

## 2nd UPDATE: Nestle 1Q Sales Hit By ForEx, Keeps FY Forecast

(Recasts, adds detail and analyst comment)

By Martin Gelnar of DOW JONES NEWSWIRES

ZURICH (Dow Jones)--Switzerland's Nestle SA (NESN.VX) Wednesday reported an unexpected drop in first-quarter sales, due to subdued demand and the strong Swiss franc, but stuck to its full-year growth goal which some analysts say looks hard to hit.

The world's largest food and beverages company said revenue fell 1.9% to 25.2 billion Swiss francs (\$21.5 billion) from CHF25.7 billion the previous year, below market expectation of CHF26.05 billion. The fall was due to stagnating volumes and the Swiss franc's strengthening against most currencies, which dented the top line by 5%. Price hikes of more than 3% offset some of the negative currency effect.

The maker of Nescafe soluble coffee and Kitkat chocolate bars said organic growth, an industry measure comprising volume growth and price increases, was 3.8%, compared with growth of about 4.1% expected by the markets.

Sales declined in Europe and Asia, Oceania and Africa while revenue in the Americas region rose, boosted by the dollar's rise against the Swiss franc - the only major currency to have shown such a tendency.

Revenues increased in the Powdered and Liquid Beverages and PetCare divisions but contracted in the water, food and nutrition divisions. Ice cream sales were hit by this year's late Easter.

Nestle repeated its previous guidance for an organic growth rate of "at least approaching 5%" this year, below the rates seen in previous years. It also expects to improve the operating profit margin in constant currencies.

"Our response to the challenging economic environment in 2009 has been to seize new opportunities, accelerating key initiatives in areas such as product affordability, innovation and renovation, as well as cost efficiencies," chief executive Paul Bulcke said.

The market's reaction was mixed.

Some observers said the results were solid given the recession in many markets, while other pointed out the stagnating volumes were a letdown.

Nestle's ability for to raise prices is getting smaller due to deflationary tendencies, said Zuercher Kantonalbank's Patrik Schwendimann, adding that Nestle's growth objectives will be very difficult to reach.

Bank Vontobel and Bernstein Research think Nestle's pricing power will lead to an organic growth rate of more than 5%.

Some said Nestle has been able to withstand cutbacks in spending on branded goods.

*"Consumers are saving their money elsewhere, they apparently don't want to save money by reducing consumption of Nestle products," food industry analyst James Amoroso noted.*

On the Swiss bourse at 1130 GMT, the shares fell 0.3%, or CHF0.10 to CHF37.80 in a slightly lower general market.

Growth expectations for Nestle have come down in recent months with markets expecting an organic growth rate of 4.1% and an operating margin improvement of 10 basis points.

Nestle didn't report quarterly profits. Its half-year earnings report is due Aug. 12.

French rival Groupe Danone SA (BN.FR) last week said its first-quarter sales dropped 2.3%, but it maintained 2009 earnings targets.

Company Web site: [www.nestle.com](http://www.nestle.com)

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