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Hormel Foods (HRL) CEO, Jim Snee on Q3 2019 Results - Earnings Call Transcript

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FQ3: 08-22-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.37 beats by $0.01 | Revenue of $2.29B (-2.90% Y/Y) misses by $-2.03M

Earning Call Audio

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00:00 -51:55

Hormel Foods Corporation (NYSE:HRL) Q3 2019 Earnings Conference Call August 22, 2019 9:00 AM ET

Company Participants

Jim Snee - Chairman, President, Chief Executive Officer

Jim Sheehan - Executive Vice President, Chief Financial Officer

Nathan Annis - Director, Investor Relations

Conference Call Participants

Erica Eiler - Oppenheimer

Ben Bienvenu - Stephens Inc.

Heather Jones - Heather Jones Research

Adam Samuelson - Goldman Sachs

Eric Larson - Buckingham Research Group

Robert Moskow - Credit Suisse

Thomas Palmer - JP Morgan

Rebecca Scheuneman - Morningstar

Operator

Welcome to the Hormel Foods third quarter 2019 earnings release conference call. At this time, all participants are in a listen-only mode. As a reminder, this conference is being recorded Thursday, August 22, 2019.

I'd now like to turn the conference over to Nathan Annis, Director of Investor Relations. Please go ahead, Mr. Annis.

Nathan Annis

Good morning. Welcome to the Hormel Foods conference call for the third quarter of fiscal 2019. We released our results this morning before the market opened around 6:30 am Eastern. If you did not receive a copy of the release, you can find it on our website at hormelfoods.com under the Investors section.

On our call today is Jim Snee, Chairman of the Board, President and Chief Executive Officer, and Jim Sheehan, Executive Vice President and Chief Financial Officer. Jim Snee will provide a review of each segment's performance for the quarter and our outlook for the remainder of 2019. Jim Sheehan will provide detailed financial results and further assumptions relating to our outlook. The line will be opened for questions following Jim Sheehan's remarks. As a courtesy to the other analysts, please limit yourself to one question with one follow-up. If you have additional questions, you are welcome to get back in the queue.

An audio replay of this call will be available beginning at 11:00 am today Central Standard Time. The dial-in number is 888-204-4368 and the access code is 8156000. It will also be posted to our website and archived for one year.

Before we get started, I need to reference the Safe Harbor statement. Some of the comments made today will be forward-looking and actual results may differ materially from those expressed in or implied by the statements we will be making. Please refer to Pages 35 to 41 in the company's Form 10-Q for the quarter ended April 28, 2019 for more details. It can be accessed on our website.

Additionally, please note the company uses non-GAAP results to provide investors with a better understanding of the company's operating performance by excluding the volume and sales impact of the CytoSport divestiture. Discussion on non-GAAP information is detailed in our press release located on our corporate website. Please note that during our call, we will refer to these non-GAAP results as organic volume and organic sales.

I will now turn the call over to Jim Snee.

Jim Snee

Thank you Nathan. Good morning everyone. Hormel Foods is an uncommon company, unique in our industry. We have a tenured management team who is able to quickly adjust to dynamic and volatile market conditions, a balanced portfolio of branded products sold through the retail, food service, deli and international channels, a direct sales force that is able to build and maintain relationships to help our customers grow their businesses, a reputation for bringing industry-leading innovations to the marketplace, and an increasingly agile and efficient supply chain.

Our financial position and business fundamentals remain strong. This enables us to deliver growth organically and through strategic acquisitions. Our leadership position as a global branded food company allows us to take a long-term perspective as we navigate near-term uncertainty related to the various market conditions.

Our third quarter results demonstrate many of the qualities that make us uncommon. This morning we announced earnings per share of $0.37, a 5% decrease compared to last year but in line with our expectations. The decline in earnings per share was driven by a higher tax rate. Pre-tax profits grew 1% as excellent results from refrigerated foods offset declines from grocery products. Net sales declined 3% due to the divestiture of CytoSport. On an organic basis, sales were flat on a volume decline of 1%.

Looking at the segments, refrigerated food sales increased 1% on a volume decline of 1%. Segment profit increased 13% driven by higher value-added profitability. Lower operational costs and higher commodity profits played a smaller role in the profit improvement. Refrigerated foods achieved record third quarter net sales, value-added sales, segment profit, and value-added profit. This was quite an accomplishment by the refrigerated foods team.

Our Hormel food service division had another solid quarter. The team continues to leverage their direct sales organization to grow brands such as Hormel Bacon 1, Hormel Fire Braised, Natural Choice, Fontanini, and Old Smokehouse. I remain impressed with the innovation this team continuously delivers to the food service industry. They are also making excellent progress filling the new capacity for precooked bacon and Fontanini products.

We remain very confident in our ability to grow the Applegate brand. Our food service team is making great progress growing Applegate with healthcare providers, colleges and universities. These operators appreciate the point of difference the Applegate brand provides for the needs of their patrons. For example, the Applegate Blend burger is filling a need in the college and university segment as students look for more ways to enjoy natural and organic alternative protein products.

The new Hormel deli solutions division continues to pursue its vision of helping retailers create the deli of the future. While the Columbus brand and our prepared foods portfolio of products are showing solid growth, the lower margin behind-the-glass category continues to decline. Consumer preferences are changing as shoppers are looking for more convenient options such as grab-and-go products like our Hormel Gatherings party trays and our authentic line of Columbus charcuterie. While this shift away from the behind-the-glass category presents a near term challenge to sales volume, I’m confident the ongoing shift benefits the consumer, the retailer, and our company over the long term.

As category leaders, we took price increases across many of our branded value-added products when we started to see sharp increases in input costs. During the third quarter, we were priced high relative to others in many retail categories which created higher elasticity than we would typically expect. When higher input costs did not materialize as forecasted, we realigned our pricing to more closely match the commodity market.

Once again, refrigerated foods has demonstrated an ability to generate growth in volatile market conditions. The long term growth of this segment continues to be driven by value-added products, disciplined pricing, and a clear focus on innovation. While we have seen how rapid changes in input costs can create noise in its quarterly results, the clarity, focus and alignment refrigerated foods demonstrates will continue to deliver sustainable growth.

Grocery products volume declined 10% while sales declined 11%. Organic volume in sales increased by 1%. Segment profit declined 30% year-over-year due to the divestiture of CytoSport, higher avocado costs for our Holy Guacamole business, and lower earnings from our Skippy peanut butter spreads business.

Similar to what we experienced in 2017, avocado costs increased by over 100% during the quarter. A smaller California crop and strong global demand are driving the avocado market prices. In response, the MegaMex team is actively managing promotional tactics and will be evaluating pricing as the new crop is harvested during September. As always, we continue to focus on growing the Holy Guacamole brand through effective brand building, advertising and innovation.

Our Skippy spreads business was negatively impacted by the price decline we took last quarter in response to a competitor’s deflationary pricing. While we are disappointed in the category dynamic, we remain focused on building the Skippy brand through revenue growth management, effective advertising, and continued innovation.

A key reason for acquiring the Skippy brand was to deliver out-of-the-jar innovation to the category. The recent launch of Skippy PB&Jelly Minis has been met with great retailer and consumer acceptance. This innovative item sold in the frozen section is versatile, portable, and perfect for today’s busy families. We have now reached national distribution and trial and repeat rates continue to improve. I’m very optimistic about the success of this product line.

While Skippy spreads and Holy Guacamole had a difficult quarter, the balance of the grocery products portfolio performed well. Many of our center store brands such as Spam, Dinty Moore, Herdez, Black Label Bacon Bits, and Hormel Compleats all had a great quarter. I fully expect all of these brands will show growth for the full year.

Jennie-O turkey store volume decreased 4% while sales decreased 5%. Segment profits declined 9% due to lower value-added sales. As we discussed last quarter, we are reactivating promotional activity to gain back lost retail distribution. While we continue to lap distribution losses, we have had a few small wins. We expect the process of regaining distribution will go well into 2020. Over the last few months, we have made changes to the Jennie-O organization to bring in several experienced leaders from other parts of the company who are charged with restoring growth through new and bold ideas for this business. From an industry perspective, we continue to see lower JOTS placements but cold storage remains at elevated levels. Turkey market prices have not materially changes since last quarter.

International volume and sales were flat. Organic volume and sales increased 2% while segment profit was up 1%. Our team in China delivered strong results driven by our food service business in addition to growth from the Skippy and Spam brands. Exports continue to be affected by global trade uncertainty related to African swine fever and tariffs.

Similar to the prior quarter, the uncertainty in the protein industry is related to the outbreak of African swine fever. On our second quarter call, we discussed our view that commodity markets would start to increase on higher demand for pork from China. While we have not seen consistently higher prices, we have seen higher volatility and expect that trend to continue.

As we evaluate the global impact of African swine fever, we are still confident that pork markets will eventually increase. At the appropriate time, we will take the necessary price increases to manage our profitability, which may create short term margin compression as pricing generally lags input cost increases.

Taking all factors into account, we are reaffirming our full-year guidance of $1.71 to $1.85 per share. We are also reaffirming our sales guidance of $9.5 billion to $10 billion but expect to be on the lower end of the range given market prices have not increased as we previously expected. I have confidence in our teams' ability to adjust to the changing market conditions and deliver our full year outlook.

At this time, I will turn the call over to Jim Sheehan to discuss our financial information relating to the quarter and our earnings guidance, in addition to key assumptions for the remainder of fiscal 2019.

Jim Sheehan

Thank you Jim. Good morning. Net sales for the third quarter were $2.3 billion. Organic sales growth in three of the four business segments was offset by declines at Jennie-O turkey store. Pre-tax earnings were $261 million, up 1% from last year. Net earnings were $199 million and diluted earnings per share was $0.37, down 5% due to a higher effective tax rate.

The significant increase in the tax rate was driven primarily by lapping the one-time gain from re-measuring the deferred tax liability last year. The tax rate was higher than we anticipated because of the lower volume of options exercised in the quarter. The full year tax rate is now expected to be between 18.3% and 20.3%, up from the previous estimate of 17.5% to 19.5%.

SG&A excluding advertising was 6.5% of sales compared to 7.3% last year. The decline was due to the impact of the CytoSport transaction and lower employee-related expenses.

Net unallocated expense declined $10 million driven by lower interest expense and universal stock option expenses in the prior year. Advertising for the quarter was $32 million, down from $40 million last year. Advertising investments are expected to be lower primarily due to the sale of CytoSport.

Operating margins were 11.2% compared to 10.9% last year. Strong results in refrigerated foods and favorable SG&A led to the improved performance.

Year-to-date cash flow from operations was $573 million, down 23%. The primary driver was increased levels of working capital as we build inventory in anticipation of higher raw material costs. This thoughtful approach to building inventory should mitigate some of the input cost volatility as markets rise.

For the quarter, capital expenditures were $67 million compared to $103 million last year. We expect to spend approximately $250 million in 2019. Weather delays and changes in project scope impacted the projected capital spend.

We paid the 364th consecutive quarterly dividend effective August 15 at an annual rate of $0.84 per share, a 12% increase over the prior year. This completes our 91st year of consecutive dividends. Share repurchases in the quarter were $107 million, representing 2.7 million shares. We will continue to repurchase stock to offset dilution from stock option exercises and based on our internal valuation. Our balance sheet remains strong and allows us to fund strategic investments to grow the business.

Fundamentals in the turkey industry are mixed. Bolt placements are down 4% year-to-date. Breast meat and cold storage is above last year and the five-year average. Turkey prices remained above $2 for the quarter, a 10% increase from last year. Whole birds were $0.07 above the prior year but remain below the five-year average. Feed costs for the quarter were similar to last year. Avocado prices are expected to decline through October but remain above last year. We will have better visibility as the Mexican crop is harvested in the next few weeks.

Pork input costs in the third quarter did not dramatically increase as we forecasted last quarter. Cold storage reserves in China, uncertainty caused by global trade dynamics, and robust hog production likely contributed to lower markets. The USDA cutout traded between a wide range of $72 and $89 per hundredweight during the quarter, never reaching our forecasted level. Hog markets exhibited similar behavior, trading between $68 and $85 per hundredweight. Belly prices for the quarter were significantly below the forecast, trading in a $49 range between $127 and $176 per hundredweight. Trim briefly met the forecasted highs before dropping 40%.

The third quarter clearly demonstrated our teams' ability to manage through extreme volatility in pork commodity markets to deliver results in line with our expectations. The guidance for the fourth quarter assumes higher prices for our key inputs with potential for volatility like we experienced in the past quarter. The overall fundamentals still support a sustained high cost environment in pork markets beginning as soon as the fourth quarter due to African swine fever. Hog supplies in China, Southeast Asia, and now regions in Europe are being affected. The exact timing and magnitude of the impact remains uncertain. We will provide a detailed view of market assumptions and the outlook for fiscal 2020 on the November call.

We are making significant progress on Project Orion and our One Supply Chain initiative. For example, we are in the process of opening two new distribution centers in the coming months. On a combined basis, we will save over 3 million miles in our grocery business alone. Project Orion will unlock more opportunities for cost savings similar to this project. The team is focused on implementing major phases related to finance, HR, and supply chain during fiscal 2020.

At this time, I'll turn the call over to the Operator for the question and answer portion of the call.

Question-and-Answer Session

Operator

[Operator instructions]

We'll take our first question from Rupesh Parikh with Oppenheimer.

Erica Eiler

Good morning. This is actually Erica Eiler on for Rupesh. Thanks a lot for taking our questions. First, as we look at SG&A here, down nearly 15% this quarter, I was just hoping to better understand what the SG&A expense run rate was ex-CytoSport, what's driving that performance and how you're thinking about the expense opportunities going forward.

Jim Sheehan

Good morning. We think that the run rate will be generally lower than it was in the fourth quarter of last year primarily because of the CytoSport sale.

Erica Eiler

Okay. Then given a lot of moving pieces in your business, from CytoSport to Skippy, Jennie-O, African swine fever, just wondering if there are any early thoughts you can provide on fiscal '20 at this juncture. Any puts or takes we should be thinking about would be helpful.

Jim Snee

Yes, it is early for 2020 given the uncertainty and the volatility that we've seen in the markets, but as we think about all of the different business segments, refrigerated foods continues to be very well positioned and they've demonstrated their ability, their long term ability to grow in volatile markets across food service, deli, retail. Grocery products, although we had some noise in the quarter with avocadoes, we remain positive on many, many of the brands, and of course we could have some input pressure there but I think the longer term brand story and the insight-led innovation have us poised for growth.

JOTS continues to be a work in progress, as I said in my prepared comments. We've had some small wins but we do expect the recovery to spill over well into 2020. We think the business is stabilized and now we do need to get back to growth.

International is obviously a wild card, uncertainty based on African swine fever and tariffs, but we're optimistic about the business that we have in China. We feel like we can reflect pricing to accommodate any of the input costs that we have, and then also the Spam and Skippy businesses that we've developed are very strong.

Then any conversation about our business has to finish with a strong balance sheet, so we are poised for M&A. We're always ready to make acquisitions when the time is right. But it's early for 2020 given some of the uncertainty in the marketplace, but we are confident in our ability to grow over the long term.

Erica Eiler

Okay great, that's helpful. Thank you so much.

Operator

Next we'll go to Ben Bienvenu with Stephens Inc.

Ben Bienvenu

Thank you, good morning. I want to ask a clarifier question about the guidance for this year. Jim, you said that you expect full year sales guidance to be towards the lower end of the range. The earnings guidance for 4Q is quite wide. Would you expect EPS guidance to reflect your commentary on the sales guidance?

Jim Snee

No, I don't think that's a fair assumption, Ben. I think from a top line perspective, it is how we're pricing, and as we mentioned the prepared comments, as markets did not materialize the way we thought, we did realign pricing in the quarter to make sure that we remained in very competitive positions. I think the sales guidance is one thing and it is different from the earnings guidance.

Ben Bienvenu

Okay, great. A follow-up on the pricing. Can you help us think about how you think about using trade promotion spend to reduce the pricing increases that you had put in place versus actual list price reductions, particularly in an environment where input costs are as volatile as they've been over the last several months?

Jim Snee

The interesting thing is it is unique and different retailer by retailer, and we've talked about that over the last several quarters, about how that's important to engage our direct selling organization with the customers to understand what the optimal solution is for their customer base. We do move promotional dollars or trade dollars around to make sure that we've got them priced properly on a net basis. We work closely, of course, to make sure that the shelf price is reflective of where it needs to be, but again depending on the situation, we're willing to invest the trade dollars but it is a customer by customer decision.

Ben Bienvenu

Okay, thanks.

Operator

Next we'll go to Heather Jones with Heather Jones Research LLC.

Heather Jones

Good morning and thanks for taking the question. I wanted to go back to a comment you made about raw material, I think you were talking about cash flow, use of cash. I was just wondering if you could flesh that out more, which segments are you building raw materials, and any practical limitations. I mean, do you have the capacity to build substantial raw material inventories that could cover portions of 2020 or is it more limited to a quarter? Just wondering if you could help us understand that more.

Jim Sheehan

Certainly. The inventory's really being built in the refrigerated, GP and international areas. Are there limits? Yes, there's a supply limit as to how much you can build inventory. We take a look at the trends that we believe are going to take place and we build selectively in certain commodities and certain finished goods.

Heather Jones

Okay, thank you. My next question is on Jennie-O. You mentioned that the recovery is going to spill over into 2020. In your efforts to regain distribution, I would assume you have to be somewhat sharper on price. I was wondering, is the anticipation that that would be only for a year or so, or how long do you think you would have to lock into pricing to regain the distribution? Basically, I'm trying to get a sense of what kind of lag could we see in Jennie-O recovering with broader protein markets over the next year or so.

Jim Snee

I think as we said, Heather, this does remain a distribution issue. Our velocities where we're in distribution remain very strong. We have had some small wins, as I said in my prepared remarks, so we are gaining some momentum. We've turned on advertising in select markets and we'll have the opportunity to evaluate the effectiveness before expanding.

I also mentioned in my prepared remarks that we have brought in some additional experienced sales and marketing leaders from other parts of the organization to really jumpstart that business, but it's still going to take time, so as we're thinking about it, it's probably going to be mid-2020. You're right - there are some investments that have to be made to regain distribution, but we're prepared to make those investments and really, the big thing is that we do feel like this business is stabilized and it is time for us to get this business back to growth.

Heather Jones

Okay, thank you so much.

Operator

Next we'll go to Adam Samuelson with Goldman Sachs.

Adam Samuelson

Yes, thanks. Good morning everyone. Just digging a little bit more into the outlook for the fourth quarter, it is a wide range on the earnings side. Jim, I appreciate the comments that the sales and earnings don't necessarily align at the lower end of the range, but just help me understand the range of outcomes that get you towards the low and high end of the range. Presumably the bigger variable is pork raw material costs, but just help me think about the range of outcomes you've laid out in your outlook.

Jim Snee

Sure. You hit it right on the head, Adam - it is all about the input costs, and that will impact pricing and of course the elasticity that comes along with the pricing moves. If we get some additional false positives like we had in the second quarter, that could be problematic, but the run-up in input costs, as you know, it does create that short term margin compression. But we'll be aggressive with our pricing as category leaders, that's what we do, but we know that pricing does lag the input costs.

You've hit it right on the head - that is going to be the primary driver for that range, and we do believe that the range is warranted given some of the volatility that we've seen in the third quarter.

Adam Samuelson

Okay. I was hoping to understand a little bit more, digging into 2020 the things that are in your control. Maybe on Project Orion specifically and some of the supply chain initiatives, can you quantify how much those actually benefited the quarter on a net basis, how much they're benefiting 2019 on a net basis or what your run rate exiting the year looks like, to think about potential savings into 2020 before we then layer on a sales or raw material input cost view?

Jim Snee

Sure. If we go back to my earlier comments starting with the segments, from a 2020 outlook, the food service business continues to be hitting on all cylinders. We feel really good about the belly business, the retail business, whether it's our Hormel retail business, the Applegate retail business. We're optimistic about all of them. We know that there could be some of that short term noise, that margin compression as a result of input costs, but refrigerated foods has really been on a nice run and we expect that to continue.

Grocery products, the work that the team has done there around brand building with center-of-the-store brands has been really, really impressive. We do think that the avocado crop that's coming in, we'll have a better read on that, probably some more favorable input costs that will give us some relief there. That's outside of our control, but what's in our control is our ability to make sure that we're building that brand through promotion and advertising and innovation, and we'll continue to do that. We do feel good about grocery products.

Probably the one that's outside of our control the most will be international, based on what happens with African swine fever and tariffs and really the global trade uncertainty. Part of it is in our control with our ability to run our business in China, but there are going to be some market impacts. Then the JOTS piece is going to be in our control and our ability to execute the business, or execute distribution gains. We've got to get that done, continue to get that done in the fourth quarter and into 2020.

From a supply chain perspective, we're not going to get into the 2020 outlook for that, but we're committed to the savings number that we gave this year, the $75 million. We've had a lot of success with a lot of projects. We referenced in Jim Sheehan's comments the fact that we've got our new grocery products DC opening that will save us 3 million miles, and there is a corresponding financial benefit. We're evaluating our refrigerated foods network, and we've had a better global view of plant for performance. So there is a lot of benefits that we've seen from not only our One Supply Chain but Project Orion, and we expect that to continue over the next several years.

Adam Samuelson

If I could just sneak one quick follow-up, the capex reduction for this year, there was some timing but there's also allusion to project scope changes. How much of that, I think it was a $100 million reduction, really comes in next year versus the actual cost of the programs or the projects goes down?

Jim Snee

The majority of that is timing. We had a really wet spring here in the midwest and we've got a very big project going on at Burke, so that's shifted some of those expenses back. But the one thing I want everyone to know is that there is not a lack of commitment. Our commitment to capex spending and investing in our value-added business is as strong as it's ever been.

Adam Samuelson

Okay, I appreciate the color. Thanks.

Operator

As a reminder, ladies and gentlemen, to join the queue it's star, one on your telephone keypad.

Next, we'll go to Eric Larson with Buckingham Research Group.

Eric Larson

Good morning everyone. Thanks for taking my question. Either Jim can answer this question. We've seen a lot of hog supplies on the market, particularly June and July, etc., and again a lot of volatility with lean hog pricing. My question is have farmers anticipated ASF? Do you think there's been expansion in the herd industry because of ASF or not? What might be some of the dynamics that you see going on? Obviously we've got corn prices back down sharply as well, soybean meal as well, but what might be the mentality for hog expansion that we see out there for the next 12 months, and what's happened recently, do you think?

Jim Sheehan

Well, I think some of it is a reaction to the additional hog processing capacity that's in the industry right now, and anticipating that capacity increasing, they've increased their production. We certainly do see that hogs today are about $70. They're a relatively cheap input. There's cheap input, as you said- the grain is at a low cost basis right now, so I think there are encouragements to increase the hog production. It's in line with what expectations were, but I think probably the biggest driver was that there's been probably two years or more of discussion about the additional capacity coming online. They've had time to react, and those hogs are available to us.

Eric Larson

Okay. Then just a broader follow-up, it's to your comments, Mr. Snee--Jim, about your supply chain efforts. It's a multi-year project, so you've quantified what you thought your supply chain savings would be this year. Without getting into specifics, this something that is a multi-year project, is there a way to try to quantify what that might be, or are you in a position you can talk about that?

Jim Snee

I think when we get into our fourth quarter call, we'll obviously give a little more color and clarity. The other variable as we continue down the path with Project Orion, we'll have more opportunities that will reveal themselves. But the part about this being a multi-year project, I don't even know if I would refer to it as a project. This is a permanent part, a permanent structure that we have in our organization that we've needed. I cited a couple of specific examples. As we think about just having that global view of plant performance, better meat utilization, and even some of the softer things about how we're better prepared to approach training and recruitment in an environment where workers are harder than ever to come by, it's important that we have one standard approach to how we're doing things, so the benefits of the One Supply Chain initiative have been very impressive and far reaching in the organization on a number of different fronts.

Eric Larson

Okay, thank you.

Operator

Next we'll go to Robert Moskow with Credit Suisse.

Robert Moskow

Hi, thanks. A couple questions. The price increases that you took in May, are they all reversed now or is there any residue of that pricing still in the market?

Jim Snee

Hey Rob, good morning. It really depends on the category. If you think about what happened in bacon, for example, that pricing does tend to realign itself more frequently, so we've seen realignment down and the market now has taken another run back up. It has moved a couple of times since we last talked, but we know that that's what we have to do to remain competitive. In terms of pepperoni, the pricing that we took there was realigned because the trim market did not at all sustain what we thought it was going to do, and remains low today. On our grocery products front, the Spam pricing that we took, that held, but that really was less related to raw material, more other inflationary measures. So it's really been a mixed bag across the different categories, but we feel good about the pricing actions we took and the corresponding realignments.

Robert Moskow

Got it. Then a follow-up - the grocery division, I haven't seen the margins dip below 11% in a quarter, I don't remember the last time. I think you're kind of hinting around here that, hey a lot of it is transitory related to the crop availability and all that, but why wasn't the crop availability this big of an issue in second and first quarter for avocadoes? Like why is it suddenly hurting the margin to this degree, and then as we look forward, how quickly can we assume that a normal crop in September will adjust the margins higher?

Jim Snee

That's a great question. The secondary crop impacts our supply situation primarily in Q3, and if you go back to 2017 not on an overall GP margin structure, but if you go back, we had a very similar situation in 2017. At that time, we were very aggressive with our pricing, and this time we re-evaluated and thought we were going to be in a better position to just wait to see what the next crop looks like. So this secondary crop primarily impacts us in Q3 and then in early Q4, we start to get a better read on the primary crop. Early indications are that that's more favorable, so that will have some impact in Q4 but then we'll have the primary impact again in Q1 and Q2.

Robert Moskow

Okay. That's very helpful. It's August, so I'm going to ask question number three, here. You talked about Project Orion and the supply chain efforts, and I get that; but I think you also mentioned finance, HR, as well as supply chain as areas where you'll be evaluating more productivity. Can you be more specific on what that means?

Jim Sheehan

Certainly. We will be implementing a single instance of all of our ERP systems across finance, HR, and the supply chain, meaning that all operations will be operated on a common platform. We'll create great efficiencies in the operations. We're also focusing on automation and robotics within certain processes, so those are things that Project Orion brings to us. It's going to make us a more efficient company in many aspects, and obviously the other issue is the quality of information and the decisions that we can make based on that data. Where before we'd have to mine through multiple systems to get information, this will provide a common platform. The information will be readily available and we can do analysis across all aspects of the business.

Robert Moskow

Very good, thank you.

Operator

Once again ladies and gentlemen, to ask a question, it's star, one on your telephone keypad.

Next we'll go to Thomas Palmer with JP Morgan.

Thomas Palmer

Good morning. Thanks for the questions. Wanted to first kick off talking about the price elasticity that you saw on pork products. Was it as you expected? Do you think it was a little more severe because you were out of line with the industry, and what insights does that give you as you think about potentially layering on new price increases in the coming year?

Jim Snee

We saw greater elasticity than we thought, especially in bacon and pepperoni. It really was the fact that the markets did not perform on a continuous basis, so we reached some points of elevation in the belly market and the trim market that really put us into action on the pricing front. What changed was we took pricing, some of the others in the category didn't, and then the markets didn't sustain, so when that happened we were priced higher than the category, which created those higher than expected elasticities. That's where our pricing realignment came in.

Once we got our pricing realigned, we felt like the elasticities were in line with what we expected. Bacon is back on track, we think pepperoni is, and then we did talk a little bit about the grocery products pricing that we held with Spam. From Spam's perspective, volume was relatively flat and sales were up 4%, so if anything, that outperformed the elasticity we expected

So as I said earlier, it really was a mixed bag across all of the different categories where we took pricing.

Thomas Palmer

Okay, thanks for that. I just wanted to circle on the avocado side. It sounds like you elected not to take pricing in part because you think that at least a portion of this severe inflation you're experiencing is temporary. If you do decide early in the fourth quarter as you get the read through, how long does it take to implement pricing? When does that start to materialize in terms of the P&L impact from a COGS standpoint that either the crop is favorable or not? Is this come the first quarter we would see both pricing and COGS basket changing for the new crop, or is the timing different than that?

Jim Snee

Got it. You would expect to see impact tail end of the fourth quarter, really into the first quarter either way. From a pricing perspective, if we do choose to take pricing, it's very consistent with the other retail pricing dynamics that we see and expect it to take approximately 60 days to get into the marketplace. The team will have a pretty good read on it in short order, and we'll be able to make the right business decision.

Thomas Palmer

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Thank you.

Operator

Next we'll go to Rebecca Scheuneman with Morningstar.

Rebecca Scheuneman

Good morning. I have a question about the grocery products margin. Was there any part of the margin decline there that can be attributed to the sale of the CytoSport business, or is that entirely explained by avocadoes and peanut butter pricing?

Jim Sheehan

From a margin standpoint, it's really about the avocado prices and the peanut butter.

Rebecca Scheuneman

Okay, so nothing at all from CytoSport?

Jim Sheehan

No. As we've stated, CytoSport would have about a $0.04 impact for the back half of the year from a P&L standpoint, but from margins, it's really driven by the avocado costs and the peanut butter.

Jim Snee

Yes, the existing businesses that we have.

Rebecca Scheuneman

Okay, thanks. My second question is with this global protein shortage resulting from ASF, is there any reason to believe that this wouldn't improve the demand for turkey heading into next year?

Jim Snee

I think that's a fair assumption. We need to see how this all plays out through this global trade uncertainty and how the global supply reorganizes, but I do think there is a point of view out there that says poultry products, turkey in particular, could benefit. We'll see how that materializes the balance of this year and into 2020, but I think that's a fair assumption.

Rebecca Scheuneman

Okay, great. Thank you so much.

Operator

[Operator Instructions]

I show we have no further questions. I'll now turn the call back over to our speakers for any additional comments or closing remarks.

Jim Snee

Great, thank you. Thanks to all of you for your participation and interest this morning. While our team continues to navigate near term uncertainty, I remain very certain in our teams' ability to deliver our key results and finish 2019 in a very strong manner. Thank you. Have a great day.

Operator

That does conclude today's conference. We thank you for your participation. You may now disconnect.