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Kellogg Company Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions) Thank you. Our first question comes from Judy Hong of Goldman Sachs. Please take your question.

Judy Hong – Goldman Sachs

Thanks. Good morning everyone.

David Mackay

Good morning, Judy.

Judy Hong – Goldman Sachs

David, just looking at the cereal in North America up 6% internal sales growth in the quarter looks pretty encouraging. I'm just wondering if you can may be strip out how much pricing and mix added to that growth, and as you think about your commitment to gain share again in the cereal category whether the pricing improvement in that part of the segment can be seen over the period of time?

David Mackay

Yes. I think when you look at out performance, the great thing about in the US cereal category was the growth overall, up 6% to 7%. So, very strong performance from the category, and to be frank, we are seeing that from a lot of the larger cereal markets around the world. Price mix, given we took some pricing early in the third quarter and we left an increase from 2008 where with price protected was probably a little higher than would expect it to be for the balance of the year. And our volume also grew 1%. So, we saw a good combination of volume growth probably higher price mix in the first quarter than would expect for the balance of the year. So, overall, while we never lose share. If you look at the total market performance, we did lose probably a few tenths a share. Very strong performance from the category and a very solid performance from Kellogg and what is our toughest comparative for year.

Judy Hong – Goldman Sachs

And then if I can follow up, in terms of your guidance, you are now expecting \$0.08 of higher upfront cost, but you are basically sticking with the full year guidance. So, that implies the underlying momentum is actually stronger. Where do you think that there is upside in terms of the underlying momentum that gives you confidence you can offset the \$0.08?

David Mackay

The whole K-Lean initiative and the \$1 billion challenge we laid out at Cagney. We started on that in 2008. We've got great traction across the business, not only in North America but in many markets around the world and that's going extremely well for us. We mentioned the indirect procurement work that's going on, that's playing out extremely well for us. And the overall process we have looking to simplify and standardize all we do. I think is going to give us great visibility and benefit as we go through the course of 2009. So, I think they are probably the primary reasons why we are seeing greater visibility and increased confidence in a very, very difficult market where consumers they are clearly looking for value.

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