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UPDATE: Unilever 2Q Sales Beat Hopes, Volume Growth Returns

August 06, 2009: 04:41 AM ET

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(Adds comments from the CFO and an analyst)

LONDON -(Dow Jones)- Unilever PLC (UN, UL) Thursday beat expectations with its second-quarter results, as the consumer goods group's new focus on restoring volume growth bore quick results despite the tough consumer environment.

The maker of Ben & Jerry's ice cream and household products such as Dove, Lynx and Cif post a 1% annual rise in sales to EUR10.46 billion for its second quarter.

Stripping out acquisitions, disposals and currency movements, its second- quarter sales grew 4.1%, ahead of analysts' estimates. This measure of sales is closely watched because it's a directly comparable measure of how the company's products are selling.

One analyst described the results as "stunning" and by 0800 GMT, the company's shares were up 82 pence, or 5.3%, at 1627 pence, one of the biggest gains in the FTSE 100, which was up 1.1%.

New Chief Executive Paul Polman identified volume growth as his key focus for the group when he joined earlier this year. In previous quarters, the company had boosted sales by raising the prices of its goods, but in the second quarter volumes rose 2% when analysts' had been expecting a slight fall.

"I am encouraged by the return to volume growth across all regions and the majority of countries and categories," said Polman in a statement. "We continue to focus on restoring volume growth while protecting margins and cash flow for the year as a whole."

Unilever's sales and volume growth is particularly impressive given U.S. rival Proctor & Gamble Co (PG) reported a 1% fall in sales and a 4% decline in volumes over the same period.

Like other consumer goods companies, Unilever is being hit by the economic downturn, with sales rises in recent quarters only achieved through price rises. The 2% rise in volumes follows two quarters of volume declines and two flat quarters prior to that.

"I don't think there's any magic to it, it's about hard work, good innovations and increased advertising and promotional spend," said Chief Financial Officer Jim Lawrence on a conference call with reporters. "We have brought the company back to volume growth which will continue this year," he said.

Industry consultant James Amoroso said the company had clearly overdone its price increases late in 2008, hurting volumes.

"As promised, Polman has addressed this short-term issue and returned Unilever to competitiveness," he said.

Lawrence confirmed the company had cut prices where appropriate.

However, the higher volumes came at the expense of operating margin - which dipped 60 basis points - largely due to a 50 basis point rise in advertising and promotional spend in order to drive volumes.

The rise in advertising spend came despite Unilever being able to achieve much cheaper media rates than a year ago thanks to the downturn in the advertising industry.

Amoroso said Unilever had clearly been "extremely aggressive" with its advertising activities in the quarter. "This is unlikely to be sustainable or even desirable going forward," he said.

The company's net profit dropped to EUR758 million from EUR909 million a year ago, due to a combination of lower margins and higher finance and tax costs.

Unilever's margins are expected to receive a boost in the second half and in 2010 from a sharp drop in commodity pricing and the unwinding of hedges associated with them.

Company Web site: www.unilever.com

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