

COMPANIES & FINANCE EUROPE: Nestlé insists it will not sacrifice margins

By William Hall in Zurich, Financial Times
Published: Aug 22, 2002

Nestlé, the world's biggest consumer food company, has moved to reassure investors that it will not sacrifice the improvement in its operating margins just to meet its 4 per cent sales growth target.

Nestlé, which has been under pressure to boost its sales growth, last year reported a 4.4 per cent rate of real internal growth. In the first half of this year, its underlying sales grew by 3.5 per cent, and analysts are increasingly sceptical that the company will be able to meet its long-term 4 per cent target in 2002.

The company said that double-digit growth in eastern Europe had compensated for the slower pace in western Europe and excellent progress in North America had been offset by a more hesitant performance in Latin America, where several countries were facing severe economic downturns.

The group's beverages division reported an internal growth rate of 4.4 per cent. The prepared dishes and cooking aids arm was up by 4.1 per cent, while milk products, nutrition and ice cream grew by 2.5 per cent.

The group's water business, by contrast, had an 8.7 per cent growth rate.

Wolfgang Reichenberger, Nestlé chief financial officer, said the group was still aiming for 4 per cent growth in the current year "but if it comes to the point that we can only achieve it through reducing our margins we would not do it".

James Amoroso, of Zurich's Bank Vontobel, who is budgeting for 3.8 per cent internal growth in 2002, described Nestlé's first-half results as encouraging since they showed that the company was able to integrate big acquisitions and "keep its eye on the ball".

The integration of Ralston Purina, the US pet-food company, was ahead of schedule and the group's big cost-cutting project, known as Globe, was on track and on budget.

The group's operating margin rose from 11.1 per cent to 11.7 per cent. "They have done better than planned," Mr **Amoroso** said.

The group's first-half net profit of SFr5.7bn (\$3.8bn) was inflated by large gains on the US flotation of Alcon, its eyecare subsidiary, and the sale of its FIS flavours business.

Nestlé took advantage of the SFr4.4bn of extraordinary gains on these transactions to take a SFr1.9bn impairment charge to cover assets in its petcare, ice cream, chocolate and milk operations, and restructuring costs associated with the Ralston Purina acquisition.

Pictet, the Geneva private bank, said that although Nestlé looked unlikely to meet its 4 per cent growth target this year, its results confirmed it was growing faster than competitors such as Danone and Unilever.

Nestlé shares had fallen before the results but closed up 3 per cent at SFr335.