

THE WALL STREET JOURNAL

Unilever's Net Slips 17% on Lower Margins

By Michael Carolan, AUGUST 6, 2009, 6:03 A.M. ET, WSJ.com

LONDON -- Consumer-goods giant Unilever PLC Thursday reported a 17% decrease in net profit, hurt by lower margins and higher pension costs, but posted better-than-expected sales as the company's new focus on restoring volume growth bore quick results.

The maker of Ben & Jerry's ice cream and household products such as Dove, Lynx and Cif said net profit for the three months ended June 30 was €758 million (\$1.09 billion), down from €909 million a year ago.



Tengku Bahar/AFP/Getty Images

Like other consumer goods companies, Unilever is being hit by the economic downturn, with sales rises in recent quarters only achieved through price rises.

Revenue rose 0.8% to €10.46 billion from €10.37 billion, after a 1% drop in the previous quarter.

Sales were up in Asia and the Americas, but fell 5.1% in Western Europe, where the company slashed prices. That translated to higher volumes,

which pleased analysts, but hurt margins. The company also spent more money on advertisements and was hit by €77 million more in pension-related costs than a year earlier.

Stripping out acquisitions, disposals and currency movements, Unilever's second-quarter sales grew 4.1%, compared with a 4.8% rise in the previous quarter and ahead of analysts' estimates of 3.2% growth. This measure of sales is closely watched because it's a directly comparable measure of how the company's products are selling.

"Unilever is delivering on its promise of a return to volume growth, which comes much quicker than we anticipated," said analyst Richard Withagen of SNS Securities in a note on the earnings.

Unilever shares were 5.4% higher in early morning trading in London.

New Chief Executive Paul Polman identified volume growth as his key focus for the group when he joined earlier this year. In previous quarters, the company had boosted sales by raising the prices of its goods, but in the second quarter volumes rose 2% when analysts had been expecting a slight fall.



Paul Polman

"I am encouraged by the return to volume growth across all regions and the majority of countries and categories," said Mr. Polman in a statement. "We continue to focus on restoring volume growth while protecting margins and cash flow for the year as a whole."

Unilever's sales and volume growth is particularly impressive given U.S. rival Procter & Gamble Co. reported a 1% fall in sales and a 4% decline in volumes over the same period.

Like other consumer goods companies, Unilever is being hit by the economic downturn, with sales rises in recent quarters only achieved through price increases. The 2% rise in volumes follows two quarters of volume declines and two flat quarters prior to that.

"I don't think there's any magic to it, it's about hard work, good innovations and increased advertising and promotional spend," said Chief Financial Officer Jim Lawrence on a conference call with reporters. "We have brought the company back to volume growth which will continue this year," he said.

Industry consultant James Amoroso said the company had clearly overdone its price increases late in 2008, hurting volumes. "As promised, Polman has addressed this short-term issue and returned Unilever to competitiveness," he said.

Mr. Lawrence confirmed the company had cut prices where appropriate.

However, the higher volumes came at the expense of operating margin -- which dipped 60 basis points -- largely due to a 50 basis-point rise in advertising and promotional spend in order to drive volumes.

The rise in advertising spend came despite Unilever being able to achieve much cheaper media rates than a year ago thanks to the downturn in the advertising industry.

Mr. Amoroso said Unilever had clearly been "extremely aggressive" with its advertising activities in the quarter. "This is unlikely to be sustainable or even desirable going forward," he said.

Unilever's margins are expected to receive a boost in the second half and in 2010 from a sharp drop in commodity pricing and the unwinding of hedges associated with them.

— The Associated Press contributed to this article.

Write to Michael Carolan at michael.carolan@dowjones.com

Copyright © 2009 Dow Jones & Company, Inc. All Rights Reserved.