

2nd UPDATE: Unilever 1Q Sales +4.8%, Sees Improved Volumes

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By Michael Carolan of DOW JONES NEWSWIRES

LONDON -(Dow Jones)- Unilever PLC (UN, UL) said Thursday its sales growth continued to slow in the first quarter, with volumes once again declining, but said it could arrest the volume fall in the rest of the year by stepping up its innovation program.

The maker of Ben & Jerry's ice cream and household products such as Dove and Cif posted a 1% drop in sales to EUR9.5 billion in the first three months of the year.

Stripping out acquisitions, disposals and currency movements, underlying first-quarter sales - a keenly watched figure - dropped 4.8%, down from 7.3% for the previous quarter and slightly ahead of analysts' estimates.

"First-quarter results were solid given today's trading environment," said Chief Executive Paul Polman, a former Nestle SA (NESN.VX) executive, who replaced Patrick Cescau at the turn of the year.

Investors welcomed the company's news and at 1435 GMT Unilever shares were up 8.4% or 110 pence at 1425 pence in flat London market.

The 4.8% rise in first-quarter sales was purely a result of price rises - made to offset commodity cost inflation. Volumes in the period actually fell 1.8%.

CEO Polman has made tackling the volume decline a key priority this year. But he told a conference call with analysts that he was not willing to target volume growth at any price. "As we get volumes growing again I should stress that that is not price driven," he said. "We're not buying volumes."

Instead, Unilever will rely on innovations to drive its volume growth, as well as faster application of these innovations across its territories.

In February, the company disappointed the market by scrapping its sales and profit targets, citing the uncertain economy and said it would be inappropriate to give an outlook for 2009.

It didn't provide an outlook Thursday and Polman said the company might abandon the practice of providing sales and profit guidance permanently as it encouraged short-term thinking and could hinder the consumer goods group's long-term prospects.

Polman did say Unilever will focus on growing sales consistently ahead of the market over the long term.

"People should not judge just on numbers but on the long term strategy and the capabilities of the management," he said.

Operating margin dropped 30 basis points in the period - slightly less than feared, while gross margin was down 190 basis points due to higher commodity costs.

Chief Financial Officer Jim Lawrence said operating margin was likely to fall in the second quarter before rising once again in the second half of the year, as commodity cost pressures ease.

Western Europe was Unilever's worst performing region, with sales down 2.8% and volumes down 3.7%.

"It seems that Unilever is being supported by its emerging market exposure and one has to pose the question how long this will hold up as the economic downturn intensifies," said Industry consultant James Amoroso.

Net profit for the first quarter dropped 45% to EUR731 million from EUR1.34 billion. Profit was reduced by restructuring costs, while last year's figure included profits from a number of businesses since sold off as part of a major restructuring launched in 2007.

Company Web site: www.unilever.com

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