

Hormel Foods' 2Q Net Income Falls On Costs

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ST. LOUIS (AP) -- Hormel Foods Corp. posted a 3 percent drop in second-quarter net income as the maker of Spam and Hormel chili products endured higher meat costs in its grocery segment, which hurt margins.

But the food maker raised its guidance for the year above analyst estimates, saying its brands will help it overcome high costs.

Analysts expressed concern during a conference call Wednesday that rising hog prices could pinch Hormel's profit margins through 2011. Pork is a key ingredient of its products.

"Absent a major acquisition ... we see difficulty growing (earnings per share) in 2011," Jonathan Feeney, an analyst with Janney Capital Markets, said in a note to investors Wednesday.

CEO Jeffrey Ettinger said he expects hog prices to remain high, and the company would have to consider passing on the extra costs to consumers. Ettinger said in an interview Hormel could decide as early as this fall if price hikes are needed.

The company's stock fell 99 cents, or 2 percent, to \$40.79 during afternoon trading.

The company, based in Austin, Minn., said Wednesday that it earned \$77.9 million, or 57 cents a share, in the three months ended April 25, down from \$80.4 million, or 59 cents a share.

The 2010 results include one-time charges worth 10 cents a share for a plant closing and the tax impact of new health care laws.

Revenue rose 7 percent to \$1.7 billion.

According to Thomson Reuters, analysts expected income of 61 cents a share on revenue of \$1.62 billion.

Ettinger said Hormel is poised to boost profits if consumers start spending more on higher-end grocery store items like prepared food and eating out at restaurants that Hormel supplies through its food services division.

He said Hormel has seen an uptick in restaurant business over the last two quarters, which indicates the spending recovery might be sustainable. If that happens, Hormel will feel confident enough to start introducing new products, which the company held off on during the recession.

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"I do think it made consumers a little less interested in trying new things," he said of the downturn.

Volume of food sold increased 2 percent from the prior year, and in the grocery products segment it jumped 10 percent. The food maker has been benefiting as people eat more at home rather than in restaurants to save money. But operating profit in the segment, which includes brands like Hormel chili and Hormel Mary Kitchen hash, fell 24 percent because of higher meat costs.

Ettinger said performance in the company's Jennie-O Turkey Store and its specialty foods segments more than outweighed the slump in grocery products.

Operating profit in the Jennie-O Turkey Store doubled to \$32.2 million from the prior year, and revenue edged up 1 percent to \$292.6 million. The segment, which makes up 17 percent of total revenue, had been hurting from an oversupply of meat on the market that kept pricing down and high costs, which crimped margins. The industry has been reducing production, which helps increase pricing, and benefiting as high ingredient costs moderate.

Refrigerated foods, the company's biggest segment at more than half of revenue, posted a 7.1 percent increase in revenue to \$893.5 million and saw strong sales of Hormel party trays and Hormel pepperoni.

The company said it now expects to earn between \$2.75 and \$2.85 per share in the fiscal year, on an adjusted basis. That's up from prior guidance of \$2.68 to \$2.78.

Analysts expect the company to earn \$2.74 per share in the fiscal year ending in October, according to Thomson Reuters.

AP Business Writer Emily Fredrix contributed to this report from New York.

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