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Avery Dennison Corporation Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Jeffrey Zekauskas – J. P. Morgan.

Jeffrey Zekauskas – J. P. Morgan

In the office and consumer products area your profits held up very well excluding charges and I think your sales decreased about \$35 million but your operating profits were up a couple of million. How did you do that?

Daniel R. O'Bryant

Well, we have been raising prices in that business as we've carried the inflation for a good part of 2008 that had not been carried on to customers. That's part of the equation. We've also driven a lot of productivity in that business. They are out ahead of the rest of Avery Dennison in terms of their use of enterprise lean sigma principles and that has really driven an awful lot of productivity so they've managed their business quite well under pretty slow circumstances.

Jeffrey Zekauskas – J. P. Morgan

So there are no asset sales or gains in those numbers?

Dean A. Scarborough

No, those are the real operating numbers.

Jeffrey Zekauskas – J. P. Morgan

If I recall you're now on FIFO instead of LIFO. Are there any FIFO affects that you'll feel either in the fourth quarter or in the coming quarter, the first quarter.

Daniel R. O'Bryant

I'm not sure what you mean, we've been on FIFO now for two or three years I think.

Jeffrey Zekauskas – J. P. Morgan

Right but aren't your raw materials really going to come down as you purchase new raw materials but what you have to do is use your raw materials in inventory which are much higher costs?

Daniel R. O'Bryant

When you look at our inventory turns there is a lag between – if you're talking about raw material inflation or deflation, there is a couple month lag from when we procure it to when it actually hits the P&L, if that's your question.

Jeffrey Zekauskas – J. P. Morgan

I guess the restructuring you have, you're going to lay off about 10% of your work force which I think is about 3,700 people but the savings is only about \$70 million. Why is the savings so small relative to the number of people?

Dean A. Scarborough

The restructuring that we're doing is weighted towards our retail information services business. We've completed the integration and this next wave of savings there in productivity is going to be substantial. A lot of those people are not in the US, they're in Asia, many of them in China so there is a little bit of a disconnect perhaps between the total savings and the total headcount but the real impact on that business is the improvement it will have on our customer service. We really are driving a transformation of that business that will benefit us in the market place. But that's why the dollars and the headcount may not run parallel.

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