cadbury CEO Todd Stitzer described the company as "recession resilient...not recession proof."

CEO Tanner said Lindt had waited to see whether cocoa prices stabilized rather than rushing to raise product prices.

"We have refrained from doing this (raising product prices) partly on purpose because cocoa prices are all over the place currently. But we expect the speculative element to disappear within 12 months or so," he said.

World cocoa prices hit 23-year highs at the end of 2008, although they have since dropped back as demand has waned due to the recession.

Lindt repeated its guidance for organic sales growth of 2%-5% and earnings before interest and taxes of between CHF260 million and CHF280 million for the full year. It lowered its goals in March when it announced a restructuring program that included shutting down regional shops in the U.S. to focus on a few flagship stores.

Zuercher Kantonalbank analyst Patrik Schwendimann, who recently upgraded the stock to market outperform from market perform, said he expects the company to return to an organic growth rate of 6%-8% from 2011 at the latest.

Tanner said he couldn't yet gauge how the important Christmas period might develop for Lindt. He said there are positive signs from individual customers, but wholesalers remain cautious.

On the Swiss bourse at 0925 GMT, the Lindt certificate, its more liquid security, was down CHF47, or 2%, to CHF2,266, in a lower general market.

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