

George Weston profit rises as costs crimped

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TORONTO (Reuters) - George Weston Ltd (WN.TO: [Quote](#)) said on Tuesday first-quarter profit rose 26 percent, as the food processor and distributor raised prices and cut costs in the face of "unprecedented" cost pressure and the impact of the strong Canadian dollar at its food division.

Net earnings in the three months ended March 22 were C\$131 million, or 91 Canadian cents a share, compared with C\$104 million, or 70 Canadian cents a share, a year earlier.

Operating income was C\$252 million, up from C\$209 million, helped by a C\$24 million non-cash gain related to commodity derivatives that mitigated the impact of price fluctuations.

Weston, North America's largest baked goods maker, said it took a C\$5 million charge related to the restructuring efforts of both Weston and grocery chain Loblaw (L.TO: [Quote](#)), which it controls.

The company also took a C\$38 million charge related to stock-based compensation and equity derivatives of Weston and Loblaw.

Sales were C\$7.3 billion, compared with C\$7.2 billion a year earlier, but the negative impact of a robust Canadian dollar hurt its food segment and sales fell 4.5 percent to C\$1 billion.

Operating income for Weston Foods grew 28.6 percent to C\$99 million from C\$77 million, during what it called a "challenging" quarter as it was squeezed by rising prices of flour and other input items.

Price increases in key product categories, changes in its sales mix toward higher margin products, and continued cost reductions offset these factors.

"They seem to be successfully raising their prices to account for their higher costs," said **Peter Holden**, analyst with **Veritas Investment Research**.

"Obviously the one-time gains from successfully hedging your commodities, which would be mostly wheat and fuel I would guess, doesn't mean you don't have to take pricing to keep your margins up."

Weston said that for the rest of the year, it will focus on cushioning cost inflation through cost cuts and pricing action as it tries to achieve operating margins consistent with those of last year.

Weston said that while Loblaw continued to make progress in its turnaround plan, it still "lags behind as an effective selling operation."

The company said that while the financial benefits of the restructuring plans are expected to be seen in the second half of the year, there was still much work to do.

Shares of Weston were up C\$1.40, or 2.9 percent, at C\$50.40 in afternoon trading on the Toronto Stock Exchange.

(\$1=\$1.00 Canadian)

(Reporting by Leah Schnurr; Editing by Bernadette Baum)