



Insight - Nestlé "leaner, fitter, stronger" for future - CEO

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Swiss food and beverage giant Nestlé said it is even "leaner, fitter and stronger" for the future, despite posting a drop in nine-month sales this morning (22 October), as a result of consumers buying less bottled water.

Nestlé's struggling bottled water business did see some improvement, particularly in Europe, with organic sales down 1.8% to CHF7.2bn (US\$7.13bn), compared with a fall of 2.9% in the first half of 2009. The category as a whole remained weak in North America.

Bernstein analyst Andrew Wood said that, although the performance Nestlé Waters continues to be dragged down by weak markets, organic growth came in "well ahead" of its estimates and trends are "showing improvements".

Speaking to investors at the company's earnings conference this morning, Nestlé CEO Paul Bulcke told attendees that Nestlé's way of doing business was based on the principal of creating shared value for its shareholders and society.

"In these challenging times we have been streamlining our structures and product portfolio. And at the same time we continue to invest in innovative technologies and expand our R&D capabilities around the world. Now we are even leaner, fitter and stronger for the future. In addition we have increased spending in product innovation and consumer facing brand support."

Nestlé's global nine-month sales dropped to CHF79.55bn (US\$79bn), from CHF81.36bn a year earlier. The company said it plans to buy back CHF7bn of shares this year, up from a previous CHF4bn target.

In the first nine months of 2009 Nestlé achieved organic growth of 3.6% for its food and beverage business. Real internal growth reached 1%, having accelerated throughout the year and across most segments of the business.

The company also repeated its full-year outlook for "volume-driven organic sales acceleration", after it dropped its previous target of "at least approaching 5%" in August when it reported disappointing first-half organic sales growth of 3.5%.

Bernstein analyst Wood said the company's third quarter performance is a signal that its sales are moving in the right direction.

"We expect more in Q4 (and into 2010). This progress, in addition to an acceleration of the current share buy-back plan, should lead to a re-rating of Nestlé's stock, which despite a strong move ahead of the reporting, continues to be highly under-valued...trading at an unjustified discount to its peers."

Independent analyst James Amoroso said he believes the results were "comfortably at or slightly above expectations".

"It is reassuring that volume growth appears to have improved in the two problems areas of Western Europe and Nestlé Waters," he said.

"My conclusion is that Nestlé's business model is intact and the slowdown that it has seen in 2009 will prove to be an exception driven by similarly exceptional economic circumstances."

Nestlé shares rose 1.83% in morning trade today, increasing to CHF46.70 at 11am (GMT).

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