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Dean Foods Company Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Farha Aslam with Stephens Inc.

Farha Aslam - Stephens Inc.

Could you detail for us the shrink and the comparison in the back half that you probably won't experience again, this back half of 2009, and also the cream sales issue?

Gregg L. Engles

Let me give you a high-level commentary and then Jack may follow up with some numbers. Effectively where we are on shrink is we expect to be neutral with respect to shrink as it relates to the back half of 2007.

Maybe slightly advantaged if milk ends up being cheaper in the back half of 2008 than it was in 2007, but I guess the most important point there is we're lapping these very difficult shrink overlaps and as we make progress across the rest of our business, I think it will support a return to higher levels of profit growth.

On the excess cream sales issue, you will recall that in the back half of 2007 the industry found itself in an unusual position where the price of powder was really driving the price of milk and the price of cream, or the price of butter fat, was relatively low.

Therefore, the price that we paid for the milk that ended up in cream, as compared to the value of that cream in the market place, was inverted with respect to its historical norms and the cost reduction, or the profitability, from those cream sales diminished, or were evaporated, in the back half of 2007.

2008, that situation has returned to normal. It is fat rather than skim, or powder, that is driving the price of milk and so the realization we are getting from our cream sales is returning to more normal levels, which is of course impacting our profitability in a favorable way.

Jack F. Callahan

Just to put some rough quantification around it as far as in the second quarter, the improved realization from cream sales probably contributed about 25% of the profit growth in the DSD dairy segment. And in just absolute dollars, we would expect that benefit to step up a bit in the third quarter, just given the incredibly challenging time we had in the third quarter of 2007. So, it will probably step up in the third quarter.

Farha Aslam - Stephens Inc.

My follow-up question involves your workforce and plant rationalization. How much do you expect that to save overall in 2008?

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