Heard on the Street

By CHARLES J. ELIA

It was a gloomy day for a lot of stocks but yesterday's market pressure on soft-drink issues, particularly industry leader Coca-Cola, was singularly ironic. The stocks dropped in the face of the first price rollback in many months in sugar, one of the most visible cost culprits in a weakening industry scenario.

Some investors have tended to equate the group's fortunes with the soaring cost of sugar, an important element in price increases that have influenced people to drink less soda.

The fact is that the soft-drink industry's problems, as Wall Street analysts see them, are more complex than the price of sugar. Yesterday's weakness in the group, despite a crack in the price of sugar, may be evidence that investors are acknowledging broader concerns.

At the least, analysts say, it will take much bigger drops in the sugar price than yesterday's to benefit soft-drink makers. Several major sugar refiners posted rollbacks of 5.2 cents a pound in refined sugar, dropping it to 66.75 cents a pound. At the start of the year, refined sugar was 15.65 cents a pound.

If analysts seem glum about the soft-drink outlook, it's because of widening concern that inflation and built-in pressures for further boosts in drink prices are duraly altering consumption patterns.

Norman S. Golden, analyst at L.F. Rothschild & Co., says, after analyzing the link between disposable personal income and soft-drink consumption, that "for at least the next eight to 12 months, statistics on soft-drink consumption will be bleak."

In yesterday's trading, Coca-Cola closed at $1, off 3, after dropping as low as 98%; PepsiCo closed at 33 1/2, off 1 3/4; and Dr Pepper closed at 73, off 1/2.

Industry trends aren't baffling enough in themselves, investors are having an even more mystifying time of it since Coca-Cola closed the door to securities analysts early in October. Yesterday, Fullmore B. Eisenberg, financial vice president, extended the blackout on direct communications to interviews with the financial press. He relayed word from a company spokesman that the company would communicate with or comment to reporters only in the form of press releases.

Because it's the industry giant, coverage of Coca-Cola has dominated Wall Street's appraisal of company and industry trends.

Analysts are having to resort to more guesswork about gallonage, unit sales and other data, but there was near unanimity recently after Coca-Cola reported flat third quarter earnings. Most Wall Street estimates for 1974 were cut to the $3.65-to-$3.75-a-share range from $3.90-to-$4 a share, and several analysts are anticipating flat-to-lower earnings next year.

One of the larger enigmas is Coca-Cola's possible adoption of last-in, first-out, or LIFO, accounting on inventories, a move that could reduce reported profits. Most analysts estimate this could reduce 1974 net 15 cents to 40 cents a share. Rothschild's Mr. Golden dissent; he believes it could range from 36 cents to 60 cents a share. His estimates, after LIFO adjustment: $2.90 to $3.30 a share this year and $3 to $3.25 a share in 1975.

Edward M. Cimiluca, of Donaldson, Lufkin & Jenrette, believes unit volume at Coca-Cola may have declined as much as 10% in the third quarter. "We continue to see a reasonable chance of earnings disruptions over the next three to four quarters, especially since deep-cut discounting on diet beverages has begun in the Northeast," says the analyst.

According to market research surveys used by some analysts, total gallonage of soft drinks sold in food stores during August and September, the latest data available, shows a 5% decline, one of the most severe in more than 15 years.

Worry over consumption trends is deepening, because for one thing, unit-sales slippage so far hasn't begun to reflect current sugar costs.

Coca-Cola, for example, prices its syrup to bottlers for the full calendar quarter at the average cost of sugar at the start of the quarter. Thus, any resistance to high prices in the July-September quarter reflected sugar prices at only about 33 cents a pound, with current prices reflecting only a sugar cost of 40.8 cents a pound, analysts say. This implies more retail price increases; at today's sugar prices, analysts estimate the actual cost of Coca-Cola syrup would be $4.78 a gallon, up 45% from the $3.28 a gallon level estimated for the third quarter.

"But sugar is only one of the inflationary cost pressures hurting the industry," says Donaldson Lufkin's Mr. Cimiluca. "Packaging costs are up 35% since Jan. 1 and labor at least 15%. These two items are more than 40% of total costs and sugar is only 25% of costs." Sugar prices would have to fall well below 40 cents a pound and packaging and labor costs also would have to drop before he could become more sanguine about the stocks, he adds.

Mr. Cimiluca believes demand for drinks may be in a trough until the third quarter of 1975. "This raises a real question of whether consumption patterns will return to normal levels. Unit volume growth in the future may be 3% rather than the traditional 6%," he says.