

FINAL TRANSCRIPT

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CQB - Q3 2011 Chiquita Brands International Inc Earnings Conference Call

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PRESENTATION

Operator

Good day everyone, and welcome to Chiquita Brands International third quarter 2011 financial results conference call. Today's conference is being recorded. You will have the opportunity to ask questions following the presentation. (Operator Instructions). At this time for opening remarks and introductions, I would like to turn the conference over to Ed Loyd, Director of Investor Relations. Please go ahead, sir.

Ed Loyd - Chiquita Brands International, Inc. - Director, IR

Welcome to Chiquita Brands International's third quarter 2011 earnings conference call. On the call today are Fernando Aguirre, Chairman and Chief Executive Officer, and Mike Sims, Chief Financial Officer. After today's prepared remarks we will take questions as time allows. If you have not received a copy of today's press release, you will find it on the Company's website at www.chiquita.com, or you may contact Chiquita's Investor Relations department at 513-784-6366.

Please note that our press release includes reconciliations to US GAAP of any non-GAAP financial measure that is we mention today. Before we begin, let me remind you that this call may contain forward-looking statements concerning operating performance or industry developments, and any such statements are intended to fall within the Safe Harbors provided under the Securities laws. Factor that is could cause results to differ materially from described in the forward-looking statements section of today's press release, and in Chiquita's SEC filings, including its Annual Report on Form 10-K, and quarterly reports on Form 10-Q.

Now I would like to turn the call over to Fernando Aguirre.

Fernando Aguirre - *Chiquita Brands International, Inc. - Chairman, CEO*

Thank you Ed, good afternoon and thank you for joining us. We welcome the opportunity to provide insight on our third quarter results, discuss our expectations for the remainder of 2011, and highlight the progress we are making to strengthen our business.

Let me start with our results for the third quarter. Overall we reported a comparable loss of \$16 million, underlying business trends in the quarter were generally consistent with our expectations, reflecting weaker salads and healthy snack results, offset partially by stronger banana performance, and reductions in costs we control. That said, we are still on track to achieve our full year target to significantly improve comparable results over 2010. I will provide more details on this in a moment.

Our North American banana business continued to perform well with higher pricing and volume. We drove strong growth in the US West Coast, and in specialties like Chiquita To Go, organics and plantains. In Europe as we expected, pricing was lower during the summer, with industry supplies having recovered to more normal levels. However, we benefited from much more favorable currency rates, and increased our volume through geographic and customer expansion, in line with our recovery strategy.

In fact, our strategic focus for Europe continues to be founded on four key objectives, pricing discipline, driving down costs, expanding our brand in adjacent geographic markets, and growing distribution and consumption in our existing core markets, through consumer messaging and commercial innovation. We continue to make steady progress. In September we revamped our shipping service for Europe in 2012, which will lower our costs by more than \$12 million annually, and we will continue to reduce SG&A as we continue to pursue opportunities to be more efficient. We have also increased our core market volume by replacing unbranded product at German and Swedish retailers with Chiquita branded volume.

In the salad and healthy snacking business we are making progress with our branded premium quality strategy. However, we continue to absorb the impact of private label salad conversions in last year's second half with retail back salad volumes 9% lower in the third quarter. We are starting to offset those prior volume losses with new accounts and new sales, and have seen the private label shares stabilize, standing for the past ten months at roughly 25% of the category.

What we had not anticipated was the magnitude of product supply cost increases in our salads business during the quarter, due to three main factors. First, we incurred higher costs to maintain our premium quality including reduced raw material harvest yields, network inefficiencies, and customization of our process to leverage our new Fresh Rinse technology. Second, we managed through three temporary plant shutdowns, including flooding surrounding our Northeast facility as a result of Hurricane Irene. Third, like all manufacturers, we experienced more inflation in commodity inputs, such as fuel and paper. We do expect that the majority of these costs will be temporary in nature, and have already taken actions to improve our cost performance.

Looking ahead, we are committed to achieving much better salad margins, and we are leveraging our strategy and focus to deliver needed improvements. We are focused on expanding consumption growth, gaining profitable volume, reaching new consumers, extending the brand, and executing with efficiency. Fresh Express is a proven market-leading high quality branded business. We have begun to see opportunity to bring our branded salads back to some customers that have experimented with private label. Most recently we have regained distribution with a Northeast and regional customer for our garden salads which had been private label.

Our food safety and quality advantages have been instrumental in securing new distribution with strategic customers that extend our new consumer reach. Specifically, we have introduced two new branded programs with Arby's and Jack in the Box for Chiquita apple slices, which is building our snacking business. This is in addition to the expansion of our apples business with McDonald's that will start positively impacting results in the first quarter. Our focus on execution during the past three years has enabled us to remove a tremendous amount of inefficiency from our network. We know that there is more that we can and will do.

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For example, our results for the quarter did not have the full benefit of the organizational realignment we implemented this summer, to improve our execution and cost effectiveness through a simpler, more agile organization with greater speed to market. We are also in the final stages of planning to consolidate our three separate Chicago Fresh Express facilities into one campus, which would significantly improve our cost efficiency and service the customers. Taken together, the new account volume, organization realignment, manufacturing network optimization, and removal of temporary product supply costs, will help us improve our margins over time back to the high-single digits we delivered last year.

As a further testament of the performance and service at Fresh Express and Chiquita offered customers, McDonald's recently recognized us with their top annual award for quality amongst all of their suppliers, who demonstrate sustained food safety and quality management excellence. McDonald's noted that we have an impressive quality culture, and that we truly champion innovation. Given their disciplined and rigorous standards, we were extremely pleased with this recognition.

Related to food safety and innovation, Fresh Rinse is another great recent example of that commitment. In September the Journal of Food Protection published a peer review article on the efficacy of Fresh Rinse. We are pleased with the independent scientific assessment of the methods, procedures, and results of the research, that once again found our new technology to be scientifically sound. Our vision is to improve world nutrition by expanding both the reach and the consumption of our products to help improve people's lives. We continue to be focused on executing our strategies with excellence, particularly investing in innovation, food safety, and programs to drive consumption.

For example, during the quarter we launched New Harvest original salads with our proprietary Salanova seed varieties, which bring greater taste, color and texture experiences for consumers. Looking ahead, we continue to expect 2011 to be the fourth profitable year in a row for Chiquita despite the challenging operating environment.

On a comparable basis we remain on the right track to significantly improve our results for the fourth quarter and the full year, as we are much better positioned going into the fourth quarter than we were at this time last year, when we faced extraordinarily high banana sourcing costs. We are confident we are moving the business in the right direction for the long-term. Our business model based on expanding and extending our powerful premium brands, or focus on profitable growth, and our healthy balance sheet, will continue to help us build for the long-term, and help to enable us to weather any near term challenges.

Now I am going to ask Mike to provide more detail on our financial results, as well as our outlook for the year. Mike.

Mike Sims - *Chiquita Brands International, Inc. - CFO*

Thanks, Fernando. Today's reported results were roughly in line at the top line and slightly better on the bottom line versus external estimates. We reported net sales of \$723 million for the quarter, and \$2.4 billion for the nine months ended September 30th, which were both approximately 1% lower than last year. For the quarter banana segment sales improved, Salad sales continued to lag prior year levels, and other produce sales reflected our exit from low return operations late last year.

On a comparable basis we reported a net loss of \$16 million, or \$0.35 per share, which was approximately \$9 million, or \$0.21 per share below the third quarter of 2010. This anticipated profit decline reflected a decrease in our salads performance, which overshadowed improvements in banana performance, and reductions in corporate, interest and income tax costs. On a US GAAP basis our third quarter loss was \$29 million, or \$0.63 per share, because we also recorded incremental noncash interest on our convertible notes, and upfront charges to opportunistically refinance our debt in July. As discussed during the last earnings call, the July refinancing cost was approximately \$11 million, and will reduce interest costs by approximately \$11 million annually based on current market rates.

In bananas third quarter net sales increased 5% to \$450 million, while operating income increased by \$4 million from last year to \$7 million. In North America the Company achieved 3% higher banana pricing. Unit volumes were 7% higher in this market during the quarter, and up 5% year-to-date. As we had expected, four European local currency pricing declined on average by



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10% versus last year due to stronger industry banana supply. However, US dollar equivalent pricing in Europe was almost flat for the quarter as the euro strengthened compared to the prior year. Our core market sales volume was up 4%. Banana sourcing and logistics costs decreased by \$9 million during the third quarter, as benefits of hedging and internal productivity programs exceeded the impact of industry input inflation.

During the quarter costs for purchased fruit, materials and fuel were nearly \$30 million higher than 2010 levels. However, we realized over \$10 million in savings from various productivity and efficiency gains in our farm and logistics operations, including a reconfiguration of global shipping that will yield future annualized savings of \$12 million. In addition, our fuel hedging results were \$28 million better, including gains resulting from the shipped reconfiguration.

In our salads and healthy snacks segment third quarter net sales decreased from the year ago quarter by 5% to \$240 million. Unit volume for retail salads declined by 1.1 million cases, or approximately 9% during the quarter, while our average pricing was slightly higher. As expected, our comparatively lower sales reflected the effective conversions to private label late in 2010 that we partly recovered with new business accounts gained earlier this year.

For the third quarter this segment lost \$3 million versus income of \$18 million in 2010 on a comparable basis. Approximately \$4 million of the decline was due to the price and volume differentials I mentioned earlier. The remainder was driven by higher than expected operating costs. We incurred costs totaling \$7 million during the quarter to adjust our processes to maintain premium quality and continue seamless Customer Service during the plant disruptions Fernando mentioned earlier. We expect these costs to be in large part temporary in nature.

Other operating expenses associated with our new fresh and Fresh Rinse safety technology cost approximately \$3 million. In addition, input costs for raw product, packaging, freight and fuel rose by approximately \$5 million. Comparable quarterly operating results also benefited from lower corporate expenses, which declined by \$3 million for the quarter, and \$10 million year-to-date. We continue to focus on cost control throughout the organization as we will discuss further.

In terms of our overall financial position, we closed the quarter third quarter of 2011 with \$133 million in cash, and \$624 million of debt. You can find complete balance sheet details in a new exhibit that we have included in our quarterly earnings release. We used cash during the quarter to fund operations, repay and refinance debt, and make capital expenditures. Year-to-date CapEx totaled \$50 million, and we expect to spend approximately \$80 million for the full year, including additional investments to support growth and innovation, such as the Fresh Rinse installation, expansion of fresh cut apples and salads packaging.

We have also maintained euro hedging positions that cover about 75% of our euro cash flow for the fourth quarter of 2011 at a rate of \$1.43 per euro versus recent market rates ranging from \$1.35 to \$1.41. After hedged premium costs this means an average effective exchange rate of \$1.40 per euro, versus the \$1.20 per euro of last year's hedges. Our existing 70% bunker fuel hedges provide coverage at rates that are better than 25% below today's market prices.

As Fernando mentioned, we expect to significantly improve our fourth quarter and full year operating profitability in 2011, and our results so far have kept us on path to achieve this goal. In bananas Latin American industry supplies have until recently remained fairly robust in comparison to last year's levels. In contrast with last year's fourth quarter though, when we incurred costs exceeding \$20 million to deal with supply shortages that we could not recover in the marketplace, we are better positioned from a supply standpoint, and expect this year's fourth quarter banana performance to reflect lower sourcing costs.

In Europe our October local pricing and local currency averaged 3% lower than last year's levels, with slower recovery from seasonal summer lows in southern Europe due to the more ample supply. However, a stronger exchange rate and hedge positions have produced better quarter-to-date dollar equivalent pricing. We expect overall North American banana pricing, including fuel surcharges to remain higher than last year's as well.

Turning to salads and healthy snacking, we expect fourth quarter volumes to be much closer to last year's than the comparisons for earlier quarters. In fact, with the benefit of the new accounts we signed earlier this year and other profitable growth, volume



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for October was only 1% less than 2010. We expect the quality and plant disruption related costs issues burdening our third quarter results will be for the most part temporary in nature, and as Fernando mentioned, we have implemented realignments in our salads and healthy snacking organization that will deliver \$15 million of annualized savings, some of which we will begin to capture in the fourth quarter. This is part of a more holistic effort to drive cost improvements throughout our distribution and manufacturing network, and improve our competitive position. You can expect to hear more about our efforts in these areas in future communications.

Our confidence in our financial position and ability to continue generating better operating results remains high. In light of our current surplus cash position, we have decided that further reduction of high cost debt is the right decision for use of cash right now. As a result, today we announced the redemption of an additional \$50 million of 7.5% senior unsecured notes. This action will generate annualized cost savings of nearly \$4 million, or \$0.09 per share beginning in December.

At this time, we will open the call for as many questions as time allows. Operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). We will take our first question today from Jonathan Feeney with Janney Capital Markets. Check your mute button, we are not hearing you, sir. Okay. We will check the line. We will move onto Heather Jones with BB&T Capital Markets.

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

Hello.

Mike Sims - *Chiquita Brands International, Inc. - CFO*

Hi, Heather.

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

Hi. I have one clarification. Missed it. You had said your input costs, I am going back to the salad costs for the quarter. You said input costs were up over \$5 million. What were the other two numbers you gave for the impact for the quarter? One was \$3 million, and I didn't catch the other one?

Mike Sims - *Chiquita Brands International, Inc. - CFO*

Yes. I gave several numbers on the salads. We talked about the impact of volume reduction which was net of pricing about \$4 million to the downside in the quarter. We talked about one-time or temporary costs associated with our, call it modification adjustment and customization of our systems, to maintain quality, as well as deal with some plant disruptions. That was an aggregate of about \$7 million, most of which if not all we expect to be temporary in nature, and then we have got some ongoing costs related to the Fresh Rinse technology of about \$3 million, that year-on-year was an additional cost in the quarter.

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

Okay. And so how much has Fresh Rinse cost year-to-date?

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Mike Sims - *Chiquita Brands International, Inc. - CFO*

About \$8 million.

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

And so thinking about Q4, you mentioned that you think that will be a quarter where you are comparable to last year, so last year I have that the total salads and healthy snacks business generated a slight, well not slight, about a \$4 million loss. Do you expect Q4 of 2011 to be better than that?

Mike Sims - *Chiquita Brands International, Inc. - CFO*

What we expect to see again is we are closing the gap on the volume, we are looking to take some costs out, and one other thing I didn't mention in the prepared remarks, Heather, is we continue to expect to see better returns from our snacking and beverages businesses, including the results of the Danone JV in Europe, which last year was about a \$9 million investment for us, and we don't expect in the segment to see that level of investment in this year's numbers.

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

Okay. Because to get to your improvement for the year, I am doing back of the envelope here. It looks like you need to do less than a \$0.20 loss in Q4. Which last year was, last year's Q4 was a loss of \$0.43. Sounds like you are going to have much better euro realization than last year? Sounds like salads will be maybe a neutral year-on-year? And then the cost savings on the banana side, is that --

Mike Sims - *Chiquita Brands International, Inc. - CFO*

I think it is important to go back to the remarks on the banana business, and the fact that we did have an extraordinary level of excess costs in the latter part of last year's fourth quarter, and the number we mentioned that was roughly a \$20 million extra investment, so that in combination with all of the other effects is something that less of a headwind obviously, with getting better positioned on the supply means we do have extra fruit to use, and that comes with a net cost, and we have got other input costs inflation, and net/net/net the banana cost story is a positive one, we believe.

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

Okay. And in the press release you talked about a \$12 million fuel hedge gain, accelerated fuel hedging gains due to the shipping reconfiguration. Did that accelerate gains from your Q4 2011 hedges or from your 2012 hedges?

Mike Sims - *Chiquita Brands International, Inc. - CFO*

I think it is a combination. Most of it came from forward periods, Heather, and the reason is essentially this is an acquired accounting adjustment related to the fact that we haven't made a change in our shipping of this order of magnitude, involving taking as many ships out of our existing portfolio, and limiting the fuel purchase requirements, so the business trigger is in fact work that we did at the end of September. We talked about to reduce the overall capacity, underutilization, and improve our flexibility for the future, which is going to lead to good ongoing savings in the future. It also means that we are repositioning our fuel purchasing itself, need to commit to less direct fuel purchases, and therefore have to release some of the hedges, or redesignate the hedges.



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

Okay. So you are going, we have seen a number of press reports that you are moving to container services for some of your European business, and then I believe some of the West Coast. Am I understanding correctly that corresponding with that you are going to take refers out of capacity, so your total bunker fuel needs will go down, so you had to accelerate the hedging gains related to those refers that you are taking out of utilization.

Mike Sims - *Chiquita Brands International, Inc. - CFO*

That is right.

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

Okay. And how long, that \$12 million savings run rate, is that something that we have good visibility for that lasting several years?

Mike Sims - *Chiquita Brands International, Inc. - CFO*

Well, it is obviously all a function of what happens with container service rates, but in fact we definitely see it very sustainable in the near term, because what we have done is we will be taking again underutilized capacity out of our system, and making our capacity utilization for the European services much more flexible, and so on an ongoing basis we will be able to flex up and down the amount of capacity we need to match our supply and demand situation on bananas, as opposed to having fixed commitments for our whole system that can sometimes go unused when demand or supply is down.

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

And one thing you mentioned that you are also doing in European business is replacing the private label bananas and some of the German and Swedish retailers. Can you give us a sense of what that means from a profitability standpoint? I would assume it is a higher price point?

Mike Sims - *Chiquita Brands International, Inc. - CFO*

Look, let me put it this way. We are happy to have any profitable growth in our Chiquita premium brand. I wouldn't speak to specific customer profitability in a public forum like this. We are very pleased to grow the business. We are continuing to go after business on the same standards and bases we have in the past which is based on the product, the consumer receptivity of the brand, the service we give to the customers, et cetera, and we are not chasing business based on price if that is your underlying question.

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

Okay. My final question is given the challenges the salad business has had this year, is there a chance there is going to be a goodwill write-down at the end of this year?

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Mike Sims - *Chiquita Brands International, Inc. - CFO*

I wouldn't tell you yes or no. I will tell you that as we always say, we evaluate all of the intangibles an annual basis as part of our normal accounting and impairment testing. I don't have anything further. Let me tell you what I will tell you. We believe that the business and the earnings power of this business is much greater than what it is today as we outlined in the prepared remarks. We got very concrete and tangible plans to improve the profitability of that business, us many of which actions already in play and underway right now, that we will start seeing as part of the results next year.

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

Okay. I will pass it on. Thank you very much.

Operator

We are going to go back now to Jonathan Feeney's line with Janney Capital Markets. Your line is open now for your question. Please go ahead, sir.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Thank you very much. Sorry for the problem before.

Fernando Aguirre - *Chiquita Brands International, Inc. - Chairman, CEO*

Good afternoon.

Mike Sims - *Chiquita Brands International, Inc. - CFO*

Hi, Jonathan.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Can you just following up on Heather's line of questioning, can you give me a for instance on exactly what kind of things you are doing in salad, like specifically as possible to save money in salads? Are you talking about closing facilities, are you talking about getting rid of personnel? What is a good example of how you can structurally take costs out there?

Fernando Aguirre - *Chiquita Brands International, Inc. - Chairman, CEO*

The two you have said already two of them, one is to rationalize and consolidate our production facility, and we mentioned we are literally in the final stages of an analysis to do that in Chicago where we have three facilities. There is no need to have all three of them, and they are all very different facilities because they came many years ago from three very different acquisitions that the Company prior to our two companies ago owning Fresh Express had acquired, and secondly, is also efficiency at the facilities, and that means some reduction of personnel.

We have some of our capacity that is not being utilized. We would have to shut down lines that would mean that we would save inefficiencies, and thirdly, and very importantly, we are also looking at the cost implications of all of our corporate impact on salads together with advertising and promotion. We are spending less money in promotion, spent more in promotion last year in the fourth quarter than we normally do, and we haven't done that, and are not planning on doing any of the promotional



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events and activities that we did before a year ago, so those are examples, Jonathan, of the kinds of things we are doing in salads. Very importantly, though, is we are trying to gain profitable volume, and we already have a couple of customers that came back, and we are working eagerly and every day to gain back some of the other private label customers that decided to go that way.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

And any progress on that front? We talked before about maybe some of the strategies you use, and you mentioned I think last call about how some customers weren't happy with the trade to private label. Can you give us an update there?

Fernando Aguirre - *Chiquita Brands International, Inc. - Chairman, CEO*

We gained back an original customer in the Northeastern part of the United States already, and we are in active discussions with several other customers, and we are going back with examples that we have used before to show them our velocity advantages, show them our profitability advantages, and certainly we are also playing the food safety play in front of them. We are showing the data that we have from all of our research on our food safety and Customer Service. That always, always works, and so we believe we have a very compelling case, and again we have gained already a customer in the Northeast, and our expectation is that we will start getting some of the other customers back again.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Thank you Fernando very much. One other question about these realignment of shipping. On a net basis, I am sorry if I missed this somewhere, but my three-minute blackout there, but is this going to leave you with less shipping capacity like as in you are setting yourself up structurally to deliver less volume globally, in an effort to get more profitable, or is this going to leave you with the same or more level of your total shipping capacity available for bananas?

Mike Sims - *Chiquita Brands International, Inc. - CFO*

John, this is Mike. We are creating something of a hybrid system. We are right now reducing the amount of fixed capacity that we are committed to on our own internal system, and we are putting part of our capacity and a very flexible amount of our capacity on board common carrier container line shipping on dedicated routes, heading into Europe, in which there is plenty of capacity, and there is, I see no practical limitation for the foreseeable future in what we would be have available to grow.

What is important to note is to the extent that we do grow, or we change, up and down from month to month, quarter to quarter, we can flex that capacity up and down to ensure that we have got profitable volume at all times, as opposed to from some periods of time having fixed capacity that we just can't use, so no we are not setting ourselves up for a limitation, we are setting ourselves up to be able to profitably grow flexibly.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Does that theoretically set you up for exposure to freight rates at a greater level than you had in the past?

Mike Sims - *Chiquita Brands International, Inc. - CFO*

I don't believe so. I don't believe so.

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Jonathan Feeney - *Janney Montgomery Scott - Analyst*

You have the ability to contract out on those common carriers or--?

Mike Sims - *Chiquita Brands International, Inc. - CFO*

We don't have a long-term commitment that fixes us in at a potentially unfavorable rate. In fact, if we look at the refer shipping trade today what you see might be just the opposite, in the aggregate specialized refers are a trade where there is very little new building taking place. What you see is an aging fleet, and an increasing limitation on the amount of available capacity to ourselves and others, and we believe this puts us in a more flexible and less fixed position, as opposed to constricted.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Okay. Great. Thank you very much.

Mike Sims - *Chiquita Brands International, Inc. - CFO*

Thanks, John.

Operator

For our next question we will go to Carla Casella with JPMorgan.

Paul Simenauer - *JPMorgan - Analyst*

Hi, this is Paul Simenauer standing in for Carla. Just a few questions. I guess I am interested in seeing where you see salad margins normalizing, and if those margins could ever get to the high single-digit range, and if so over what timeframe?

Fernando Aguirre - *Chiquita Brands International, Inc. - Chairman, CEO*

Our objective, Paul, is to return our margins to the high-single digits that we delivered just last year. I am not going to speculate and tell you exactly when we are going to get there. We are already seeing a pickup. We are already seeing an improvement with the cost restructuring that we have done, and several of the elements that we have already described in the call. We do expect our heading back in the right direction.

The last time you may recall the last time we did that when salads business was potentially breakeven or slightly negative. It took us 12 to 18 months to get there, and there is for us, we are putting our objectives as close to our eyes as we can, and we are going to try to make them happen. We are going to move cautiously and we are going to do the right things for the business also in the long-term, but clearly our number one objective is to get our margins back to the high-single digits.

Paul Simenauer - *JPMorgan - Analyst*

Okay. Thanks, guys.

Fernando Aguirre - *Chiquita Brands International, Inc. - Chairman, CEO*

Thank you.



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For our next question we will go to Reza Vahabzadeh with Barclays Capital.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Good afternoon.

Fernando Aguirre - *Chiquita Brands International, Inc. - Chairman, CEO*

Hi, Reza.

Reza Vahabzadeh - *Barclays Capital - Analyst*

For the fourth quarter I think you may have referred to lower sourcing costs, but can you just bring us up to date on banana pricing in Europe or North America if you haven't already?

Mike Sims - *Chiquita Brands International, Inc. - CFO*

Yes. I will go back to the numbers that you may have missed on the prepared remarks. In North America the pricing, and I really am going to point to what we have seen so far in October is up about 4 percentage points. In Europe pricing is down on a local currency basis about 3%, dollar equivalent at least in October would have been before hedging about the same 3%, but we fixed our hedges at significantly higher returns in values of an average for the quarter at about 143 this year, and so I would expect the overall US dollar realizations to be at least on par with last year if not better.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Got it. So that should be a net positive, and then you also mentioned that you had \$30 million higher in gross costs, and I know you mentioned fuel. What were the other elements in that \$30 million?

Mike Sims - *Chiquita Brands International, Inc. - CFO*

Yes. We knew coming into the year, no big surprise that there was going to be inflation in the purchase reprices as we locked in contracts for this year, so that was one component, and then the third and least significant, and we have probably just outlined them in order was fuel, the fruit pricing and then other materials, paper, resins that go into the plastic bags to protect the plants, and twine, those sorts of things, have also experienced some amount of cost inflation this year.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Right. You talked about the salad network optimization cost savings potential. As far as timing, and I know it is early days on that, you haven't finalized your plans, is this a mid-2012 kind of start date to it, or possibly later than that?

Mike Sims - *Chiquita Brands International, Inc. - CFO*

Reza, in order to achieve the freshness and the Customer Service that we look for, we have a pretty complex manufacturing distribution network, and so there is going to be a lot of work that goes into getting all of that done. With that said, as Fernando



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mentioned, we are about at the stage of cementing plans for the Chicago plant consolidation, which we have been working on for a while, and without getting into any further details, you will see us working on execution of that during 2012. I wouldn't want to tell you when exactly to start to see the savings yet, but it won't be in the first half, but it will be on the comp. Beyond that, much more work to be done, and I really can't comment any further on specifics beyond that.

Reza Vahabzadeh - *Barclays Capital - Analyst*

No worries. The \$12 million of shipping cost savings, is that going to be realized beginning in 1Q 2012 on annualized basis?

Mike Sims - *Chiquita Brands International, Inc. - CFO*

We are seeing savings now. We have a little tiny chunk in September. We will get some in the fourth quarter, and we will begin to see that run rate as we move through 2012 immediately.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Okay. Just a housekeeping item. Net working capital, was that a use of cash or a source of cash in the third quarter?

Mike Sims - *Chiquita Brands International, Inc. - CFO*

In the third we had a use of cash. We had a little bit of a buildup of inventory that I expect to see coming back out as we move through the back part of the year. That was the key component in that.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Should we anticipate the normal unwind that you typically experience in the fourth quarter on working capital?

Mike Sims - *Chiquita Brands International, Inc. - CFO*

That is what we are working towards, yes. We wouldn't normally see a source of cash from working capital in the fourth quarter.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Got it. Thank you.

Mike Sims - *Chiquita Brands International, Inc. - CFO*

Thank you, Reza.

Operator

For our next question we will go to [Imran Ali] with Jefferies.

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Imran Ali - Jefferies & Co. - Analyst

Hi, guys. This is Imran on for Jeff Farmer. Just a quick question just following up on the cost savings discussion. Just I guess you give a lot of detail about your salad streamline opportunities that you are tackling. I was just wondering do you see a similar opportunity to streamline costs, or take out costs rather in Europe as well?

Mike Sims - Chiquita Brands International, Inc. - CFO

With regard to our European banana business?

Imran Ali - Jefferies & Co. - Analyst

Above and beyond the shipping costs you mentioned earlier. Is there a streamlining opportunity as well?

Mike Sims - Chiquita Brands International, Inc. - CFO

I think Fernando mentioned in his prepared remarks, we are looking at the entire delivered cost structure, and also the way that we go to market over there, and the way we spend money, and so we are looking constantly on a going basis at our entire cost structure across the Company top to bottom, looking for opportunities to spend money more effectively.

Imran Ali - Jefferies & Co. - Analyst

Okay. And I guess you may have discussed this earlier as well. Just on a higher level, I was wondering can you offer any additional color on European banana supply trends, and are you seeing any sort of high level just changes or increases or decreases in the numbers of bananas coming into the region, maybe versus last call or last quarter even?

Mike Sims - Chiquita Brands International, Inc. - CFO

We talked about at the end of second quarter and through the third quarter of the industry itself and the aggregate coming back onto more normal supply levels. We have seen in comparison to last year's levels in the month of October still higher industry imports, but we are in the early part of the fourth quarter now, lots of things can happen between now and the end of the year that can affect supply and demand, but so far the effects in October for us on a revenue basis, as it affects our business have been not significantly negative in terms of that supply. As I mentioned on a dollar basis after our hedging, we expect to see a good dollar price realization after all of those effects.

Imran Ali - Jefferies & Co. - Analyst

Got it. Okay. And I was just wondering I think on the last call you mentioned on the second quarter call, you mentioned that you were just starting up your Fresh Rinse marketing efforts. Just to increase awareness. You mentioned earlier getting good reviews from scientific journals, but are you seeing just a broader marketing effort starting to pay off, or maybe a difference between markets that have advertising and those that do not, for example?

Fernando Aguirre - Chiquita Brands International, Inc. - Chairman, CEO

Yes. It is very difficult to pinpoint exactly the results of any marketing efforts on anything, frankly, and other than raising awareness which, we obviously have based on advertising, but it is very tough to pinpoint very specific short-term gains on any of the elements of branding, so no, I can't really give you anything specifically. We have gotten good reviews already, the peer reviews.



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We have gotten very helpful and very good feedback from retailers, as well as our quick service restaurant customer wins, we mentioned the award from McDonald's, all of these things are all a function of many elements, and one of them has been the recognition of our commitment and our priority on food safety, Fresh Rinse is a very important part of that.

Imran Ali - *Jefferies & Co. - Analyst*

Got it. Okay. Thanks very much. That is all I had.

Fernando Aguirre - *Chiquita Brands International, Inc. - Chairman, CEO*

Sure. Thank you.

Operator

Ladies and gentlemen, for our last question today we will go to Bryan Hunt with Wells Fargo Securities. Mr. Hunt has disconnected. So we will take our last question today from Karru Martinson with Deutsche Bank.

Karru Martinson - *Deutsche Bank - Analyst*

Good afternoon.

Fernando Aguirre - *Chiquita Brands International, Inc. - Chairman, CEO*

Hi.

Karru Martinson - *Deutsche Bank - Analyst*

In terms of the Fresh Rinse, I thought I heard ongoing costs were about \$3 million for conversions, so I was wondering what is the cost associated if you guys are licensing this out to folks? I know the goal is to license it out to folks. Are they going onto kind of have to convert their systems, or is it just kind of a straightforward licensing of the process?

Fernando Aguirre - *Chiquita Brands International, Inc. - Chairman, CEO*

We have not disclosed any specifics on any licensing possibilities, but it would be fair to say that anyone who would license it would require some investment to turn their production facilities into processes that would allow it to do Fresh Rinse. It is not obviously based on the investments that we have mentioned. It is not a simple execution that anyone could do.

We have had to invest quite a bit on working capital, on equipment, on process, and so on, so it is not a simple process. It is not simple technology. So my expectation would be that people would have to invest money. How much and what each of them would have to do, would really depend on a case by case basis.

Karru Martinson - *Deutsche Bank - Analyst*

Okay. And with the calling back here of \$50 million of bonds, how do you look at your capital structure? You have got a very long runway. You have been chipping away at the bonds. Is there an ideal structure that you guys would like to operate with, and kind of what is your target leverage over time?

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Mike Sims - *Chiquita Brands International, Inc. - CFO*

Yes. Our target leverage we have talked about in the past is on average looking at something like a 3 times debt to cash flow coverage ratio. The situation as it stands right now, such that we have ample and surplus cash we think in light of all the priority that is we have right now, and the feedback that we received from investors that took an opportunity during our last post set of visits with investors after the last call, to simply ask a cross-section of roughly 25% of our holders what they thought we should do with the excess cash in the near term, and the feedback was focused on continuing to drive the profitability in our existing businesses, and to continue reducing debt, so we think the use of excess cash to get a 7.5% no risk return is not a bad bet.

Karru Martinson - *Deutsche Bank - Analyst*

Then in terms of the acquisition market, certainly doesn't sound like it is a priority at this point. What are you guys seeing in terms of tuck-in opportunities out there?

Fernando Aguirre - *Chiquita Brands International, Inc. - Chairman, CEO*

In the past what we had said was that we were really focusing on reducing our debt. We are as Mike just described we are very, very close to our goals, and so we are looking more openly and have been more openly in the past, and if it fits with our strategies and with our growth, profitable growth objectives we will entertain opportunities, but at this point obviously we won't comment on anything that would be in the works, but at this point we will be open to opportunities, and if we think they fit, we will consider them.

Karru Martinson - *Deutsche Bank - Analyst*

Thank you very much, guys. Appreciate it.

Fernando Aguirre - *Chiquita Brands International, Inc. - Chairman, CEO*

Thank you.

Operator

Ladies and gentlemen, that concludes our question and answer session. We will turn the conference back to our speakers for any closing remarks they may have.

Fernando Aguirre - *Chiquita Brands International, Inc. - Chairman, CEO*

Thank you, Operator. Thank you all very much for your questions, and for joining us today. We will look forward to updating you on our continued progress throughout the rest of this calendar year. Thanks again.

Operator

Ladies and gentlemen, this does conclude our conference. We appreciate your participation.

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