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Strong Franc Helps Reduce Nestlé's Profit

By ALISON LANGLEY

ZURICH, Aug. 20 – First-half profits at Nestlé fell by half from the year-ago period, hurt by a strong Swiss franc and comparison with a one-time gain last year, the company said today.

Nestlé, the world's biggest food company, reported a 51 percent decline in net earnings to 2.78 billion francs (\$2.02 billion), down from 5.65 billion francs (\$4.06 billion) in the period last year.

Profits for the first half of this year fell because last year Nestlé had a one-time gain through its partial stock offering of [Alcon](#), the company's eye care unit, the company said.

Sales fell 6.3 percent, to 41.44 billion francs (\$29.8 billion), though the company said that currency effects reduced sales by 12.6 percent; excluding those effects, sales actually rose by 6.3 percent. Analysts calculated that second-quarter sales were up 5.2 percent from the period last year at 21.7 billion francs, excluding currency fluctuations.

The company noted, however, that stripping out the effects of foreign exchange fluctuations and one-time events but keeping price increases, its sales grew 5.5 percent. Nestlé, which calls this figure its organic growth, expects it to rise 5 percent to 6 percent this year, a goal company officials said today that they would meet.

Sales were particularly strong in chilled culinary foods, like Stouffer's, and mineral water. Those increases were partly offset by slower sales of chocolate, confectionery and pet care products in the United States.

Nestlé, which is based in Vevey, Switzerland, makes its well-known chocolate as well as Nescafé coffee, Lean Cuisine frozen foods and Buitoni pasta. It has recently been building up its beverage unit, which now includes labels like Evian and San Pellegrino mineral water, and its ice cream division. Nestlé completed its purchase of Dreyer's Ice Cream in June. The company also owns Friskies and Purina brand pet foods.

Officials said strong sales in ice cream and beverages continued throughout the summer, helped by a heat wave in Europe. In addition, economies have begun to rebound around the world leading Nestlé officials to forecast a strong second half of the year.

"After a challenging start to this year, we expect now a more favorable trading environment for the second half," Wolfgang H. Reichenberger, chief financial officer, said on a conference call.

Peter Brabeck-Letmathe, the chief executive, said in a telephone interview that he expected the company's full-year net income and sales to beat last year's number, led by the North American market, where there were signs of an economic rebound.

Three special events that helped damp business in the first half of the year appear to be abating, Mr. Brabeck said in a telephone interview. The severe acute respiratory syndrome virus that led to a downturn in business in China and Southeast Asia has now been contained and business in the area has since picked up. Further, the war in Western Africa, a growth area for Nestlé, has also ended. Less certain, Mr. Brabeck said, was the climate in the Middle East. "We had very encouraging developments in the Middle East in general after the war in Iraq," Mr. Brabeck said. "Hopefully yesterday's bombings will not prevent economic development, but one has to assess."

Nestlé's three efficiency programs, designed to save the company 6 billion francs a year beginning in 2006, were on target, Mr. Brabeck said. "We are perfectly on time and on budget."

Nestlé's first priority this year, Mr. Brabeck said, is to improve operating performance. Earnings before interest, taxes and amortization margin rose 30 basis points to 12.2 percent, for operating income of 5.05 billion francs. "I think we have improved this," he said. The company should be able to continue to grow between at 5 to 6 percent for the remainder of the year, he added.

The 5.5 percent organic growth surprised analysts who had predicted a 4.8 percent increase. "It doesn't sound like much, but for a food company, it's huge," said **James Amoroso**, who follows Nestlé for Pictet et Compagnie. "Organic growth has cranked up nicely and should continue to run well."

In comparison, Danone of France posted 7 percent growth, while [Unilever](#) and [Cadbury Schweppes](#) posted only 2 percent growth for the first six months of this year, said Veronique Adam, an analyst for J. P. Morgan in Geneva.

"Nestlé's growth is mainly coming from price increases, we'll see if that is sustainable in the long-term," said Ms. Adam.