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CQB - Q4 2011 Chiquita Brands International, Inc. Earnings Conference Call

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OVERVIEW:

CQB reported full-year 2011 net sales of $3.1b, GAAP net income of $57m and diluted EPS on a comparable basis of $0.83. 4Q11 net sales were $722m, GAAP net loss was $16m and GAAP net loss per share was $0.36.

CORPORATE PARTICIPANTS

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

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

Brian Kocher *Chiquita Brands International, Inc. - President, Europe and Middle East*

CONFERENCE CALL PARTICIPANTS

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Heather Jones *BB&T Capital Markets - Analyst*

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PRESENTATION

Operator

Good day, and welcome to Chiquita Brands International fourth-quarter and full-year 2011 financial results conference call. Today's conference is being recorded. You'll 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 Mr. Ed Loyd, Director of Investor Relations.

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

Welcome to Chiquita Brands International fourth-quarter and full-year 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. A copy of today's press release is available on the Company's website at www.chiquita.com. And you may also contact Chiquita's investor relations department at 513-784-6366 to receive a copy. Our press release includes reconciliations to US GAAP of any non-GAAP financial measures that we mention today.

This call also contains forward-looking statements regarding operating performance or industry developments. And any such statements are intended to fall within the securities harbor provided under the securities laws. Factors that could cause results to differ materially are described in the forward-looking statement 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'd like to turn the call over to Fernando Aguirre.

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

Thank you, Ed, and good afternoon, and thank you for joining us. I will review highlights of our 2011 results. And then spend the majority of my time during today's call discussing our strategy for growth, our 2012 expectations, and the progress we are making to strengthen our business. Mike will provide additional details about the results and outlook.

In 2011, we delivered $38 million of comparable income, our fourth consecutive year of profitability. And one that was slightly better than 2010. We had a much better year in bananas, driven by higher pricing and volume in North America. And started to show some recovery in Europe. The performance of our salads business was not what we expected. And we have taken a number of corrective actions. And also adapted our structure and strategy, as I will discuss in a few moments.

For the fourth quarter, we reported a $12 million improvement in comparable results versus 2010, driven mainly by effective cost management, and benefits derived from our refinancing last Summer. In our North American banana business, we began to grow our presence on the US West Coast, an area where we have traditionally been under-represented. And expanded with complementary products such as organics, plantains, and Chiquita-to-go single-serve bananas.

In Europe, as expected, pricing was lower during the quarter with industry supply levels remaining high. However, we started streamlining our shipping structure, and reducing our structural fruit position. These changes helped us improve fourth-quarter results.

Looking over the last four years, we have made good progress in reducing our overall business variability, and driving sustained profitability. As a result of the actions we have taken, we are well positioned to compete and grow our sales and profitability this coming year, even with a global economic environment that continues to remain sluggish.

Let me outline some key initiatives taken during the past year that make us confident in our ability to deliver improvements in our results. We reconfigured our banana shipping operations throughout Europe, and on the West Coast of North America. In short, a great majority of our banana volume in 2012 will reach its destination in a more efficient way. We realigned our salad and global innovation business structure, and eliminated more than $15 million in annual overhead costs. We refinanced and prepaid outstanding debt, which will lower our interest expense by more than $14 million annually. Our debt today is almost $450 million lower, a 45% reduction versus just five years ago. And we are consolidating our corporate structure in Charlotte in an effort to reduce overhead, and improve operating efficiency. The result of 2011 was our fourth consecutive year of delivering profitability.

Let me now turn to our broader strategic framework, and provide you with some additional context on why these changes are significant. We have spent the last several years refining our core business processes, reducing structural costs, executing pricing initiatives to improve profitability, and reducing debt to strengthen our balance sheet. Based on our leverage ratios, it is clear we have a much stronger Company with a very healthy balance sheet.

Now, we move to the next phase in business model improvement. Our focus now is to drive core revenue growth and related profitability. While we keep an eye on cost control and efficiencies, we have to grow our revenue in a profitable manner in our two core categories -- bananas and salads. As a result, we have adapted our strategies to increase both banana and salads revenue by entering new markets and categories in bananas, expanding salads consumption by providing a more comprehensive product offering in 2012, and considering accretive acquisitions that would be consistent with these goals.

To achieve this, we are expanding the categories we serve with our core businesses. We're focusing our innovation investment within our core categories. We are investing to drive costs out, and profitably expand the top line. And we are evaluating accretive acquisitions that would help us grow our revenue and profitability.

Let me start with the North American business. Three elements are key to our strategy here. First, we will supply the full range of consumer and customer needs in our core categories, while leveraging existing capacity capabilities on our scale advantage. For example, Fresh Express will begin competing more broadly in the 5 billion-plus full salad category, instead of primarily in the bagged salad category that is only approximately 2 billion.

This means that Fresh Express will expand its product offering in at least three areas. First, expand our organic salads. Second, offer a selective level of customized SKUs, including a strategic private label program. And third, we are entering the value-added whole head lettuce category. We are making these changes to respond to customer demand, and open up considerable growth opportunities while helping protect our core business.

Even if we only achieve half of the market share we currently hold in retail branded salads in the new expanded categories, we would generate more than $300 million in new profitable revenue.

We are confident that this approach will be successful. During the last year, we conducted a pilot program with an important customer that generated significantly improved results when we combined a full conventional bagged salad program, organic salads, and some unique items specific to that customer's shopper base. And it led to double-digit growth for our business.

Expanding our core category offering is also proving effective in our North American banana business where we successfully entered and expanded in organic bananas and plantains. While several years ago we were not significantly competing in these areas, today our Chiquita organic and plantain market share in their respective categories nearly matches that of our conventional banana business.

The second key element to our North America strategy is to increase the pace of innovation in our core businesses. We are redeploying innovation resources that previously supported tests in new categories toward our core business. This is critical, as we continue to focus on expanding consumption in our categories by better meeting unmet consumer needs. We have a clear history of leveraging innovation for profitable growth with products nearest to our core competencies. And we can do more.

For instance, in 2011, as measured by IRI retail sales, Fresh Express had the number one new salad item. In fact, during the past three years, two-thirds of our innovation projects in salads met their targeted revenue, margin, and distribution goals within the first year of launch. Now, as a result of our redeployment of innovation dollars into our core business, we can expect our innovation projects to be significantly more successful and impactful.

The third key element is to continue to focus on extracting cost savings. We will continue to reap the benefits from the organizational realignment in the second half of 2011. And consolidating our corporate structure in Charlotte. As an example, our single biggest capital investment project for 2012 consolidates several small Fresh Express operating plants in the Midwest into a single, modern, more automated and efficient plant in the Chicago area. The benefits of this manufacturing investment alone will improve our salads and healthy snacking operating margins by 1 full percentage point in 2013 and beyond. In our business, being leaders in cost and efficiency is a must. Beyond these consolidation projects, we will continue to further streamline our cost structure.

Our strategic focus for Europe is based on similar objectives. First of all, we will concentrate on growing in geographies and expanding distribution where the Chiquita brand is under-represented, and economies are growing. Areas like Russia, Ukraine and Turkey have high GDP and personal income growth. Rates that, compared to western Europe and banana consumption growth rates, that are more than 10 times those in the United States and western Europe.

The market for banana consumption in these geographies is nearly as large as Germany, Italy and France combined. We can capitalize on this economic growth, and establish our premium brand in these markets by matching the right pricing structure, supporting the brand locally to develop consumer commitment, and leveraging efficiencies from increased scale to improve our cost profile. If we achieve a share of only 20% of consumption growth projected in these developing markets, it will translate into $100 million revenue opportunity in the coming years. We're also under-represented in many of our current markets, and see opportunities for increased banana retail distribution in the Nordics and Germany.

Secondly, pricing is always core to our transformational plans, and we have developed market-specific pricing strategies for each country in Europe to grow volume and revenue while improving returns. We deploy a wide range of contracting tools to ensure we match the strategy with the right market dynamics for growth.

Thirdly, we are strengthening our core capabilities to reduce the overall costs of delivered goods, and offset industry price increases. For 2012, we changed our geographic mix of sourcing, and reduced our overall committed fruit purchases to provide more flexibility and lower our costs. Increased sales volumes provide another opportunity to drive efficiencies throughout the supply chain, and generate further savings. Changes that we made to shipping operations in 2011 will yield benefits in 2012 and beyond of $23 million annually, excluding the one-time cost of exiting lease contracts that end this coming year.

Overall, we are confident we are moving the business in the right direction for the long term. The adaptation of our strategy allows us to face the current market environment in a way that allows us to win and grow. In the last few years, we stabilized earnings, we delivered cash flow, we reduced debt, and we improved our structural cost base. The next years will see us expanding revenue in our core businesses, and leveraging our core capabilities to expand and extend our powerful premium brands.

Now, I'm 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. - SVP, CFO*

Thank you, Fernando. Today we reported better bottom-line results for the fourth quarter and full year of 2011 as compared to external estimates for this year and 2010. Net sales were $722 million for the quarter, and $3.1 billion for the full year. Both lower than 2010, principally as a consequence of lower salad volumes and previous exits of low-margin commodity produce activities. However, full-year 2011 income on a comparable basis increased to $38 million or $0.83 per diluted share, versus $36 million or $0.79 per share in 2010. For the fourth quarter, comparable results improved by $12 million as we reported a loss of $6 million or $0.12 per share, versus a loss of $18 million or $0.39 per share a year ago.

On a US GAAP basis, net income was $57 million in both 2011 and 2010. For the fourth quarter, GAAP results were a loss of $16 million or $0.36 per share, versus $20 million or $0.43 per share in 2010. This year's fourth-quarter GAAP results will also include reserves totaling $8 million or $0.17 per share for exit activities associated with our future headquarter relocation, and reconfiguration of our global shipping, both of which will benefit future performance. I will address each of those items in a moment. We also continued to segregate for comparability non-cash interest costs being accrued in connection with our 2016 convertible bond issue, which were $2 million or $0.04 to $0.05 per share on a quarterly basis.

In bananas, annual results improved significantly, as we grew sales by 4.4% to $2 billion. And increased comparable operating income by $52 million to $132 million, or 6.5% of sales. This reflected higher average dollar equivalent prices globally, and increased sales volume in North America, as we overcame cost inflation throughout the system. Fourth quarter operating income for bananas was similar to 2010's, as we realized slightly lower overall sales, but significantly reduced our operating costs. In North America, banana pricing was 1.6% higher on 5.5% lower unit volume.

In our European core markets, our own sales volume was flat. But with pressure from approximately 6% higher industry imports, our dollar equivalent prices were 6.6% lower. As expected, we also had more ample supply volume available to us this year, which we traded in the Mediterranean and Middle East markets. Volume there grew by 24%, on 12% lower pricing. Year-on-year banana sourcing and logistics costs decreased by $15 million during the fourth quarter. Although industry costs for purchased fruit, materials, and fuel were significantly higher than in 2010 levels, we realized an even greater amount of savings from hedging, owned-farm productivity gains, and reconfiguration of our global shipping and logistics model.

The shipping reconfiguration involved conversion of part of our core requirements to a variable model, leveraging the capacity of third-party carriers. This will yield annualized savings of $23 million before one-time transition costs. We began to capture a portion of these savings in the latter part of 2011. In connection with this reconfiguration, we are subleasing five ships no longer needed until the end of 2012. And will not renew an equivalent number of ship leases for 2013. As a result, we are recording one-time reserves of $4 million during the fourth quarter of 2011, and an additional $8 million during the first quarter of 2012 for the expected temporary sublease losses on these ships.

In our salads and healthy snacks segment, fourth quarter net sales declined by $8 million or 3%, to $223 million, bringing full year sales to $953 million. Sales volume for retail salads declined by 5.8% during the fourth quarter, while our average pricing was 1.2% higher. While new business gained early in the year allowed us to narrow the gap in sales volume coming from prior account losses to private label manufacturers, we also decided to avoid various promotional activities which had increased volume in the 2010 fourth quarter, but did not contribute to profitability.

The salads and healthy snacking segment delivered break-even fourth-quarter operating results on a comparable basis versus a loss of $4 million in 2010. Most of this improvement came from reductions in SG&A expenses, as well as better performance from healthy snacking and beverage product lines, which more than offset the impact of lower sales and higher product supply costs.

Segment results for the year declined to $8 million, were just under 1% operating margins as the adverse effect of lower salad sales volume, industry input cost inflation, incremental costs for Fresh Rinse technology customization, and sourcing and manufacturing disruptions exceeded benefits from overhead realignment, and improved healthy snacking and beverage performance. We expect that a significant amount of these excess costs will not recur in 2012.

Consolidated operating results also benefited from lower corporate expenses, which declined by $5 million for the fourth quarter, and $14 million in the full year. During the fourth quarter, we finalized plans to relocate our corporate headquarters, and to consolidate other corporate and administrative functions in Charlotte, North Carolina in 2012, which will contribute to even greater efficiency and cost effectiveness within our corporate structure. We expect to incur related costs of approximately $30 million over the next several quarters, including capital expenditures of $5 million. We will recapture $24 million of these costs during the next 12 years through state, local, and other incentives.

In addition, we expect to realize ongoing operating cost savings of more than $4 million a year from the more efficient staffing, consolidation of locations, lower rent, and reduced travel costs in Charlotte. During the fourth quarter of 2011, we recognized $4 million of these costs, net of tax, primarily related to employee severance. And expect to record an additional $5 million of similar relocation costs during the first quarter of 2012.

Finally, we continue to make progress on the balance sheet. As a reminder, last Summer we completed an opportunistic refinancing. And in December, we prepaid an additional $50 million of 7.5% senior notes. The combination of these actions will provide approximately $14 million of annualized net interest savings at current market rates, and have reduced total debt to $573 million. We also funded $25 million of capital expenditures in the fourth quarter, including investments to support growth and innovation, bringing the full year total to $76 million. However, we expect to reduce internal capital expenditures in 2012 and beyond to more normal levels. We're spending in the range of $65 million to $75 million this year.

Looking ahead, as Fernando mentioned, we have taken a number of specific actions. And are more broadly adapting our strategies to enable Chiquita to be more successful going forward, even as we face some market and economic headwinds. In the near term, European banana pricing in January, coming off a weak fourth quarter, was softer than in 2011 in both local currencies and on a dollar-equivalent basis. Overall industry supplies have tightened, however, which is driving further costs in the fruit cost inflation, and shortfalls in volume available to service market demands, but also providing support for more recent increases in pricing.

At the same time, the euro exchange rate is currently 4% to 5% lower than at the same time last year, for which we have first quarter hedges in place on 60% of our exposure at rates similar to 2011 higher market rates. In North America, pricing will be lower than last year's due to the absence of the force majeure surcharges we began to apply in January 2011.

Our salads and healthy snacking segment will also start the year from a lower volume base than in the first quarter of 2011. We expect to feel the impact of higher industry costs, such as trucking and materials, throughout the year, even as we ramp up execution of our sales growth and structural cost reduction program. Although we do anticipate the need to overcome challenges, such as industry cost inflation, weaker European currencies, and a highly competitive environment during 2012, we are seeking to grow sales and profitability for the full year in the following way. We will focus on increasing sales in our core banana and salads businesses, particularly in areas where we are under-represented today. This will take the form of geographic diversification, and increased distribution in existing markets, as well as expansion of our core product portfolios to meet a broader range of customer and consumer needs.

We will continue to enhance our banana supply chain efficiency, including better product sourcing, and reconfiguration of our global shipping system. We will avoid many of the excess salad sourcing and manufacturing costs that we incurred in 2011. And we'll implement additional structural improvements in the salads and snacking product supply network during 2012. We will continue to improve the efficiency of our corporate structure. And realize benefits from realignment of our sales business and global innovation organizations. And, finally, we will realize lower interest payments from refinancing and prepayment of that debt during 2011. Overall, we are looking forward to another year of progress in improving the foundations of our business, and its long-term profitability.

Now, I'd like to turn the call back to Fernando.

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

Thank you, Mike. And before we start the Q&A session, I want to take a moment to acknowledge the announcement we made today that Mike Sims will be leaving Chiquita as he has accepted a position with another company. Brian Kocher, our President of Europe and Middle East, has been elected by the Board of Directors to assume the role of Chief Financial Officer. Both of these changes will become effective upon the filing of our 2011 annual report later this month.

First, I want to thank Mike for his tremendous contributions to Chiquita during his more than 20 years with the Company. It has been a pleasure to partner with Mike during his years as CFO. Mike has served our organization with distinction during his tenure, and has played an important role in our success. His leadership and record of accomplishments leave an impressive legacy. And the foundation he helped create will continue to serve us well.

I hand-picked Mike to be the CFO 2.5 years ago, and what he has accomplished is simply great. In particular, he has strengthened our balance sheet, and it has been an outstanding contribution to the business. I have always believed that the relationship between the CEO and the CFO needs to be very strong. As such, I regret that he has been found by another company who simply made an offer that he could not refuse. We wish him success, and our loss is another company's major gain.

One of my primary roles as CEO is the evaluation of succession planning of our senior talent. In 2007, following his service as Chiquita's Chief Accounting Officer and Controller, I hand-picked Brian to lead the North American business to take on our most challenging business unit. He succeeded. Subsequently, I asked him to move to Europe as a way to broaden his management experience. During both of these succession decisions, Brian was also a candidate to be our CFO. But given the opportunity to have both Mike and Brian leading two important pieces of our business, we decided to send Brian to Europe. And he was off to a great start, and in fact, has already made a number of changes that have already started reflecting a recovery in Europe.

But we have to adapt and change as our opportunities surface. And at this time, Brian's outstanding track record in both senior finance and operational roles makes him uniquely qualified to be CFO, and the ideal partner to help deliver our strategic growth objectives. Brian knows our operations and people as well as anybody in the entire Company. In fact, all of our senior finance leaders have worked closely with Brian in one way or another, which will make this a very seamless transition.

Most importantly, due to his operational roles, he has a deep understanding of our customers and consumer needs. Also he has had several opportunities to participate in meetings with our investors, our analysts, and banking partners. So I expect he will hit the ground running on all aspects of the CFO role. This will prove invaluable as I've always included the CFO in every major decision of the Company. And Brian is already extremely familiar with all the key growth projects under development. Frankly, this is one of the great benefits of having a talent succession plan that allows us to make adjustments when needed. Brian, congratulations and welcome back to the United States.

With that, Mike would like to say a few words, as well.

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

Thanks again, Fernando. It's with many fond memories that I look back on my service as CFO, and in my earlier roles for the Company as we worked to make Chiquita a better company. We've accomplished a lot together during the past several years to improve our balance sheet and build a stronger platform for future growth. Having worked closely with Brian since the day he started at Chiquita, I know that he brings the right leadership, operating, and financial skills to build on the Company's momentum as CFO. For everyone I've worked with throughout my career here, especially my Chiquita colleagues around the world, I thank you for your support and wish you all the best on your journey to improve world nutrition.

Brian?

Brian Kocher - *Chiquita Brands International, Inc. - President, Europe and Middle East*

Thank you, Mike. Thank you, Fernando. I'd like to especially thank Mike for both his service at Chiquita, as well as the help and support that he's provided to me personally. I'd like to take a moment to thank Fernando and Chiquita's Board of Directors for this opportunity as well. I welcome the chance to contribute to Chiquita's next phase of sustainable profitable growth. We have an iconic brand, nutritious products, great people, and a very solid financial structure on which to build. I look forward to quickly engaging with our shareholders and stakeholders as we continue to improve and maximize shareholder value.

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

Thank you, Brian. Brian and I will be traveling to several cities to meet with our investors, our analysts and other stakeholders in March, and throughout the year. We will do our best to create opportunities for many of you to get to know him better. I know that a number of you have worked with him in some of his prior roles at Chiquita.

At this time, Mike, Brian and I would like to open the call for questions. And we're going to take as many questions as time allows. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Reza Vahabzadeh from Barclays Capital.

Reza Vahabzadeh - *Barclays Capital - Analyst*

So on the cost savings front, just wanted to make sure we get the numbers right. You have the plant cost savings on the salad side that is 100 basis points on your sales. And then you have the shipping configuration. And I think you mentioned it's $23 million of that in 2012?

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

That's right, Reza. On a gross basis and that's before subtracting the one time sublease costs that we're serving for right now. That would be the continuing of cash savings in 2012 and beyond.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Right. So on a growth basis $23 million of which perhaps $19 million, $20 million would be incremental year over year?

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

That's about right. Yes, we took some in the fourth quarter.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Got it. And would the plant savings on this salad side also be realized beginning in the first quarter or is that starting in the second quarter?

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

Let me talk more specifically. One of the items we called out was, I'll call it excess or what should be non-recurring costs that we experienced during the middle part of this year from plant disruptions to some quality issues, yields, et cetera, associated with our customization of Fresh Rinse and otherwise. What you'll see in the 10-K is that roughly $15 million of excess costs that we incurred during the course of 2011.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Got it. And then can you talk about your expectations for banana business margins on a go-forward basis, recognizing what sounds like a difficult start to 2012? How would you expect banana margins to get closer to maybe normalized levels over the balance of first half?

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

I think the keys for us are obviously going to be continuing to drive distribution and volume growth. Continuing to execute the cost savings initiatives that we have in the business including the reconfiguration, shipping, et cetera. And we need to be as assertive in our pricing as we can to make the appropriate margin in the business. Beyond that I really wouldn't want to try to make a specific projection on margins for this year at this stage.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Got it. And then aside from sourcing costs, do you see pressure from other nonsourcing costs as well, whether it's packaging or other types of costs?

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

One of the key pressure points in the business has been the cost of fuel, the fuel to vessels in the banana business. We do have hedges on for next year on, as we say it, at least 75% of the exposure that we have against the European business.

Reza Vahabzadeh - *Barclays Capital - Analyst*

On fuel?

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

Yes, on fuel. And in North America we don't put hedges on independently anymore because we've got a natural hedge with the fuel surcharge. But I would anticipate that we could see some continued inflation in those numbers. But we've got good hedges against it. I think the hedges in 2011, as we've disclosed, were extremely effective and well below market. And while we expect the hedges we have in place for next year also to be considerably beneath market, probably not so much as we saw in 2011

Reza Vahabzadeh - *Barclays Capital - Analyst*

And I'm sorry if I missed it, but what's your position on hedging of the euro or other currencies?

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

We've rolled in 60% on the first quarter right now. I think the strike rate on that is around 1.38 or, so 1.38 or 1.39.

Reza Vahabzadeh - *Barclays Capital - Analyst*

And the rest of the year?

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

Right now we haven't rolled any positions on yet.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Got it. I appreciate that. And I just wanted to say, Mike, it's been a pleasure working with you. And also congrats to you, Brian.

Operator

Gary Albanese, Auriga.

Gary Albanese - *Auriga USA - Analyst*

Could you just expand upon what kind of trends you're seeing with competitive bananas out of Africa, some of the subsidized supply. Has that been part of the problem at the beginning of the year?

Brian Kocher - *Chiquita Brands International, Inc. - President, Europe and Middle East*

No. The competitive position out of Africa has not materially impacted European operations. What really has, and Mike mentioned it in his prepared remarks, that the oversupply position in the second half of the last year really gave us a low starting base when you look at pricing for 2012. Now we've had a chance to catch up and supplies have tightened a bit in the first quarter and we've managed to close the gap on pricing. But it really has to do with the overall group position, and we just don't see much impact in Europe from Africa.

Gary Albanese - *Auriga USA - Analyst*

In terms of repositioning the salad business, going after some selective private label business, is this a reversal from what you planned in the past? It seems that you shied away from that business, basically because you'd be competing against yourself and it's a low-margin business. How can you differentiate with this new strategy in how you're going to circumvent those earlier concerns?

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

Yes. The most important thing here is what we're trying to do is respond to customer demand. We just cannot avoid listening to our customers who have been asking for it for some time. And so we've tried very hard to try to fend off from it and they keep asking for it. So we decided that we really do need to listen to what our customers want. Secondly, this opens up our opportunity to compete and participate in the larger category. We are going to be very strategic with the customers in which we participate. And one of our strategies is to make sure that we can also help the rest of the business, whether it's the rest of the salads business or the banana business in those customers. We're going to make sure that it is strategic in nature. But clearly our number one reason is we've decided to respond to customer demand

Gary Albanese - *Auriga USA - Analyst*

Okay. And just lastly, regarding the potential for acquisitions, can you give us some scope what kind, what size, what specific area you'd like to augment?

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

What we're trying to do here is to make sure that everyone understands that we are changing our priorities from the past, that we always said our number one priority was to reduce debt to a priority of making sure that we are evaluating acquisitions that would be accretive and that would help our main strategy to core, to grow our revenue, our core revenue. And so, I'm not going to speculate any further than that, but it is a change in that in the past we really focused on reducing debt. We had said that we would not entertain any opportunity.

Gary Albanese - *Auriga USA - Analyst*

Okay. Is there a leverage number that you'd be comfortable approaching?

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

No. The key for us will be to make sure that they're accretive and that we take advantage of any potential synergies. But no, I won't speculate with that.

Gary Albanese - *Auriga USA - Analyst*

Okay. Thank you.

Operator

(Operator Instructions) Heather Jones with BB&T Capital Markets.

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

Best of luck, Mike, wherever you're going. And congratulations, Brian. A few questions. Sticking with the salad business did I hear you say you're going into bulkhead lettuce as well?

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

Yes. We're going to open ourselves to a couple different categories and one is the whole head lettuce category, yes.

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

Okay. And as far as your decision as far as private label, you mentioned that your customers continue to demand this. From what I understand, there were two large customers that had done the transition to private label beginning, I think it was in 2010. Had you had additional customers that were wanting to do the transition to private label that caused you to do this reversal or is this in response to the original two?

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

No. It's in general the market, Heather, has continued to show interest in private label. The share has stabilized, roughly about 25%. But the fact of the matter is that, in general terms, customers do continue to ask for consideration from our sales from private label. So we have decided to respond to the opportunity that that will give us to expand our revenue growth.

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

And when you say selective SKUs, what are you thinking in terms of -- because originally, if I remember correctly, one of the reasons you didn't want to do private label is you could end up competing against your brand, eroding your brand value. How are you going to set this up so that you don't do that?

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

Yes, this will be done very specific to each customer. There will be, I'm sure, differences in what customers need. Some will want larger SKUs, larger sizes. Others will want smaller ones. It really depends by customer. And we will customize it in a way that we're going to try to avoid any direct cannibalization from our Fresh Express brand.

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

And you talked about consolidating the Chicago area facilities. Do you need this private label, the bulkhead lettuce business, to get your capacity utilization up to a satisfactory level, even after consolidating this plant?

Brian Kocher - *Chiquita Brands International, Inc. - President, Europe and Middle East*

Heather, I think the way that I would look at it is a little bit differently. I think we want some limited private label and we want some whole head lettuce SKUs and product lines to help us capture some of that larger category Fernando talked about. We can look at playing in a category that's 2 billion right now or 5 billion when we expand the product portfolio. And we can do that using our existing capabilities and capacities. And so, yes, it would help increase our plant utilization. But again I look at it a little bit differently. It's about revenue growth, the opportunity to play in a bigger field and do that using our existing capacity and our capability. We don't need to make one capital investment. We don't need to add one line supervisor. We don't need to add one manufacturing

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

Okay. And thinking about the acquisitions, when you're thinking about those, are you thinking in terms of moving into new categories or would you consider -- and I'm not asking you to speak specifically as to anything you may be considering, but just hypothetically would you consider buying another salad manufacturer just to consolidate a very mature space?

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

Even though on a hypothetical basis, Heather, that's a very specific question. So no, I'm sorry, but I can't answer that.

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

Okay. Moving to EU bananas, from what I understand, it's being held by tighter supplies out of Latin America. But also the new liner service into the Black Sea region. Wondering if you could give us a sense from your perspectives of how much each is contributing. And if you could give us a sense of the visibility you have as far as how long the strength we've seen in the market over the last few weeks, how long it could last.

Brian Kocher - *Chiquita Brands International, Inc. - President, Europe and Middle East*

Let me try to put some context around it, Heather. We saw historically high supplies in October, November and December of last year. And that put pricing in a relatively low rate, relative to years before and the cycle of the year. As we've seen supply in Central America, and particularly Ecuador, tighten, we have seen a response in pricing. And again, we've seen our ability to have our strategic pricing programs in place to satisfy our customers, to prove our value in the category. We've seen our ability to drive some pricing here in the last several weeks. We are constantly looking at developing sustainable programs for our customers, that help to break a little bit from the commodity aspects of the business. And we're looking at those, addressing our cost structure to do so. I won't want to speculate on what the banana supply market is going to do over the next several weeks or months, but we do see some tightening. We do see the Ecuador market's still lower than year-over-year and we'll continue to try to drive our program in Europe the way we have the last couple of years.

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

And have you seen any trend in Europe, maybe with your more established retailers and all, any trend there to move away from the week to week pricing and maybe not exactly like the US, but more to a US-like model? If you could speak to that.

Brian Kocher - *Chiquita Brands International, Inc. - President, Europe and Middle East*

No, we haven't seen that trend. As a matter of fact, this year we have a little bit more percentage of fixed contracts of our total portfolio. We haven't seen a definite trend one way or another. I think from us in trying to manage our business it's prudent that we have a balanced approach to whether things are fixed -- our contracts and our customer relationships are fixed or variable

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

Okay. Thank you very much.

Operator

(Operator Instructions) Bryan Hunt with Wells Fargo Securities.

Bryan Hunt - *Wells Fargo Securities, LLC - Analyst*

I was wondering if you could just talk about your reduced commitments for bananas in the upcoming year. You made a reference to it. Is there any way you can quantify it a little bit better for us?

Brian Kocher - *Chiquita Brands International, Inc. - President, Europe and Middle East*

I wouldn't want to quantify that approach, but I will tell you every year we look at the structural fruit position that we have. We look at the sales demand. We look at the normal production curve. And we want to follow a very simple concept, which is have the fruit when it's most available and most profitable to sell. And have less fruit when it's tougher to maintain your margin. And we continue to make changes in our sourcing strategy and in our grower base, in our geographic sourcing regions to help accomplish those goals.

Bryan Hunt - *Wells Fargo Securities, LLC - Analyst*

And when you look at banana volumes in Q4, in North America in particular they were down. Are we supposed to take that as an indication of maybe what you're anticipating for 2012? Or is there some type of timing factor that impacted your volumes in North America?

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

Brian, this is Mike. In fact, we've seen roughly flat volumes during the start of the first quarter of 2012. So we have some variations in the relative amount of demands and some differences in the amount of market type as opposed to fixed contract volumes that we had. But right now, opening the year, we're essentially flat year on year and we're continuing to try to drive volume growth.

Bryan Hunt - *Wells Fargo Securities, LLC - Analyst*

Great. And when you look at a lot of packaged food companies and what they've released in Q4, companies have talked about all their growth coming from alternative channels as opposed to the traditional supermarkets. Could you talk about maybe your distribution changes at retail or channels throughout 2011 and maybe what you're anticipating for 2012? And I know you all have been very successful with Chiquita To Go. And that sounds like a nice growth in the convenience channel overall. Again, could you just talk about channel changes in the last year and maybe what you're anticipating for '12.

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

Yes. We have folks, a lot of our efforts over the last several years to expanding our distribution. And you mentioned one of our best examples of success is Chiquita To Go. And we will continue focusing on those. Now, I think the key change that I would underline is that we are focusing on our core categories. So whatever opportunities we can find to expand distribution for bananas and salads and the healthy snacking line that we already have out in the market, that's what we're going to be focusing our attention on. We have people dedicated to schools. We have people dedicated to making sure that they find convenience stores. Those kinds of opportunities, that's where we're going to be focusing our attention on. But frankly, it would be very difficult for us to speculate exactly how much of that we can capture in a year's time. But it is one of our focused priorities, is to make sure that we do expand our distribution beyond the grocery store.

Bryan Hunt - *Wells Fargo Securities, LLC - Analyst*

And Fernando, you all pulled in the reins after you bought Fresh Express on the food service side of the business because it wasn't creating the profitability metrics that you desired. Are you looking to expand that business now? Has the new cost structure allowed you to go back after that opportunity?

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

Yes. That's a good question because we have expanded somewhat, as you probably can conclude from the results. But we're only expanding it if we can make absolutely sure that it will be profitable, number one. And, number two, that it can be also eventually a branded opportunity. And so we have a handful of partners that we focus a lot of our growth attention. We have had some very good success with several of them over the last year. And those are the ones that we're placing emphases in our plans. And I would say within that, the healthy snacking -- as part of healthy snacking, by the way, are products like the apple slices that we've branded Chiquita, now you can find in several of those food service opportunities. And we have expanded, actually, quite a bit with that particular product in the last -- literally in the last three or four months. So it is certainly an opportunity, but we're being very careful that it is a profitable expansion and not just for the sake of gaining volume.

Bryan Hunt - *Wells Fargo Securities, LLC - Analyst*

Okay. And then lastly, with the First Lady's effort to drive salads and healthy snacking into the school systems, have you seen a noticeable tick-up in the last, call it, six months since that effort has begun? Or is that more of an opportunity where you may have an opportunity to chase after that in 2012?

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

I would put it as a future opportunity more than anything else right now.

Bryan Hunt - *Wells Fargo Securities, LLC - Analyst*

All right. I appreciate your time. Thank you, Fernando. Brian, congratulations. Mike, best of luck.

Operator

Scott Mushkin with Jefferies & Company.

Mike Otway - *Jefferies & Co. - Analyst*

This is Mike Otway in for Scott. A couple things on the salad side, and I apologize if I missed this. But the time frame for the implementation of the expanded offering, what is that time frame?

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

We have been already selling against it. So we're going to start seeing some outcome from that essentially now, starting even the first quarter. It will ramp up. It's going to start growing faster as the year comes by, but we have been selling against it now for a little bit, for a couple months.

Mike Otway - *Jefferies & Co. - Analyst*

Okay. So you're already working with retailers or selected folks on private label and things like that?

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

Yes, we are.

Mike Otway - *Jefferies & Co. - Analyst*

And then net-net from a margin rate perspective, when you've got private label and now more organics, and the head lettuce, can you walk me through maybe what happens to what this does to the salad margin? Understanding that you're probably growing more, but the rate.

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

I think the way to think about this, it's highly contributive to the margin. We do not have to add sales force. We do not have to add much in the way of manufacturing overhead. What we have to add is direct input costs and transportation and warehousing. So you can think of significant accretions to the margin when you take that contribution and lay it over the base.

Mike Otway - *Jefferies & Co. - Analyst*

Okay. That's helpful. And then, so from a marketing and advertising perspective, you don't plan on doing a whole lot more in 2012 over 2011? Or you do?

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

Not at this point. Our plans for that budget are very similar.

Mike Otway - *Jefferies & Co. - Analyst*

Okay. And then just lastly, sticking with salads, could you maybe talk about your overall expectations for the category this year and over the next few years? And now with these new plans for the expanded offering, do you think that you're going to be able to outpace category growth? Just maybe some thoughts on the category in general

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

Sure. The plan is to outpace category growth. What I mentioned in my prepared remarks on the pilot program that we've had the very good example of how we can do it, and grow with double-digit growth, very strong double-digit growth when we put it all together. And my expectation is that we're going to have a real good opportunity to outpace category growth. The key there, though, is to see what category growth will be. And frankly, as a very key player in the salads category, and with market leadership, if the category grows and we get at least fair share of that, then we will continue to grow well. So our plan and our objective is to outpace it. But I would not want to predict, with the economy the way it is and all the other factors that are going on this year, I would not speculate on what is category growth expectations for this year.

Mike Otway - *Jefferies & Co. - Analyst*

Great. Thank you for taking the question.

Operator

And with the conclusion of our Q&A, I'd like to turn the call back to Mr. Fernando Aguirre for closing remarks.

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

Thank you, Operator. And thanks, everyone, for joining us. Brian and I will see you in the next month or so when we travel. And thanks for listening in and for your support.

Operator

This concludes today's call. Have a wonderful day. .
