



## ANALYSIS – Guidance goes at Unilever as tough times loom

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By David Jones



Tough times may prompt more of Europe's biggest businesses to scrap financial guidance targets after Unilever and GlaxoSmithKline abandoned them, blaming economic uncertainty.

The Anglo-Dutch maker of Sunsilk shampoo and Knorr soups sent its shares spinning down as it scrapped targets, saying it couldn't make forecasts when no-one was clear about the extent of the recession.

Analysts suspect other European powerhouses may be planning similar moves, particularly in defensive sectors such as consumer goods and drugs, which have in the past taken up a U.S. led trend to set financial goals.

*"The market will not like the lack of specific guidance, but the market will have to start to get used to that generally, I suspect," said independent analyst James Amoroso.*

Following Unilever Plc/NV's results on Thursday come Nestle, Danone and Reckitt Benckiser in the next two weeks, with Danone already pointing to lower guidance back in November.

Unilever had targeted annual underlying sales growth of 3-5 percent with an underlying rise in margins each year towards a 15 percent target in 2010, but all that was swept away as its new Chief Executive Paul Polman said he did not want to be changing financial guidance every "five minutes".

The move surprised analysts after big U.S. based groups such as Procter & Gamble (P&G), Kraft and Sara Lee Corp recently trimmed their guidance rather than abandoned it, making Unilever's move something of a shock, especially as Polman had spent most of his working life at P&G.

"We imagine that investors will not be pleased with management's comment that it would be 'inappropriate' to give 2009 guidance or reaffirm the 2010 margin target of at least 15 percent," said analyst Andrew Wood at Bernstein Research.

Most analysts had forecast Unilever would only, at best, reach the bottom of its 3-5 percent annual underlying sales growth target for 2009, with analyst Jeff Stent at Citi seeing only 1.9 percent growth.

Unilever shares slumped 7.2 percent to 13.77 pounds by 1600 GMT to be the FTSE 100 index's biggest faller after analysts said that scrapping guidance hardly instilled confidence in the business looking forward to 2009.

The focus now switches to Danone which in November warned that its underlying sales in 2009 would be a few percentage points below its medium-term guidance of 8-10 percent annual growth and Nestle which in October was upbeat for 2008 seeing sales growth at 8 percent compared to its 5-6 percent long-term target.

Also back in October, household cleaning goods group Reckitt Benckiser was confident of meeting its increased underlying 2008 sales target of 9 percent, and the British group has a tradition of beating and upgrading its guidance.

"However, these companies are clearly under some pressure from the global slowdown and we would expect them to be looking seriously at abandoning or downgrading their guidance for at least this year," said another consumer goods analyst.

In the pharmaceutical world, GlaxoSmithKline's Chief Executive Andrew Witty said the group would no longer provide specific short-term earnings guidance on 2009 but said its decision was not connected to performance. It would now focus investor attention on implementing its long-term goals.

"We got a bit of a bombshell in terms of them not giving guidance ... but it appears to be a general policy. They are moving to a more opaque guidance perspective for the market, probably to give themselves some breathing room," said Jeffrey Holford, an analyst at stockbroker Jefferies.

Over in the U.S. the world's biggest retailer Wal-Mart Stores Inc said it would no longer issue monthly sales forecasts because of volatile trends, and the U.S.'s biggest warehouse club Costco Wholesale Corp said it would not give earnings forecasts for its current fiscal year.

(Additional reporting by Ben Hirschler)

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