

COMPANIES INTERNATIONAL: Nestlé thrives on nutritional products

By Haig Simonian in Zurich, Financial Times
Published: Apr 24, 2007

Nestlé, the world's biggest food group, yesterday confirmed that its push into higher margin nutritional products was benefiting its corporate health with first-quarter sales figures well ahead of market expectations.

The company, which has spent \$8bn on acquisitions in order to boost its small but fast-expanding nutritional products division, forecast that its operating profit margins would increase this year in spite of "significant" increases in input prices, especially for agricultural raw materials.

The upbeat outlook reinforces signs of a transformation at Nestlé, which for years has tried to convince investors that it is more agile than its bulk suggests.

To underline its point, the group said organic growth this year would meet its 5-6 per cent target after a strong performance in all regions and product categories prompted a 6.4 per cent rise in first-quarter sales to SFr24.3bn (\$20.1bn). Nestlé does not report profit at the three-month stage.

More important, the robust performance came largely through higher sales rather than price increases.

Organic growth reached 7.4 per cent for the group, or 7.1 per cent for the core food and beverage businesses.

Only 1.7 percentage points of the group - or 1.8 percentage points of that for food and beverages - stemmed from higher prices. Peter Brabeck, chairman and chief executive, said: "Nestlé is off to a strong start."

Analysts were reassured by the fact that the new nutritional division, which most recently snapped up Novartis' Gerber baby-foods business for \$5.5bn, had reached its forecast growth track.

The business, which will account for about 10 per cent of group sales following the recent takeovers, reached its 10 per cent organic growth target in the first quarter.

Investors welcomed the figures in spite of an admission by Nestlé that it had partly benefited from higher demand ahead of expected price increases.

"The first-quarter performance is extremely strong and well ahead of estimates," said **James Amoroso**, of Helvea, the Swiss brokerage.

The figures showed a market recovery at Nestlé's big European confectionery business where sales have been suffering from problems in the UK, a key market.

Confectionery sales climbed by 7.3 per cent, helped by a successful Easter season.

The group continued to perform particularly strongly in its Asia, Oceania and Africa division, where organic sales rose by more than 10 per cent.

By contrast, Europe remained soft, with organic sales up just 1.9 per cent.

Shares in Nestlé closed up SFr6.75, or 1.4 per cent, at SFr488.50.