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Strong Swiss Franc Hurts Nestlé

By Martin Gelnar, AUGUST 12, 2009, 6:12 A.M. ET, WSJ.com

ZURICH -- [Nestlé S.A.](#) Wednesday toned down growth expectations for the full year after posting lower-than-expected sales figures for the first half, partly due to the stronger Swiss franc, while net profit remained above market views.

Net profit at the world's largest food and beverages producer by sales fell 2.4% to 5.07 billion Swiss francs (\$4.69 billion) from 5.21 billion francs a year earlier, beating market expectations of 4.84 billion francs.



Laurent Gillieron/Associated Press

Nestlé said the strength of the Swiss franc against other currencies brought overall sales down 4.3% from what they otherwise would have been.

In the first six months, organic growth, a closely followed performance measure comprising changes in selling prices and volumes, stood at 3.5%, down from 3.8% in the first quarter.

Nestlé also managed to increase operating profit to 7.4 billion francs from 7.3 billion francs due to lower distribution costs.

Analysts welcomed the clear improvement in the operating profit margin to 14.1% from 13.8% but said volumes and pricing were a letdown.

Sales slipped 1.5% to 52.27 billion francs from 53.07 billion francs, undershooting analyst expectations of 52.8 billion francs. Nestlé said the strength of the Swiss franc against other currencies brought overall sales down 4.3% from what they otherwise would have been.

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The maker of popular brands such as Nescafé, Perrier, Jenny Craig and Haagen Dazs skipped its previous guidance of organic growth "at least approaching 5%" for 2009.

"The market may be disappointed by the slight miss at the organic growth level, where Europe volumes remain weak," Kepler analyst Jon Cox said. He has a "buy" rating and a 50-franc target.

The decline in the second-quarter organic growth rate to 3.2% is partly due to planned withdrawals from certain markets, such as ice cream, food industry analyst James Amoroso said.

Chief Executive Paul Bulcke said the company's 3.5% organic growth would likely improve in the second half of the year, adding that Nestlé "remains committed to its strategic direction focused on sustainable, long-term profitable growth and is well placed to capture opportunities as economic conditions improve."

Nestlé reports sales each quarter, but earnings only on the half-year and full-year.

Food and beverages sales fell by 2% to 48.3 billion francs. Sales stagnated in the Americas, its biggest market, but fell 7.5% in Asia and Africa and 21.6% in Europe.

Nestlé's bottled water was the big decliner as sales fell 4.7% on lower demand in Western Europe and North America.

The company's nutrition unit also reported a 3.5% decline in sales, even if its infant nutrition business showed some signs of gaining momentum in Europe and the U.S. It said its cereals business and Nespresso coffee continued to perform well.

In early morning trading in Zurich, Nestlé shares were down 3.3% in a slightly lower general market.

Nestlé's rivals such as [Groupe Danone](#) and [Unilever PLC](#) recently reported interim growth figures that mostly beat market expectations.

—The Associated Press contributed to this article.

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