

Danone Sales Beat Estimates as Chinese Seek Safer Baby Food (3)  
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(Updates with CFO comments starting in third paragraph.)

By Julie Cruz

April 16 (Bloomberg) -- Danone reported first-quarter sales growth that beat estimates as renewed concern in China over the safety of baby-food products caused consumers to turn to established international brands such as Aptamil and Cow & Gate. So-called like-for-like revenue rose 5.6 percent, the Paris-based maker of Activia yogurt said today, sending its shares to the highest in more than five years. The average of 14 analysts' estimates compiled by Bloomberg was 4 percent. Baby-nutrition revenue jumped 17 percent on a like-for-like basis, with "booming" Asia-Pacific sales being led by a need for "safety" in China, Chief Financial Officer Pierre-Andre Terisse said. Milk safety in the country became a major issue in 2008 when a melamine contamination killed at least six infants and concern was reignited in January when Fonterra Cooperative Group Ltd. found minimal levels of a fertilizer additive in some samples. Fonterra said there was no health risk. "The organic growth in baby food was truly extraordinary," Andrew Wood, an analyst at Sanford C. Bernstein in Singapore, said in an e-mailed note. Danone rose as much as 4.1 percent to 56.67 euros in Paris trading, the highest price since Jan. 10, 2008. The stock was up 3.6 percent at 56.42 euros as of 11:55 a.m.

#### Safety Concern

Danone doesn't expect demand for baby-nutrition products to weaken in China, Terisse told analysts today. "The conditions for safety are not really standard in this country and therefore the need of the consumer for safety remains very strong," Terisse said. "It's difficult to see any sign for weakening of the demand at least in the short term." Exporting more from Europe to China isn't a sustainable solution for meeting rising demand and the priority is to adapt the company's product portfolio locally, the executive said. Most U.K. supermarkets have introduced restrictions on sales of powdered baby milk following a surge in exports to China as health scandals in the country undermined confidence in local brands, the British Broadcasting Corp. reported April 9. Fonterra, based in Auckland, New Zealand, said Jan. 24 that the discovery of the additive may become a trade concern even though there was no risk to health.

Danone said infant-nutrition sales also benefited from a later Chinese New Year. Many workers based in Chinese cities stock up on items such as baby food before returning to villages for their celebrations, according to Exane BNP Paribas analyst Jeff Stent. The later timing of the holiday had a positive effect on sales of three percentage points, Terisse estimated.

#### Cost Reduction

Chief Executive Officer Franck Riboud said a cost-reduction plan announced in February “is moving ahead on schedule.” Danone, which gets more than half its sales from dairy products, plans to cut about 4 percent of jobs in Europe as part of a plan to reduce expenses by 200 million euros (\$262 million) over two years. The euro-area jobless rate rose to a record 12 percent in early 2013, a report showed this month. The first quarter “highlighted once again the contrast between robust growth in emerging markets and the sluggish economy in Europe,” Riboud said in the statement. Sales rose by more than 10 percent in emerging markets and North America combined, while falling 5.1 percent in Europe. Volume, or the quantity of goods sold, rose 3 percent in the first quarter, beating the 2.6 percent average estimate. Volume is going back to “positive territory” in Portugal, Terisse told analysts.

#### Bottled Water

Currency movements reduced sales by 2.4 percent, reflecting “unfavorable trends” in the Argentinian peso, the Brazilian real and the Indonesian rupee, Danone said. Revenue from bottled water rose 8.6 percent on a like-for-like basis as growth in emerging markets offset a slight decline in Europe because of cold weather in March. Fresh dairy-products sales rose 0.7 percent, also on a like-for-like basis. Business conditions remain particularly difficult in Italy and Spain, while Portugal has improved slightly, Terisse said on a call with journalists today. “We are far from having done everything we need to do in Europe,” Terisse told analysts today. Promotional pricing is used “very selectively” in the region, he said. Danone today reiterated its forecast for like-for-like sales growth of at least 5 percent this year and operating margin narrowing by 30 basis points to 50 basis points. The company said it’s considering buying back shares for 100 million euros to 200 million euros within coming weeks. Danone’s definition of like-for-like sales growth excludes currency changes and strips out changes in consolidation scope.

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