

INSIGHT: Nestle CFO sees H2 upswing in Europe

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Nestle CFO Jim Singh said today (12 August) that he anticipates an improvement in the performance of the company's European businesses, as competitive pressures in the region ease.

Posting its first-half results this morning, Nestle said that its organic sales growth totalled 3.5%. However, the company's organic growth in Europe lagged, coming in at 0.2% during the period.



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"Europe is a very difficult market and this year, in particular, what we are seeing is that the difficulties are across the entire euro zone - both east and western Europe," Singh (pictured) revealed during a conference call with analysts.

However, Singh emphasised that the world's largest food group has continued to invest in its European businesses with the launch of new products, especially in beverages.

According to Nestle management, despite the weak organic growth seen in the region, the company has been able to improve its competitive position and expand its market share in Europe.

"We have improved our market share in about 60% of the sales we are tracking. Our competitive positions have improved and our margins have not suffered because, in spite of the lack of volume leverage and continued investment in the business, we were able to maintain our margin because of significant efficiency programmes in our businesses across the zone," Singh said.

Looking to the remainder of the year, Singh said Western Europe would "remain difficult". However, he added: "Some of the issues that kept us back in the first half are now resolved, especially issues with customers with regard to pricing and so on, and I think we look forward to seeing some improvement in the second half."

Nestle said it had taken pricing action in order to remain competitive, with pricing weaker in the Americas in the second quarter and flat in Europe in the first and second quarters.

The company said that, as a result, it expects volume growth to contribute the lion's share of its full-year organic growth figure, with no "significant upturn" in pricing anticipated in the second half.

Nevertheless, Singh said that analysts' full-year organic growth consensus estimate of 4.1% remained realistic, despite the first half's lower than expected growth.

"Overall we are looking at a more stable situation, a more positive outlook on the cost side... and I think that gives us the ability to continue to invest across the business," he said.

Independent analyst James Amoroso said that, in his view, the consensus target represents "a floor" not "a ceiling".

"Overall, I see no reason to reduce full-year forecasts and see scope instead to increase them," he said.

Amoroso highlighted that operating profitability has improved 30bps to 14.1%, "well ahead" of consensus estimate of 13.9%, despite "substantial real increases in growth-related investments".

Nevertheless, Nestle shares had dipped 3.22% 11.17am (BST), declining to CHF42.70.

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