



Heinz lifted by new ketchup, beans and diet meals

By [Andria Cheng](#), MarketWatch

August 24, 2007 -- Food company H.J. Heinz Co.'s first-quarter profit rose 5.8%, after it raised prices and unveiled new soups, ketchup and on-the-go meals to offset rising costs.

Net income rose to \$205.3 million, or 63 cents a share, from \$194.1 million, or 58 cents, in the year-earlier first quarter, the Pittsburgh-based company

H.J. Heinz Company said Friday. Sales in the three months ended Aug. 1 increased 9.1% to \$2.25 billion, with currency translations aiding about half of the growth.

Heinz increased marketing spending 25% to plug new products such as Heinz soup in the U.K. and Weight Watchers Smart Ones Anytime Selections meals as it plans to unveil more than 200 new items this year to spur sales. Chief Executive William Johnson also has expanded in emerging markets such as China and Poland and rolled out healthier and more convenient items such as organic pasta sauces and baked beans in microwavable packaging.



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"They need these new products with higher margins to improve their mix," said Alan Lancz, president of money management firm Alan B Lancz Associates & Inc., a former Heinz shareholder. "If the new product development takes hold, the stock could move up 10% to 15%."

Heinz, which increased prices by 2.8% during the quarter to offset rising dairy, sweeteners and oils costs, said it plans to further raise prices as it anticipates higher-than-expected commodity prices. Food companies including Hershey Co. have also raised prices to battle rising dairy and other costs.

Higher investor expectations

Profit and sales met the average estimates of analysts surveyed by Thomson Financial. Management had updated the company's outlook for the quarter earlier this month.

Heinz also said its full-year profit forecast would be near the top end of the \$2.54 to \$2.60 previously estimated range, in line with this month's update. Analysts' average profit estimate stands at \$2.60 a share.

Still, investors had expected the company to beat its own forecasts given earlier this month, Lancz said.

"It was a good quarter, but it wasn't as good as Wall Street was expecting," he said.

Shares of Heinz fell less than 1% to \$44.84 in late morning trading.

Core categories

Quarterly sales for the company's top 15 brands, accounting for about 70% of total business, rose 11%. Heinz has trimmed its portfolio in the past two years to focus on three core categories -- ketchup and sauces; meals and snacks; and infant nutrition, which together represent about 96% of the company's total.

Ketchup sales rose 13% in the first quarter. Beans and soups sales surged 25%. The Smart Ones line of healthy meals sales jumped 25%, reflecting the on-the-go meal introductions.

Demand in emerging markets, including Russia and India, was up 15%.

North American consumer products sales jumped 8%, led by Heinz ketchup and Weight Watchers Smart Ones frozen products.

In Europe, sales grew 12%, helped by its namesake line of ketchup, soups and beans.

Sales in Asia Pacific surged 18% as Heinz extended a fortified cereal baby line nationwide in China.