

Fresh Del Monte Produce Inc. NYSE:FDP

FQ1 2024 Earnings Call Transcripts

Thursday, May 02, 2024 8:45 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2024-			-FQ2 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.60	0.34	▼ (44.26 %)	0.84	2.36	2.61
Revenue (mm)	1130.15	1107.90	▼ (1.97 %)	1211.00	4464.30	4581.00

Currency: USD

Consensus as of May-02-2024 9:43 PM GMT

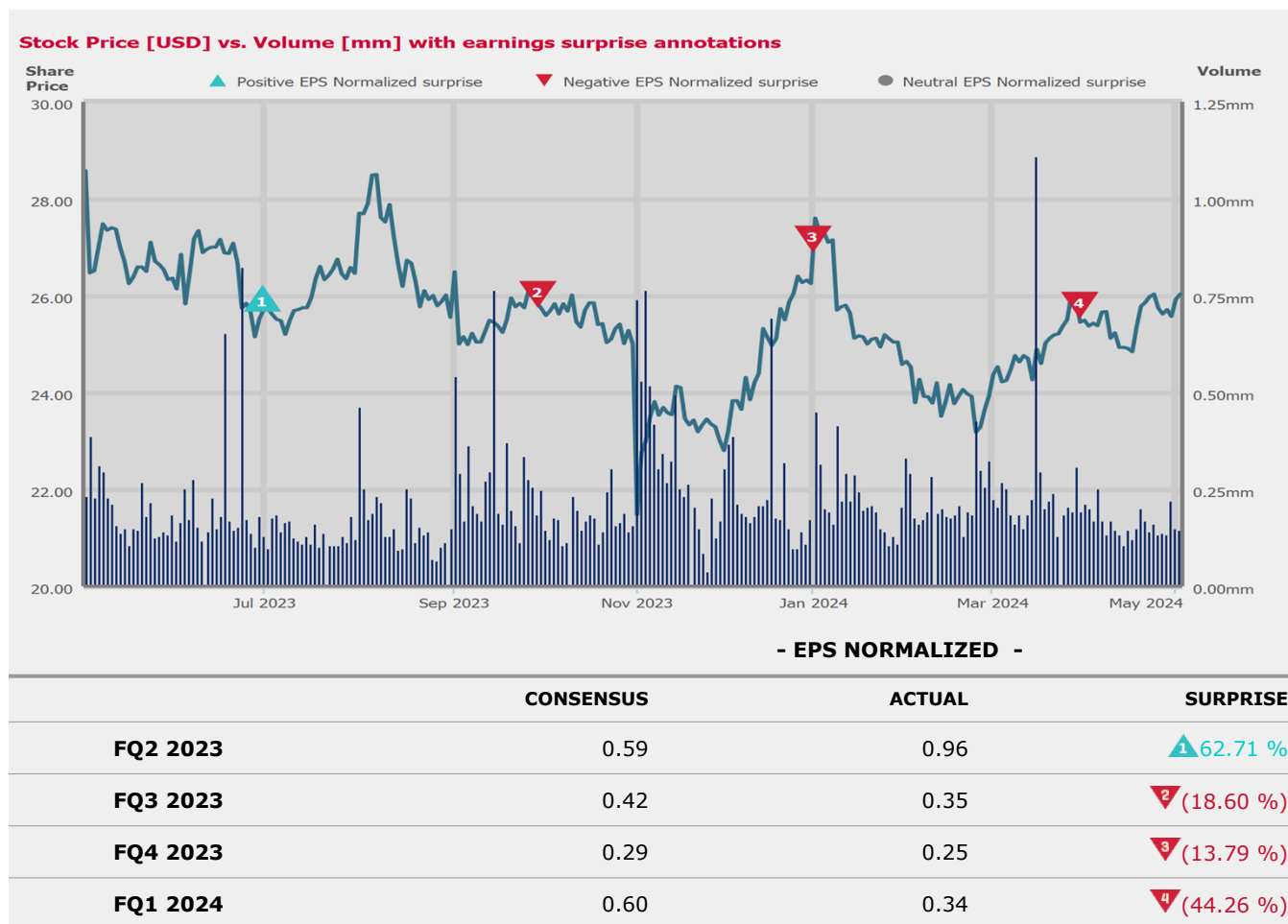


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Call Participants

EXECUTIVES

Claudia Pou

*VP & Global Head of Corporate
Communication*

Mohammad Abu-Ghazaleh

Chairman & CEO

Monica Vicente

*Senior VP, CFO & Principal
Accounting Officer*

ANALYSTS

Mitchell Brad Pinheiro

*Sturdivant & Co., Inc., Research
Division*

Presentation

Operator

Good day, everyone, and welcome to Fresh Del Monte Produce's First Quarter 2024 Earnings Conference Call. Today's conference call is being broadcast live over the Internet and is also being recorded for playback purposes. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] For opening remarks and introductions, I would like to turn today's call over to the Vice President, Corporate Communications with Fresh Del Monte Produce, Claudia Pou. Please go ahead, Ms. Pou.

Claudia Pou

VP & Global Head of Corporate Communication

Thank you, Audra. Good afternoon, everyone, and thank you for joining our first quarter 2024 conference call. I'm Claudia Pou, Vice President, Corporate Communications with Fresh Del Monte Produce. Joining me in today's discussion are Mohammad Abu-Ghazaleh, Chairman and Chief Executive Officer; and Monica Vicente, Senior Vice President and Chief Financial Officer. I hope that you've 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'll 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, May 2, and we have no obligation to update any forward-looking statement we may make. During the call, we will provide a business update along with an overview of our first quarter 2021 financial results followed by a question-and-answer session. With that, I'm pleased to turn today's call over to Mr. Abu-Ghazaleh.

Mohammad Abu-Ghazaleh

Chairman & CEO

Thank you, Claudia, and thank you for joining us for first quarter 2021 earnings results. We continue to see strong momentum in our higher-margin fresh and value-added products segment, which is a key driver of our long-term growth strategy. Revenue in this segment grew by 5% year-over-year, fueled by strong sales of our pineapples and avocados as well as our prepared foods. Segment adjusted gross margins also expanded by 50 basis points as we realized production efficiencies and cost savings from our tightly integrated supply chain. Our strong cash flow allowed us to simultaneously reinvest in the business, increase our dividend while paying down our debt.

During the quarter, we reduced total debt by 15% when compared to the prior year period, further demonstrating our commitment to maximizing shareholder value through disciplined capital allocation. We believe we will unlock further shareholder value by focusing on our strengths in pineapple, fresh-cut and value-added projects, which is exactly what we did in this first quarter. Taking a closer look at some of the drivers behind our fresh and value-added segment growth. We saw particularly strong demand for our pineapples. As a leading grower and distributor of this route, we continue to look for new and different ways to lead in the pineapple category.

In the first quarter of 2024, we launched 2 pineapple innovations. The Rubyglow pineapple, our [indiscernible] pineapple, which is being produced in a limited volume at a very high price point. Due to high demand and interest in North America, Rubyglow pineapples are now available to consumers in the United States. Our other newly released pineapples innovation this quarter is the Precious Honeyglow

pineapple, a personal size fresh pineapple out of our popular line of Honeyglow pineapples. Our previously launched Pinkglow and Honeyglow pineapple innovations continue to perform very well. In quarter 1, net sales for the Pinkglow pineapples were up 62% compared with the same period last year. While net sales for the Honeyglow pineapples was approximately 13% higher compared with the same period last year.

Pineapple represents just one growth driver within our fresh and value-added product segments. We also see tremendous opportunity in fresh-cut category. We are pleased to share that this quarter, we further expanded our fresh-cut product distribution in North America, cementing our position as the market leader in fresh-cut products for the convenience store channel. Also, on the horizon within our fresh-cut program, our new premium fruit trades, featuring specialty fruits not seen before in our program. This year, we will continue to take advantage of our robust U.S. footprints of company-owned fresh-cut facilities to further grow and market share and release new value-added products to our consumers, driving shareholder value.

Our fresh-cut growth strategy extends into our other regions outside of North America. In our European region, we recently completed the expansion of our primary fresh-cut production facility in the U.K., which will allow us for a significant increase in capacity. And in Asia, we saw a 36% increase in sales in quarter 1 from our fresh-cut operation in Korea compared with the same quarter last year. Shifting to our avocado category, the category performed well this quarter with revenue up 23% year-over-year. One of our newest innovation in our fresh Guacamole product, our fresh Guacamole made without preservatives and with [indiscernible] avocado, is a new product for us and is growing rapidly. In quarter 1, Guacamole distribution expanded to 2 major retailers in the Southeast and Northeast regions of the U.S. We plan to continue this expansion throughout the course of the year.

Looking toward the remainder of 2024. We plan to continue our investments in value-added products and in expanding our pineapple and fresh-cut operations as well as maximizing our fruit residuals utilization. As one of the world's largest producers of fruits, we see tremendous untapped potential in this space and have identified several profitable use cases of our residues, including biofertilizers. These ventures leverage our strength as a business and allow us to be at the forefront of the fresh produce industry. With that, I would like to turn the call over to Monica.

Monica Vicente

Senior VP, CFO & Principal Accounting Officer

Thank you, Mohammad, and good afternoon, everyone, and thank you for joining us on the call today. Net sales for the first quarter of 2024 were \$1.18 billion compared with \$1.29 billion in the prior year. The decrease in net sales in the first quarter was due to lower net sales of bananas driven by lower volume and pricing and lower rates in the third-party ocean freight business in our other products and service segments. The decrease was partially offset by higher net sales in our fresh and value-added product segment due to overall higher sales volume and pricing. Gross profit for the first quarter of 2024 was \$82 million compared with \$97 million in the prior year. The decrease was driven by lower overall net sales, higher per unit production and procurement costs, including the impact of fluctuations in exchange rates, partially offset by lower distribution and ocean freight costs.

Gross profit in the first quarter of 2024 includes \$1 million net credit related to insurance recoveries associated with damages tied to the flooding of a seasonal production facility in Greece during the third quarter of 2023, partially offset by the severance charges from the outsourcing of certain functions at our fresh and value-added production operation. Gross margin for the first quarter of 2024 was 7.4% compared to 8.6% in the prior year. Excluding the impact from the other product-related charges, adjusted gross profit for the first quarter of '24 was \$81 million compared with \$99 million in the prior year. Operating income was \$44 million compared with \$75 million last year, and adjusted operating income was \$31 million compared with \$51 million in the prior year. The adjusted operating income decrease was due to lower gross profit and higher SG&A expenses.

FDP net income for the first quarter of '24 was \$26 million compared with \$39 million in the prior year, and adjusted FDP net income was \$16 million compared with \$27 million last year. Our diluted earnings per share in the first quarter was \$0.55 per share compared with \$0.81 per share in the prior year. Adjusted diluted earnings per share was \$0.34 compared with \$0.55 per share in the prior year. Adjusted EBITDA

for the first quarter of 2024 was \$44 million compared with \$65 million in the prior year, primarily driven by lower gross profit and higher SG&A. I will now go into more detail on the first quarter performance for each of the segments, beginning with our fresh and value-added products segment.

Net sales for the first quarter of 2024 were up 5% to \$677 million compared with \$643 million in the prior year due to higher sales volume of pineapples, melons and prepared food products and also higher per unit selling prices of avocados. Gross profit for the first quarter of 2024 was \$56 million compared with \$47 million in the prior year. The increase was driven by the overall higher net sales, partially offset by higher production and procurement costs of pineapples and avocados, which were impacted by a stronger Costa Rica colon and Mexican peso. Gross profit includes the previously mentioned other product-related charges and credits. Gross margin increased to 8.3% compared with 7.3% in the prior year.

As Mohammad mentioned, this segment has been an area of intense focus for our team over the past few years. We have undertaken a number of strategic initiatives in this segment aimed at enhancing our product mix, improving operational efficiencies and strengthening our distribution channels. We've continued to grow our pineapple program with the release of 2 new offerings this past quarter as well as the continued growth of our popular specialty pineapples, Honeyglow and Pinkglow, which combined now represents approximately 20% of our pineapple volume. Our avocado program also delivered strong results, with revenue increasing by 23% driven by higher sale prices. For the remainder of 2024, we continue to expect strong results in this segment driven by favorable pineapple product mix, strong fresh-cut fruit sales and nontropical improvements due to the current market trends.

Moving to our banana segment. Net sales for the first quarter were \$380 million compared with \$425 million in the prior year. The decrease was driven by 5% lower volume, partially due to service level issues in the first 2 months and lower selling prices due to the competitive market pressures in North America and Europe. Banana gross profit in the first quarter of 2024 was \$22 million compared with \$43 million in the prior year. The decrease in gross profit was due to lower net sales, higher per unit production and procurement costs, including the negative impact of a stronger Costa Rica colon partially offset by lower distribution and ocean freight costs. Gross margin was 5.7% compared with 10.2% in the prior year.

During last earnings call, we mentioned that we expected banana volume to be similar to 2023. However, given the competitive market pressures, we now anticipate for the full year to have approximately 3% to 4% lower volumes versus last year, along with softer selling prices. Lastly, net sales in our other products and services segment for the first quarter were \$52 million compared with \$60 million in the prior year due to lower net sales of third-party ocean freight services as a result of lower rates driven by the competitive market environment, combined with the impact of the sale of our plastic subsidiary in South America in 2023. Gross profit was \$5 million compared with \$7 million in the prior year as a result of lower net sales. Gross margin was 8.9% compared with 11.2% last year. Our expectations for the remainder of 2024 for this segment are in line with the first quarter results.

Now moving to selected financial data. Net interest expense was \$5 million compared to \$8 million in the first quarter of '23 due to lower average debt balances. Income tax provision was \$5 million compared to \$10 million in the prior year. The decrease was due to lower earnings. Turning to our financial position. Net cash provided by operating activities for the first 3 months of 2024 was \$19 million compared with \$16 million in the prior year. The increase was due to our efforts to optimize our net working capital, partially offset by lower net income. Long-term debt decreased by 15% to \$400 million at the end of the first quarter of 2024 compared with \$473 million at the end of the same quarter last year.

By lowering our debt, our adjusted leverage ratio is now 1.77x adjusted EBITDA. As it relates to capital spending, we invested \$13 million in the first 3 months of 2024 compared with \$10 million in the prior year. For the full year, we expect capital expenditures to be in the lower end of the range of \$65 million to \$75 million. As announced in our press release, we declared a quarterly cash dividend of \$0.25 per share, payable on June 7, 2024, to shareholders of record on May 16, 2024. And lastly, as it relates to Mann Packing and the announcement we made last quarter, we remain actively engaged in exploring strategic alternatives for this operation to determine the best path forward. We intend to make a decision by the third quarter of 2024. However, there can be no assurances that this process will result in any specific strategic outcome. This concludes our financial review. We can now turn the call over to Q&A. Audra?

Question and Answer

Operator

We will now begin the question-and-answer session. [Operator Instructions] We'll take our first question from Mitch Pinheiro at Sturdivant & Company.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Can you start with the fresh-cut value-added had a sort of a normal-- quite a nice quarter and margins look like they're advancing. Two questions. One, on the pineapple business, is the-- are the new pineapple varieties, are they just replacing shelf space of old pineapple product or regular pineapples? Or are you getting-- are grocery stores starting to increase the shelf set for pineapple?

Mohammad Abu-Ghazaleh

Chairman & CEO

No. Actually, Mitch, you're right. It's not replacing any old traditional volume that we have. Actually, it's incremental with a much higher kind of value to these new additions. So we are seeing incremental sales and incremental demand. As a matter of fact, in most cases, we are not even able to meet with the demand for these special races.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

And so like where in your own fields, are these all additional acres of pineapple land? Or are you using existing land? And how does that work from the back end?

Mohammad Abu-Ghazaleh

Chairman & CEO

No, it's additional land that we already have. We have enough plans to expand our production, Mitch. So any new varieties with the-- let's say, the Honeyglow, which is the high color pineapple, it is within our existing, let's say, farms. It's a different kind of agricultural management, which gives us this advantage of producing this type of pineapple which commands a premium to the, let's say, the Honeyglow. But if we are talking about Pinkglow pineapple or Rubyglow pineapple, these are all additional new farmland that within our own like properties. We have enough plan to grow additional new varieties.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Okay. And like in an order of magnitude, how much more profitable are these newer pineapple varieties compared to your regular gold pineapple?

Mohammad Abu-Ghazaleh

Chairman & CEO

By far, huge, I would say, I cannot tell you exactly what it is, it's not for public information, but it is very significant difference in value.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Okay. And was that the primary -- is the mix of your higher margin, higher value pineapple, is that more of an impact on the segment's gross margin than fresh-cut or are they contributing equally? How does that work out?

Mohammad Abu-Ghazaleh

Chairman & CEO

I think they are both contributing equally. They are going into tandem in terms of marginality, both of them are commanding high margins. This is only beginning. We are at the very beginning of our journey towards transforming. And I've been saying this for several quarters, if you remember, Mitch, we said that we are transforming the company to be a much integrant much higher value-added products and different avenue, which I believe, as we go quarter after quarter, you will start realizing where the company is going. As I mentioned in my now script that we have out of our residuals that we are going to have biofertilizers, this is something that we are working very seriously on. So there is a lot of new, I would say, avenues that we would be going into that. It will change the company going forward.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Okay. And then a question on bananas. I guess, Monica, if I heard you correctly, you said that for the year, you expect lower volumes in the 3% to 4% range for bananas, is that right?

Monica Vicente

Senior VP, CFO & Principal Accounting Officer

Right, yes.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Along with lower selling prices?

Monica Vicente

Senior VP, CFO & Principal Accounting Officer

Yes. We expect-- the market is very competitive right now, and we do expect to have the lower volume and softer selling prices.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

And is the competitiveness in both Europe and North America?

Monica Vicente

Senior VP, CFO & Principal Accounting Officer

Yes, in both...

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Is one more competitive than...

Mohammad Abu-Ghazaleh

Chairman & CEO

Yes, I would like to add to this, Mitch, that the market, the consumption is being-- going down actually as we have seen statistically, there is about 5% less consumption in the market in North America compared to the year before. So we are seeing a tendency for lower, let's say, volume and sales in North America and actually as well in Europe. We don't know why, but this is the trend that we are seeing right now.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

It sounds like to me, they're eating more pineapple.

Monica Vicente

Senior VP, CFO & Principal Accounting Officer

Yes, Honeyglow.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Okay. And then as far as-- so as we look into the-- you don't have a lot of visibility, but if you look into the next quarter, is the second quarter more of the same for bananas?

Mohammad Abu-Ghazaleh

Chairman & CEO

I would say, more or less the same plan that will go on. I mean, unless there is more efficiencies, better service levels and less headwinds that we have faced in the first quarter. And especially in Banana as you know, you're always susceptible to some factors or variables that we cannot control, which happened in the first quarter this year, disruption in the shipping, some quality issues, some service issues. So as we speak, as we're going forward, we hope that this will stabilize. We believe it's going to be stabilized. We don't want to be too optimistic, but let's take the scenario as today's scenario as being the one for the second quarter.

Monica Vicente

Senior VP, CFO & Principal Accounting Officer

And Mitch, in Q1, we had a 5% decrease in volume. And for the full year, like I said, we expect 3% to 4%. So we do expect to recover a little bit, not as down as of Q1.

Mohammad Abu-Ghazaleh

Chairman & CEO

But our biggest headwinds really in the quarter was the exchange rate in Costa Rica has been really decimating the industry. I mean we're talking about year-to-year of about 20 colones difference, I mean, 20 points difference between one year to the next-- I mean we were exchanging let's say, \$1 for 520 colones. And this year, it's almost around 500 colones. So for the last few months since the late last year. So it's been really very big headwinds for us.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

What's the driver of the-- I don't pay attention to the Costa Rican monetary situation. What's driving the decline?

Mohammad Abu-Ghazaleh

Chairman & CEO

Too many dollars, I guess, in the market, which put pressure on the-- I mean, the local currency came very, very strong.

Mitchell Brad Pinheiro

Sturdivant & Co., Inc., Research Division

Right, right. Okay. And there's little you can do about it, right? There's no let's say your primary...

Monica Vicente

Senior VP, CFO & Principal Accounting Officer

Yes, it's difficult to hedge the currency that there's not enough liquidity.

Operator

And that concludes our Q&A session. I will now turn the conference back over to Mohammad for closing remarks.

Mohammad Abu-Ghazaleh

Chairman & CEO

Thank you very much, everyone, for attending this call and hope to speak to you in the next quarter with even brighter news. Thank you. Have a good day.

Operator

This concludes today's conference call. Again, thank you for your participation. You may now disconnect.

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