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Cadbury 1st Half Beats Hopes, Fiscal Year Margin Target Raised

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LONDON -(Dow Jones)- Confectioner Cadbury PLC (CBY) Wednesday beat expectations with its first-half sales and increased its margin target for the full-year, as a strong performance in emerging markets and its chocolate division more than offset slow sales in North America and Europe.

The maker of Cadbury chocolate and Trident gum said its pretax profit before exceptional items in the first six months of the year rose 24% to GBP262 million - slightly ahead of expectations.

Sales were up 13% at GBP2.77 billion. Stripping out disposals, acquisitions and the effect of the weak pound, sales were up 4% - ahead of analysts' expectations of a 3.3% rise.

"A strong chocolate performance and good growth in emerging markets more than offset a slow start in North America and continued softness in Europe," said Chief Executive Todd Stitzer.

He said sales for the year would still be at the lower end of the group's 4%-to-6% long-term goal range. Its full-year margin, however, is now expected to increase between 80 and 100 basis points, up from previous guidance of a 70-to-80 basis increase.

Margin for the half was up 145 basis points in the first half, benefitting from cost savings, lower media costs and a delaying of marketing spend to the second half of the year. Margin growth will slow in the second half as it invests in new product launches.

The company has a long-term aim of growing its margin to the "mid-teens" by 2011. In 2008, margin grew 180 basis points to 11.9%.

CEO Stitzer said on a conference call with reporters that the group was now "firmly on track" to deliver its mid-teens margin target.

Food industry consultant James Amoroso described the figures as an "excellent set of results." He welcomed the raising of the margin guidance and said there is scope for the targets to be beaten.

The market agreed and, by 0900 GMT, the company's shares were up 2 pence, or 0.4%, at 567 pence in a flat London market.

Graham Jones at Panmure Gordon said the first-half performance marked a good turnaround from the first-quarter.

Sanford Bernstein's Andrew Wood agreed. "After a lackluster start to the year, these results indicate that the weak first-quarter sales performance was a one-off," he said.

Sales have recovered from the first quarter, when the 2% rise marked Cadbury's lowest quarterly growth rate for three years as North American retail and wholesale customers destocked to conserve cash. Given the accelerating sales performance, it was perhaps surprising the company didn't raise its full-year sales guidance as well as its margin target.

Sanford Bernstein's Wood pointed out that sales in the second half would likely be higher than the first half, due to more product launches and a planned increase in marketing spend.

CEO Stitzer said that while an increased level of innovation and new product launches in the second half could have a positive impact on sales, he wanted to keep a "balanced view" on the company's full-year sales guidance.

Net profit for the first half was sharply higher, up to GBP313 million from GBP113 million last year, boosted by the profit from the disposal of its Australia Beverages business to Asahi Breweries of Japan.

Company Web site: www.cadbury.com

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