

Sysco profit falls as 'extreme' meat, dairy inflation raises costs

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Sysco Corp. reported a lower-than-expected quarterly profit, with the largest U.S. foodservice company saying “extreme” inflation in meat, seafood and dairy products increased its costs and curbed customers’ purchasing budgets.

Meat, seafood and dairy costs rose 11 percent to 12 percent during the quarter ended Jan. 1, Sysco executives said during a conference call today with analysts following the release of quarterly results. Those categories account for about a third of Sysco’s sales.

Sysco said overall food cost inflation, as measured by the estimated change in the company’s product costs, was 4.5 percent during the quarter, driven by “continued double-digit levels of inflation in the meat, dairy and seafood categories,” according to a statement today.

By comparison, Houston-based Sysco reported food cost deflation of 3.5 percent for the same period a year earlier.

Food inflation accelerated last year as the economy improved and consumers spent more. Beef and pork prices have climbed more than most other categories, reflecting downsizing by U.S. livestock producers in response to higher feed costs and the 2008-09 recession.

Meat prices are expected to continue rising this year as soaring feed costs discourage herd expansion.

That’s raising concern over consumers’ willingness to pay for steaks, chops and other pricier foods with unemployment still high.

Bill DeLaney, Sysco’s chief executive officer, said that while Sysco’s sales volumes to restaurants, hotels other customers was up, the company wasn’t able to raise prices enough to fully offset meat, seafood and dairy.

“These are key product categories for many of our customers, and absorbing steep and rapid price increases is difficult for them, especially at this early stage of what we all hope is a sustainable, if somewhat uneven, economic recovery,” DeLaney said during the conference call.

In December, U.S. retail pork prices rose 11.2 percent from levels during the same month in 2009, the largest year-over-year increase since 1996, according to a Bureau of Labor Statistics report. Retail beef prices in December rose 6.1 percent and gained 2.9 percent for all of 2010.

The U.S. economy appears to be in the early stages of a recovery based on trends in 2010, DeLaney said.

However, “that recovery, and to some extent our financial results, may be somewhat choppy, due to the economic challenges that consumers continue to face,” DeLaney said.

During the three months ended Jan. 1, Sysco’s fiscal 2011 second quarter, the company posted net earnings of \$258.2 million, down 3.8 percent from the same period a year earlier. Revenue rose 5.7 percent, to \$9.38 billion.

On a per-share basis, Sysco earned 44 cents a share, about 3 cents below analysts’ expectations, according to Reuters.

In mid-afternoon trading, Sysco shares fell \$1.80, or 6 percent, to \$28.05.

Sysco is North America’s largest food distributor to restaurants and has about 400,000 customers, including schools, hotels and prisons.