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CQB - Q1 2012 Chiquita Brands International, Inc. Earnings Conference Call

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OVERVIEW:

CQB reported 1Q12 net sales of $793m and GAAP loss of $11m or $0.24 per diluted share.

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PRESENTATION

Operator

Good day, and welcome to the Chiquita Brands first-quarter 2012 earnings call. As a reminder, 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 call over to Steve Himes, Director of Investor Relations. Please go ahead sir.

Steve Himes - *Chiquita Brands International, Inc. - Director of IR*

Thanks Kevin and good afternoon everyone. Welcome to the Chiquita Brands International first-quarter 2012 earnings conference call. On the call today are Fernando Aguirre, Chairman and Chief Executive Officer, and Brian Kocher, 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 contains forward-looking statements, regarding operating performance or industry developments, and any such statements are intended to fall within the Safe Harbor provided under the security laws. Factors that could cause results to differ materially are 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'll turn the call over to Fernando.

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

Thank you, Steve, good afternoon and thank you for joining us. I will review highlights of first-quarter results and then spend the majority of my time during today's call discussing Chiquita's strategy for growth and the progress we're making to strengthen our business long term. Brian will provide additional details about the results and outlook.

As you remember, we anticipated 2012 would be a very tough year. Overall lower prices have impacted both our North American and European banana business. Although we saw prices in Europe increase throughout the quarter, prices remained lower than a year ago. In addition, we faced headwinds in both currency and fuel. Banana volumes were generally flat compared to the first quarter of 2011. Supplies in Ecuador declined by nearly 20%, limiting our ability to capture additional sales volume and led to less efficient shipping as liners were below optimal capacity. While our North American Banana business remains stable, we will face some pricing pressure, but we continue to grow our presence in the US West Coast, an area where we have traditionally been underrepresented.

In Salads we fixed the quality issues which burdened 2011's operating results and delivered efficiency improvements in the first quarter, in line with our expectations. In the near term, particularly in the second quarter, we will continue to have challenging year-on-year volume comparisons. However, based on reaction from customers to our strategy changes, our Salads business will start recuperating as we gain new distribution during the year.

Let me now turn to our broader strategic framework and provide you with some additional context on the progress we are making as we move to the next phase in business model improvement. We are constantly reviewing our business on a strategic basis with our Board of Directors. We have carefully examined ways to determine the most effective and efficient manner to expand and grow our brands with a purpose to drive shareholder value. In a nut shell, we are focusing on leveraging our most important strength, our Chiquita Brand, while we evaluate options to improve the returns on invested assets of our business.

Let me add some perspective. Looking across industries, particularly high-growth areas, the most successful companies are the ones that have narrowed their focus on a few key elements of their business model. Chiquita is no different, and by consolidating our activities to focus our investment in those areas where we can clearly add value, we will better position Chiquita for growth.

There are three critical elements to our business model. Number one, basic need for our products. Secondly, there is an increasing need for us to return on invested assets. And, third, marketing and branding. Let me spend a moment on each one of these elements. We face a clear demand and market opportunity for our products. Population growth and the need to have thigh-quality nutritious products available to consumers are worldwide together with the growing awareness of the importance of eating healthy is resulting in a growing need for nutritional food. Without doubt, there is a need for our products. Population growth is expected to outgrow the capability that exists in the world today to fulfill all food needs. In simple terms, there is an increase in food demand and scarcity in production, especially for healthy, nutritious food sources.

Here is some data. By the year 2050, world population is expected to be 9 billion people, a 2 billion increase from today. A 70% increase in food production will be needed to meet expanding demand. However, to meet this increased demand, only 5% more land is expected to be cultivated by the year 2050, and as I'm sure you saw in the front page of the USA Today today, obesity may increase to 42% of the population by the year 2030. In terms of returns on invested assets, historically our Company and others focused on investing and owning farms, production facilities, ships, distribution centers, and other assets.

A good example is our manufacturing facilities for Salads. Whereas in the past we would not consider asset-light or contract manufacturing, food companies today are in that model as it reduces capital investment and leverages the expertise of others. Incidentally, today there is too much capacity available in prepackaged Salads in the United States. We are consolidating three of our Salads facilities in the Midwest into one that will have better, more efficient equipment. In fact, this will be our single biggest capital investment project for 2012. We expect that the benefits of this manufacturing investment alone will improve our Salads and Healthy Snacks operating margins by 1 full percentage point in 2013 and beyond. This entire investment will be managed by us, but funded by somebody else. In a leased versus owned facility our return on invested assets increases significantly. We will continue to evaluate opportunities to fund investments in this way, as our ROI would benefit in a major way.

Part of the reason we decided to participate in private-label Salads is to utilize some of the idle capacity in our facilities. In fact, by expanding our offerings in private label, whole heads of lettuce, and organic will be expanding the market in which we compete from $2 billion to $5 billion. Volume increases significantly leverage our fixed-cost asset base and improves ROI. Shipping and logistics are important levers to improve returns. Again, in the past, our Company and most others owned these assets. We have since divested our shipping fleet, which generated cash to pay down debt. We have contracted shipping experts to meet the needs of our business. Last year we divested some long-term shift leases in order to move to more efficient container shipping. We could not have done that in the past when we owned the ships without investing millions of dollars in heavy asset ownership.

Lastly, our most important asset is our Chiquita Brand. We have reams of consumer and customer data that shows our Chiquita Brand is not only the best known, but also the one that receives the highest and most positive attributes from consumers. This is the case in many different countries, so we are looking at ways to expand the brand in different product lines and geographies. The ideal scenario is for us to expand and grow our brand in the most efficient way possible, including partnerships, joint ventures, licensing, or any other option that leverages the brand, limits the use of our capital, reduces our operating expenses, and ultimately expands shareholder value. The joint venture with Danone in Europe, the expansion of our Banana business in eastern Europe, and the work we're doing in China to expand with fruit chips and vegetable products with the Chiquita name are clear examples of leveraging the brand without investing significant dollars in capital. The overarching theme here is that we are enhancing our business by concentrating on our core capabilities and expertise, and partnering with others where possible to maximize efficient use of our resources with a purpose to drive shareholder value.

Overall, we are confident we are moving the business in the right direction for the long term. In the last few years, we stabilized earnings, generated cash flow, reduced debt, and improved our structural cost base. Over the next years, we are focused on expanding revenue in our core businesses and leveraging our core cap capabilities to expand and extend our powerful brand. The results will not come overnight, but we are confident we will deliver long-term expansion and sustainable profitability of our brand to drive shareholder value. Now I'm going to ask Brian to provide more detail on our financial results, as well as our outlook for the year. Brian?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

Thank you, Fernando. Today, Chiquita reported first-quarter net sales of $793 million, which is lower than the 2011 period, principally as a consequence of lower pricing in bananas, and previous exits of low margin commodity produce activities. First-quarter 2012 income on a comparable basis was $2 million, or $0.04 per diluted share, versus $26 million, or $0.57 per diluted share in 2011. US GAAP results were a loss of $11 million, or a loss of $0.24 per diluted share, versus income of $24 million, or $0.52 per diluted share in 2011. This year's first-quarter GAAP results also included $11 million, or $0.24 per diluted share, for exit activities primarily associated with the reconfiguration of our global shipping routes, and headquarters relocation, which will both benefit future performance.

In Bananas, sales were 3% lower, at $520 million, and comparable operating income declined to $25 million, or 5% of sales. This reflected lower prices in both our North American and European markets, and slightly higher delivered-fruit costs. In North America, Banana pricing was 6% lower on modestly lower unit volumes. Recall that the year-ago period included a surcharge that the industry used to help offset higher product supply costs. In our core European markets, our sales volume was 1% higher, and dollar-equivalent prices were 10% lower.

In our Salad and Healthy Snacks segment, first-quarter net sales were steady at $238 million. Sales volume for retail Salads declined by 4% during the first quarter, while our average pricing was 1% lower. The segment delivered $2 million first-quarter operating results on a comparable basis, versus income of $6 million a year ago, which reflects these volume reductions. Consolidate operating results also benefited from lower corporate expenses, which declined by $7 million for the quarter. We also started relocating our corporate headquarters and consolidating other corporate and administrative functions in Charlotte, North Carolina. When completed, we expect to realize ongoing operating cost savings of more than $4 million annually for more efficient staffing, consolidation of locations, lower rent, and reduced travel costs. We recognized $4 million of costs related to the relocation, $2 million net of tax in the first quarter of 2012, primarily related to severance, and we expect to record an additional $8 million of relocation costs during the second quarter of 2012.

Looking ahead, we have take a number of specific actions and are more broadly adopting our strategies to enable Chiquita to be more successful going forward, even as we face some significant market and economic headwinds in the coming periods. Specifically, let me comment on some of the key drivers year on year that will impact our results. First, based on current forward rates, marine bunker fuel is expected to increase by approximately 14% year-over-year. Second, the euro, which in recent periods has averaged $1.31 per euro, is meaningfully weaker than the $1.43 and $1.41 averages we realized in the second and third quarters of 2011 respectively. Finally, we continue to have a highly competitive market environment. These headwinds will be partially offset by the absence of excess salad sourcing and manufacturing costs related to temporary 2011 quality concerns, offset by lower interest payments, and partially offset by the carryover benefit of our 2011 realignment of our Salad and global innovation resources and increased sales.

Turning to our segment outlook, European banana pricing in April, coming off a weaker first quarter, was softer than in 2011, both in local currencies and on a dollar-equivalent basis. Overall, Banana industry supply is anticipated to outpace demand, which will put pressure on second-half pricing. At the same time, the euro exchange rate is roughly 9% lower than the year-ago period.

Our Salads and Healthy Snacking segment also starts the year from a lower volume base, but we expect the full-year volume will be relatively flat to down slightly. Due to the timing of distribution changes incurring in 2011, and the timing of when new distribution opportunities become available in 2012, we do expect retail Salad volume to be lower by approximately 15% in the second quarter. But, again, retail Salad volume will be relatively flat or slightly down for the full year. In our Salads and Healthy Snacking segment, we also 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 programs, which will offset some of these industry costs.

In order to achieve the Company's long-term strategic goals, we will need an appropriate level of flexibility in our capital structure, and we continue to proactively monitor and manage this flexibility in light of our current and anticipated market and other conditions impacting our business and results of operations. While we are currently in full compliance with all of the covenants in our debt agreements, we recently began working with an agent bank of our senior credit facility in an effort to amend our credit facility to provide us appropriate level of flexibility to execute our strategy, absorb the current volatility inherent in our business, and pursue value-enhancing transactions that may accelerate the achievement of our goals. This process is started and is ongoing. Even while we manage these factors, overall, we are prepared for a year of improving the foundations of our business and its long-term profitability, even if our results this year will be challenging. At this time, we will open the call for as many questions as time allows. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jon Feeney, Janney.

Jon Feeney - *Janney Montgomery Scott - Analyst*

I wanted to -- just two details. First, in terms of -- Fernando, you called out a point of margin which at the moment is about of $8 million in total cost savings, could you catalog for me in 2013 versus 2012, what we should expect from a cost savings standpoint, putting together all of these different pieces you said, of the headquarters move, the realignment of the Salad business, and these new outsources moves that you're making right now. I just want to understand what the total cost impact would be '13 over '12, roughly speaking.

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

All right. So, Jon, we talked about last year, when we did the realignment of the overhead and the innovation resources about $15 million of annualized savings. We got approximately half of that in 2011. The other half will come in 2012. So at least versus 2012 to 2013, I think it should be on that realignment will be relatively flat. Obviously it -- there is a decrease in costs '12 to '11, and it's about half of that $15 million. Okay?

The headquarters move will yield about $4 million annually. Again, that's probably after we get everyone moved, we get all of the transition expenses over, and I would expect that you would see that 4% annually starting in 2013. So '12 versus '13 you should see $4 million of improved cost profile. And the last thing we referred to specifically is the Chicago facility consolidation, and really the opportunity there again, as Fernando mentioned, is to consolidate what is now a campus manufacturing facility into one more efficient modern facility to drive out both operating expenses, as well with the financing mechanism, as well as conserve cash and reduce our cash committed to our Chicago plants. That will be approximately, as you noted, $8 million a year, but I would not see that really starting until call it the summer time. So think 2012 to 2013, think more or less $4 million of savings, and then 2013 to 2014, you would get the other $4 million sequentially. Does that make sense?

Jon Feeney - *Janney Montgomery Scott - Analyst*

That does. That actually laid it out perfectly. The other detail, the second-quarter 15% decline in volume, was there, in the turnover here another big slug of lost business that you're replacing, or what exactly happened in the marketplace to drive this steep drop-off in volume sequentially?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

We did have some distribution changes in the second half of 2011, and one or two in the first quarter of 2012. Now, when you look at the phasing, our opportunity is to really gain significant new business, whether through expansion in the private label with existing and new customers, or through our branded products, really is happening in the next six, nine months. So what you'll start to see is that business coming online the second half of this year, the first part of next year, although some of the distribution changes will exit our portfolio even in the first quarter of this year. So there is, for that quarter, a temporary phasing that you'll see impact our volume.

Jon Feeney - *Janney Montgomery Scott - Analyst*

And what kind of value-enhancing transactions are you referring to when you say that you're seeking an agent bank for flexibility on your credit facility? I'm trying to understand what -- are you talk about buying companies here?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

Well, I think what we mentioned when we did our fourth-quarter earnings result is for the last several years, our number-one and only priority for excess cash has been reducing debt. If you look at our situation now I would say yes, we would be interested in continuing to reduce debt, but for excess cash, we'd also be interested in evaluating those transactions which may accelerate our strategy, may accelerate our growth, may accelerate our cost strategy, may accelerate some of the higher return on investment structures that Fernando referred to. So that's what we mean by the strategic transactions. Give us an opportunity to evaluate those and compare those to the opportunity to reduce debt and really determine which add more value overall to the shareholder

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Jon Feeney - *Janney Montgomery Scott - Analyst*

Okay. Thank you very much.

Operator

Reza Vahabzadeh, Barclays.

Reza Vahabzadeh - *Barclays Capital - Analyst*

You went through a lot of the key factors that would bridge the gap between last year's EBITDA for the first quarter and this year's EBITDA, but can you maybe be more specific about the dollar impact on EBITDA, or for that matter EBIT, from various factors, whether it's currency, pricing, volumes, and costs?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

Sure, sure. So Reza when you look year-over-year comparison, you have some price impact certainly in Europe on a local basis and a comparable basis. You have the price impact in North America. Remember during the first quarter of 2011 we had a surcharge in place to offset some industry costs. We do not have that same surcharge in 2012. And the other thing that I would say impacted that, currency, not as significantly. $2 million. We had slightly higher product costs. I would say another $2 million just to give you frame of reference. So, really, when we're talking about the pricing components, one being Europe, the other being the difference in the surcharge, that's really the majority, those two together are really the majority of the year-over-year difference in earnings.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Right. But as far as pricing impact and the pricing impact out of Europe, as well as the pricing impact for North America, what's the dollar impact of those two factors?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

If you look at it in a year-over-year comparable number, I would say they're about equal, somewhere $12 million, $14 million a piece, something like that, $10 million, $12 million.

Reza Vahabzadeh - *Barclays Capital - Analyst*

And where do you throw in the Salad business decline in EBIT? What was -- which bucket does that fall?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

Certainly with some price, too, yes.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Price? Okay. Got it.

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

And price and a little bit of volume, but remember Reza, I'm rounding between all of these, so just to give you an order of magnitude, so to speak.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Fair enough. And as far as the -- if one goes through these factors on a go-forward basis, directionally as opposed to specific numbers, I assume that pricing in Europe on a local basis is going to be challenged still in the second quarter?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

I would say so far through April, we're just slightly off of our pricing in -- from 2011. So a little bit, but not significantly. 2 points, I would say, 2 or 3 points of pricing. I think that the bigger areas for you to consider, as you look at balance of the year, are some of the FX impact, certainly. Fuel impact, certainly.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Yes.

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

We also recognize one of the -- one of the main assumptions that we have in our balance of the year outlook is that supply is going to outpace demand in the Banana business, so we'll see some pricing pressure, particularly in some of our trading markets, like the Med, and even some of our core markets. And then the other thing is there will be, as I mentioned, when Jonathan called, there will be a little bit of volume impact in the Salad business for the second quarter, but we do expect that to be with the plans for distribution growth. We expect that to be flat to slightly -- slightly down for the full year, retail Salad volume.

Reza Vahabzadeh - *Barclays Capital - Analyst*

I see. Got it. And then when you talked about the amendments possibly, or getting some more flexibility in your credit facility, is that because you need covenants to be amended just based on your expected performance, or is that because you need it perhaps because of potential value-enhancing opportunities down the road, whether it's acquisitions or something else?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

Well, it's actually a little bit of both. And then the other thing that I would throw in, Reza, is we have talked a lot about the Chicago facility, and we are going to do that facility using some financing, which ultimately will classify -- we believe will classify as a capital lease. So at least for accounting purposes, that will add more debt to our books and be on the balance sheet, but remember it certainly reduces expenses and ultimately reduces our cash draw.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Right. But excluding any capital lease accounting or incurrence, and excluding any value-enhancing opportunities, would you still need to amend your credit facility?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

I think it's wise for us to do it now, Reza, just because we want to stay ahead of it. We know that there's some volatility in our business. You know that there's some volatility in our business. We talked about fuel. We talked about currency. I think it's wise for us to go out and approach the banking group. We have talked to the agent bank. We've had discussions with every major participant in the credit facility, and it's simply wise for us to do it now.

Reza Vahabzadeh - *Barclays Capital - Analyst*

I appreciate it. Thank you.

Operator

Scott Mushkin, Jefferies & Company.

Scott Mushkin - *Jefferies & Co. - Analyst*

Wanted to keep poking at what Reza was talking about. The way I'm looking at it, there's a potential you guys don't generate any EBIT this year. Is that a wrong way to look at it?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

Scott, I think we have a lot of variables that impact our results. We talked about some, certainly some of the headwinds. Whether it's currency or fuel or some of the supply challenges that we faced, the opportunity we have to grow Salad business. We've got opportunities to grow Banana volume and Salad volume in the second half, too. So I think it is too early for us to talk about a balance of the year forecast, or certainly provide some point estimate, and we do have some flexibility, or I should say variability in some of the major components that impact our business.

2012 will be a tough year. We told you it would be a tough year. We've tried to be proactive in aligning some of the challenges that we face, but it's also a year that we're transitioning a business. It's also a year that we're growing, seeking to grow our Salad volume. Seeking to play in a larger field in the Salad volume going from that branded packaged Salad retailer category of about $2 billion, and playing in the larger $5 billion category that has branded-packaged salads, private label, organic whole-head lettuce. That's really the opportunity we have to drive volume through particularly our Salad business, the fixed-cost infrastructure that we have.

Scott Mushkin - *Jefferies & Co. - Analyst*

And if I'm looking at this, and I don't have your covenants in front of me, are they based on like last 12 months EBITDA? Is that one of them?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

We do have that, yes.

Scott Mushkin - *Jefferies & Co. - Analyst*

So if I'm looking at this with, I think, the third quarter was a loss, at least on the EBIT line, the fourth quarter was a loss, and it looks like this quarter you barely made anything, if we look at the second quarter and the euro continues to fall, and we know the Salad business is going to lose about 15% of the volume, is it conceivable that you have covenant issues as soon as this quarter?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

Well, depending on how you let the variables -- what you use for estimates in the variables. A lot of things could happen. But what we certainly do is we know we're going to be signing a lease on the Chicago facility. We know we have some of these variables that impact our business. So we want to make sure that we go to the market proactively, go to the bank group, and seek the right flexibility to help us continue achieving our strategic objectives.

Scott Mushkin - *Jefferies & Co. - Analyst*

So maybe a better way, I'm sorry to press on this, but I just think it's really important, and you guys -- it's amazing how much you're doing, and I want to get to that in a second, but just very specifically maybe is a way to look at how much be EBIT do you have to generate in the second quarter to not break covenants? Do you know that number?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

We'll -- we believe it's wise now, knowing the volatility in our business to go ahead and seek the flexibility with the bank group. We've had discussions with them. The discussions have already started. The agent bank discussions have already started. And so I would rather just address it that way.

Scott Mushkin - *Jefferies & Co. - Analyst*

Okay. And then I wanted to move on to the business, if I could, because it seems from an outsider's perspective, and spent some time with you guys recently, that you guys have done a lot of good work, especially over in Europe, but even here in the US, but the businesses don't want to produce income. They just don't. It's just been that way a little bit for a while. If I look, some is coming off of really -- used to be like $200 million is where you think things could be. And we've been below that now. I guess this is going to be the third year, well, really below that, and the fourth year. What changes that dynamic? I'm not sure you could do much more than you're doing, and it's still not producing income. Is there a catalyst? What makes that happen that finally you make more income off of your assets?

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

Well, Scott, I think what we try to refer to in our prepared remarks was precisely the key element, the key strategic elements of the business model are some that need to change, and they need to change in a more dramatic way than probably anything we have done as a Company, and perhaps even as an industry for many years. The fact we referred to the way in which we've managed assets before, the way in which we have invested our capital. It is -- we frankly have been trying some different strategies, but we are -- we've -- all of these reviews that we do with our Board of Directors always bring us to the conclusion that we do have to make -- do things differently, in order to be able to break that rut that we're, as an industry in, as a Company we're under. And so we're trying to break it down into what are the elements that we really control, what are the elements that we can focus our investment on. And that's why, as I described it, we -- this is a Company and an industry, frankly, that's in the sweet spot of consumer needs. There will be a tremendous opportunity for us to generate more products for consumers, but, at the same time, we also need to focus a lot of our attention on improving the return on our invested assets.

Hence the chance to do thinks like the shipping divestitures that we make, the chance that as Brian described, we are not going to own the land or the factory in Chicago. That's something that's unusual, hasn't been done before, and yet it is what other food companies do, and we have to -- we have to really try those -- that different business model. And that is what we're -- I believe very strongly, that that is a type of effort that will help us start generating much better profitability for the business. And the expansion of our most important asset, and that most important asset is the Chiquita Brand, as we see throughout the world the efforts that we are focusing on, are to invest on our most important strength, and that is the Chiquita Brand. So if you break it down into those three elements, that is the strategic -- the most strategic discussions that we have had with people, and some of the partnership is that we've come up with, the joint venture with Danone. No one would have tried something like that with a world-class company like Danone in the past, and we've tried it. It's working. It's working better. They now have taken over the full responsibility of the business as of April, and we are very convinced that that's the type of opportunity we have to expand our brand.

Scott Mushkin - *Jefferies & Co. - Analyst*

All right, guys, I'll yield. Thank you for taking my questions. I really appreciate it.

Operator

Heather Jones, BB&T Capital Markets.

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

So I just want to -- I have several questions. The Q1 included $4 million of savings from your cost realignment effort from 2011?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

More or less, yes, right around there.

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

So the year-over-year decline was even more pronounced than it seems on the surface. Is this all due to volume deleveraging?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

Heather, could you just repeat year question again? I'm just trying to make sure that I understand it completely.

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

Well, last year, and I'm just doing -- well, actually if you just look at Fresh Express by itself, it did about $9 million, and this year it did $2 million, and I'm seeing it had $4 million of cost savings in there, so the year-on-year decline was even more greater than it seemed on the surface because you had this cost-savings plan. I'm saying was that year-on-year decline all due to just weaker volumes, volume deleveraging?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

So last year the Salad and Healthy Snacks segment did $6 million. $6 million, not $9 million. This year it does $2 million. Certainly there were some cost savings in there, there were some other pressures in there as well. Fuel is a pressure that it had, a little bit of price, but yes, retail Salad volume was down 4%, and so that was an impact on the segment results for sure.

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

Looking at your Q2 guidance, you're down 15% in retail. If you look at the prior two quarters, it consolidates down to volume is down about 40% from Q2 of '09, and you're starting to come against easy comparisons, and yet still pronounced declines. We had heard of a big -- a large-sized customer you had lost in Texas, but were there other big losses during the quarter, as well?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

We've had some distribution changes in the quarter that certainly will impact our second-quarter outlook. What also impacted our second-quarter outlook is some of the opportunities we had to gain distribution from the customers perspective were pushed out to later in the year. So if you compare our expectations to call it three or four months ago to what we have today, I think it's a combination of those two, Heather, that leads to what I'll call a second-quarter phenomena.

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

Okay. Because if I remember correctly, you all had thought 2012 was going to be improved from 2011. So is this a big change, some of those new gains being pushed out to the back half?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

That is the big -- the biggest difference, and not only some of those changes going from second quarter to later in the year, but there has also been some opportunities that we know as of today have gone from fourth quarter to sometime in 2013. So that's certainly an impact on volume. Now that being said, and in light of the second-quarter volume guidance that we gave, we still expect retail Salad volume for the year to be right around flat, maybe slightly down, based upon the volume that we know is available, and our expectations and in terms of achieving that volume.

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

So now given retrospect, given this outlook and the fact that you might need to -- well, not might, you need to redo your credit facility to get flexibility. In retrospect, what is your view of the $30 million cost to move to Charlotte, because that seems like a fairly large expenditure now? I guess my question is, this must have blindsided you for you to have agreed to spend that kind of money to move to Charlotte, given that you may need a redo of your credit facility. Just wondering if you could give us what your read is of that.

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

Yes. Well, let me try to put that in perspective for you, because remember it's not just an investment and a cost. We are -- have certainly investments, and you'll start to -- and savings. You'll start to see those in 2013. $4 million a year. And those are the hard assets, or, excuse me, the hard savings that you'll see. You'll actually also start to see a gain that -- or an efficiency that we needed to drive in our business in terms of having all of the people who are making decisions and driving the business in one place. And the combination of those two will lead to a three-year pay back. We're going to have a payback on this thing in three years. Additionally, we've had some, as we've managed these relocation costs, so far we look to be coming in less than $30 million, as well. So I think that's another thing to keep in mind.

So, Heather, I mean, as you look at the move to Charlotte in particular, you have to put all of those in perspective. There are some things that we can accomplish in Charlotte as a business that we couldn't accomplish with our existing headquarter, and importantly, our existing configuration of employees and where they were, and how we were communicating. We're also consolidating positions that were outside of Cincinnati, as well, and that's an important part of the move to Charlotte.

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

Okay. And I did this spur of the moment so I may be wrong, but I was looking at your covenant, and it looks like your -- the EBITDA, the leverage covenant, you can't have leverage ratio greater than 3.5 to 1, but that's the operating company leverage, so it doesn't include the convert debt, or your 2014 and '15 senior notes?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

Correct.

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

So if I'm understanding that correctly, unless you plan on taking a significant -- significantly more debt, then you must be believing that your EBITDA on an LTM basis is going to be below $100 million. Am I analyzing that correctly?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

That is one way to analyze it, Heather. I think from our perspective, the better way to look at it is we've seen some performance deteriorate for sure, right? We recognize that. We have certainly understand that with the Chicago consolidation that there will be some more debt that goes on the books. And importantly, we've got volatility in some of the significant variables in our business. So when you boil all of those factors together, we think it's wise to approach the credit facility, agent bank, and the banking members now, and talk about the situation now, talk about the flexibility and the volatility that we have in our business, and we need in our -- the flexibility we need in our business, and have that discussion proactively in advance of an issue coming up.

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

Okay. And my final question, just wondering, Fernando, you had spoken about the challenges that are facing Chiquita, as well as the industry, and I think I heard you talk about those changes Chiquita is undertaking, but those that the industry needs to undertake. If you look at your competitors' results the last couple of weeks, they weren't phenomenal, but they were much stronger than Chiquita's, and their outlook is much stronger than you guys. So I guess what is your sense of what actions the industry plans to take, or are you just operating from a weaker position, so you're going to be the one that has to spearhead these changes?

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

I can't speak for the industry. I can speak for Chiquita, and as I described, our strategy is different. We have outlined very specific strategic steps that we take, and they're different. We've talked about that in the past, and we believe that we will continue to make our own decisions based on what we believe is right for our Company and for our brand. So I can't speculate for what all of the industry can do or will do, but I will tell you that as a industry leader with the most powerful brand, we do believe that we have to take a very important step strategically to make sure that we can start growing again as a brand and as a Company.

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

Okay. Thank you.

Operator

Karru Martinson, Deutsche Bank.

Karru Martinson - *Deutsche Bank - Analyst*

When you guys look at managing your assets, you mentioned you consolidating the Chicago facility there. What other assets do you have on the books that you feel could be up for strategic review, and how would you ideally structure this Company going forward, then, on that front?

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

Well, we -- in general terms, we have to outline our strategy. The most important change in that regard is the fact that we are and have been very willing to entertain a different structure from a capital standpoint, the ships is a good example of that. The sale of our distribution business. Atlanta and Germany is a good example of that. And so those steps have been taken to help improve our capital structure, and we'll continue to look at many of those opportunities as they become available, and as we find and uncover some more valuable options like that. But obviously we can't -- we won't speak to any potential opportunity until it happens, and until it's a done deal. With the Chicago facilities, it's a good example that it's a done deal. We're -- we have it pretty much nailed down now, and that's why we're talking about it. It's a great example of in the past we would have gone in to buy land, buy a factory, and have it all in our books, and we have been really a more asset-light strategy as a Company, and my expectation is that we'll continue to be doing the same thing in the future.

Karru Martinson - *Deutsche Bank - Analyst*

Will there be any kind of meaningful divestitures over the next 12 months coming up?

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

Again, we can't -- I won't speculate and I won't give any specifics, but we will be very focused on growing particularly our main brand, Chiquita, and anything that revolves around that, we'll focus our attention on, and anything that does not revolve around that, we'll look at opportunities.

Karru Martinson - *Deutsche Bank - Analyst*

Okay. And when you guys look at capital structure and flexibility, you have the 7.5% notes coming due in 2014. Obviously this is going to be a year of change. What are your thoughts on addressing that maturity perhaps early with the call feature, given the strength in the market, or is this let's focus on the operations today, kind of that mentality?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

It's something that we look at all the time. I think the credit markets certainly are receptive for a credit like ours. We certainly would view that as an opportunity, and maybe even in conjunction with some of the discussions we're having with the credit facility members. But we constantly evaluate that and try to find where the right time is for us, and what the right long-term capital structure is for us. So I would say we absolutely are evaluating it, and we evaluate it weekly, monthly, to try to make sure that we execute well.

Karru Martinson - *Deutsche Bank - Analyst*

Okay. When you guys look at the kind of expanded Salad offerings here, the $5 billion target market, what's been the feedback as you guys have gone to customers with the broader portfolio and you guys laid out a 9 to 12 month volume, potential gains there, what's the early read there?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

The early discussion with customers have been very positive. They appreciate the approach. We have some unique advantages as a Salad provider. We have world-class quality and food safety programs. We have velocity advantage, certainly with our branded product, and to the extent that someone can work with us in a private-label offering, as well, there's efficiencies that come along that in terms of logistics and ordering, and so far the feedback has been positive. We just really need the phasing to happen so that we can be in these processes and bid on the business, and start winning the business and seeing it showing up in the financials.

Karru Martinson - *Deutsche Bank - Analyst*

And then when we look at bunker fuel, up 14%, where do you guys stand on hedges right now?

Brian Kocher - *Chiquita Brands International, Inc. - CFO*

For 2012, we're approximately 46% hedged on the fuel. Hold on one second. All right? Just hold on one second. Let me make sure. So we have some fuel hedges somewhere, on average, right around 46.2% on about 80% of our portfolio. Sorry about that.

Karru Martinson - *Deutsche Bank - Analyst*

No problem at all. Thank you very much, guys.

Operator

And ladies and gentlemen, that does conclude our question and answer session. I would now like to turn the call back over to Mr. Aguirre for any additional or closing remarks.

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

Thanks very much for your questions and for joining us today, and we look forward to updating you know on our progress throughout the year. Thanks again.

Operator

Once again, that does conclude today's conference. We do appreciate everyone's participation.
