

## Unilever Third-Quarter Net Falls; Buyback Lifts Stock (Update7)

By Maria Sheahan

Nov. 2 (Bloomberg) -- Unilever, the world's second-largest maker of food and detergent, said third-quarter profit fell 48 percent on higher marketing and legal expenses. The stock rose the most in three years after the company announced a buyback.

Net income at the maker of Dove soap and Hellmann's mayonnaise dropped to 737 million euros (\$940 million), or 24 cents a share, from 1.4 billion euros, or 47 cents, a year earlier, the British-Dutch company said in a statement. The company will pay a special dividend and spend 1.5 billion euros buying back stock next year.

Chief Executive Officer Patrick Cescau spent more on advertising to spur sales growth, which has trailed Procter & Gamble Co. for at least four years. Sales excluding asset sales and currency effects topped estimates as hot summer temperatures in Europe helped sales of Magnum ice cream and Lipton iced tea.

The company has to "work hard to move up alongside competitors" such as P&G, said Kevin Lyne-Smith, head of equities at Julius Baer Holding AG's private banking in Zurich, which manages over \$100 billion. The buyback shows "sensitivity to the needs of shareholders while still getting on with the core business of improving margins," he said.

### One-Time Dividend

In addition to next year's buyback, London- and Rotterdam- based Unilever said it will pay out 750 million euros as a one- time dividend for 2006 to pass on to shareholders part of the profit from an asset sale. The company scrapped a previous plan to buy back 500 million euros worth of shares.

Unilever in August agreed to sell frozen-food brands Iglo and Birds Eye to Permira Funds for 1.7 billion euros. It expects a profit of more than 1 billion euros from the divestment.

The dividend and buyback plan "certainly mean that major acquisitions are not on the short-term radar," said **James Amoroso**, an analyst at Helvea in Zurich, who has a "neutral" rating on Unilever's stock, in a televised interview. "It's quite a hefty buyback."

Earnings missed the 1.02 billion-euro median estimate from 14 analysts surveyed by Bloomberg. Unilever set aside 300 million euros for possible compensation payments for failing to provide adequate information to shareholders about a conversion of preferred shares into common stock.

Unilever may pay compensation of 1.54 euros a share to owners of the preferreds, Dutch investor group VEB said. That must still be approved by the company's management board, according to a statement e-mailed by the group. In a separate statement, the company said the board will consider recommendations by a commission dealing with the matter "shortly."

## Higher Sales

Shares of Unilever jumped 68 cents, or 3.5 percent, to 19.90 euros in Amsterdam, the steepest gain since March, 2003.

Third-quarter revenue increased 1.9 percent to 10.12 billion euros. The summer of 2006 was one of Britain's warmest on record, the country's Meteorological Office said in September, fuelling ice-cream sales.

The company's revenue growth lagged behind P&G's 27 percent increase in its last quarter. Procter & Gamble, which makes Tide detergent and Head & Shoulders shampoo, earlier this week raised its earnings forecast for the financial year after the purchase of razor maker Gillette helped boost quarterly net 33 percent.

Unilever, which also makes Ben & Jerry's ice cream, scrapped a 70-year-old system of dual Dutch and U.K. chairmen when a five-year plan to fuel sales growth failed in 2004. In August, the company's second-quarter figures missed estimates as sales growth slowed and ingredient prices increased.

## Margin Narrows

Unilever said its operating margin narrowed by 0.8 percentage point to 14.8 percent in the third quarter. In Europe, the 14.1 percent operating margin was 2.1 percentage points narrower than a year earlier.

“Our priority is to improve our operating margin, while delivering our growth ambitions,” said Cescau in the statement. “We are confident we will achieve this.”

Before today, Unilever shares had added less than 1 percent in the past year, the smallest gain in the 14-member Bloomberg Europe Food Index, which has advanced about 13 percent. Shares of Procter & Gamble, the biggest consumer-products company, have also climbed 13 percent.

Excluding acquisitions, disposals and exchange rates, revenue climbed 4.8 percent, the most since 2005's first quarter and more than seven analysts' 4.2 percent estimate. Some 1.2 percentage points of the gain were driven by price increases.

## ‘Bang for Its Buck’

Unilever is “getting a bigger bang for its buck than I'd expected,” *Amoroso* said today. The company posted “excellent organic sales growth,” he said.

In Europe, Unilever's sales excluding asset sales and currency effects rose 3.5 percent in the third quarter, helped by ice cream, healthier foods such as AdeZ drinks made of soy milk, fruit juice and Knorr bouillon cubes.

Cescau, the first sole CEO in Unilever's 76-year history, aims to save 1 billion euros by 2007 by selling units and combining offices. Unilever last week said it plans to bundle its U.S. offices into two main sites to lower costs, affecting more than 5 percent of employees in the country.

In addition to selling divisions, Unilever has cut jobs and added goods that promote health, such as Flora cholesterol-reducing spreads. Competitor Nestle SA has reduced salt and sugar in its products and acquired makers of healthy snacks and nutrient-enriched foods.

Nestle, the world's biggest food company, expects sales to rise as much as 6 percent in 2006. Reckitt Benckiser Plc, the largest maker of household cleaners, last week raised its forecast for annual sales growth to 17 percent as a health-care unit acquired last year contributed more revenue than planned.

Unilever's year-earlier quarterly profit was swelled by gains including 448 million euros from the sale of a perfume unit to Coty Inc. last year. Excluding these one-time gains, profit fell 22 percent.

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