

S&P Global
Market Intelligence

Fresh Del Monte Produce Inc. NYSE:FDP

Earnings Call

Thursday, October 31, 2024 3:00 PM GMT

CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	9

Call Participants

EXECUTIVES

Christine Cannella
*Vice President of Investor
Relations*

Mohammad Abu-Ghazaleh
Chairman & CEO

Monica Vicente
Senior VP & CFO

ANALYSTS

Mitchell Brad Pinheiro
*Sturdivant & Co., Inc., Research
Division*

Presentation

Operator

Good day, everyone, and welcome to Fresh Del Monte Produce Third Quarter 2024 Earnings Conference Call. Today's call is being broadcast live over the Internet, and is also being recorded for playback purposes. [Operator Instructions]

For opening remarks and introductions, I would like to introduce -- I would like to turn today's call over to the Vice President, Investor Relations with Fresh Del Monte Produce, Ms. Christine Cannella. Please go ahead, Ms. Cannella.

Christine Cannella

Vice President of Investor Relations

Thank you, [Krista]. Good morning, everyone, and thank you for joining our third quarter 2024 conference call. Joining me in today's discussion are Mr. Mohammad Abu-Ghazaleh, Chairman and Chief Executive Officer; and Ms. Monica Vicente, Senior Vice President and Chief Financial Officer.

I hope that you had a chance to review the press release that was issued earlier via Business Wire. You may also visit the company's IR website at investorrelations.freshdelmonte.com to access today's earnings materials and to register for future distributions. This conference call is being webcast live on our website, and will be available for replay after this call.

Please note that our press release and our call today include non-GAAP measures. Reconciliations of these non-GAAP financial measures are set forth in the press release and earnings presentation, which is available on our website.

I would like to remind you that much of the information we will be speaking to today, including the answers we give in response to your questions, may include forward-looking statements within the safe harbor provisions of the federal securities laws.

In today's press release and in our SEC filings, we detail risks that may cause our future results to differ materially from these forward-looking statements. Our statements are as of today, October 31, and we have no obligation to update any forward-looking statements we may make. During the call, we will provide a business update along with an overview of our third quarter 2024 financial results, followed by a question-and-answer session.

With that, I will turn today's call over to Mr. Mohammad Abu-Ghazaleh. Please go ahead.

Mohammad Abu-Ghazaleh

Chairman & CEO

Thank you, Christine, and thank you for joining us for our third quarter '24 earnings results. As we reflect on the third quarter of 2024, I am pleased to report that we continue to see solid performance across key areas of our business. Despite certain challenges in the broader market, Fresh Del Monte has remained resilient and focused on delivering value to its shareholders.

I would like to address the important update we shared earlier this week regarding Mann Packing, as we have finalized the strategic path forward for our vegetable division.

After a comprehensive review of our operations, which included exploring various potential avenues, we decided on a 3-pronged approach to streamline Mann Packing. This includes consolidating facilities, refining product offerings and divesting excess assets. By becoming more efficient, we aim to improve profitability, elevate our business offerings and deliver even greater value through innovation, reinforcing our commitment to future growth, operational excellence and staying ahead of evolving customer and consumer demands.

Having covered this important update, I would like to shift focus to our third quarter performance. Compared with the prior year period, gross profit was up by 26%, driven primarily by our Fresh and Value-Added Products segment. Net income attributable to Fresh Del Monte Produce was \$42 million for the quarter compared with \$8 million in the same period last year, reflecting more than 400% increase.

Starting with our Fresh and Value-Added Products segment. Fresh Del Monte continues to solidify its position as the global leader in pineapples. Our Honeyglow pineapples and Pinkglow pineapples are prime examples of the kind of innovation that drives our business. These varieties have become consumer favorites, contributing to strong demand and reinforcing our leadership in this space worldwide. In fact, demand for our pineapples continues to outpace supply. We are actively exploring opportunities to expand production to meet this growing demand.

Earlier this month, we opened the waitlist for our Rubyglow pineapple in Europe for 2025 delivery, following the successful launch in China and the U.S. earlier this year. The early interest in this high-end luxury variety has been encouraging, further demonstrating our ability to innovate and meet global consumer preferences. We are continually exploring ways to add more pineapple innovations to our portfolio, ensuring we remain at the forefront of this category. Pineapple volumes and margins were up for the quarter, driven by strong demand for our popular Del Monte quality innovations.

Next, let's turn to the fresh-cut division of our fresh and value-added products, which continues to be a strong performer worldwide. In the U.S., we have built a solid foundation over the years. We continually seek ways to expand our reach with current and new customers and explore new product lines to meet evolving market demand. Furthermore, our proactive approach to the FSMA 204 rule positions us as a leader in regulatory compliance.

We have assembled a dedicated team and established robust systems to meet the stringent requirements for enhanced traceability of high-risk foods. This strategic investment strengthens our risk management framework, improves operational efficiency and fosters greater consumer trust in our products and our supply chain resilience. Ultimately, our commitment to FSMA 204 compliance creates a significant competitive advantage and drives long-term value creation for our stakeholders.

In Asia, we officially completed consolidating our fresh-cut facility, improving efficiency, reducing cost and enhancing customer service. Our fresh-cut facility is excelling in the U.K. with increased profitability and further expansion plans. Our avocado program as a whole continues to be a key growth driver for us, particularly in North America. By leveraging our established sourcing network and ripening capabilities, we remain committed to growing demand and maintaining a solid competitive position in the market.

Strengthening our leadership has been a top priority as we drive growth and innovation across our key categories. In quarter 3, we were proud to announce several key leadership hires. Danny Dumas rejoined us as North American Senior Vice President of Sales, Marketing and Product Management, bringing over 35 years of industry experience. We are happy to have him back.

We also welcome Dr. Nizar Haddad and Dr. Imad Farhat, two globally recognized experts in their fields, leading our efforts in biomass optimization and developing higher-margin value-added products. We see great potential in harnessing the full value of our biomass to unlock transformative opportunities across our portfolio.

However, it's important to remember, the day you plant the seed is not the day you reap the fruit, just as our fresh-cut fruit success took time. This initiative is in its early stages, and we will share more as it evolves. Yet, we believe, our vision, strategic approach and proven track record position us to unlock nature's potential, maximizing every part of the fruit to drive sustainability while creating higher-margin profits.

2 weeks ago we released our 2023 Sustainability Report, which outlines significant progress across several key areas. Notably, we achieved our emissions reduction targets 7 years ahead of schedule, an accomplishment that underscores our unwavering commitment to sustainability.

Building on this momentum, we are actively pursuing additional innovative opportunities to further reduce our carbon emissions and drive meaningful environmental impact. I encourage you to explore the full

report now available on freshdelmonte.com to get further insight into our efforts and continued dedication to responsible business practices.

Lastly, I'm proud to share that Fresh Del Monte was recently recognized with two prestigious awards: Newsweek's World's Most Trustworthy Companies; and the Humankind 100. These recognitions reflect the dedication, passion and integrity of our 40,000 -- 41,000 global team members. I couldn't be prouder of our team and these well-deserved accolades.

With that, I will turn it over to Monica to discuss our third quarter 2024 results in detail.

Monica Vicente
Senior VP & CFO

Thank you, Mr. Abu-Ghazaleh, and good morning, everyone, and thank you for joining us on today's call. Let's begin with an update on our Mann Packing operations. We recently finalized our decision, which includes the consolidation of 3 facilities into a single facility at our Gonzales, California location. This move allows us to streamline operations and enhance overall efficiency. We anticipate these actions will allow us to improve our profitability by approximately \$15 million to \$20 million annually, beginning in 2025.

As part of this decision, we will discontinue several product lines and have agreed to sell certain assets of Fresh Leaf Farms, a wholly owned subsidiary of our Mann Packing business. The assets sold as part of the transaction include a manufacturing facility and equipment in Arizona, as well as the Fresh Leaf Farms brand. And we will be exiting two leased facilities in California. The sale, which is subject to customary closing conditions, is expected to close in November of 2024.

Now that we've covered the update on Mann Packing operations, I'd like to shift the focus to two other important topics. First, I'll address the ILA strike and then I'll move to discuss the effects of recent weather-related events in the U.S. The ILA strike, which affected the East and Gulf ports in the United States during the third quarter caused a 3-day disruption. However, we experienced no disruptions in the ports we utilized in these areas during the strike.

Shifting now to the recent weather-related events. In July 2024, Hurricane Beryl, a Category 1 storm, impacted the Houston and Dallas, Texas area, causing adverse weather and power outages, including at our Houston facility. This disruption necessitated the rerouting of inventory and adjustments in our logistics and transportation plans. Despite these challenges, the financial impact was minimal at approximately \$1 million, and we're working with our insurance provider.

In September, Hurricane Helene, a Category 4 storm, affected several states. While our facilities in the areas hit by the storm were not impacted and we experienced minimal disruptions with our operations, we remain deeply aware of the broader impact of the storm to so many.

Most recently, in early October, Hurricane Milton made landfall in Western Florida as a Category 3 storm, resulting in damages to our Port Manatee facility south of Tampa, Florida. Service from the Port Manatee facility were disrupted for a short period of time. During this time, we rerouted and discharged one vessel in Freeport, Texas and distributed our products to other facilities not impacted by the hurricane.

The extent of the damage and disruption to our Port Manatee operations, including incremental logistics charges as a result of shifting service to our other facilities, is being assessed. We do not believe that the damage or disruption caused by Hurricane Milton will have a significant financial impact. We also have insurance coverage, and we're currently working with our insurance providers to assess the overall impact from the storm. However, there can be no assurance that insurance proceeds, if any, for Hurricane Beryl and Hurricane Milton will cover any damage or incremental expenses identified.

Now let's move on to our financial results for the third quarter of 2024. Net sales were \$1.020 billion compared with \$1.003 billion in the prior year period. The increase in net sales was primarily driven by higher net sales in our Fresh and Value-Added Products segment due to higher sales volume as well as increased per unit selling prices, principally of pineapple and avocado, as a result of strong market demand. The increase was partially offset by a decrease in banana net sales.

Gross profit for the third quarter of 2024 was \$94 million compared with \$74 million in the prior year. Gross margin increased by 180 basis points to 9.2% compared with 7.4% in the prior year. The increase in gross profit was primarily driven by higher sales volume and higher per unit selling prices in the Fresh and Value-Added Products segment, partially offset by the higher per unit production and procurement costs, lower sales volume in the banana segment and the negative impact of fluctuations in exchange rates primarily related to a stronger Costa Rica Colon.

Adjusted gross profit for the third quarter of 2024 was \$94 million compared with \$83 million in the prior year. The increase in adjusted gross profit excludes \$0.6 million of other related product charges net, primarily as a result of \$1 million of logistics and inventory write-offs as a result of Hurricane Beryl during July '24, partially offset by \$0.6 million of insurance recoveries related to shipment disruptions in the Red Sea during the second quarter of 2024.

Operating income for the third quarter of 2024 was \$54 million compared with \$25 million in the prior year. The increase in operating income was primarily driven by higher gross profit, combined with a higher gain on sale of property, plant and equipment.

Adjusted operating income was \$47 million compared with \$34 million in the prior year. The increase in adjusted operating income excludes \$0.6 million of other product-related charges net, that I shared earlier, and \$0.2 million of asset impairment and other charges net due to heavy wind and rainstorms in Chile, and an \$8 million gain primarily from the sale of our warehouse in Chile.

Other income expense net for the third quarter of 2024 was a gain of \$0.1 million compared with a loss of \$7 million in the prior year. The change was primarily due to a gain in an investment this quarter and lower foreign currency losses as compared with the same period last year. Net income attributable to Fresh Del Monte was \$42 million for the third quarter of 2024 compared with \$8 million in the prior year.

And adjusted FDP net income was \$37 million compared with \$17 million in the prior year. Adjusted FDP net income for the third quarter 2024 excludes the previously mentioned adjustments and the associated \$2.3 million tax effect.

Our diluted earnings per share were \$0.88 in the third quarter compared with \$0.17 in the prior year. Adjusted diluted earnings per share was \$0.77 compared with \$0.35 last year. Adjusted EBITDA for the third quarter was \$68 million or 7% of net sales compared with \$50 million or 5% of net sales in the same quarter last year. This represents a solid improvement over the prior year period.

I will now go into more detail on the second quarter -- on the third quarter performance of our segments, beginning with our Fresh and Value-Added Products segment. Net sales for the third quarter of 2024 were \$624 million compared with \$574 million in the prior year. The increase in net sales was primarily a result of higher sales volume as well as higher per unit selling prices in our avocado, pineapple, prepared food and fresh-cut fruit product lines. These increases were partially offset by lower net sales of vegetables due to lower sales volume as a result of strategic volume rationalization.

We are pleased to report that gross profit was \$63 million compared with \$36 million in the prior year. The increase in gross profit was primarily driven by higher net sales and lower per unit production costs of pineapple and fresh-cut fruit, partially offset by the negative impact of fluctuations in exchange rates, primarily at a stronger Costa Rica Colon.

Gross margin was 10.1% compared with 6.3% in the prior year. This marks our second consecutive quarter delivering a double-digit gross margin in this segment. Gross profit for the third quarter of 2024 includes \$0.2 million of other product-related charges previously mentioned.

In our Banana segment, net sales for the third quarter of 2024 were \$345 million compared with \$385 million in the prior year. The decrease in net sales was primarily due to lower sales volume in our North America region due to competitive market pressures, which we have discussed in prior quarters. Additionally, lower sales volume in our Asia region were caused by a decrease in supply from the Philippines due to weather-related events. The decrease was partially offset by higher per unit selling prices in Asia, resulting from the lower industry supply.

Gross profit was \$21 million compared with \$32 million in the prior year, and gross margin was 6.2% compared with 8.3% in the prior year. The decrease in gross profit was principally driven by lower net sales, higher per unit production costs and the negative impact of fluctuations in exchange rates due to a stronger Costa Rica Colon, partially offset by lower per unit ocean freight costs. Gross profit for the third quarter of 2024 includes \$0.4 million of other product-related charges previously mentioned.

In our Other Products and Services segment for the third quarter of 2024, net sales were \$51 million compared with \$44 million in the prior year. The increase in net sales was primarily driven by higher per unit selling prices in our poultry and meats business as well as higher net sales in our third-party ocean freight services due to higher rates.

Gross profit was \$9 million compared with \$6 million in the prior year, and gross margin was 18.2% compared with 14.2% last year. The increase in gross profit was primarily a result of higher per unit selling prices and lower per unit production costs in our poultry and meats business.

Now moving to selected financial data. Our income tax provision was \$8 million for the third quarter compared with \$4 million in the prior year. The increase was primarily due to increased earnings in certain higher tax jurisdictions, partially offset by the prior year tax effects related to the sale of stock of a subsidiary, and asset sales in the Middle East and North America. We expect our effective tax rate for the full year to approximate 20%.

Now let's turn our attention to our financial position, focusing on our net cash and capital spend for the quarter. Net cash provided by operating activities for the first month of 2024 -- for the first 9 months of 2024 was \$187 million compared with \$180 million in the prior year. The increase was primarily due to higher net income during the first 9 months and proceeds received this quarter as a result of the termination of our interest rate swap. The increase was partially offset by the impact of working capital fluctuations primarily related to inventory.

Long-term debt decreased by 33% to \$270 million at the end of the third quarter of 2024 compared with \$285 million at the end of the second quarter this year and \$401 million at the end of the same quarter last year. We have achieved the lowest level of long-term debt since the end of 2017, demonstrating our dedication and commitment to maintaining a prudent capital structure and enhancing long-term value for our shareholders. By reducing our debt, our leverage ratio is now 1.01x adjusted EBITDA.

As it relates to our capital expenditures, for the first 9 months, we invested \$34 million compared with \$41 million in the prior year. We expect capital expenditures for the year to be in the range of \$55 million to \$60 million. As announced in our press release, we declared a quarterly cash dividend of \$0.25 per share payable on December 6, 2024, to shareholders of record on November 14, 2024. On an annual basis, this amounts to \$1 per share, which represents a dividend yield of approximately 3.4%.

Outlook for the year. I would like to provide an update on our expectations for the remainder of the full year 2024 by business segment. In our Fresh and Value-Added segment, we anticipate that net sales for the full year to be in the range of 3% to 4% higher compared with the prior year, primarily driven by our avocado, pineapple and fresh-cut fruit product lines. Currently, our gross margin, we expect it to be in the range of 9% to 10% for the full year 2024.

Over time, as we improve the mix in this segment, we are confident in our ability to deliver double-digit gross margins in the low teens. This positive trend underscores our strategic focus and highlights the promising future of our Fresh and Value-Added segment.

To further improve our gross margin, we're in the process of implementing several strategic initiatives. Firstly, we're continuing to optimize our operations by consolidating facilities to reduce operational costs and improve margins. For example, as I shared earlier, we are consolidating 3 facilities in our Mann Packing operation into one, which aims to reduce costs and enhance efficiency.

And in the second quarter of 2024, in Japan, we consolidated 2 facilities into one. We also completed an expansion of our fresh-cut facility in the U.K. this year, which has optimized our efficiency and improved our gross margin for this market. We continue to innovate and introduce new product offerings,

particularly in our pineapple and fresh-cut fruit product lines. And we're actively managing our production and procurement costs.

Regarding our Banana segment, for the full year, we reiterate a 5% to 7% decrease in sales volume and a 4% to 5% reduction in per unit pricing compared to prior year. These projections are consistent with what we shared with you last quarter. Historically, the gross margin for this segment has been in the range of 5% to 7%, and we believe this will be the range for this year as well. Despite the challenges we've incurred this past year, it is essential for us to remain in this segment to serve our customers and maintain a solid market position.

We recognize the importance of bananas as a key entry point into retail supermarkets, which supports the visibility and sales of the other products in our portfolio. Our expectations for the remainder of 2024 for the Other Products and Services segment remain consistent with the results reported in the first 9 months of this year.

This concludes our financial review. We can now turn the call over to Q&A. [Krista]?

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Mitch Pinheiro with Sturdivant & Company.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

So I have a bunch of questions. I guess, first, just -- I appreciate the update on Mann Packing. My question was, did I hear this right, Monica, that you expect to save \$15 million to \$20 million? Or is that an increase in gross profit next year as a result of all these actions?

Monica Vicente

Senior VP & CFO

Correct. That's our estimate for next year based on the consolidation and reducing some of our product lines.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Now, didn't you guys already consolidate some of the Mann facilities 1 year ago or 2 years ago? Or am I misremembering?

Monica Vicente

Senior VP & CFO

We did. We did some consolidation, but this further consolidates 3 facilities into one, and then we're selling some of the excess assets for the Fresh Leaf Farm operation.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

And so -- and so you're going to have one facility -- at the end of all this, you'll have just one facility. And are you -- and all of the savings or increase in gross profit, it's all due to the fixed cost consolidation. There's no other -- there's nothing else going on there, or is there?

Mohammad Abu-Ghazaleh

Chairman & CEO

Mitch, we used to have 4 to 5 facilities before the consolidation. We used to have across the facilities, transportation and logistic cost. We used to have inefficiencies. We used to have a very difficult situation with the supply chain. Now as Monica just mentioned, we consolidated everything under one roof. All our product lines will be produced in one -- under one roof. It will -- all the shipments will go from one location. And that's why Monica just mentioned that we could expect \$15 million to \$20 million in savings going forward, which means going to the bottom line ultimately.

Monica Vicente

Senior VP & CFO

And Mitch -- and there's still room for growth. So this is based on, like you say, on overhead savings. And this is what we expect on just that, and there's still room for growth in the facility.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

And then just one last question on that, is just -- is this -- so that \$15 million to \$20 million was for all 2025. Is it --?

Monica Vicente

Senior VP & CFO

Yes.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Is it sort of back-end loaded? Or should we expect to see like an even level, \$4 million or \$5 million a quarter throughout the year? How should we look at that?

Mohammad Abu-Ghazaleh

Chairman & CEO

Well, it depends on the seasonality of the product lines, but I would estimate that should be in that region, Mitch. But overall, it would be on an annual basis.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Okay. And then you had a great quarter in the Fresh and Value-Added segment. And I'm curious, I don't -- I haven't seen the Q yet. I guess we'll get that later today or -- but can you -- it looked like it was mostly -- a lot of it was pricing driven in the avocado, pineapple and fresh cut. I was curious what the volumes were in avocado, pineapple and fresh cut?

Monica Vicente

Senior VP & CFO

The increase was also -- was actually very significant and volume driven. Pineapple volume, fresh-cut volume. So it was both volume and pricing, but significantly volume driven.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Okay. So I'll have to wait until the Q comes out. So I mean, is it half and half -- I mean --

Monica Vicente

Senior VP & CFO

No, it's primarily volume. It's primarily volume.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

And then the gross profit still double-digit. It did decline sequentially. Is that just normal sort of product mix seasonality that causes that?

Monica Vicente

Senior VP & CFO

Yes, seasonality. If you go back to other Q3 -- Q3 usually has a lot of competition from other fruits, from summer fruits that are out there, that people switch to. So usually, Q3 has a lower margin. So we're very proud of the fact that we were able to achieve this margin this quarter because it's not an easy quarter.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Right. So does -- so should -- is double-digit gross profit in your fresh-cut, like sort of the new bottom end of the range?

Mohammad Abu-Ghazaleh

Chairman & CEO

I believe so. That's what we are driving [forward] to, Mitch.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Okay. And then, I mean, obviously, the business that you're in, there's a lot of variability. But -- so it sounds like 10% on the bottom over time. And then you said low-teens gross margin. Did I hear that right?

Monica Vicente

Senior VP & CFO

In the Fresh and Value-Added. Yes, we're -- over time, we strive to have in the low teens for the fresh and value-added product segment, which obviously has a mix of different products, and we're improving the mix, as you can see by the improved margins.

Mohammad Abu-Ghazaleh

Chairman & CEO

Product and [indiscernible]

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Okay. I guess, over time, is that -- I mean, like -- is that a long time? Or are we going to see like maybe hitting the high end of the range in a couple of years, like not too far out? Or is that just a long-term goal?

Mohammad Abu-Ghazaleh

Chairman & CEO

No. As we said, we are -- just like I mentioned in my -- what I presented right now, Mitch, that we are on a new chapter in our business, let's say, outlook. We are going into many new products utilizing and leveraging our biomass and other areas that we are venturing in. That -- it's very promising. It will take its time to mature and to develop, but we are already initiating the process. It's already in motion. Just like we started the fresh-cut 20-plus years ago, that was 0 business when we started. Now it's almost over \$500 million business.

And that's the kind of trajectory that we are aiming for other -- for -- the new businesses or the new initiatives that we are taking right now. So it might take to see -- starting to see results, hopefully, by end of '25, we will see something. And then going forward, there will be a progress and development and, of course, further improvements in the margins and the product, let's say, offering that we will be putting on the market.

Monica Vicente

Senior VP & CFO

And if I add to that, Mitch, remember, the Mann business, the fresh-cut vegetable business is in the Fresh and Value-Added Products segment. So by -- with the steps we're taking, that will take out costs of \$15 million to \$20 million annually in that segment. So that in itself will improve margins next year.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Right. And then you've done a very nice job innovating, certainly on the pineapple side, you can see it. But it does take a while to grow out these new innovative varieties. How -- obviously, you don't disclose the amount of these new products, but pineapples is like, what, a \$625 million business for you. Like what -- can you give us some sort of sense for like the sales level of the new products or where you think they could be in 1 year? I mean, obviously, they're very high margin for you. But where do you think the sales level of these new, like innovation?

Mohammad Abu-Ghazaleh

Chairman & CEO

Well, we cannot disclose such information, Mitch, but we are very confident of our progress. And like we said, in general terms, our margins will be quite high. And like Monica said, it will be in the low-teens going forward. So that can be our position.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

All right. And when it comes to the Banana business, and what -- I may have missed the outlook, Monica, when you gave, is -- for the full year 2024 sales to be down 5% to 7%. Is that what I heard with most of that --?

Monica Vicente

Senior VP & CFO

Actually volume -- Yes. Sorry, Mitch. With volume, what I said was -- where is my volume -- 4% to 5% -- 5% to 7% volume lower than last year and then 4% to 5% lower pricing. So in total, it's 9% to 12%, which is consistent with what we said last quarter.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Yes. And, like, the Banana business, I mean, you've done a nice job deemphasizing the Banana business. Like 10 years ago, I think it was almost 50% of sales, and it's closer to 35% now. So you've done a nice job of that and not sacrificing a lot of gross profit. But where -- can you provide a little outlook on the Banana business as far as, maybe why consumption just remains sluggish, down a little bit? Is there -- Is it just we have more fruit competition? Or is there just -- are we tiring on bananas as a civilization? Like why are volumes down and/or, maybe are we getting better at less waste, and so we need less volume? Can you talk about that a little bit?

Mohammad Abu-Ghazaleh

Chairman & CEO

Yes. Mitch, the banana actual consumption -- maybe in some time of the year there was a dip in the consumption. But overall, bananas are still consumed in very big volume and still a very important item in the supermarket shelves.

However, what you have to notice is that banana cost has been climbing up over the last 3, 4 years nonstop. And I can tell you, Ecuador, for instance, the official price that the government has established for this year has been raised every year, since the last 3 years, have been raised on annual basis. So banana cost is increasing, [indiscernible] has not been increasing. I mean, if you look at the worldwide, if you look at the big macro picture in different parts of the world, the Philippines has been hit by the disease, the Panama disease, which is reducing their production and their volume year-over-year.

The same thing in Ecuador now, they are having some issues with electricity shortage, power shortage. Water as well has been kind of less rainfall for the last few months. And this is also impacting production. If you look at countries like Costa Rica, we cannot grow any more bananas. They -- It's already -- the land there is restricted and there is no more to grow. Guatemala more or less in the same situation.

So if you look at the map worldwide, I predicted a few years back that banana prices or the cost of bananas will become almost to \$20. And I still believe, and I'm still sticking to my prediction that banana will come to a point where it becomes really an expensive product to produce.

So I'm not too -- we -- as a company, we are very, kind of rational. We look at our bottom line and we conduct our business accordingly. So whether we can increase our volume or decrease our volume based on our outlook and how we would like to commercialize the fruit. I mean, it's easy to increase volumes by 200,000, 300,000 a week into North America, but that means you can't -- you have to sacrifice and compete on that, which is not our objective.

Our objective is to maintain our reasonable margins on bananas and increase our other products and other offerings with much higher margins than bananas in particular. But that doesn't mean that we will get out of bananas or forget bananas. We might come back and grow into bananas. And we have other areas in the world where we are growing, which we cannot disclose at this stage, but that will make a big difference in a couple of years from now.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

And then just a quick update where we are with some of your newer ventures, whether it's fertilizer and things like that. Where are we on that? Just would love an update.

Mohammad Abu-Ghazaleh

Chairman & CEO

[Yes], our Kenya operation, we started about 3 months ago, our operation in Kenya and the biofertilizers plant there. We started producing products in trial basis now. We are using some of these products on our own plantation before going to the market. It's very promising. Our partners in Spain are a very big help into formulating the products and registering in the different countries.

So we are very optimistic on that front. It will take some time, but we are on the right track. Other projects that are undergoing as well, we can -- hopefully, sometime next year, we can start disclosing and updating you on the new projects that is in the pipeline.

Operator

Ladies and gentlemen, that does conclude our question-and-answer session. And now I'd like to turn the conference back over to Mr. Mohammad Abu-Ghazaleh for closing comments.

Mohammad Abu-Ghazaleh

Chairman & CEO

Thank you very much for joining us today and look forward to talk to you again on our next call. And have a good day. Thank you.

Operator

Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation, and you may now disconnect.

Copyright © 2024 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2024 S&P Global Market Intelligence.