Food DIVE

BRIEF

# Nestle CEO warns of lackluster sales and profit performance

By **Sandy Skrovan** • July 28, 2017

**Dive Brief:**

- Nestle sales increased 2.3% in the first half of 2017, missing analyst expectations, reports Bloomberg. The company projects full-year revenue growth at the lower half of its 2% to 4% forecasted range. According to Bloomberg, this is the food company's weakest outlook in 20 years.

- During its half-year investors' call, Nestle said that the company is facing commodity headwinds with raw material costs increasing for the first time in two years. This "may crimp profitability," Bloomberg writes.

- CEO Mark Schneider has already started a company overhaul, including the possibility of selling Nestle's U.S. confectionery business and buying back stock. Schneider also commented that reorganization costs could be higher than the company had planned earlier in the year, suggesting some future restructuring and reshuffling.

**Dive Insight:**

The lackluster performance from Nestlé shouldn't come as much of a shock. Big food across the board is struggling as consumers shun packaged products in favor of fresh and healthy food alternatives and innovative startup brands. Consumers are voting with their wallets, and much to the dismay of large food makers like Nestlé, it's the small companies that are driving sales and stealing away market share.

The top 25 food manufacturers' share of U.S. food and beverage retail sales declined from 66% in 2012 to 63% in 2015, according to the study "Is Big Food in Trouble?" by A.T. Kearney and The Hartman Group. While small food companies grew revenue at 11% to 15% during this time, the top 25 CPGs recorded just 1.8% growth. When stacked up against that figure, Nestle's projected revenue growth in the 2% to 4% range really doesn't look all that bad.

But Nestle's performance is still below some investors' expectations, including activist investor Daniel Loeb, who is demanding Nestlé streamline its corporate operations and focus on growth. Loeb's Third Point hedge fund bought a $3.5 billion stake in Nestlé, or about 1.25% of the company's shares, in June. Third Point has since outlined several changes Nestlé could make, including improving margins, innovating the core business and selling non-core assets, including the stake it holds in cosmetics company L'Oreal. Some investors also suggest the company sell its frozen food operations, which includes Lean Cuisine and Hot Pockets, as consumers flock to fresher options.

Nestlé has fallen behind its competitors, who have done a better job adapting to changes in how people shop and competition from small, local brands. "Despite having arguably the best positioned portfolio in the consumer packaged goods industry, Nestlé shares have significantly underperformed most of their U.S. and European consumer staples peers on a three-year, five-year, and 10-year total shareholder return basis," Third Point said in a letter sent to investors earlier this year and quoted by The Wall Street Journal.

The food manufacturer is taking some steps to try and reignite its business. It is exploring strategic options for its U.S. confectionery business, including a potential sale, as the unit lags behind Hershey and Mars. Nestlé is also buying back stock to focus its capital spending efforts on high-growth food and beverage categories such as coffee, pet care, infant nutrition and bottled water. It also recently invested $77 million in meal kit startup Freshly. Nestlé said would help the startup find new ways to deliver nutritious food to busy, on-the-go consumers. It also recently invested in an incubator program to support emerging food and agriculture startups.

But given Nestle's enormous size, a series of small changes probably won't move the needle in a big way, at least not right away — and not as much as Loeb would like. More, and bigger, moves by the company should be expected.

Earlier this year, Schneider warned of reorganization and restructuring costs beyond what the company had originally planned, reports Bloomberg. Time will tell if Nestlé can survive on its own terms or if it will get turned upside down by Loeb. The activist investor has a history of shaking up firms.

There is another possible scenario that could play out: acquisition. That, at least, was Whole Foods solution to its activist investor problem.

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