

Nestle Sales Decline as Consumers Buy Cheaper Water

By Thomas Mulier



April 22 (Bloomberg) -- Nestle SA sales unexpectedly fell for a second straight quarter as consumers bought cheaper alternatives to the Swiss company's San Pellegrino and Perrier bottled waters.

First-quarter revenue declined 2.1 percent to 25.2 billion Swiss francs (\$21.6 billion), the Vevey, Switzerland-based maker of Maggi bouillon and Nesquik chocolate milk said today. That missed analysts' 26 billion-franc median estimate and was the first time in four years that Nestle has two consecutive quarters of declining sales.

Shipment growth slowed to 0.3 percent in the first quarter, a tenth of 2008's pace, as shoppers turned away from Nestle brands in favor of discount alternatives. Nestle's premium brands include Nespresso, which sells for up to five times as much as ground coffee in Switzerland, and San Pellegrino, which retails at four times the price of a generic alternative.

"Consumers are in a state of shock over the economy," said James Amoroso, a food industry consultant based in Walchwil, Switzerland. "Current purchase behavior is due to fear about the future. The media is full every day of stories about the global recession and non-stop doom and gloom."

So-called organic sales, or revenue excluding acquisitions, divestments and currencies, increased 3.8 percent, less than the 4.2 percent median of 11 estimates in the survey. Higher prices boosted sales growth by 3.5 percent, more than the consensus of 3.2 percent.

Shares Trading

Nestle fell 32 centimes, or 0.8 percent, to 37.58 francs in Zurich trading. The shares have dropped about 9.7 percent this year, while the company's largest rival, Kraft Foods Inc., has declined 15 percent.

Nespresso's sales rose more than 20 percent in the first quarter, compared with a pace last year of about 40 percent, Roddy Child-Villiers, head of investor relations, said on a conference call.

Groupe Danone SA, the world's largest yogurt maker, said April 16 that first-quarter sales declined 2.3 percent as demand for dairy products and bottled water slowed around the world.

Five out of Nestle's seven food and beverage product categories reported a decline in shipments, which is "disappointing," said Marco Gulpers, an analyst at ING Wholesale Banking in Amsterdam. Bottled water, dairy, nutrition, prepared dishes and confectionery dropped, while pet care and beverages rose.

The weakness of currencies such as the euro, British pound and Brazilian real against the Swiss franc cut revenue growth by 5.2 percentage points, Nestle said today. Analysts expected a decrease of 3 percentage points, according to the survey.

Regional Declines

European and Asian food and beverage revenue slowed the most out of Nestle's three main regions. Organic sales growth in Asia, Oceania and Africa slowed to 5.8 percent, less than half 2008's rate. European sales at that level rose 0.5 percent, compared with 5.6 percent last year.

Organic sales from the Americas rose 7.1 percent, compared with 10 percent in 2008.

Nestle Chief Financial Officer Jim Singh said Feb. 19 that sales growth will "build" during the course of 2009. The company today reiterated it expects organic sales growth "at least approaching" 5 percent and an improvement in its operating profit margin excluding currency effects for the full year.

The maker of Nestle Crunch bars faced a difficult comparison after organic sales rose a record 9.8 percent in the first quarter of 2008, Pablo Zuanic, an analyst at JPMorgan Chase & Co., said before the results. Last year's quarter was boosted by Easter chocolate sales because the holiday fell in March, Child-Villiers said on a conference call Feb. 19. Easter was in April this year.

Nestle raised prices in chocolate, soluble coffee and powdered beverages at the end of 2008, Child-Villiers also said at the time.

To contact the reporters on this story: Thomas Mulier in Geneva at +41-22-317-9201 or tmulier@bloomberg.net.

Last Updated: April 22, 2009 12:00 EDT

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