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Gillette's Quarterly Net Jumps 18%

Blackout, Hurricane Boost
Sales of Duracell Batteries;
Razor Unit Gains Sharply

By CHARLES FORELLE
Staff Reporter of THE WALL STREET JOURNAL
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The August blackout and Hurricane Isabel sent consumers scurrying for their flashlights, driving Duracell battery sales higher in the third quarter and propelling parent **Gillette** Co.'s net income higher and earnings per share to record levels.

Gillette's core razor business also posted sharp gains as operating profit in the unit grew 10% to \$413 million despite heavy marketing spending to hold off competition from rival Schick-Wilkinson Sword. Blade-and-razor revenue rose 17% to \$1.03 billion.

Overall, third-quarter sales at the Boston-based consumer-products company rose 11% to \$2.41 billion from \$2.17 billion in the same period a year earlier. Net income rose 18% to \$416 million, or 41 cents a share, from \$354 million, or 33 cents a share.

Earnings per share were aided by the company's share-buyback program, and Gillette attributed five percentage points of the sales increase to the favorable currency exchange.

Investors were pleased with the results. Gillette shares were up \$1.65, or 5%, at \$34.15 as of 4 p.m. in New York Stock Exchange composite trading. **Bringing razor sales up 17% in a low-inflation environment is a "pretty impressive performance," says Fredric E. Russell, president of Fredric E. Russell Investment Management Co., a Gillette shareholder.**

In addition to the rise in sales, a key to the growth in net income was cost savings that materialized faster than expected, said Amy Low Chasen, an analyst at Goldman Sachs. The savings gave Gillette's management "flexibility to support their businesses and drive the top line," Ms. Chasen said. Gillette has wrung money out of a project to increase manufacturing efficiencies, particularly among battery plants, and is ahead of schedule on a multiyear program to cut costs from suppliers.

But advertising spending zoomed, rising 37% in the third quarter as Gillette blanketed airwaves with spots for the Mach3 and Venus razors, both of which face new competitive entries from Schick. Schick's Intuition razor for women has been on the market since April, and its four-bladed Quattro men's razor hit shelves in September. Gillette has sued Schick for patent infringement over Quattro and that case heads to federal court in Boston Wednesday.

The rise in razor sales concurrent with the ads, which feature variations on the theme of superior blade performance, shows that the "Mach3 franchise really resonates with the consumers," said Banc of America Securities analyst William Steele.

But Gillette warned that the strong sales could damp results in subsequent quarters as consumers use up the extra batteries stored in their closets and buy up the razors in retailers' inventories. The company said early shipments to retailers of special promotional packages added \$40 million to revenue in the third quarter. Gillette said

those shipments would likely subtract "a similar amount" from fourth-quarter sales, since retailers will factor in the prepurchased products to their fourth-quarter orders.

The battery business, in recent years a sore spot of sluggish performance for Gillette, showed unusually sharp gains, thanks in large part to the blackout and hurricane. Profit in the unit rose 35% and accounted for about a third of the company's overall gains in operating profit.

Gillette said that the number of batteries sold industrywide in the U.S. rose 8% in the third quarter, but six percentage points of that gain were attributed to blackout- or hurricane-related sales, which aren't likely to recur in the near future.

The category also continues to be beset by stiff competition from **Energizer Holdings** Inc., St. Louis, which is Schick's parent company; and Rayovac Corp., Madison, Wis., which has upset its competitors by increasing the number of batteries in its standard packs while charging the same price.

Write to Charles Forelle at charles.forelle@wsj.com

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