

UPDATE: Nestle Ups Outlook; Eyes Bolt-On Acquisitions

ZURICH (Dow Jones)--Nestle S.A. (NESN.VX) Thursday upgraded its full-year outlook on better-than-expected growth figures for the first nine months and said it's still looking for smaller acquisitions to complement its portfolio.

The Vevey, Switzerland-based food and beverages giant, which produces brands such as Nescafe, KitKat and Maggi, said organic growth - an important industry performance measure including an increase in volumes and prices - was 8.9%, beating market expectations of 8.4%.

The bulk of the growth is due to price increases Nestle was able to push through, which is impressive given the current market environment, analysts said.

The company said it expects organic growth to stand around 8% for the full year, improving a previous guidance for around of 7.4%. It also aims to raise its margin on earnings before interest and taxes.

Sales for the first nine months rose 3.4% to 81.4 billion Swiss francs (\$69.8 billion) from CHF78.7 billion in the year-ago period which was in line with market expectations.

Chief Executive Paul Bulcke said at a media conference the company would be open to acquisitions, but said the focus remains on growing the portfolio organically. He denied media speculation that Nestle may be interested in acquiring North American chocolate and confectionary manufacturer Hershey Co. (HSY).

"We're not in talks with Hershey," he said.

Analysts welcomed the organic growth and the raised guidance.

Landsbanki Kepler analyst Jon Cox said Nestle was able to deliver, despite fears that pricing and volume growth would be weaker than expected. He reiterated a buy rating and CHF60 price target on the stock.

Given the its growth performance as of September, the 8.0% organic growth bar that Nestle has set for itself looks "achievable and beatable", said analyst Andrew Wood at Bernstein Research. He reaffirmed an outperform rating and price target of CHF58 on the stock.

On the Swiss bourse at 1045 GMT, Nestle shares were up 3.1%, or CHF1.32, to CHF44.22 in an overall lower general market.

The company said it used the proceeds of the partial sale of its eye-care company Alcon Inc (ACL) to cut its exposure to the short-term commercial paper market.

As a result, Nestle's net debt will be lower at the end of 2008 than at the end of 2007, when it stood at CHF21.2 billion.

Nestle has taken in \$10.4 billion in the past few months from the sale of a 24.9% stake in Alcon to Novartis AG (NVS), and will sell the remainder of Alcon to Novartis at a later stage.

Nestle said the continuation of an ongoing buyback program reflects its strong financial position. Earlier this year, Nestle accelerated a buyback scheme.

Categories such as milk products, ice-cream and pet food performed well while sales were down in Nestle Waters with the company acknowledging that "perceived environmental issues around bottled water" had a negative impact. Emerging markets in Asia and Latin America posted growth rates clearly above the group's average.

Nestle didn't report quarterly earnings.

On Wednesday, French dairy company Groupe Danone SA (BN.FR) reported a 31% increase in third-quarter sales EUR3.85 billion from EUR2.93 billion, and organic growth at 8.3%.

"It is the first time that Nestle has outperformed Danone convincingly on organic growth," **James Amoroso** of consultancy **Amoroso** said, noting that Nestle's third-quarter organic growth was 8.9%.

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

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