

In the Spotlight – Nestle

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Nestle cheered the market yesterday (23 October) when it upped its full-year forecasts for revenue and profits. Dean Best looks at why, for many industry watchers, the world's largest food group is best placed to weather the economic downturn. Nestlé and Hershey today (23 September) stayed silent over rumours of a possible tie-up – while analysts cast doubt on whether a deal would emerge.

In the most uncertain business climate for decades, Nestle, the world's largest food group, is leading from the front.

The Swiss giant yesterday (23 October) published its latest set of figures and won widespread praise from the investment community for its performance amid the deepening economic downturn.

Nestle booked an 8.9% rise in sales on an organic basis for the first nine months of 2008. Revenue reached CHF81.36bn (US\$70.03bn) and the company demonstrated its geographic reach by posting strong sales growth across its operations.

The news came a day after French rival Danone also reported rising sales but, for some, Nestle's results were the most striking.

"These are truly excellent sales growth numbers," said **James Amoroso** of consultancy **Amoroso**. "The super tanker of the past has indeed transformed itself today into an agile fleet of racing yachts. It is also the first time that Nestlé has outperformed Danone convincingly on organic growth. To do this at a time of weak consumer sentiment is a testimony to the robustness of the Nestlé business model."

The Kit Kat-to-Nescafe maker seems to believe in the strength of its strategy. On the back of the nine-month results, Nestle did two things Danone did not: it upped its sales and profit forecasts for the full year and, notably given the unpredictable business environment, issued some guidance on the sales and margin growth it expects to see next year.

Nestle indicated that it expects to "deliver the Nestle model" of sales growth of 5-6% and "constant currency margin improvement" on an annual basis. For Jeff Stent, an analyst at Citi, Nestle's statement of intent was telling given the market's "nerves" over the economy in 2009. "This confirms our view that Nestle is best placed to weather the storms that lie ahead. The stock remains our top – and only – large cap. food buy," Stent said.

Nevertheless, the company did issue one piece of less-than-good news with the admission that sales from its Nestle Waters business had dipped by 1% during the first nine months of the year. However, with Danone reporting what it termed as a "disappointing" performance from its own bottled water unit, the sector itself seems to be going through a challenging period.

Moreover, as Jon Cox, an analyst at investment bank Kepler Capital Markets explained, the difficulties in bottled water are less of an issue for Nestle, with the business accounting for "less than 10% of sales and less than 5% of operating profit".

Cox added: "Nestle remains the top pick in my total universe due to its brand building and its geographic reach."

It is Nestle's brands – and its strategy of adding value to its portfolio – that is central to the company's success, according to **Amoroso**. The company, he said, has been able to enjoy rising volumes while pushing through price increases to offset higher commodity costs because of its focus on "added-value" categories and products.

"The strength of its brands is merely a reflection of the quality and value that Nestle has invested and created in its products," **Amoroso** said.

Of course, nothing is certain in the current business climate. Question marks will remain over the ability of the big brand owners – including Nestle – to react to the trading down being seen among consumers as the downturn hits spending. Easing commodity costs may help but the packaged food giants face a fight for ever-more nervous consumers. Nestle, right now, seems better placed than any of its peers for that battle.

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