Dean Foods Q3 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Terry Bivens of JP Morgan.

Terry Bivens – JP Morgan

Gregg, I guess one of the things I get the most questions about is this whole calculus between the savings but the degree of investment that will be required to drive those savings. Now, I know you guys have been crystal clear about the savings tally but what about the investment tally? Can you shed anymore light on what sort of investment you think is going to be necessary to get to where you want to go?

Gregg L. Engles

Well, there's two types of investments that we are going to have to make, Terry. There are investments that we are going to have to make in building capabilities. Those will be reflected as expenses in our P&L. And then there are capital expenses that are going -- or capital investments that will have to be made that will be put up on our balance sheet as -- primarily as PP&E and to some degree as information technology investment. So I think it is really important to parse those two out.

What we said back in February when we talked about our earnings algorithm was that a portion of this $300 million in savings over time would have to be reinvested back and by that I mean primarily reinvestments through capability building that will be expressed as expenses over this time horizon to generate the savings. Frankly, we will step up our level of capital spending but most of the savings that we are talking about in this initial three to five year plan and initial $300 million really will be derived by operating our businesses better as opposed to putting new physical assets on the ground. So there will be -- most of the reinvestment will be in terms of expense.

So while we have not directly dimensionalized how the expense portion, and you are seeing it play out in our corporate expense, will evolve because frankly we have to have more -- we have to be closer in time to the capabilities we are going to build to put a direct number on it.

What we were confident enough to say was that the net of the $300 million and the investment in the P&L and capability would be sufficient enough to generate double-digit earnings per share gains and mid single digits operating income gains over time. So that's probably the best way to go back and factor it into your model, is to see what sort of net operating income progression you need to generate that double-digit earnings per share growth and mid-single-digits to upper-mid-single digits operating income growth to generate that algorithm and it's that net that will be the difference between the savings we realize and the costs expressed in our P&L that it takes to get there.