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DOLE - Q1 2012 Dole Food Company, Inc Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the First Quarter 2012 Dole Food Company, Incorporated Earnings Conference Call. My name is Shanel and I'll be your operator for today. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to Beth Potillo, Vice President and Treasurer. Please proceed.

Beth Potillo - *Dole Food Company, Inc. - IR*

Thank you, Shanel. Good day, everyone, and welcome to Dole's first quarter earnings conference call. On the call today are David DeLorenzo, President and Chief Executive Officer; Michael Carter, General Counsel; Joe Tesoriero, Chief Financial Officer; and Yoon Hugh, Controller.

Earlier today, we filed our first quarter Form 10-Q and issued our earnings release. The release, along with slides to accompany our call, are available at investors.dole.com and have also been filed on Form 8-K. Today's call will last approximately one hour. After our prepared remarks, we will take questions as time allows.

Some of the information we will discuss with you today contains forward-looking statements about the Company's performance based upon management's current expectations. Given the risks and uncertainties inherent in our business, actual results may ultimately differ materially from these expectations. Further information on the factors that could affect Dole's financial results is included in our SEC filings, including Form 10-K in the forward-looking statements at the beginning of our slide presentation.

Management evaluates and monitors the overall Company and segment performance primarily through a number of non-GAAP measures, including EBIT, adjusted EBITDA, and comparable income or loss, total and per share, from continuing operations. Some of today's prepared remarks will include these measures. Information on how we calculate these measures and reconciliations to GAAP financial measures can be found in our Form 10-Q and today's earnings release and in the appendix of today's presentation.



I would now like to turn the call over to Dave, who will discuss our operating performance. Joe will follow-up with a discussion of our financial results.

David DeLorenzo - *Dole Food Company, Inc. - President, CEO*

Thank you, Beth. Good afternoon, everyone, and thank you for joining our call. Earlier this afternoon we made two announcements. First, we reported our first quarter earnings, and we also announced that the board of directors and management have initiated a comprehensive review of strategic alternatives for the Company's principal businesses, seeking to enhance shareholder value. I'll begin today with a discussion of the quarter and then follow with the rationale for this strategic business review.

In the first quarter, Dole reported adjusted EBITDA of \$71 million, compared to \$111 million in the first quarter of 2011. In addition to the anticipated decline in banana earnings, we experienced a very large \$12.4 million drop in year-over-year adjusted EBITDA in our commodity vegetable business. This decrease was as a result of two very different weather-related conditions in each of those two years.

If you will recall, last year there was a shortage of commodity lettuce due to poor weather and disease pressure in Arizona, resulting in high prices and good profits. This year, the opposite occurred. Perhaps because of the situation last year, extra acreage was planted by the industry in Arizona, which was then met with especially good growing conditions, creating an excess of most commodity vegetable crops.

This resulted in extremely low industry pricing throughout the quarter, the lowest in the last 15 years as far as we can tell, and we didn't go past 15 years. Prices were anywhere from 30% to 50% below last year's unusually high prices, thus causing the \$12.4 million decrease in our commodity vegetable adjusted EBITDA year-over-year.

The industry has now transitioned to the Salinas Valley, and while we don't expect great prices in Salinas, we do expect less unfavorable comparisons to prior year going forward and, in fact, expect to see year-over-year improvements in the second half of this year.

In contrast, within the vegetable segment, our packaged salads and berry businesses performed strongly during the first quarter. Packaged salads achieved a solid increase in adjusted EBITDA due to continued cost reductions and price and volume increases. Our fresh berry business also had a very strong earnings as our strawberry business experienced good pricing and lower growing and harvesting costs during the quarter. Contributing to the success has been a positive and smooth integration of the SunnyRidge Berry acquisition.

We are very pleased with the trend of increased earnings in both the salad and the berry business; however, it was not enough to overcome the extraordinary drop this quarter in commodity vegetable pricing.

Moving on to our fresh fruit segment, as we discussed in our last earnings call, banana earnings were expected to be down in the first quarter compared to last year, primarily due to the reduced pricing in North America coupled with the cost of fruit increases from Latin America. Average prices in Europe were also down in the quarter, mostly due to relatively low pricing in January of this year and unfavorable exchange rate comparisons.

Supply from Latin America remains tight with export shipments to date continuing to track below last year's levels. The Asian markets remained stronger in the quarter and are expected to have another good year.

Our packaged foods business turned in another good quarter with adjusted EBITDA improving 10% year-over-year, supported by solid improvement in our core pineapple business and continued progress in our juice bowl lines. The roll-out of our new Fruit Smoothie Shakers and Frozen Fruit Cup products also continues to go well. The Smoothie Shaker roll-out is currently being supported by national TV advertising campaign in the second quarter. The integration of the Mrs. May's line of product has also moved along smoothly and according to plan.

Dole Packaged Foods is an innovative world-class business with leading market shares, highly efficient manufacturing and supply chain capabilities, excellent growth opportunities, both geographically and through a solid new product pipeline. We have a great deal of confidence in this business and its growth opportunities, both in North America and Asia.



However, as we have discussed with many of you in the past, we believe that Dole's share price does not reflect the inherent value of our packaged foods business as it is overshadowed by the larger commodity businesses. In order to unlock this value, we have initiated a review of strategic alternatives, seeking to enhance shareholder value, and will be evaluating prospects and options pertaining to select businesses, but particularly with respect to our packaged foods business.

As part of this strategic review, the Company is working with financial advisors who will assist the board and management in evaluating prospects and options available to the Company, which may include a full or partial separation of one or more of the Company's principal businesses in a spin-off or other capital markets transaction as well as any other alternatives that will enhance shareholder value.

I would like to turn the call over now to Joe Tesoriero, our CFO, who will provide more details on the financial performance of the Company.

Joe Tesoriero - *Dole Food Company, Inc. - CFO*

Thank you, Dave. I will now discuss our performance for the first quarter 2012. My comments pertain to slides 10 and 11 in the deck.

To begin with, I would like to point out that our US GAAP results include unrealized gains and losses from currency movement as well as gains from asset sales. These items are detailed in the reconciliation of adjusted EBITDA to net income in our first quarter 2012 Form 10-Q.

The first quarter of 2012 revenues decreased 4% to \$1.6 billion. Excluding sales of Dole Spain of \$36 million, which was sold in the fourth quarter of 2011, sales decreased 1%. Favorable foreign currency movements benefited revenues by approximately \$10 million. The first quarter of 2012 adjusted EBITDA was \$71 million, as compared to \$111 million in 2011, a decrease of \$40 million.

Fresh fruit adjusted EBITDA decreased \$36 million, primarily due to lower earnings in our banana operations. Fresh vegetables adjusted EBITDA was lower by \$4 million, due primarily to lower pricing in fresh-packed vegetables. Packaged foods adjusted EBITDA rose 10% to \$21 million.

For the first quarter of 2012, gross profit margin, excluding the adjustments for unrealized gains and losses on foreign currency and fuel hedges, decreased to 10.4% from 12.3%. For the first quarter of 2012, total selling, marketing, and general administrative expenses were \$127 million, or 7.8% of revenue, as compared with the first quarter of 2011 expense of \$125 million, or 7.4% of revenue.

Other income and expense net for the first quarter of 2012 was income of \$3 million, which includes a number of items that are eliminated for adjusted EBITDA such as unrealized gains and losses on our long-term Japanese yen hedges and foreign-denominated instruments.

Interest expense for the first quarter of 2012 improved by 13% to \$31 million, compared with \$35 million in the prior year. The improvement resulted from lower effective borrowing rates due in part to the second quarter of 2011 maturity of our interest rate swap. In addition, interest expenses benefited from the early retirement in the third quarter of 2011 of \$53 million of our 13 and seven-eighth senior secured notes due 2014.

Income tax expense for the first quarter of 2012 was \$4 million, compared to \$5 million in the prior year. During the second quarter of 2012, our tax provision will be reduced by about \$18 million as a result of the expiration of statutes of limitations concerning certain transfer pricing items. Net cash tax payments for the full year of 2012 are estimated to be \$21 million.

US GAAP earnings per share from continuing operations were \$0.20 for the first quarter, compared with \$0.02 in the prior year. Comparable income from continuing operations was \$0.15 per share in the first quarter of 2012, compared with \$0.53 per share in the prior year.

Now, I'd like to discuss our financial results by segment. During my segment commentary, I will refer to adjusted EBITDA by segment.

In our fresh fruit segment, the first quarter of 2012 revenues decreased 6% to \$1.1 billion, from \$1.2 billion in the prior year. The divestiture of our operations in Dole Spain accounted for half of this reduction, or 3%. In addition, European sales decreased as a result of lower volumes and lower local pricing as well as unfavorable currency exchange movements.



Banana sales were slightly lower as improved local pricing and favorable Japanese yen foreign currency movements in our Asia banana operations were offset by lower pricing of bananas in North America and Europe. Fresh pineapple sales increased as a result of improved volumes worldwide. Revenues in Asia also increased due to higher volumes of other fresh fruit, primarily in China. Sales of Chilean deciduous fruit increased primarily as a result of higher volumes and improved local pricing for grapes, apples, and stone fruits.

Net foreign currency exchange movement in our foreign selling locations increased fresh fruit revenues in the first quarter by approximately \$10 million. Fresh fruit adjusted EBITDA for the first quarter of 2012 decreased \$36 million to \$48 million. Banana earnings decreased as a result of lower pricing in North America and higher fruit costs due to increased prices from Latin American growers. These factors were partially offset by higher earnings in our Asia banana operations and lower shipping costs in Europe resulting from our 2011 restructuring initiatives.

Turning to our fresh vegetable segment, first quarter revenues increased 2% to \$236 million, from \$230 million in 2011. Fresh berries revenues increased as a result of higher volumes of strawberries as well as blueberry sales associated with the October 2011 SunnyRidge acquisition. Packaged salads revenues increased as a result of improved pricing. Fresh-packed revenues decreased as a result of significantly lower pricing across all major vegetable product lines.

And as Dave explained in his commentary, lower pricing in fresh-packed was due to oversupply conditions during the first quarter, and the quarter-over-quarter comparison was also impacted by strong pricing in the first quarter of 2011.

Fresh vegetables adjusted EBITDA for the first quarter of 2012 was \$13 million, compared to \$17 million in the prior year. Earnings decreased as a result of lower pricing in the fresh-packed vegetables business, partially offset by improved performance in both fresh berries and packaged salads. Fresh berries business earnings increased as a result of lower growing and harvesting costs, partially offset by lower pricing of strawberries.

Packaged salads earnings increased by more than 50% as a result of improved pricing and lower vegetable costs. Overall, our fresh vegetables segment benefitted from lower growing and raw material costs as costs during the first quarter of 2011 were unusually high due to product shortages and poor growing conditions.

Our packaged foods segment first quarter 2012 revenues increased by about 1% as compared with last year. The increase was attributable to higher pricing of packaged fruit products worldwide and higher sales of frozen fruit driven by new product introductions, in particular, our new Fruit Smoothie Shakers and our Frozen Fruit Cups. During the quarter, we also saw improvements in our healthy snacks business primarily due to the acquisition of Mrs. May's.

Packaged foods adjusted EBITDA for the first quarter of 2012 increased 10% to \$21 million, from \$19 million in the prior year. Earnings increased primarily due to lower marketing expenditures in North America and higher pricing. And these positive factors were partially offset by higher product costs.

I will now discuss some key balance sheet and cash metrics. Total net debt at the end of the first quarter 2012 was approximately \$1.58 billion. Subsequent to the end of the quarter, cash proceeds of approximately \$21 million from the sale of our Germany subsidiary were used to pay down term loan debt.

Cash flows used in operating activities in the first quarter of 2012 were \$14.3 million, compared to \$46.9 million in the first quarter of 2011. The improvement was primarily related to lower levels of receivables due to timing of collections and higher levels of accounts payable due to timing of payments. In addition, lower inventory spending contributed to the reduction in cash used.

Capital expenditures for the first quarter of 2012 were \$12 million, compared to \$8 million in 2011. We estimate that capital additions for 2012 will be approximately \$110 million.

We continue our hedging programs for currency and bunker fuel. For 2012, we have hedged approximately 50% of our net euro cash flow at an average rate of \$1.38 per euro. In our packaged foods division, we have hedged 50% of our Philippine peso exposure at PHP43 to the dollar and 75% of our Thai baht exposure at an average rate of THB31 to the dollar. All of our foreign currency hedges are forward contracts.



For the first quarter, our fuel hedges benefited adjusted EBITDA by \$500,000. And for the remainder of 2012, about half of our European fuel requirements are hedged at an average swap rate of \$562.00 per metric ton, which at today's forward rates are [in the money] by approximately \$2.5 million.

The first quarter of 2012 Form 10-Q includes much more information and we invite you to review these documents closely. That concludes our prepared remarks. We will now open the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Your first question comes from the line of Karen Eltrich of Goldman Sachs.

Karen Eltrich - Goldman Sachs - Analyst

Great. Thank you. So, as you look at these strategic alternatives, how also are you thinking about the capital structure and kind of what entities that have what debt?

Joe Tesoriero - Dole Food Company, Inc. - CFO

Karen, it's Joe. So, we're in the process of evaluating a lot of different alternatives, and I think that as we identify the alternatives that we're going to pursue, that will dictate really what we do with the capital structure. We do anticipate a likelihood that we will have to address most of our capital structure in one way or the other.

Karen Eltrich - Goldman Sachs - Analyst

In terms of taking it out or refinancing?

Joe Tesoriero - Dole Food Company, Inc. - CFO

Within the alternatives that we're looking at, there will likely be opportunities to raise potentially equity and pay down some debt --

Karen Eltrich - Goldman Sachs - Analyst

Oh, great.

Joe Tesoriero - Dole Food Company, Inc. - CFO

-- so we're looking at that as part of the opportunity.

Karen Eltrich - Goldman Sachs - Analyst

Great. The one thing, though, in terms of like spinning out packaged food, that was one thing for this Company, was always yes, the fresh side was volatile, but at least you had the balancing out of the packaged foods. How concerned are you about losing that?

David DeLorenzo - *Dole Food Company, Inc. - President, CEO*

Again, whatever we do will be a balanced and it will be a deleveraging event for the commodities side of the business. But we have great faith in the banana business. It's been a very good cash flow business for us. We have very strong, I think, assets in that business. So with the right debt structure, we're not concerned about it at all. But we do want to be sure that both companies, or whatever we end up doing, both are actually an improved capital structure than what we have today.

Karen Eltrich - *Goldman Sachs - Analyst*

Great. Thank you very much.

Operator

Your next question comes from the line of Heather Jones, BB&T Capital Markets.

Heather Jones - *BB&T Capital Markets - Analyst*

Good evening.

Joe Tesoriero - *Dole Food Company, Inc. - CFO*

Hi, Heather.

Heather Jones - *BB&T Capital Markets - Analyst*

Hi. I guess, just to stick with the whole strategic alternatives idea, could we follow-up on what you were saying as far as the equity raise? I guess I'm sort of confused by what you were saying because I don't see why you would want to raise equity at these levels. So I was wondering where your stock is trading, so I just wonder if you could clarify that comment?

Joe Tesoriero - *Dole Food Company, Inc. - CFO*

We're really at the stage of looking at a number of different alternatives, so we're not really able to speak about specific alternatives. I think your question implies that we raise equity in the US. There's lots of different alternatives that we're looking at. Though we would agree with you, raising equity at Dole's current share price would not be attractive, but there are a number of different things that we're looking at.

Heather Jones - *BB&T Capital Markets - Analyst*

Okay. And -- that makes me feel better. As far as cash flow for the year, I was wondering if you could give us -- in the quarter, it was much better than it was in Q1 '11, but for all of 2011 working capital was a pretty big use of cash. And so as we're looking at 2012, I'm wondering if you could give us some sense of what we should expect working capital to be like on a full year basis.

Joe Tesoriero - *Dole Food Company, Inc. - CFO*

We're still looking at working capital to be fairly flat this year, so not a use or a source, pretty flat in 2012.

Heather Jones - *BB&T Capital Markets - Analyst*

Okay.

Joe Tesoriero - *Dole Food Company, Inc. - CFO*

Could be a slight source.

Heather Jones - *BB&T Capital Markets - Analyst*

To be a slight source?

Joe Tesoriero - *Dole Food Company, Inc. - CFO*

Could be a slight source, but nothing --. Last year was a large run-up, and we're seeing that turnaround this year.

Heather Jones - *BB&T Capital Markets - Analyst*

Okay. And wondering if on packaged foods -- in your commentary, you talked about marketing spend being down in Q1 and that being one of the reasons why it was up year-on-year. If we think about this on a full-year basis -- if we go back to '09, that business enjoyed strong double-digit margins in Q1, but last year, due to the cost of product introductions, marketing, it was more in the 5% range and similar this year.

Now, as we go through the year, how should we think about the earnings progression of that business?

David DeLorenzo - *Dole Food Company, Inc. - President, CEO*

The way we've got it programmed this year, the marketing spend has really been ramped up because of all the new products, so we're kind of targeting each year the marketing to correspond with the ramp-ups. So this year, we will have a higher spend in quarter two as we're going out right now with television ads for the Shakers. And then we'll see -- that will drop off in the second half, and so you'll see the higher margins coming through in the second half as we get the ramp-up done in the second quarter.

Heather Jones - *BB&T Capital Markets - Analyst*

Okay. For the full-year basis, should we think about margins being up relative to '11?

Joe Tesoriero - *Dole Food Company, Inc. - CFO*

Probably be slightly up to '11.

Heather Jones - *BB&T Capital Markets - Analyst*

Okay. And then my final question. If you take your comment about commodity vegetables result in a little over \$12 million drop year-on-year, that implies that SunnyRidge packaged salads and your legacy berry business generated about \$8 million of EBITDA improvement year-on-year? I wonder if you could give us a sense of how much of that is packaged salads. Maybe not exact numbers, but just a sense of order of magnitude?



David DeLorenzo - *Dole Food Company, Inc. - President, CEO*

I think it was about half and half, Heather. But half was an improvement in salads and half came from the berry business.

Heather Jones - *BB&T Capital Markets - Analyst*

Okay. And my final question is when you're talking about these strategic alternatives, could you give us a sense of -- clearly, the stock is depressed, but what do you believe -- like when you're thinking it's undervalued and so you're undertaking this strategic review, what do you think is an appropriate value for the Company?

David DeLorenzo - *Dole Food Company, Inc. - President, CEO*

We think that it is a lot higher than it is today, obviously. But I think if you look at any just packaged foods multiples, they're all considerably higher than where the produce companies are trading or the commodity companies are trading. And we believe those are even depressed because of the volatility that we've kind of experienced in the last few years.

We planned and we expected to see improvements in our own valuation, just as we continue to delever and as we continue to build the businesses. But shorter-term, we do see what we think could be a very significant opportunity for us in some sort of a separation of the businesses and get different valuations for the two businesses.

We have a business that has very good growth potential on the packaged side. It has very good -- a very big presence in Asia, as you know. That's where most of our sourcing is done and where our quickest -- our fastest growing markets are. So we have had a lot of interest in packaged foods. We know it's a very solid performer. We know it's got big growth, so we do think it will enjoy a better multiple by itself than it would if it were -- since it's being given the same multiple as the banana companies at the moment.

Heather Jones - *BB&T Capital Markets - Analyst*

Right. Okay. Thank you so much.

Operator

Your next question comes from the line of Karru Martinson of Deutsche Bank.

Karru Martinson - *Deutsche Bank - Analyst*

Hi. In terms of the capital structure, you guys had talked in the past of not looking at that opportunistically. So with this review, is it safe to assume that's kind of on hold until you get this review completed, correct?

Joe Tesoriero - *Dole Food Company, Inc. - CFO*

It's on hold, but we're looking at --. Karru, as we fine-tune this review and look at what options really emerge, we're keeping open the prospect of maybe there's an opportunity to do something simultaneously. We just have to really hone in on what it is we're going to do first.



Karru Martinson - Deutsche Bank - Analyst

Okay. And then in terms of the review, where would you guys say that you're in it? There's a number of options on the table; kind of what's the timeframe that you guys are looking at here?

David DeLorenzo - Dole Food Company, Inc. - President, CEO

In one sense, we've been looking at everything for a long time; in another sense, it's all come together and we're really just starting to push the initiative aggressively today. But we do see a number of opportunities and we would think that there's something that could be done in a relatively short period of time and that our goal would be to accomplish something certainly before the end of the year.

Karru Martinson - Deutsche Bank - Analyst

Okay. And then given the security first lien in the term loans here and the third lien in the notes outside of the debentures, is it a reasonable assumption that this capital structure just has to kind of come out and since they have a claim to the assets, correct?

Joe Tesoriero - Dole Food Company, Inc. - CFO

It's possible outcome. I think it's probably the more likely outcome. It really depends on what direction we would ultimately take with this review.

Karru Martinson - Deutsche Bank - Analyst

Okay. Just switching gears a little bit, I think we talked about it last quarter, that your competitors have brought out some private labels very early in their roll-out. I was kind of wondering what you're seeing on market share for packaged salads. Has there been any impact? And kind of how are you progressing on that side?

David DeLorenzo - Dole Food Company, Inc. - President, CEO

No, we haven't seen any big growth in the private label in the packaged salads recently anyway. And as you know, we do participate in that and we are maintaining our shares, if not increasing. So we're in pretty good shape in packaged salads at the moment.

Karru Martinson - Deutsche Bank - Analyst

Thank you very much, guys. I appreciate it.

Operator

Your next question comes from the line of Bryan Hunt, Wells Fargo Securities.

Bryan Hunt - Wells Fargo Securities - Analyst

Good afternoon.

Joe Tesoriero - Dole Food Company, Inc. - CFO

Hi, Bryan.

Bryan Hunt - Wells Fargo Securities - Analyst

Joe, I was wondering if you could just talk about how tight the banana supply is in Latin America and maybe how tight would the supply have to become before you would start to look at force majeure? I know that term has been tossed around a couple of times in the last quarter or two. How close are we to the pendulum swinging over the line?

David DeLorenzo - Dole Food Company, Inc. - President, CEO

A force majeure, in terms of our contracts, would really be a case where we see over a relatively prolonged period of time inability to really supply some of the market. Generally, the way the industry works is that the supplies are tightest in the first half of the year, and then mother nature grows more product in the second half. And usually market demand is a little lighter in the second half, so usually you don't have many supply problems in the second half. So usually it's a first half phenomenon.

As you know, we were very short of product early in this year, and the industry itself -- I think our numbers would indicate that through 16 weeks, like up until now, the industry is down about 4%, about six or almost seven million boxes from prior year. But as we get into the summer, we think that things will kind of even off with last year.

So I think we're past the period where -- unless there's some big weather event where you would expect a force majeure type of an event. You can always have it if there's a hurricane or something, but in the natural growing periods it's usually in that first half.

Bryan Hunt - Wells Fargo Securities - Analyst

And if you look at pricing across your various markets today -- Japan, Europe, and the United States -- have there been any material changes in pricing since the end of last quarter -- or since Q1?

David DeLorenzo - Dole Food Company, Inc. - President, CEO

Since the end of the quarter? No.

Bryan Hunt - Wells Fargo Securities - Analyst

Yes.

David DeLorenzo - Dole Food Company, Inc. - President, CEO

Actually, prices -- at this time of year, prices are increasing a little bit in Asia; they're flattening out and starting to decrease in Europe; and North America's been pretty flat.

Bryan Hunt - Wells Fargo Securities - Analyst

Okay. And then looking at -- going back to the strategic alternatives discussion, you all were making acquisitions in the berry space -- [I don't know if it was] blueberries or strawberries -- making acquisitions in the snack space. And now, all of a sudden, you've switched gears.

Could you talk about whether these strategic alternatives may be fueled by another larger opportunity for consolidation, or is it really just tied to the fact that the Company's share price and enterprise value are depressed?

David DeLorenzo - *Dole Food Company, Inc. - President, CEO*

I think it goes back to the enterprise value and the valuations that we have, and the fact that we have two very, very distinct businesses. If you look at the commodities side of the business, it is, of course, less predictable. And in the last few years, at least, it's been more volatile than what we would expect -- we've ever seen in the past and what we might expect going forward. But the commodity businesses are very, very different than our packaged foods businesses.

We have put a lot of effort, time, and money into the packaged food businesses in the last few years. They have been affected by the run-up of commodity prices themselves, but have fended quite well and have, we think, a very high growth potential, both here and in Asia.

And so we just see that since we have two very, very different businesses and one which deserves a higher valuation, is much smaller than the commodity side of the Company at the moment, so it tends to be overshadowed. So this is really more about unlocking value than any other strategic type of look at things. And as we've looked at opportunities, we think that it could be a very significant enhancement to shareholders if we can put the right programs together.

Bryan Hunt - *Wells Fargo Securities - Analyst*

All right. I'll get back in the queue. Thank you very much.

David DeLorenzo - *Dole Food Company, Inc. - President, CEO*

Thank you.

Operator

Your next question comes from Reza Vahabzadeh, Barclays.

Reza Vahabzadeh - *Barclays - Analyst*

Good afternoon.

Joe Tesoriero - *Dole Food Company, Inc. - CFO*

Hi, Reza.

Reza Vahabzadeh - *Barclays - Analyst*

Just on the strategic review, I assume since the packaged food business has been on for a long time, you're tax basis is pretty modest there?

Joe Tesoriero - *Dole Food Company, Inc. - CFO*

You're right, it has been owned -- it really goes back to the original history of the Company. There's obviously different components of it that have grown up over time. There have been acquisitions made as recently as 2004 within that business. So really not in a position to discuss the tax basis, but there are a lot of pluses and minuses that you have to think about.



Reza Vahabzadeh - Barclays - Analyst

Right. And then, just kind of walking back over the decision to review the businesses and the alternatives, stock price has been here in the past two or three years and the EV multiple has also been in the same range. So what has sparked this renewed interest in exploring alternatives? Is it just a growth and the continued growth of the packaged food business?

David DeLorenzo - Dole Food Company, Inc. - President, CEO

Yes, Reza. I guess it's a combination of a number -- it's always a combination of a number of factors, of course.

Reza Vahabzadeh - Barclays - Analyst

Right.

David DeLorenzo - Dole Food Company, Inc. - President, CEO

Part of it is frustration, like you say, but I think what it is is we've looked at a number of opportunities over the years. We have expected, and would expect even going forward, gradual improvement as we deleverage the Company and as the earnings continue to grow.

But as we analyze current opportunities and current markets, we have come across with some of our advisors some opportunities that look like a very favorable outcomes if we're able to execute that would bring enhancement to everyone's values and it would be good for both the packaged groups and the commodity groups.

So if we're able to do this, I think that it doesn't matter exactly the timing. There's no right or wrong timing, I think. It's just what we can do that enhances values.

Reza Vahabzadeh - Barclays - Analyst

Right. And then turning to the base business, surprising it was a little softer in North America and Europe and, of course, your costs were higher. Is that dynamic going to improve sequentially in the second quarter from what you can see so far?

David DeLorenzo - Dole Food Company, Inc. - President, CEO

In the banana business, we've said that we -- in the United States, as you know, last year we had this force majeure; this year we don't. So the United States, we expect prices to be down. Europe is a bit of a question mark because even though volumes are down and the demand has been a bit soft in Europe, but year-over-year I would expect pricing to be a little bit better in Europe.

But we're fighting the next quarter unfavorable foreign exchange comparison, because in the second quarter of last year the euro got a little bit stronger. And then Asia I think will be strong -- maybe a little stronger than last year.

So overall, the banana business will probably be similar to this quarter in terms of pricing anyway. And then we do expect our costs to be coming down as move through the quarter and into the second half.



Reza Vahabzadeh - Barclays - Analyst

Got it. And then, what about Asia? Obviously, EBITDA has been up and down depending on the quarter. What led to the improved margins in Asia banana and food business in this first quarter?

Joe Tesoriero - Dole Food Company, Inc. - CFO

We did see improvement in pricing in a number of the markets in Asia. So we're in a couple of key large markets. You're familiar with Japan, but also pricing in Korea and China were strong in the quarter.

David DeLorenzo - Dole Food Company, Inc. - President, CEO

And the Middle East.

Joe Tesoriero - Dole Food Company, Inc. - CFO

And in the Middle East. And the year-over-year yen was a help as well.

Reza Vahabzadeh - Barclays - Analyst

Right. And supplies in Asia are -- how would you describe that?

David DeLorenzo - Dole Food Company, Inc. - President, CEO

In the banana business, supplies are, I would say, imbalanced or a little tight. The exports, I think, in Asia are also down about 2% year-to-date. So supplies are fairly tight.

Reza Vahabzadeh - Barclays - Analyst

Got it. Thank you.

David DeLorenzo - Dole Food Company, Inc. - President, CEO

Okay, thank you.

Operator

(Operator Instructions). Your next question comes from Karen Eltrich, Goldman Sachs.

Karen Eltrich - Goldman Sachs - Analyst

Thank you. As you consider in terms of for the spin-off, how do you consider where real estate falls between the two businesses? And you mentioned in the Q that you're marketing 14,000 acres in Hawaii. Can you tell us what you're marketing that land for?

David DeLorenzo - *Dole Food Company, Inc. - President, CEO*

I think we've said in the past that the land in Hawaii has a value of about \$400 million and that we do have a prospectus on it and CB Richard Ellis has most [the] in the market today. If we do a split-up of the Company, it still remains to be seen which side that land will fall on. It will kind of depend on the structure of whatever we end up getting into.

Karen Eltrich - *Goldman Sachs - Analyst*

Great. Thank you very much.

David DeLorenzo - *Dole Food Company, Inc. - President, CEO*

Thank you, Karen.

Operator

Your next question comes from Carla Casella, JPMorgan.

Carla Casella - *JPMorgan - Analyst*

Hi. You mentioned the timing of when you expect to -- have you changed your asset sale target for this year given your strategic review?

Joe Tesoriero - *Dole Food Company, Inc. - CFO*

No, Carla. I think that we're still keeping that same target there, but this strategic review could evolve into something that kind of overrides that. We're looking at different ways, as I said, to raise capital in context of doing that. But on our \$50 million target for 2012, we've already achieved a big chunk of that -- close to half of it.

Carla Casella - *JPMorgan - Analyst*

Okay, great. And it sounds like from your other comments that the enhancing shareholder value, you're not looking to lever up the Company to do that. Do you have a leverage target? I may have missed it.

Joe Tesoriero - *Dole Food Company, Inc. - CFO*

We didn't talk on this call about a leverage target, but on prior calls we've talked about getting the Company down to two times. We don't have a specific target reduction in the context of this strategic review yet. But as it evolves, we'll talk about that when we can disclose -- when we have something to disclose.

Carla Casella - *JPMorgan - Analyst*

Okay, great. Thanks.

Joe Tesoriero - *Dole Food Company, Inc. - CFO*

You're welcome.

Operator

Your next question comes from Gary Albanese of Auriga.

Gary Albanese - Auriga - Analyst

Hi. Good afternoon, everybody.

Joe Tesoriero - Dole Food Company, Inc. - CFO

Hi, Gary.

Gary Albanese - Auriga - Analyst

Just really on the strategic initiative, have you had discussions with outside parties?

David DeLorenzo - Dole Food Company, Inc. - President, CEO

It depends on what -- we're always having discussions with outside parties. We have looked a number of deals and alternatives; we'll continue to look at them. But this initiative is kind of getting underway. We've had discussions with our financial advisors, with some alternatives that look very attractive, and we're just developing those right now.

Gary Albanese - Auriga - Analyst

Okay. So it's really the early parts of this? You haven't been sort of shopping on the side for a while yet?

David DeLorenzo - Dole Food Company, Inc. - President, CEO

That's correct.

Gary Albanese - Auriga - Analyst

Okay. And then, given some of the other lower margin businesses are a little bit inconsistent -- like I said, lower margin, have you thought about sort of disposing of a business here or business there, just to sort of reduce the volatility or boost up the bottom line?

Joe Tesoriero - Dole Food Company, Inc. - CFO

I think, Gary, that that's always something that we're looking at. Probably the disposition of the German distribution company in the first quarter is one example of that. We're going to opportunistically look at the whole portfolio as part of this process, but we're really very focused on packaged foods because of the opportunity that we've described on this call.

Gary Albanese - Auriga - Analyst

Okay. Great. Thank you.

Operator

And that concludes the Q&A session. I'd now like to turn the call back over to Dave.

David DeLorenzo - *Dole Food Company, Inc. - President, CEO*

Okay. Thank you, everybody, for being with us again and we will give you updates as they become available. Thank you.

Operator

Ladies and gentlemen, that concludes the presentation. Thank you for your participation. You may now disconnect. Have a great day.

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