

## **Danone shares drop in Paris on falling fresh dairy shipments**

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**By Bloomberg**

Danone fell the most in six weeks in Paris after the yogurt maker's price increases weighed on the amount of dairy products it sold in the first quarter.

The shares fell as much as 2.4%, the biggest intraday drop since March 3. They traded 1.1% lower at 52.67 euros as of 4:37 p.m. in the French capital.

Fresh dairy volume fell 3.7% in the quarter to the lowest level in more than a decade as Danone raised prices and introduced more expensive products, partly because of milk inflation in Russia, the Paris-based company said today in a statement. Dairy volume will worsen in the second quarter before starting to improve in the third, said Chief Financial Officer Pierre-Andre Terisse. Additional price hikes are planned as dairy margins are under pressure, the CFO said.

The volume decline was "disappointing," Andrew Wood, an analyst at Sanford C. Bernstein, said in a note. "For another potentially disappointing year, current valuations do not look attractive."

Like-for-like sales increased 2.2% in the first quarter, matching the median of 14 analysts' estimates compiled by Bloomberg. Revenue at that level, which is adjusted for acquisitions, divestments and currency shifts, will rise 4.5% to 5.5% this year, Danone also said.

### **Chinese woes**

Danone is seeking to rebuild its infant-nutrition unit in China after a product recall and bribery claims at its Dumex baby-milk business contributed to the first annual earnings decline in more than a decade. The maker of Evian bottled water is also working to revive its flagging European business.

Total sales in the three-month period amounted to 5.06 billion euros (US\$7 billion), trailing the 5.15 billion-euro median of analysts' estimates. Exchange-rate

movements reduced revenue by 8.9 percent, the maker of Activia yogurt said. Volume fell 1.9%. Analysts predicted a 0.1% decline.

“Demand will remain similar to 2013, with sluggish trends in Europe, significant carry-over of milk price inflation and persistently high exchange-rate volatility in emerging markets, resulting in higher inflation in those countries,” Danone said.

Revenue growth and profitability will be stronger in the second half than the first, the company said, repeating an earlier forecast. The full-year operating margin may widen or narrow as much as 0.2 percentage point on a like-for-like basis, Danone said.

### **Price-mix effect**

“Danone appears intent to hit its margin guidance at any cost,” said Jeff Stent, an analyst at Exane BNP. “Not how we would personally choose to run the business.”

Like-for-like revenue in Europe outside the Commonwealth of Independent States increased 0.5% in the quarter, Danone said. The gain was the first for the region since 2011, CFO Terisse told reporters on a conference call. The region now shows a stable price-mix effect, though Germany and Italy continue to face headwinds, Danone said.

Sales in Ukraine fell, he also said, without specifying the decline.

Danone recalled products last year in Asia after supplier Fonterra Cooperative Group Ltd. warned that some milk powders may have contained botulism-causing bacteria. While infant nutrition sales in Thailand, Singapore and Hong Kong are almost back to the level they were before the recall, New Zealand and China remain “low,” the CFO said.

Still, new products in China “are showing a good start,” Terisse said.

Danone is weighing the sale of its medical-nutrition unit in a deal that may fetch more than 3 billion euros, a person familiar with the situation told Bloomberg News in February. Fresenius SE, a German health-care company, and Nestle SA, the world’s biggest foodmaker, are the two bidders left for the division, Reuters said this month.

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