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Ingles Markets, Incorporated F2Q09 (Qtr End 03/28/09) Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from Bryan Hunt – Wachovia.

Bryan Hunt – Wachovia

Ron, I was wondering if you could address the gross profit margin decline on your grocery segment. During the quarter it was down about 50 bps. Could you tell us where that stems from?

Ron Freeman

Well, there's a lot of price competition going on right now. We're going to be very competitive during the tough economic times that we're experiencing right now, and in some cases that means you price pretty aggressively.

Bryan Hunt – Wachovia

Okay. And along those lines, could you talk about your sales mix, whether you're seeing any major changes and whether it's private label, organics, in the deli, bakery or meat categories. Where are you seeing one, the most growth and maybe one, the greatest weakness?

Ron Freeman

Well, we're not seeing any significant differences from what we've seen over the past six and nine months since the economy went into recession. And we've talked before about the shift from dining out to purchases of ready prepared meals and overall increase in the industry of private label purchases and that's still out there.

Bryan Hunt – Wachovia

Okay. And then looking at operating expenses, I would have expected a pretty material decline in your distribution cost just because the decrease in diesel fuel in the second quarter, as well as the decline in plastics costs, which I think you all have alluded to in the past. Could you talk about maybe the major, since we don't have your 10-Q yet, some of the major changes that are taking place in your operating cost line?

Ron Freeman

Well, the biggest changes in operating costs are the interest and depreciation from the greater level of store development that we've had over the last 18 months or so. And associated with that when you open a larger number of new stores, you've got a certain amount of front-end loaded expenses with that. You staff up to make sure services levels are excellent and off to a good start, and it just takes a while. And in this economy it takes a little while longer for the sales to ramp up to provide that operating leverage.

Bryan Hunt – Wachovia

Okay. And just along that line of question, I mean the new stores have been a drag on earnings, especially this quarter. But given the current environment, when do you expect those stores to mature and to hit your hurdle rates on cost of capital.

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