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## CORPORATE NEWS

### Danone's 1Q Revenue Falls 2.3%, But Keeps FY Targets

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By Geraldine Amiel, April 16, 2009, 6:10 a.m. ET, WSJ.com

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PARIS (Dow Jones) -- Dairy and bottled water company Groupe Danone (BN.FR) Thursday maintained its 2009 earnings targets despite reporting a 2.3% fall in first quarter revenue, hurt by weaker consumer spending on dairy goods such as yoghurt

The world's largest producer of dairy products by volume said quarterly sales fell to EUR3.67 billion from EUR3.76 billion a year earlier, in line with a EUR3.66 billion forecast by nine analysts polled by Dow Jones Newswires.

And while first-quarter like-for-like sales grew 1.0%, helped by baby food and medical nutrition products, that rise was slightly below analysts' expectations of an organic growth rate of 1.4% and sharply below the 11.4% increase seen a year earlier.

Analyst reactions were mixed.

"Market expectations were low for Danone's first quarter sales. But Danone still managed to under-deliver," said Sanford Bernstein analyst Andrew Wood, who rates Danone at Outperform.

Dairy division revenues fell 2.8% - or 1.2% on a like-for-like basis - to EUR2.12 billion "due to a combination of the continued difficult economic environment and a historical high comparable basis in the first quarter of 2008," the company said.

Collins Stewart analyst Charlotte Kirkham noted that Dairy remains 58% of Danone's group sales and "so effectively defines the group, and where there has been volume growth it appears to be the result of aggressive price cutting - hardly indicative of the strong brand equity the company claims for its portfolio."

Still, the group maintained its guidance for the whole of 2009. It still expects like-for-like sales growth of a few points below the medium-term guidance and continued like-for-like improvement of its earnings before interest and taxes margin, as well as 10% growth for underlying fully-diluted earnings per share at constant exchange rates.

Danone said it would help meet those targets by continuing to cut prices and raising promotional spending.

Expanding such initiatives should support sales growth throughout the year, Chief financial officer Pierre-Andre Terisse said during a conference call. He admitted that Danone's management remains undecided what the best route will be - promoting volumes or maintaining margins.

"We clearly said at the start of the year that there were different possible routes to achieve" the full-year targets, Terisse said, adding that the preferred option for now was to get a 10% increase in EPS through higher sales, which should be obtained with "reinvesting money where it makes sense, where it is relevant and value creating."

Another route would be "to have less growth and higher margins," Terisse said, without elaborating further.

After a strong opening Thursday, shares later fell back and at 0945 GMT were trading EUR0.37 or 1% higher at EUR37.50, in a flat market, but down 35% from year-ago levels.

*Food industry analyst James Amoroso said the results were "more or less in line with a consensus that has become more pessimistic in recent weeks."*

Sanford Bernstein's Wood said that "although Danone's first quarter performance was a disappointment, it is a good - or less negative - sign that total company volumes remained positive in the quarter."

"We do expect an improving performance throughout the rest of 2009 ... Despite the first quarter setback, we believe that prospects for Danone's business remain healthy," Wood said.

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