

**Nestlé SA**

# Nestlé targeted by activist Third Point

Daniel Loeb's fund says 'staid' Swiss food giant should sell its stake in L'Oréal



Daniel Loeb, founder and chief executive of Third Point © Bloomberg

7 HOURS AGO by: **Ralph Atkins** in Zurich and **Kara Scannell** in New York

Switzerland's Nestlé has become the latest target of US activist investor Daniel Loeb, who says the world's largest food and drinks company is "stuck in its old ways" and needs a shake-up.

Mr Loeb's hedge fund Third Point has taken an investment position of roughly 40m shares, or 1.3 per cent, in the company, and has begun "productive conversations" with management, the US-based fund said on Sunday. The stake, including options, is worth about \$3.5bn, Third Point said.

Nestlé, whose products include baby milk, pet food, Nespresso coffee and KitKat chocolate bars, is under pressure to boost profitability as the global food industry reacts to pressures unleashed by Kraft Heinz's failed \$143bn takeover approach this year for Anglo-Dutch group Unilever.

Investors have broadly welcome the arrival of Mark Schneider, who took over as Nestlé's chief executive in January. But Third Point said the company is "ripe for improvement".

The hedge fund is proposing Nestlé set a formal profit margin target of 18-20 per cent by 2020, boost its debt to buy back shares, put up for sale non-core products in its portfolio, and sell its 23 per cent stake in cosmetic maker L'Oréal. Nestlé's current operating margin is about 15 per cent.

Nestlé did not respond immediately to requests for comment.

The company announced this month that it would quit the US confectionery business and put up for possible sale brands including Butterfinger, Baby Ruth and Crunch chocolate bars which generated sales of \$923m last year. Analysts believe Nestlé's revamped US frozen food business could also be put up for sale by Mr Schneider.

Nestlé has also taken a stake in Freshly, a New York-based online ready meals company, as it seeks to build up expertise in alternative distribution networks and shore up its position in the America's fast changing food retail market.

Those changes may not be enough for Third Point. It said Mr Schneider "will need to articulate a decisive and bold action plan that addresses the staid culture and tendency towards incrementalism that has typified the company's prior leadership and resulted in its long-term underperformance".

Mr Loeb, whose fund also has a large portfolio of credit investments, has returned to activism after a hiatus in 2016 when he thought there were too few opportunities. Third Point is also currently agitating for a change of plans at Dow Chemical and DuPont, which are preparing the restructuring that will follow their merger.

Nestlé's businesses model has traditionally focused on leveraging its sales growth, and its size acts as a defence against possible takeover attempts. Organic growth has slowed in recent years as a result of consumer trends and sluggish global economic growth, and Kraft Heinz's actions have fuelled speculation that Nestlé would not be immune to upheaval in the global food industry. Unilever, under pressure from the aborted Kraft Heinz bid in February, increased its operating profit margin target to 20 per cent by 2020 up from 16 per cent.

In one of his few public appearances since taking over, Mr Schneider has hinted he will put greater emphasis on boosting profits.

*Additional reporting by Scheherazade Daneshkhu*

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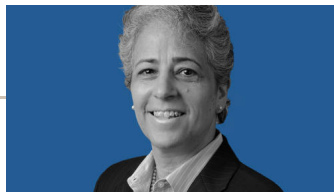
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