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Danone's Net Rises 6% on Capital Gains, Lower Costs

By William Horobin, JULY 24, 2009, 12:16 P.M. ET

PARIS (Dow Jones) -- Food and bottled-waters company Danone Friday reported a 6% rise in first-half net profit, boosted by falling raw-material prices and capital gains from disposals.

The world's largest yogurt maker by volume said net profit rose to €932 million (\$1.32 billion) from €879 million a year ago.



Danone -- whose dairy products include blockbuster brands Activia and Actimel -- began reducing prices in the first quarter of this year.

Excluding capital gains from disposals such as Australasian-based drinks business Frucor and Britannia operations in India, net profit rose 3% to €722 million from €701 million. This beat the €706 million average forecast of eight analysts polled by Dow Jones Newswires.

First-half revenue fell 2.2% to €7.52 billion from €7.69 billion. Earnings before interest and tax rose 2.5% to €1.21 billion, just beating analysts' expectations.

The company also confirmed its 2009 outlook, saying it expects "no significant improvement or dramatic breakdown" in its markets.

Danone said that after five consecutive quarters of contraction, volumes in its key dairy division rose 2.7% in the second quarter as the company cut dairy prices by 2% and increased promotions. "Danone's pricing actions and advertising and promotions investment are beginning to pay off," Bernstein analyst Andrew Wood said in a note.

Dairy volumes, which are keenly watched by investors, suffered in 2008 when Danone increased its prices to pass on the rising cost of raw materials, especially milk.

Danone -- whose dairy products include blockbuster brands Activia and Actimel -- began reducing prices with a 0.2% cut in the first quarter this year, but volumes still fell 1%. "Finally, it

appears that the worst is over for dairy volumes," Mr. Wood added. He rates Danone "outperform."

The combination of a fall in prices and a rise in volumes meant second-quarter revenue in the dairy division rose 0.7% on a like-for-like basis, which excludes foreign exchange fluctuations and the impact of acquisitions and disposals, Danone said. However, first-half revenue at the dairy unit still slipped 2.2%.

Danone also sells baby food, medical nutrition and bottled water including Evian. Revenue at the baby-food unit grew 4.6%, medical-nutrition sales rose 6.2% and sales at the waters unit fell 11%.

Despite the overall fall in revenue, Danone said its EBIT margin improved to 16.03% from 15.3% as input prices fell, especially in the key dairy division and the baby nutrition division.

"Ultimately, profitability has not been sacrificed for sales growth. This will underpin Danone's full-year performance and put it in a good position relative to its goal to emerge from the current downturn stronger than when it went in," food and consumer analyst James Amoroso said.

Danone shares closed 2.3% lower at €36.78 in Paris. They've fallen about 10% since January as dairy volumes failed to rebound in the first quarter and as investors were spooked by the €3 billion capital increase Danone launched at the end of May.

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