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Nestlé slows expansion

After difficult 2004, share buyback is set

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LAUSANNE, Switzerland: Nestlé, the world's largest foodmaker, announced on Thursday a share buyback plan - its first ever - worth 1 billion Swiss francs, underlining how a mixed financial picture for 2004 is leading the company to slow its expansion.

Net profit in 2004 increased 8 percent, said Nestlé, which produces hundreds of well-known brands like Nescafé and KitKat. But total sales declined largely because of poor performances in major European markets, especially France and Germany, and losses related to dollar weakness.

Peter Brabeck, Nestlé's chief executive, said that the plan to return spare cash to shareholders would begin in the second half of the year. The move represents a shift from the past practice of stockpiling it to fund acquisitions, analysts said.

"I think we can all agree that 2004 wasn't an easy year," Brabeck said during a news conference in Vevey, the Swiss town where Nestlé is based.

The company's priority is to further reduce debt this year, as it did in 2004, he added. "There are no major acquisitions on the horizon."

Nestlé has expanded aggressively since Brabeck took the helm in 1997, making acquisitions in areas like pet food and bottled water, but it has run out of obvious candidates, said ***James Amoroso***, an analyst at Pictet, a private bank based in Geneva. "There's just nothing around sizable that would fit," ***Amoroso*** said.

Brabeck, who will solidify his control by taking over the chairmanship of Nestlé's board in April from Rainer Gut, is in the process of overhauling operations to streamline a complicated global business, and cutting costs to increase profitability.

The company has been slower than competitors like Danone of France or the British-Dutch company Unilever in narrowing the focus of its business and controlling spending, but it is making progress now, analysts said.

Nestlé posted net profit of 6.72 billion Swiss francs, or $5.76 billion, higher than the 6.21 billion francs in 2003, helped by a one-time gain of 1 billion francs in the value of the company's 26.4 percent stake in L'Oréal, a French cosmetics company. The profit margin of 12.6 percent was flat from 2003, and largely in line with analysts' expectations.

Sales stood at 86.77 billion francs, a drop of 1.4 percent from 2003, mainly because a sluggish economy in France and Germany has crimped consumer spending, and price wars among local retailers have hurt Nestlé's market share. A wet European summer also hurt sales of ice cream, a major product sector, the company said.

Nestlé also is facing a problem in France at its loss-making Perrier factory, where a subsidiary, Nestlé Waters, is embroiled in a fight with a union over productivity. Brabeck said that he would consider selling the brand if Nestlé could not raise productivity, an option that the company has raised before.

The company said that organic growth - which excludes the effect of acquisitions and currencies - was 4.5 percent, below a goal of 5 percent to 6 percent.

"Growth of 4.5 percent is a remarkable achievement in a difficult year," said Wolfgang Reichenberger, Nestlé's chief financial officer. The company said that it expected to meet the 5 percent to 6 percent target this year.

Although the European picture will remain bleak, savings from a number of efficiency-enhancing measures implemented by Brabeck - including an initiative called "Globe" aimed at better managing worldwide resources - should feed through into stronger profits this year, said ***Amoroso***.

"Nestlé has far more potential for savings than its European peers," he said. "I think there's a great possibility for positive surprises this year."

A number of other factors that hurt profit in 2004, like the weak dollar and rising commodity prices, will not be as much of a drag on earnings this year, Nestlé predicted.

The company said it hoped that an increase in retail prices last year would help make up for higher commodity costs. Prices for raw materials like coffee, sugar, grains and milk spiked last year, and packaging also became more expensive in line with higher oil prices.

A falling dollar in relation to the Swiss franc added to the bleak sales picture last year. Only 1 percent of sales are denominated in francs, with the remainder in foreign currencies, making the numbers susceptible to currency fluctuations, Nestlé said.

In the United States, sales rose slightly in 2004, with the food business leading the gains, Nestle said. Sales also rose in Asia, except in Japan, where heavy competition to the Nescafé coffee brand hurt revenue.