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Nestle Says Sales Growth to Accelerate as Advertising Increases  
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By Tom Mulier

Feb. 19 (Bloomberg) -- Nestle SA, the world's largest maker of coffee, bottled water and pet food, said sales growth will accelerate in 2010 after advertising increased last year.

So-called organic revenue from food and beverages will rise more than 2009's 3.9 percent, the Vevey, Switzerland-based company said in a statement today.

Nestle boosted media spending by 10 percent in 2009 as advertising rates declined. The company has about 30 brands, including Nespresso and Nescafe, with more than 1 billion Swiss francs (\$918 million) of revenue. Nestle expects "continued economic uncertainty in 2010, especially in developed countries."

"With their very strong brands, they are indeed pushing them very smartly in the marketing campaigns and this seems to be working," said Philippe Gijssels, a senior structured-equity strategist at Fortis Bank Global Markets in Brussels. "They're well positioned to take advantage of emerging market growth."

Nestle rose 30 centimes, or 0.6 percent, to 51.75 Swiss francs at 9:03 a.m. in Zurich trading. The shares have gained 33 percent in the past year, compared with a 43 percent gain in Unilever, which said Feb. 4 fourth-quarter sales growth slowed.

Nestle also said it expects its operating margin to widen this year, based on constant exchange rates.

The company didn't say organic sales growth would meet its long-term target of 5 percent to 6 percent, which it has said in past years when announcing full-year results, such as in 2008.

#### Slower Growth

"The outlook statement is fair enough -- they are promising at least 4 percent growth," said Jon Cox, an analyst at Kepler Capital Markets. "It is below the 5 to 6 percent target, but the company would be foolish to promise that given the uncertain environment. Still, I would not be surprised to see them approaching that long term goal."

Nestle, the bottler of Perrier and Vittel, also said sales growth slowed in 2009 as the recession led consumers to spend less on bottled water and Jenny Craig weight-loss programs.

Food and beverage revenue, excluding acquisitions, divestments and currency swings, rose 3.9 percent last year, matching the average of five analysts' estimates compiled by Bloomberg. Net income dropped to 10.4 billion francs, beating the 10.2 billion-franc median estimate, on lower capital gains.

Nestle said it's raising its dividend 14 percent to 1.60 francs a share. The company said it plans to buy back 10 billion francs of stock this year. Chief Financial Officer Jim Singh in January had said Nestle would be "very comfortable" buying as much as 8 billion francs a year in 2010 and 2011.

## Bottled Water

The world's largest food company missed its 5 percent to 6 percent long-term sales target for the first time after four years of beating the goal. Nestle gets more than a tenth of its sales from bottled water, having bought San Pellegrino and Perrier in the 1990s. Nestle's bottled water revenue declined 1.4 percent, excluding currencies, acquisitions and disposals, as consumers bought cheaper generic alternatives.

"Private label is possibly the single biggest competitive threat to branded bottled water," Susanne Seibel, an analyst at Barclays Capital, wrote in a note before the results.

Nestle's San Pellegrino brand water sells at four times the price of a generic version in Swiss Coop stores.

Profit declined as the year-earlier figure was boosted by a 9.2 billion-franc capital gain from selling a 25 percent stake in eyecare company Alcon Inc. to Novartis AG. This year, Nestle will sell its remaining majority stake to the Swiss drugmaker for \$28.1 billion.

The volume of goods sold rose 1.9 percent in the year, more than the average 1.4 percent estimate.

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