

# COMPANIES & MARKETS

Thursday August 16 2007

## US runs out of steam

David Rosenberg tests the case for a recession **INSIGHT Page 24**



## Good old days for tech

What Diane Greene's VMware float means for Silicon Valley **Page 14**

## Bring it on

KPMG head of audit says big four firms open to competition **Page 14**

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Week 33

### News Briefing



#### INDUSTRIAL METALS Kleinfeld is frontrunner in Alcoa succession

Klaus Kleinfeld (above), the ousted head of Siemens, has emerged as the frontrunner to lead Alcoa after his appointment as second-in-command to Alain Belda at the US aluminium group. **Page 14**

#### BEVERAGES V&S sale backing sought

US drinks group Fortune Brands has urged the Swedish government to back its bid to acquire state-owned Vin & Sprit if it wants to secure jobs in Sweden and prevent the company from being ravaged for short-term profits. **Page 15**; **Cadbury drinks sale fears, Page 17**

#### OIL & GAS Yukos assets sold

A former unit of Russian oil group Rosneft paid \$305m (€226m) for assets owned by bankrupt rival Yukos in a sale Yukos said was tantamount to buying the "emperor's new clothes". **Page 15**

#### Urals output falls

UK-listed Russian oil and gas company Urals Energy has replaced its chief financial officer and appointed a new chief operating officer as it announced it was missing

# Nestlé opts for €15bn buy-back

Triumph for Brabeck amid 'stellar' results

Group turns back on more big acquisitions

By Haig Simonian in Zurich

Nestlé has turned its back on more big acquisitions, surprising investors yesterday with plans for a SFr25bn (€15bn) three-year share buy-back.

The news came as the world's biggest food group shrugged off fears of higher commodity and raw materials prices to reveal what analysts described as "stellar" first-half results.

The earnings numbers and share buy-back mark a triumph for Peter Brabeck, chairman and chief executive, before he hands over operational management next year to concentrate on strategy as chairman.

Under Mr Brabeck, Nestlé has outpaced rivals, such as Unilever and Kraft, by focusing on profitability through pruning its portfolio, buying higher-margin businesses and improving information technology.

The results, far above analysts' expectations, set a high hurdle for Mr Brabeck's successor. That person, widely tipped to be Paul Polman, chief financial officer, could be named at a board meeting next month.

Nestlé's figures lifted its shares, which have a weighting of about 17 per cent in the main Swiss index, 9.5 per cent to



FT Graphic

SFr494.50. That rise represented a SFr17.1bn increase in the group's market value to SFr198.2bn.

James Amoroso of Helvea, a Swiss brokerage, said the half-year results were "of a quality we have never seen before".

Both growth, usually difficult in the foods business, and margins exceeded internal and mar-

ket targets. Nestlé was confident of maintaining the pace.

Mr Brabeck said: "I am confident of Nestlé achieving above-target organic growth for 2007 as well as a sustainable margin improvement."

The decision to eschew big takeovers was welcomed by investors, wary after a number of strategic but expensive deals.

The group most recently spent heavily to boost nutrition, identified by Mr Brabeck as a profits driver, by buying the medical nutrition and Gerber baby foods businesses from Novartis.

The embargo on big deals will not quell speculation that Nestlé could eventually turn to L'Oréal, the French cosmetics group in which it has a strategic stake.

Group operating profits rose 14.2 per cent to SFr6.92bn. Net profits jumped 18.4 per cent to SFr4.92bn. Sales climbed 8.4 per cent to SFr51.1bn.

Organic growth, boosted by the group's ability to pass on price rises, amounted to 7.4 per cent, comfortably ahead of target.

Markets, Page 26



**John Authers**  
THE SHORT VIEW

Is there a buying opportunity in stocks? Many brokers say there is. They argue that earnings are rising, while price/earnings ratios have fallen to their lowest levels in a decade. So, "buy when there's blood on the streets".

The counter-argument is another stock market saw: don't try to catch a falling knife. Timing a decline is dangerous. On balance, it looks as though investors should still stand back from the falling knife.

Why? First, this decline is still nothing to write home about. The S&P 500, the world's most tracked index, was yesterday off about 8 per cent from its peak. From 1996 to 2000, the end of the last big bull market, it had seven separate falls greater than this.

As bull markets progress, they become more volatile, so such corrections become sharper. So, looking at market patterns, it does not look as though there is enough blood on the streets yet.

As for valuation, it is true that the historic p/e ratio on the S&P is at 16.46, almost at last July's low of 16.35, which turned out to be a buying opportunity, and well below the average for the past five years of 21.8.

But it is misleading to look at valuation this way. Earnings are cyclical. So are the multiples investors will pay for them. If earnings are at the top of the cycle (as they are now)

