

## UPDATE: Nestle Skips Growth Target; 1st Half Net Down But Margin Up

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By Martin Gelnar of DOW JONES NEWSWIRES

ZURICH -(Dow Jones)- Nestle S.A. (NESN.VX) Wednesday toned down growth expectations for the full year after posting worse-than-expected sales figures for the first half, while net profit remained above market views.

Nestle, the world's largest food and beverages producer by sales, skipped its previous guidance of organic growth "at least approaching 5%" for 2009. In the first six months, organic growth, a closely-followed performance measure comprising changes in selling prices and volumes, stood at 3.5%, down from 3.8% in the first quarter.

Net profit fell 1.9% to 5.1 billion Swiss francs (\$4.7 billion) from CHF5.2 billion a year ago, beating market expectations of CHF4.8 billion, while sales, down 1.5% to CHF52.3 billion from CHF53.1 billion, undershot analyst expectations of CHF52.8 billion.

However, Nestle managed to increase operating profit to CHF7.4 billion from CHF7.3 billion due to lower distribution costs.

Analysts welcomed the clear improvement in the operating profit margin to 14.1% from 13.8% but said volumes and pricing were a letdown.

"The market may be disappointed by the slight miss at the organic growth level, where Europe volumes remain weak," Kepler analyst Jon Cox said. He has a buy rating and a CHF50 target.

*The decline in the second-quarter organic growth rate to 3.2% is partly due to planned withdrawals from certain markets, such as ice cream, food industry analyst James Amoroso said.*

On the Swiss bourse at 0705 GMT, Nestle shares were down CHF1.44, or 3.3%, at CHF42.66 in a slightly lower general market.

Nestle said it expects volume-driven organic growth to accelerate in the second half. It continues to aim to improve the operating profit margin in constant currencies.

Nestle rivals such as Groupe Danone (BN.FR) and Unilever Plc (UN, UL) recently reported interim growth figures that mostly beat market expectations.

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

By Martin Gelnar, Dow Jones Newswires; +41 43 443 8042; [martin.gelnar@dowjones.com](mailto:martin.gelnar@dowjones.com)

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