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CORPORATE NEWS

Lindt posts 88% drop in profit

By Martin Gelnar, 26 August 2009, The Wall Street Journal Europe (Page 6)

ZURICH -- Chocoladefabriken Lindt & Sprungli AG's failure to raise the price it charges for its chocolates amid a jump in cocoa prices held the Swiss chocolate maker back in the first half, exacerbating the impact of charges related to its U.S. and Italian operations.

Lindt, best known for its Lindor, Excellence and Ghirardelli brands and the chocolate bunnies wrapped in gold foil, posted first-half net profit of 2.7 million Swiss francs (\$2.5 million), down 88% from 22.9 million francs a year earlier. Sales slipped 5.4% to 979 million francs.

The bottom line was hit by a charge of 22.2 million francs related to the closing shops in the U.S. and an impairment on a warehouse in Italy, Lindt said.

In contrast to most of its rivals, the chocolate maker didn't raise its chocolate prices in the fourth quarter and thus failed to offset a sharp increase in the price of cocoa. London cocoa futures prices hit a 23-year high at the start of the year, although they have since dropped back as demand has waned amid the recession.

Lindt's organic sales growth, which excludes acquisitions and currency fluctuations, was 0.2% -- lagging behind rivals like Cadbury PLC, which recorded organic sales growth of 4% in first half, and Nestle SA, which saw organic sales growth of 3.4% at its food and beverage operations.

"Lindt merely missed its chance last year when such price increases would have been readily accepted, as was the case for Cadbury, Nestle, Hershey and the others," said independent food-industry analyst James Amoroso.

Cadbury increased chocolate prices by more than 10% in some countries in the fourth quarter, while Nestle raised chocolate prices by 7.4%, according to analysts at JPMorgan Chase.

"We have refrained from [raising product prices] partly on purpose because cocoa prices are all over the place currently," said Lindt's Chief Executive Ernst Tanner. "But we expect the speculative element to disappear within 12 months or so."

The company said it would boost advertising in the second half to try and win more market share, while cost cutting should lift profitability.

"We will invest into marketing, primarily in the U.S. and in Europe, and we expect this to translate into substantial market-share gains," said Mr. Tanner. "We are debt-free so we can afford it, contrary to some of our rivals."

Lindt said it still expects organic sales growth of 2% to 5% and earnings before interest and taxes to reach between 260 million francs and 280 million francs for the full year. The company lowered its targets in March when it announced a restructuring program that included shutting down regional shops in the U.S. to focus on a few flagship stores.

Mr. Tanner said he couldn't yet gauge how the important Christmas period might develop for Lindt. He said that there are positive signs from individual customers, but that wholesalers remain cautious.

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