

# FINAL TRANSCRIPT

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**FDP - Q3 2011 Fresh Del Monte Produce Inc Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**Christine Cannella**

*Fresh Del Monte Produce Inc - VP-IR*

**Mohammad Abu-Ghazaleh**

*Fresh Del Monte Produce Inc - Chairman, CEO*

**Richard Contreras**

*Fresh Del Monte Produce Inc - SVP, CFO*

## CONFERENCE CALL PARTICIPANTS

**Heather Jones**

*BB&T - Analyst*

**Bill Chappell**

*SunTrust - Analyst*

**Jonathan Feeney**

*Janney Capital Markets - Analyst*

**Diane Geissler**

*CLSA - Analyst*

**Eric Larson**

*Ticonderoga Securities - Analyst*

## PRESENTATION

**Operator**

Good day, ladies and gentlemen and welcome to the Fresh Del Monte's Produce third quarter 2011 conference call. At this time, all participants are in a listen-only mode. At the conclusion of our prepared remarks, we will conduct a question and answer session.

(Operator Instructions).

As a reminder, this call is being recorded. I would now like to introduce your host for today's conference call, Christine Cannella. Please go ahead.

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**Christine Cannella** - *Fresh Del Monte Produce Inc - VP-IR*

Thank you, Karina. Good morning, everyone, and welcome to Fresh Del Monte's third quarter 2011 conference call. Joining me today are Chairman and Chief Executive Officer Mohammad Abu-Ghazaleh and Senior Vice President and Chief Financial Officer Richard Contreras. This morning, Mohammad will review our operating performance during the quarter, along with recent developments. Richard will then review our financial performance for the third quarter of 2011.

Fresh Del Monte issued a press release this morning by a business wire, e-mail, and First Call, and a copy of our earnings release is available on our website. You may visit our website at [www.FreshDelMonte.com](http://www.FreshDelMonte.com) to register for future distributions. This conference call is being webcast on our website and will be available for replay approximately two hours at the conclusion of this call. Our press release includes reconciliation of any non-GAAP financial measures we mention today to their corresponding GAAP measures.



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During the call today, much of the information that we will discuss, including the answers we give in response to your questions, may include forward-looking statements regarding our beliefs and current expectations with respect to various matters. These forward-looking statements are intended to fall within the Safe Harbor provisions of the securities laws. Our actual results may differ materially from those in the forward-looking statements as a result of various factors, including those described under the heading Description of Business Risk Factors in our Form 10-K for the year ended December 31, 2010.

This call is the property of Fresh Del Monte Produce. Redistribution, retransmission, or rebroadcast of this call in any form without our written consent is strictly prohibited. It is now my pleasure to turn this call over to Mohammad.

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**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

Thank you, Christine. Good morning, everyone. Our performance during the third quarter of 2011 clearly demonstrates our ability to sustain solid results year-over-year in what is usually one of the more difficult quarters of the year for our industry. Our global fresh cut business, strong worldwide demand for our Gold pineapples, and increased sales in our North American banana business drove our year-over-year performance. We also benefited from our continuous cost reduction programs throughout our operations and investment in diversifying our geographic footprint and customer base.

Nonetheless, the quarter was not without challenges, the result of several factors, primarily being industry oversupply of bananas in Europe. We were also negatively impacted by fluctuating climate conditions throughout Europe that affected our performance. Most notable were lower banana selling prices and weak demand for fresh produce.

We do not believe Europe's economic troubles will end any time soon. Therefore, we remain proactive in adjusting our volumes (inaudible) to meet current market demands. We will also continue to streamline our European operations as we did during the quarter when we decided to close an underutilized distribution center in the UK.

Before I continue reviewing the quarter, I would like to touch on recent food safety events. We actually see the heightened awareness of food safety as a positive for our company. Consumer health and safety is our highest priority. Over the years, we have developed and implemented a robust comprehensive food safety plan from our farms to our customers with state of the art R&D labs, testing facilities, and product traceability, which gives us food safety control throughout our supply chain that exceed U.S. Food and Drug Administration guidelines. Our vertically-integrated farm to customer food safety controls and protocols are more stringent and comprehensive than many of our competitors, including some that cut their food in store. We subject our operations to regular (inaudible) and internal food safety audits.

Moving back to our quarter highlights, Fresh Del Monte continued to gain global market share, primarily as a result of our strategic focus and investment in expanding our fresh cut category. We experienced strong demand and higher volume and pricing for our fresh cut products, especially in nontraditional food channels during the quarter. We are well situated to build upon our position as the global leader in this category and continue to reach new customers.

For example, during the quarter we opened our second fresh cut facility in Saudi Arabia to accommodate growing demand for Del Monte-branded products in this fast-growing region. I'm also very pleased with the strong global demand for our premium Gold pineapple, which continues to receive much acclaim, especially when introduced in new markets. Our North American banana business also performed well during the quarter, with strong pricing countering higher logistics costs.

There are tremendous opportunities ahead for Fresh Del Monte Produce. As consumers seek more fresh produce, our vertical integration and strong balance sheets have us well positioned to move quickly to serve customer needs. We are equally positioned to deliver increased shareholder value, as demonstrated by our dividend increase during the third quarter of 2011. We also believe our shares were an excellent investment during the quarter as evidenced by the repurchase of 1.8 million shares of Fresh Del Monte stock, which further demonstrates our ongoing confidence and our commitment to deliver long-term shareholder value.

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In summary, we are excited with our progress during the quarter and we remain focused on attracting new customers each week as a result of our ability to provide top quality products that exceed the highest food safety standards and value-added service, whether the customer is a one-shop grocer or a large global chain. At this time I will turn the call over to Richard. Richard?

**Richard Contreras** - *Fresh Del Monte Produce Inc - SVP, CFO*

Thanks, Mohammad, and good morning. For the third quarter of 2011, excluding asset impairment and other charges or credits net, we reported earnings per diluted share of \$0.22, compared with earnings per diluted share of \$0.22 in the third quarter of 2010. Net sales increased \$2 million to \$795 million compared to the prior year period, and gross profit was \$63 million, 24% higher than \$51 million in the third quarter of 2010. In addition, excluding asset impairment and other charges credits net, operating income increased 22% to \$18 million compared with \$14 million in the prior year, and net income was 4% lower than the prior year period.

Now, turning to our segments. In our banana business segment, net sales rose \$5 million to \$375 million compared with the third quarter of 2010, primarily due to higher pricing in North America. Volume was 6% higher compared to the same period last year due to favorable growing conditions in our sourcing areas. Worldwide pricing decreased \$0.56, or 4% per box, to \$12.91, mainly attributable to the industry oversupply in Europe.

Gross profit for the quarter increased \$7 million to a loss of \$1 million, compared with a loss of \$8 million a year ago, excluding other charges and credits net, and unit costs decreased 6% compared with last year's third quarter.

In our other fresh produce business segment for the third quarter, net sales increased 2% to \$337 million compared with \$329 million in the third quarter of 2010, and gross profit increased 15% to \$52 million.

In our Gold pineapple category, net sales increased \$11 million to \$129 million compared with \$118 million in the prior year, primarily driven by higher selling prices in Europe and North America. Volume increased 4% due to favorable growing conditions in the second quarter of 2011 that continued to produce high yields in the early part of the third quarter. Unit pricing was 5% higher and unit costs decreased 2% compared with last year's third quarter, the result of lower fruit costs.

In our melon category, net sales decreased to \$13 million compared with \$18 million in the third quarter of 2010. Volume decreased 44%, the result of planned volume reductions. Unit pricing was 30% higher and unit costs increased 21%.

In our fresh cut category, net sales increased \$14 million to \$93 million compared with the prior year period, primarily due to our ongoing expansion in new food channels and emerging markets. Volume increased 14%, unit pricing increased 4%, and unit cost was 11% higher due to higher transportation and raw material costs.

In our nontropical category, net sales were in line with the prior year period. Volume decreased 12%. Unit pricing increased 14%, largely a result of lower industry supplies of avocados along with continued strong demand for this product, and unit cost was 14% higher.

In our tomato category, net sales decreased 32% to \$17 million compared with \$24 million in the prior year. Volume decreased 30%. During the quarter, the decision was made to reduce the number of growers we source from as we began ramping up our own production. Unit pricing was 4% lower and unit cost increased 1%.

In our prepared foods segment, net sales decreased \$11 million to \$83 million during the quarter. This decrease was due in part to lower canned pineapple volume, the result of drought conditions in Kenya earlier in the year, along with planned volume reductions in our canned deciduous product line. Gross profit decreased 13% to \$12 million compared to the third quarter of 2010.

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Now, moving to costs. Banana fruit costs, which includes our own production and procurement from growers, decreased to 9% worldwide and represented 32% of our total cost of sales. Carton costs increased 10% and represented 5% of our total cost of sales.

Bunker fuel increased 50% versus the prior year and represented 5% of our total cost of sales. And ocean freight costs during the quarter, which includes bunker fuel, third-party charters, and fleet operating costs, were 11% higher, primarily due to the significant increases in bunker fuel costs. For the quarter, ocean freight represented 15% of our total cost of sales.

The foreign currency impact at the sales level for the third quarter compared to the prior year was favorable by \$6 million. And at the gross profit level, the impact was unfavorable by \$4 million compared to the third quarter of 2010. SG&A expense during the quarter was \$47 million, compared with \$41 million in the third quarter of 2010. The increase was principally due to higher compensation along with increased advertising and promotional expenses in our European and Middle East regions.

At the end of the quarter, our debt was \$113 million. During the quarter we repurchased 1.8 million shares at a cost of \$43 million. Income tax expense was \$2 million during the quarter compared with \$3 million in the prior year period. We are projecting a 2011 full-year effective tax rate of 17%. Capital expenditures for the year are expected to be approximately \$90 million.

This concludes our financial review. We will now turn the call over to the Operator to begin the question and answer portion of the call.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). First we will go to Heather Jones with BB&T.

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### Heather Jones - BB&T - Analyst

Good morning.

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### Mohammad Abu-Ghazaleh - Fresh Del Monte Produce Inc - Chairman, CEO

Good morning, Heather.

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### Heather Jones - BB&T - Analyst

Very nice quarter.

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### Mohammad Abu-Ghazaleh - Fresh Del Monte Produce Inc - Chairman, CEO

We try our best.

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### Heather Jones - BB&T - Analyst

I can see that. I guess my first question would be in melons. You talked about the purposeful reduction in volumes and pricing did move up nicely year-on-year. I was wondering, was profitability up year-on-year? And if you could give us a sense of do you feel like you have turned a corner in that business?

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**Richard Contreras** - Fresh Del Monte Produce Inc - SVP, CFO

Profitability was better than last year. Last year we lost money at this period and this year, we didn't make a lot, but we did make some money.

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

Okay.

**Mohammad Abu-Ghazaleh** - Fresh Del Monte Produce Inc - Chairman, CEO

I would just like to comment on that. The melon, it is like an ongoing battle because we improved our profitability, we reduced our volumes, but then you get hit with a recall like the one that happened in Colorado which really affected the whole business in general, which was a very negative event for the melon category. So this category has been struggling for some time.

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

So if -- and I understand it is difficult to say when the category will normalize in the wake of the recall, but if we assume that it normalized, given the initiatives you have undertaken, do you believe that you have turned the corner in that business? That profitability should be meaningfully better moving forward?

**Mohammad Abu-Ghazaleh** - Fresh Del Monte Produce Inc - Chairman, CEO

Yes, I believe we can achieve profitability again. Of course, subject to normal conditions. God forbid to have another recall like this, though it would never have anything to do with it, but it just froze the industry. The supermarkets refused to put on the shelf any more cantaloupes and it is still ongoing like we are speaking now, for instance.

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

Okay. Okay. Curious on the banana cost side. That was the most favorable surprise for us this quarter. And just frankly, I have had problems predicting what your costs are going to be on a per-box basis, and wondering if you could give us a sense of why your banana fruit costs were down so dramatically year-on-year. And more importantly, is that something we should see sustained going forward, or is it more just a Q3 event?

**Richard Contreras** - Fresh Del Monte Produce Inc - SVP, CFO

Heather, as I mentioned earlier, the cost was down because of favorable conditions in the growing region, and as you know that changes sometimes overnight. So we have done a good job of taking some costs out, but weather affects it constantly.

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

So July, August, September weather this year and productivity on your farms, was that much better than it was in 2010?

**Mohammad Abu-Ghazaleh** - Fresh Del Monte Produce Inc - Chairman, CEO

Yes, that is, correct.



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

Okay. And if I think about Q4 of 2010, based upon what you know today, because basically you have a month done of this quarter, are the growing conditions currently as favorable relative to Q4 of 2010?

**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

So what far we don't see any hurricanes. We still have one month to go to the end of November and it could get cold very, very quickly. Plus, we do have a lot of rain right now in these areas and you could never tell, Heather. You know this business, that it could be overnight. We have too many inches of rain that can flood the farms and have the rivers overflowing. Really it is very tricky at this time of year to predict what will be the next, let's say, few months. I think this month is critical for us. November is usually the critical month.

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

Because we have heard about all this rain and honestly, I think the FAO has put out stuff on this rain, but we haven't heard any numbers regarding whether there has been any real damage. What is your take on that? Is it going to be any meaningful damage, or right now it is a non-event?

**Richard Contreras** - *Fresh Del Monte Produce Inc - SVP, CFO*

So far are we haven't had a lot of meaningful direct damage to our farms, but it has affected transportation, roads, and productivity could be affected. It takes some time to see how much the water damage affects the productivity.

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

Okay. And my final question is just going to Europe. As far as for 2012, there is just a lot of changes under way there with even some of the major container lines and then the change in southern Europe with you guys and Orsero. I was wondering if you could speak to, if you look at 2012 versus 2011, are there going to be any changes in what markets you focus on, or should we expect FDP to have any changes in its EU operations for 2012?

**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

It's very clear that starting first of January, we will be entering the southern market, which is France, Italy, Spain, Portugal, all the markets that were covered by our joint venture with [Symbat] will be covered directly by Fresh Del Monte now. And we are approaching these markets in a very prudent way, and we are doing our homework right now and all the people that needs to be there are already on the ground. All the -- I'm not saying infrastructure, but kind of back office and needed personnel are in place. So that's the only change we will have for 2012. Now, as far as the general market, personally I have been saying that for over a year and I don't think that Europe is going to rise from the ashes very soon, but we haven't seen the worst yet. I believe that we are going to see even more difficult times in Europe than what we see today. Of course, people will keep eating bananas and will keep eating produce, but I'm sure that this situation will curtail consumption or buying power going forward. So we are watching the situation very carefully and we will deal with it as we go. We will tailor it according to the market conditions.

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

Okay. All right. Thank you, and good quarter, again.

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**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

Thank you.

**Operator**

And next we will go to Bill Chappell with SunTrust.

**Bill Chappell** - *SunTrust - Analyst*

Good morning.

**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

Good morning.

**Bill Chappell** - *SunTrust - Analyst*

Just first, wanted to get a little more color on the fresh cut business and the strength there. I guess I had always thought that was more recession impacted in terms of people going back to whole fruit versus first cut. Are you seeing most of the strength internationally or are you seeing positive trends domestically? Can you give us a little more color on what is behind that strength?

**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

I think the strength is coming in North America, which is our main market. That is not underestimating our emerging markets which just started, where we see, very hopefully, a bright future there as well. But our strength and expansion and growth is coming in North America through different new channels that we are opening, which are very promising, and that is why we are growing into this category and hopefully our business there.

**Bill Chappell** - *SunTrust - Analyst*

So you aren't necessarily seeing consumers, I guess, trade back to it? It is just you are finding new pockets for new areas of growth?

**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

Yes, yes. But at the same time, we are not seeing consumers pulling back from buying fresh cut fruit or ready-to-eat or ready-to-grab. But we are approaching new channels that have not been approached before and I think we are doing very good in growth there.

**Bill Chappell** - *SunTrust - Analyst*

Great. And then just on the banana pricing, can you give us an idea how that trended as we moved into this quarter? Have you seen any deterioration? Is it holding up a little bit better?



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**Richard Contreras** - *Fresh Del Monte Produce Inc - SVP, CFO*

You mean into the fourth quarter?

**Bill Chappell** - *SunTrust - Analyst*

Yes, into the fourth quarter on a per-box basis?

**Richard Contreras** - *Fresh Del Monte Produce Inc - SVP, CFO*

It is so early to say. It is hard to tell how the quarter will shake up.

**Bill Chappell** - *SunTrust - Analyst*

I guess how did it trend during the third quarter? Was it pretty stable throughout?

**Richard Contreras** - *Fresh Del Monte Produce Inc - SVP, CFO*

The third quarter, as we said, in total, pricing was down globally, which was mostly Europe.

**Bill Chappell** - *SunTrust - Analyst*

Okay. And then just one last one, and I'm sorry if I missed this. Just trying to look at the SG&A in total for the September quarter, and on a percentage basis, it is higher than it has been in years, and just trying to understand. Was there a catch-up in variable comp? Is that just more currency driven on the kind of costs you're paying? Help me to just understand that and how I should look at it going forward.

**Richard Contreras** - *Fresh Del Monte Produce Inc - SVP, CFO*

I would say going forward, Bill, to help you model it, I would use around 6% in the fourth quarter and about 5% for the full-year and 5% going forward, which is a little bit higher than we have had in the past, 5% is. But with the expansion in the emerging markets and so on, we have had to kick up a little bit some of the promotions.

**Bill Chappell** - *SunTrust - Analyst*

Okay. So it is just -- but it is more comp -related than it is, I guess, on the sales side?

**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

I think what we have to take into consideration that we have a lot of new additional personnel in the new units in the emerging markets, that we are expanding there, like in Saudi Arabia, like in the gulf countries, as well as in Europe. As I mentioned a few minutes earlier that we are putting our own infrastructure in Europe to take care of the market that will be in southern Europe.

**Bill Chappell** - *SunTrust - Analyst*

Okay. Great. Thanks so much.

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**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

You're welcome.

**Operator**

Moving on to Jonathan Feeney with Janney Capital Markets.

**Jonathan Feeney** - *Janney Capital Markets - Analyst*

Good morning.

**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

Good morning, Jonathan.

**Jonathan Feeney** - *Janney Capital Markets - Analyst*

Mohammad, we had the early flowering and that hurt pricing now in Sweet Gold. Now Gold pineapple showed a really nice delta. If that unit cost versus pricing is right, that is a 700 basis point expansion in op margin year-over-year. Has got to be one of the biggest on record. Are we going to sustain this new level of profitability or what is going on there now?

**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

We always try to sustain profitability, Jonathan. How can I --

**Jonathan Feeney** - *Janney Capital Markets - Analyst*

So do I.

**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

We always try to sustain, but how can I get it (inaudible)? We do our best. Let's face it, the Del Monte pineapple or our Del Monte Gold, there is a lot of Gold pineapples in the market and too many people can call their pineapples Gold and different names. At the bottom of it is that there is nothing compared to the Del Monte Gold pineapple, and that has actually been tested and proved over the years, even through customers. Supermarkets that -- some of them, they go and they are attracted by cheaper prices on the outside, and then they go outside and they buy these pineapples, for one, two, three months, and they realize that they have done the wrong thing. They come back because they lost more revenue and less income and they come back, and that we have seen in many cases over the years. So we are comfortable about our product because it is the best product in the market. Plus we are the most consistent in quality and in delivery. That is a very important point, that we do not come during some times of the year where we short customers. We have the ability and capability to maintain our volumes to our customers throughout the year, and especially during periods where they need the fruit, where they make all the money. So that makes the difference between us and the rest of the market.



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**Jonathan Feeney** - Janney Capital Markets - Analyst

Yes, but the factor you pointed to, which I agree with, is the new entrants to the marketplace over the past five years. Has your share been consistent over the past few quarters? Are we no longer losing share?

**Mohammad Abu-Ghazaleh** - Fresh Del Monte Produce Inc - Chairman, CEO

No, no, no, no, no. Why should we lose share?

**Jonathan Feeney** - Janney Capital Markets - Analyst

Well, you shouldn't, but a lot of new entrants came into the marketplace and the volumes grew significantly, and I guess I'm trying to figure out -- ?

**Mohammad Abu-Ghazaleh** - Fresh Del Monte Produce Inc - Chairman, CEO

If we look at the total volume, maybe the market is expanding, but our share has maintained in terms of our volumes, pro rata. We are also increasing our production. That is something that we have to take into consideration. We continuously increase our production. And we have -- actually, some independent growers that were exporting with other companies. They are approaching us even to market their fruit as well. We have noticed that -- I said that every year, in previous years, that there will come a time that more medium-sized growers or producers will not be able to maintain and sustain these markets. They will have either to phase out or find other alternatives, and we are seeing this in some cases now going on (inaudible) other places.

**Richard Contreras** - Fresh Del Monte Produce Inc - SVP, CFO

And the competition seems to have leveled off a bit, Jonathan. We are not seeing the rates of increases that we had a few years back.

**Jonathan Feeney** - Janney Capital Markets - Analyst

That is helpful, thank you. Following up on that, did we exit the third quarter as strong as it was in the middle? I have been reading how prices had come down in Europe sequentially August into September. Just in Sweet Gold.

**Richard Contreras** - Fresh Del Monte Produce Inc - SVP, CFO

I think the beginning of the quarter was a little bit stronger because you had the opposite effect. The beginning to the middle of the quarter was a little bit stronger because you had the opposite effect of that early flowering last quarter.

**Jonathan Feeney** - Janney Capital Markets - Analyst

Right. But it is not falling, it is basically supply and demand has sort of leveled off?

**Richard Contreras** - Fresh Del Monte Produce Inc - SVP, CFO

Yes.

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**Jonathan Feeney** - *Janney Capital Markets - Analyst*

Okay. Just one other question on share repurchase. Obviously balance sheet, very strong. Could you just, Richard, explain to us what are you aiming for and do you have a target debt ratio in mind? Were you just going to keep buying stock until you get there?

**Richard Contreras** - *Fresh Del Monte Produce Inc - SVP, CFO*

Not really. As we said in the past, we try to be opportunistic and there has been a lot of opportunity lately as you see, as you know.

**Jonathan Feeney** - *Janney Capital Markets - Analyst*

Absolutely.

**Richard Contreras** - *Fresh Del Monte Produce Inc - SVP, CFO*

We don't have any set goals in mind. We are fortunate to have strong cash flow. We increased the dividend. We're buying back shares and we're looking at other opportunities. We're in a pretty good position right now.

**Jonathan Feeney** - *Janney Capital Markets - Analyst*

Would you say share repurchase is your highest priority for cash flow at this point over acquisition?

**Richard Contreras** - *Fresh Del Monte Produce Inc - SVP, CFO*

No, actually acquisitions -- we would love to do another good acquisition. We are just not going to jump into anything hastily. We're going to make sure we do the right thing.

**Jonathan Feeney** - *Janney Capital Markets - Analyst*

Great. Thank you all very much. Good quarter.

**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

Thank you.

**Operator**

And we will now go to Diane Geissler with CLSA.

**Diane Geissler** - *CLSA - Analyst*

Good morning.

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**Mohammad Abu-Ghazaleh** - Fresh Del Monte Produce Inc - Chairman, CEO

Good morning, Diane.

**Diane Geissler** - CLSA - Analyst

It sounds like you are making progress on your Middle East expansion with the opening of the new DC there. Could you just talk about how big that business is now and where you see it going over the course of the next couple of years?

**Mohammad Abu-Ghazaleh** - Fresh Del Monte Produce Inc - Chairman, CEO

This business at this time is around \$400 million and we are looking at very -- we are developing this business there not only on the core products, which is bananas, pineapples, and deciduous fruits, but we are leveraging the brand in many ways, especially in the food aisle. We just actually started in Saudi Arabia last week a new concept, which is what we call the Del Monte Fresh Market kiosks, which will be -- and we just actually put one in one of the most important shopping malls in Saudi Arabia. The feedback we have had so far has been very favorable and meeting our projections. This is a new area that we are getting into. We are getting into areas that we have not been doing either in Europe or the States. The States, we are restricted because of our brand use, but in Europe and the Middle East and Africa we have the total use of fresh and food as well and nonfresh. So we do have new products there that we just started putting in the market, like juices and sandwiches, ready-made to distribute. So we have new -- a lot of new products that are in the pipeline, which some of it already is on the market. Some of it is coming the next six, seven months or during 2012, but we have very high hopes and I believe that business in that region will expand quite significantly over the next two to three years.

**Diane Geissler** - CLSA - Analyst

I know you had originally sized that business as somewhere around a \$500 million market, or at least in previous conversations you have had about it. Do you think the market potential there is larger? It sounds like you are putting more products through that.

**Mohammad Abu-Ghazaleh** - Fresh Del Monte Produce Inc - Chairman, CEO

We are already around that figure. We are at \$400 million something. So we are not very far from that figure that I mentioned earlier. I hope that we can exceed that figure in the next two or three years.

**Diane Geissler** - CLSA - Analyst

Okay. And then just touching on the point you raised about the limitations on the use of the Del Monte brand in North America. Del Monte Foods is kind of under new management, right, now that they are no longer publicly traded? Is there anything you can do with them about licensing into some of these categories that seem to cross the boundary between strictly canned and strictly fresh, like juices, et cetera? Is that a possibility or do you think that market in the U.S. is already very competitive and you have better uses of your time in terms of growth, whether it is coming from emerging markets or new products into your existing distribution network?

**Mohammad Abu-Ghazaleh** - Fresh Del Monte Produce Inc - Chairman, CEO

They are two different companies, so I cannot speak for Del Monte Foods North America. We are actually, our hands are full with what we are doing in North America right now as well as what we are doing outside North America. So if the opportunity

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comes in the future and there is something that can be beneficial, mutually beneficial -- we are not close to anything, but so far there is nothing of that sort and we don't have anything in our minds at this moment.

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**Diane Geissler** - CLSA - Analyst

Okay. All right. And then just on the European prepared foods, the margins there came in a little bit -- I know you have done some things to restructure that business over the past 18 months or so. The margins there looked a little light. It sounds like it was a little bit more competitive than it has been and that obviously has been a tough market here for a while. Can you talk about what is going on with the prepared foods group and why we saw sales come down there?

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**Mohammad Abu-Ghazaleh** - Fresh Del Monte Produce Inc - Chairman, CEO

The major factor that reduced the sales a little bit is because our Kenya operation was short on pineapples during the last few months, which translated into less shipments into the markets. That is one of the major reasons, but I can tell you that our business in prepared, we are very satisfied, very pleased with the way it has been developing, especially in Greece. We have rationalized our deciduous business, the canned deciduous, by closing down or selling of our unit in South Africa and focusing and concentrating our core production in Greece, which has been a very good move. Of course, we can not see the results immediately, because that's the first season now we just finished a couple of months ago by carrying -- which showed a very favorable result. Plus, we are developing the European markets and we see very nice progress in Italy and Spain and Portugal and Scandinavia. We are quite happy with the growth and progress of this business in these markets. Notwithstanding, of course, the new markets that we are opening now, be it in north Africa or the Middle East or Africa in general, and we see very big potential going forward in these markets.

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**Diane Geissler** - CLSA - Analyst

Okay. And then just my final question is on the storms. I guess it has affected the coffee crops. Sounds like it hasn't impacted you directly yet. Richard, you talked about transportation, et cetera, but are there other growers in that region who could have potentially had volume losses, particularly in bananas? It just sounds like bananas continues to be a little problematic in Europe with excess shipments there. Is there --?

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**Richard Contreras** - Fresh Del Monte Produce Inc - SVP, CFO

There could be as we look at the effect of these rains, but so far nothing big direct that we have heard of. But again, it takes a little bit of time after the rains cease to see what productivity --

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**Diane Geissler** - CLSA - Analyst

Okay.

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**Richard Contreras** - Fresh Del Monte Produce Inc - SVP, CFO

And in the Pacific supposedly we are seeing a little bit of less productivity in the industry in Costa Rica.

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**Diane Geissler** - CLSA - Analyst

In Costa Rica. Is it also not in Guatemala and Honduras as well? It's that whole region, right?

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**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

This is a pattern that every year we see. Come November, we will see colder weather and less -- the fruit will be growing at a much slower pace. So it is a normal theory that come November, we will start seeing some less fruit coming out of the trees and more demand in the market. So it is a factor.

**Diane Geissler** - *CLSA - Analyst*

Well, we are picking it up because of the coffee, the coffee --

**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

But we don't --

**Diane Geissler** - *CLSA - Analyst*

I just think maybe because coffee prices are so high, people are more focused on it and therefore it is getting picked up in the press, whereas in prior years probably nobody cared.

**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

No, I think coffee has maybe seen damage a lot more than bananas. We don't see the same damage that happened to the coffee, for instance.

**Diane Geissler** - *CLSA - Analyst*

Fair enough. Thank you.

**Richard Contreras** - *Fresh Del Monte Produce Inc - SVP, CFO*

You're welcome.

**Operator**

The next question comes from Eric Larson with Ticonderoga Securities.

**Eric Larson** - *Ticonderoga Securities - Analyst*

Nice job on a pretty difficult environment. Mohammad, quick question. I'm thinking more broad in general on this particular question, and it has to do with the European oversupply of bananas. And while you didn't allude specifically to the Asian pricing in the quarter, is there a risk that you start seeing some of the European fruit being diverted into Asian markets and hurting your pricing there? Or do the producers seem to be cutting back on supply to maybe minimize the damage going forward? How do you view the global supply situation right now, given that Europe is under pricing pressure?



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**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

First of all, Europe -- I mean, the fruit from Central America will be very difficult to move into Asia. Central American fruit has to go to Europe or the Mediterranean, for instance. So I don't see that even if the markets in Europe are bad, that that will translate into fruit going to Asia, which would affect their markets. I don't believe that this is going to happen. What I believe is that the European market is not only hurt by oversupply, the European market is hurt and is affected by the production and shipping of their ex-colony's bananas, coming from the Caribbean, coming from Africa. These bananas are totally subsidized from the Canary Islands, . And that is why I see Europe now in this mess, because they have been spending money like crazy on products, subsidizing billions and billions of dollars on growers in the Caribbean and Africa, where they could have done a better job by doing something else for these people and producing something else. And that really is what is hurting the markets. The markets are being dumped with this fruit coming from Canary Islands or from Guadalupe or Martinique or you name it in Africa. And people don't realize that this kind of fruit is really the disturbing factor in Europe. It is not the Central American fruit, in my opinion. It is that fruit that is coming subsidized and competing unfairly with fruit that is coming from Central America.

**Eric Larson** - *Ticonderoga Securities - Analyst*

It has been awhile since we have actually heard that argument. It just brings up a lot of old bad memories, to be very honest with you. But that fruit is highly subsidized, so you can't really do much against that. And it is encouraging to hear, though, that the Central American fruit probably will not and cannot find its way into the Asian markets and disrupt the pricing there. So thank you for your comments.

**Operator**

(Operator Instructions). Next we will go to Heather Jones.

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

Thanks for taking the follow-up. First of all, on the Del Monte Europe business, you mentioned that Q3 was affected by this Kenyan drought. Is that something that we should expect to affect volumes and profitability in Q4?

**Richard Contreras** - *Fresh Del Monte Produce Inc - SVP, CFO*

We are projecting Q4 margin to be a little bit higher than it was in Q3. A little bit closer to what we have been seeing the rest of the year.

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

Okay.

**Richard Contreras** - *Fresh Del Monte Produce Inc - SVP, CFO*

And into next year.

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

Okay. And going back to the fruit -- the banana costs. I don't want to belabor this point. But normally, as we went back and looked at the last few years, and typically your per-box cost by quarter is generally within a \$0.50 range, whereas this year it has

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fluctuated more than a dollar per box. So it has been more volatile than normal, and that is a huge driver of profitability. I'm trying to get a sense of what should we expect for Q4. Do you expect that kind of decline or anywhere near that kind of decline in fruit costs in Q4 or -- just to give you numbers. This quarter, your per-box cost was \$12.89. Last quarter was almost \$14.25 and first quarter was \$13.45. So in the sense of that, what should we be thinking about for Q4?

**Richard Contreras** - *Fresh Del Monte Produce Inc - SVP, CFO*

I couldn't venture to give you a cost to use in the fourth quarter. I don't think that the cost is going to come down dramatically in the fourth quarter, as you just said.

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

Meaning year-on-year it shouldn't be down dramatically like it was in Q3?

**Richard Contreras** - *Fresh Del Monte Produce Inc - SVP, CFO*

Well, I'm saying from Q3 to Q4 I don't expect the cost to come down dramatically.

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

Okay. But you could see --

**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

Like I mentioned a few minutes ago, Heather, banana gets short -- now we will see less production or yields in the field than what we saw in July, August, September, and October. So it automatically would translate into a little bit higher cost, provided we don't have any events that will really impact our costs. Events, adverse effects. So I believe that maybe the cost will be a little bit higher going in the next couple of months because of the weather pattern.

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

Okay, but you don't expect a dramatic change?

**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

I don't think under the present conditions that we will see a dramatic change. Unless something happens.

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

Okay. Thank you for the additional color.

**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

Thank you.

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**Operator**

We have no further questions in queue. At this time I will turn the call back over to Mr. Mohammad Abu-Ghazaleh for closing remarks.

**Mohammad Abu-Ghazaleh** - *Fresh Del Monte Produce Inc - Chairman, CEO*

Thank you, everybody, and I look forward to speaking to you hopefully on the next quarter. Have a good day. Thank you.

**Operator**

And once again, this does conclude today's conference. We do thank you all for joining us.

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