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**Fresh Del Monte Produce
Inc.** NYSE:FDP

Earnings Call

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Call Participants

EXECUTIVES

Christine Cannella

Mohammad Abu-Ghazaleh
Chairman & CEO

Monica Vicente
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ANALYSTS

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

Presentation

Operator

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

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

Christine Cannella

Thank you, Kaila. Good afternoon, everyone, and thank you for joining our second quarter 2024 conference call. Joining me today 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 by Business Wire.

You may also visit the company's IR website at investorrelations.freshdelmonte.com to access today's earnings material 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 most 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, August 1, 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 second 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 second quarter 2024 Earnings Results. Overall, we are pleased with our performance this quarter, especially in our fresh and value-added products segment, which includes our pineapples, fresh-cut fruit and avocados.

For some time now, we have been saying that these higher-margin categories, led by pineapples are our stable and the foundation of our growth strategy.

We are pleased to say that our company's focus in these areas is yielding positive results. During the second quarter 2024, we achieved significant margin improvements in the fresh and value-added product segment.

Gross margin for the segment was 11.2% for the quarter versus 9.2% from the prior year period, with net sales up \$17 million in comparison to the same quarter last year. As one of the global leaders in pineapples, we continue to excel in this area and see increased demand for our new pineapple varieties.

We have plans in place to continue growing production. Our pineapple volume growth projection over the next 3 years is at a compounded annual growth rate of 3%. Our strategy for our fresh and value-added products segment continues to be top of mind.

In Japan, we are optimizing our operations by consolidating 2 facilities into one. This strategic move aims to reduce operational costs and improve our margins.

In Europe, we completed an expansion of our fresh cut facility in the U.K., which optimize our efficiency and improve our gross margin for this market in the second quarter by almost 60% year-over-year.

We are actively working to grow our business at this facility. And in North America, we continue to expand our reach with large key customers. On average, we have seen business with 5 of our top 20 customers grow by more than 20% year-to-date versus last year.

We also continue to expand our SKU list with recent innovations such as specialty fruits, desserts and on-the-go odds. Last quarter, we discussed our fresh guacamole, a product that fully leverages our vertical integration and one we believe has a lot of potential.

We started a test run with this product in November 2023 with 640 units. Fast forward to today, and we have sold more than 315,000 units in less than 7 months.

We expect that our unprecedented all-natural fresh guacamole will now be available in nearly 3,000 stores nationwide by the end of the summer, a significant expansion in just a few months since its launch.

As such, we continue to expand production to keep up with the demand for this product. We are also pleased with our avocado program, which is showing remarkable potential. As one of the top avocado importers in the U.S., we see significant opportunities for further expansion in this category, thanks to our robust infrastructure.

Building on our commitment to harness the full potential of our growing operations, we are actively working on ways to maximize the full utilization of our fruit residues. To this end, we recently opened a biofertilizers plant in our Kenyan operations.

This innovative facility transforms residues and by-products from our pineapple processing operations into biofertilizers.

Initially, we plan to utilize this product within our Kenyan operations and eventually make it available to other growers in East Africa with aspirations to see its benefits ripple across our global footprint. This is part of our last that we need to focus on high-margin products.

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

Monica Vicente
Senior VP & CFO

Thank you, Mr. Abu-Ghazaleh, and good afternoon, everyone, and thank you for joining us on today's call. Let's start with our man packing operations.

We remain actively engaged in exploring strategic alternatives to determine the best path forward for this business. Our commitment to thoroughly analyze all potential options continues. While we have not yet reached a definitive conclusion, our evaluation process is progressing and our intent remains to make a decision in the near term.

As previously stated, there can be no assurance that this process will result in a specific strategic outcome. Now, let's move on to our financial results for the second quarter of 2024.

Net sales were \$1.140 billion compared with \$1.181 billion in the prior year. The decrease in net sales was primarily due to lower banana net sales, which were the result of lower sales volume and lower per unit selling prices, partially offset by an increase in net sales in the fresh and value-added products segment, driven by higher per unit selling prices.

Gross profit for the second quarter of 2024 was \$113 million compared with \$117 million in the prior year, and gross margin was in line with last year at 9.9%. The decrease in gross profit was primarily due to lower net sales, higher per unit production and procurement costs, which were partly driven by negative

impact of increased weather-related events, mainly high temperatures and low rainfall in our production areas in Central America and the Philippines as well as the negative impact of exchange rates.

The decrease was partially offset by lower per unit ocean freight costs and higher per unit selling prices in our fresh and value-added products segment. Adjusted gross profit, which excludes other product-related charges of \$1 million due to shipment disruptions in the Red Sea and additional cleanup costs in our Greece facility associated with the flooding that occurred last year was \$114 million compared with \$117 million in the prior year.

Operating income for the second quarter of 2024 was \$68 million compared with \$72 million last year. The decrease in operating income was primarily due to lower gross profit and a higher gain on sale of assets in the prior year.

Adjusted operating income was \$65 million compared with \$68 million last year. Adjusted operating income for the second quarter of 2024 excludes the \$1 million of other product-related charges previously mentioned as well as a \$3 million gain on the sale of a European warehouse and a \$2 million insurance recovery associated with the fire damage at a South America warehouse facility in the fourth quarter of 2023.

These gains were partially offset by a \$1 million impairment charge in the Philippines. Other income expense net for the second quarter of 2024 was a gain of \$2 million compared with a loss of \$6 million in the prior year.

The change was mainly due to a gain in an investment this quarter compared with a foreign currency loss in the same period last year. Net income attributable to Fresh Del Monte was \$54 million for the second quarter of 2024 compared with \$48 million in the prior year.

And adjusted FDP net income was \$51 million compared with \$46 million last year. Adjusted FDP net income for the second quarter of 2024 excludes the previously mentioned adjustments and the associated \$1 million tax effect.

Our diluted earnings per share were \$1.12 in the second quarter of 2024 compared with \$0.99 in the prior year. Adjusted diluted earnings per share were \$1.06 compared with \$0.96 last year.

Adjusted EBITDA for the second quarter of 2024 was \$89 million or 8% of net sales. This compares favorably to the same quarter last year, where adjusted EBITDA was \$85 million or 7% of net sales.

I will now go into more detail on the second quarter performance for each of our segments, beginning with our fresh and value-added products segment. Net sales for the second quarter of 2024 were \$694 million compared with \$678 million in the prior year.

The increase in net sales was primarily a result of higher per unit selling prices of avocados, along with higher sales volume and higher pricing of non-tropical fruit. The increase was partially offset by lower net sales of vegetables and fresh-cut fruit due to lower sales volume.

Gross profit was \$78 million compared with \$62 million in the prior year, and gross margin was 11.2% compared with 9.2% last year.

The increase in gross profit was primarily driven by higher per unit selling prices, which was partially offset by higher per unit production and procurement costs of avocados as well as the negative impact of exchange rates, primarily a stronger Costa Rican colón and Mexican peso.

Gross profit for the second quarter of 2024 includes the \$1 million of other product-related charges previously mentioned.

In our banana segment, net sales for the second quarter of 2024 were \$394 million compared with \$449 million in the prior year. The decrease in net sales was primarily due to a 10% reduction in sales volume.

During the quarter, we experienced lower sales volume in North America due to competitive market pressures and lower sales volume and lower per unit pricing in Asia, along with the negative impact of exchange rate fluctuations, mainly a weaker Japanese yen.

Gross profit was \$30 million compared with \$51 million in the prior year, and gross margin was 7.6% compared with 11.3% last year. The decrease in gross profit was principally driven by lower net sales, higher per unit production and procurement costs and the negative impact of fluctuations in exchange rates due to a stronger Costa Rican colón.

The decrease was partially offset by lower per unit distribution and ocean freight costs.

In our other products and services segment for the second quarter of 2024, net sales were \$51 million compared with \$54 million in the prior year. The decrease in net sales was primarily due to the sale of our Chilean plastic products business, which we sold in the second quarter of 2023.

Gross profit was \$6 million compared with \$4 million in the prior year, and gross margin was 10.7% compared with 7.8% last year.

The increase in gross profit was primarily due to higher per unit selling prices in our poultry and meat business. Now, moving on to selected financial data. Our income tax rate for the second quarter of 2024 was 19%, in line with the prior year.

We expect our effective tax rate for the full year to approximate 21%. 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 6 months of 2024 was \$144 million compared with \$133 million in the prior year. The increase was primarily due to working capital fluctuations mainly driven by higher levels of accounts payable and accrued expenses due to timing of period-end payments to suppliers, along with lower levels of accounts receivables.

Long-term debt decreased by 29% to \$285 million at the end of the second quarter compared with \$400 million at the end of the same quarter last year.

This marks the lowest level of long-term debt since the end of 2017, reflecting our commitment to maintaining a prudent capital structure and creating long-term value for our shareholders.

By lowering our debt, our leverage ratio is now 1.2x adjusted EBITDA. As it relates to our capital expenditures for the first 6 months of 2024, we invested \$21 million compared with \$19 million in the prior year. We expect capital expenditures for the year to be in the range of \$60 million to \$65 million.

As announced in our press release, we declared a quarterly cash dividend of \$0.25 per share, payable on September 6, 2024, to shareholders of record on August 15, 2024. I now want to give you an outlook for the full year of 2024 by business segment.

In our fresh and value-added segment, we anticipate net sales for the full year to be in the range of 1% to 2% higher compared to the prior year, primarily driven by our avocado, pineapple and fresh-cut fruit product lines.

It's important to note that the third quarter traditionally presents challenges due to the influx of competing summer fruit and vegetables entering the market. However, we remain confident in our strategy and product offerings to navigate the seasonal pressures effectively.

For our banana segment, due to the ongoing competitive market pressures, along with shipping challenges through the Red Sea, for the full year, we anticipate our sales volume to be 5% to 7% lower and our per unit pricing to be 4% to 5% lower as compared to the prior year.

Historically, the second half of the year sees higher industry volumes and lower pricing. It's important to note that in our 2 largest markets, North America and Europe, they have approximately 80% and 75%, respectively, under yearly banana sales contracts.

Our expectations for the remainder of 2024 for the other products and services segment remained consistent with the results reported in the first half of the year. We are pleased with the progress in our fresh and value-added products segment, where we continue to experience notable gross margin improvement.

Additionally, we have made substantial progress in strengthening our balance sheet and reducing our debt to the lowest level in 6 years. We believe these steps position us well for future growth and stability. This concludes our financial review. We can now turn the call over to Q&A. Kaila?

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Mitchell Pinheiro with Sturdivant Company.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

So, I guess my first question is, and I really do appreciate some of the guidance or comments around your segments, it's very helpful. So, you had a particularly strong margin improvement in the fresh value add, I should say.

And like, is that sustainable in the back half more or less? Is that the level that we should be looking at? Or were there some benefits like either mix or something in the quarter that elevated it?

I know like 11% is an area that you're looking to get to as a target, or higher maybe. But I'm just curious, are we there yet? Or was there a couple of items in the quarter that helped?

Monica Vicente

Senior VP & CFO

So, Mitch, we had a good quarter. I think we're making good progress in improving the fresh and value-added margins. As I said, you know the second half, especially the summer months, there's competing fruit. So, there will be more pressure on the segment. But we're definitely making progress, and we definitely see an improvement in the margins.

We have the great mix with our Honeyglow pineapple, our Pinkglow. Our Fresh Cut products are doing well, like Mr. Abu-Ghazaleh said, our U.K. Fresh-cut facility has improved their margins because of the investments we've made and our non-tropical, especially grapes have really been performing well this year.

So, definitely getting where we want to be in that fresh and value-added product category full year, there is some pressure on this segment, but we expect to have a good year.

Mohammad Abu-Ghazaleh

Chairman & CEO

I would like to add to Monica's remarks here and clarification that I have been saying that for quite a while, Mitch, that we are, let's say, reinventing Fresh Del Monte in a way that will be a lot more value-added products and a lot more innovation and development that, in my opinion, which will restructured the company in a completely different way than it was for the last 27, 28 years.

So, as we go forward, you will be hearing from us more information and more details about our developments and about our new, let's say, value-added and higher-margin products that will be rolling out into the market.

So, this momentum that you have seen or you have witnessed now in the second quarter, I believe it will continue, and I believe it will accelerate as we go forward. That's what I can say at this stage on.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Well, I'm curious, so like your project in Kenya, is that something where you're creating this for internal use, so it becomes like a cost offset? Or will it become a separate revenue stream in profit?

Mohammad Abu-Ghazaleh

Chairman & CEO

It will be twofold. It will be exactly like you said, it will help reduction of our costs by using, let's say, more organic biofertilizers rather than the chemicals. That's one side on this. It will be twofold. It would be less in terms of money spent, and it will be more sustainable than any other product.

So, we will win on the sustainability front as well on the commercial front. Second part of your question is that, it's going to be at the preliminary stage, it will be mainly for our use in our operations.

But definitely, our aim and target are to go into the open market and start marketing the products also to third parties and other growers in Kenya and hopefully, in East Africa in general.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

And just a follow-up on that is, I don't remember what you said about the ad, when does it open? And how long would it take to get meaningful scale?

Mohammad Abu-Ghazaleh

Chairman & CEO

We just actually started last month, Mitch. We started production in a very small way. Don't forget that this is like just a startup. We do have associates' partners in this venture that we have in Kenya, a minority partner that is from Spain, a Spanish company that is specialized in this category.

And, of course, that technology and know-how and recipes and formulas is a very important backbone of our new development. So, it will be kind of, I would give it another, to the end of the year, and we will see more, let's say, concrete development and results from that point on.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

And then when it comes to the produce category in the United States, I mean, what are you seeing given the inflation that we've seen, it's global, but just talking about North America, in particular, are you seeing the produce category having any unusual either demand trends? Or is there anything there that you can call out that we should know?

Mohammad Abu-Ghazaleh

Chairman & CEO

I believe that the produce industry in general has a challenge in terms of the pricing in the market. And that is reflecting actually on many fronts as we have seen.

We have never seen any time in the last 10, 15 years that the banana prices in Ecuador, for instance, will not come down in the summer. I mean, usually, this time of the year, prices in Ecuador on the FOB level would be around \$4, \$3, \$4, or \$5 at the most.

Now, we are seeing prices in the \$6, \$7, \$8, \$9 average for the FOB, which has never happened before. And that is the result of so many losses and so many farmers going out of the market or growing less bananas.

The same happens in South America. Usually, there is a surplus at this time of the year. Now, we don't see any surpluses in Central America.

That's as far as bananas are concerned. But if you look at the produce business in general, unfortunately, the prices at the shelf level besides bananas, I'm not talking about bananas, but anything else besides banana is quite high its price tag. And that is driving, in my opinion, consumers from consuming more or consuming enough to move this product out of the shelf.

And that's why we see now really less competition even in the Valley in Salinas, where we are having our vegetable business, we see that it is becoming more rationalized and things are getting improved as far as our operations are concerned. And that is the result of less demand and less movement in the market.

In my opinion, this trend is going to continue for a while and until rationalization take place and prices come down a little bit for consumers to start picking up the products.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Was fresh-cut fruit in this particular quarter? Was that impacted by any of this pricing or?

Mohammad Abu-Ghazaleh

Chairman & CEO

I think we have been very lucky that fresh-cut fruit has been very well received, continuous expansion and continuous sell-through. And, as I said a while ago, the fresh guacamole segment that we just started has taken off extremely well.

As I said, we started with 650 packs sold in late November of last year. And until recently, we have moved over 315,000 and that's just a start.

So, we believe that this will be a huge category for us going into the future. And this is very unique for Fresh Del Monte actually. It's been developed innovated by Fresh Del Monte took us over 6, 7 months of development until this was created this product. So, we are quite satisfied. I'm proud that we have been able to create such products in the market.

Monica Vicente

Senior VP & CFO

And just to add a little bit on that, Mitch. Fresh-cut fruit has strong pricing as did most of our products in the fresh and value-added product category and strong margins. So, fresh-cut fruit is definitely in a good form. And pineapple, as you know, is our main product in this category.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Yes, I was going to get to a good segue. I mean you lead in the pineapple business and your innovation has been quite good over the last couple of years. You talked about 3% CAGR in terms of like volume. Is that limited just based on physical production timing? Or what drives the 3% number? Why wouldn't it be higher?

Mohammad Abu-Ghazaleh

Chairman & CEO

We are restricted by land availability and it takes time to grow new fields of pineapples. So, this is all internal growth and this is not coming from third-party growers. And today, it's not so easy to grow and pineapples in a big volume or in a big acreage since there are limitations, be it in the growing countries or even finding new areas for producing pineapples.

And don't forget the most important thing, Mitch, that we have been saying that for many, many years that we're a vertically integrated company. We produce, we ship and we sell. And the fresh-cut strength and backbone of this is this strategy of being a vertically integrated that we can always have the product available with consistency in supply and consistency in quality, which really gives confidence and trust to our customers and the consumers at the end of the day.

So, that's a value that we have built over the last 27, 28 years, and that has a huge, huge value today with our infrastructure. We are the #1 fresh-cut fruit operator in the U.S., in North America. And I believe we will continue to dominate this position going forward.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Just one more question in [indiscernible] to pineapple. The Honeyglow is a terrific product and I was wondering whether it's hard to have like a sort of patent protection, but like a little bit of strategic

protection for a while. Are you seeing any competition in like the Honeyglow category? Or do you own the category and you have it to yourselves for a while?

Mohammad Abu-Ghazaleh

Chairman & CEO

No, this is a technology that we have developed over the years how to produce Honeyglow and how to select Honeyglow. And, of course, competition after our success has tried to copy our plan, and they have tried. But as far as I can see that nobody has been able to kind of copy and imitate what we have been doing. And I think it's not just because of our expertise and knowledge about pineapples, but as well as the variety that we have.

And don't forget that we were the one that created the gold pineapple. I mean it was developed by Del Monte, and we have the original seeds, and that's something that is very, very important to know that we have pure seeds.

And that's something that no one else in the market has ever had because everything that is in the seeds today was started actually from Fresh Del Monte at the time, the early 2000, late '90s, and some of it was not pure material.

So, over the years, it starts mutating and start changing the variety. So, I believe into this and that's why we have that dominant and leading position in this category.

Monica Vicente

Senior VP & CFO

And to add to that, Mitch, remember, for pineapple, we grow over 70% of our volume. So, that makes a significant difference because we can control the growing, the harvesting and that's where the Honeyglow it's really important to have control of that.

That and our logistics, which help also with that. It has to have the cold chain all the way through the customer. So, I believe that really gives us a huge advantage having control of the production all the way to the customer. And our quality even if they try to compete with us, our quality is the best.

Operator

[Operator Instructions] And at this time, I'm not seeing any further questions. Mr. Mohammad Abu-Ghazaleh, I'll turn the call back over to you.

Mohammad Abu-Ghazaleh

Chairman & CEO

Thank you very much, Kaila. And I appreciate everybody's presence on this call today. And I hope we speak to you on our next quarter call, and I wish you a good day. Thank you.

Operator

And this concludes today's conference call. You may now disconnect.

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