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CQB - Q3 2012 Chiquita Brands International, Inc. Earnings Conference Call

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OVERVIEW:

CQB reported 3Q12 GAAP net loss of $67m or $1.45 per diluted share.

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PRESENTATION

Operator

Good day, and welcome to the Chiquita Brands third-quarter earnings conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Steve Himes, Director of Investor Relations. Please go ahead, sir.

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

Thank you, Amber. And welcome, everyone, to Chiquita Brand International's third-quarter 2012 earnings conference call. On the call today are Ed Lonergan, President 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 980-636-5637 to receive a copy. Our press release includes reconciliations to US GAAP of any non-GAAP financial measures that we mention today.

The call also 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 securities 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.

And now I would like to turn the call over to Ed.

Ed Lonergan - *Chiquita Brands International, Inc. - President and CEO*

Thank you, Steve. Good afternoon and thank you all for joining us today. I would like to begin my first earnings call with Chiquita by sharing some of the reasons why I'm excited to join the Company and about our future as a leading player in this industry. Chiquita serves a noble purpose in this world. Consumers enjoy our fresh fruits and salad products. And, importantly, those products are good for them, as well. In a world where consumer products companies are scrambling to develop products that taste good and are healthy, we already possess those attributes in our core.

Additionally, Chiquita has a culture of corporate responsibility, and a commitment to sustainability that is motivating to our customers and to our employees. The opportunity is even more attractive when these products and this employee group are associated with one of the world's most recognizable brands with more than 100 years of history.

As for Chiquita today, I like where the Company is heading. We have made some difficult but necessary decisions this year to better position our core portfolio to win in a competitive marketplace. I firmly believe the Company's core businesses of fresh fruits and salads possess strong earnings potential. And, as well, that the recent SG&A and efficiency choices are the right path to unlock this value. This decision to focus on our core enables us to allocate resources to cost reduction and innovation on our valuable scaled businesses. And to eliminate projects and initiatives that are less likely to deliver shareholder value in the near term. The strategic decisions and the restructuring activities described on the second-quarter call will improve the competitiveness of our core. And allow the Company to increase revenues and reduce costs. Which in turn will enhance margins and improve cash flow.

It's important for you to know that I fully support the Company's announced intention to used increased cash flow to reduce our debt. In short, I joined the Company because I'm passionate about the opportunities to deliver healthy products to consumers. And drive an undervalued company to achieve its potential.

Now let's take a few minutes to review the strategy shared on our last call and the progress we have made toward our vision. The Company's performance in 2012 is not indicative of the earnings potential of our business. As discussed, we have implemented a strategy that we believe will create a sustainable enterprise and enhance shareholder value. As we said on the last call, you can expect our business to make strategic decisions to accomplish the following.

First and foremost, we plan to increase revenue and profitability in our core bananas and salads business, with particular focus on creating value for consumers and our retail partners. Second, we will drive out costs in our value chain so as to be more competitive in our core markets. Third, we will align our overhead structure to industry benchmarks. Fourth, we will continue to evaluate and address non-core unprofitable businesses, and minimize investment in diversification and innovation outside the core. And lastly, we will limit our consumer marketing investments to those portfolio products, vehicles, and geographies where we can demonstrate a verifiable business return. We are confident this strategy will enable Chiquita over the next two to three years to achieve the target operating margins discussed on our last earnings call. That is, 4% operating margin in bananas, and 7% to 8% operating margins in salads.

It's also worth repeating that while we will certainly continue to refine the strategy as we move forward, I completely support the decisions that have been made in the recent past. And believe our choices create a vibrant future for Chiquita Brands.

So now let me provide a brief update of the progress made since our last earnings call. Where-to-play decisions aligned to our new strategy have been made. And a difficult restructuring has been executed with speed. Most importantly, our new strategy is already paying commercial dividends. In our North American bananas business, we have new 2013 contracts equivalent to high single-digit volume gains versus our 2012 base. Much of this distribution is earned from returning customers that value our brand and appreciate our new strategic direction. The new volumes, in light of our value chain efficiency actions, are at accretive turns that will ultimately help Chiquita achieve our target margin for bananas. We view these wins as validation of our banana strategy.

In salads, our decision to play in a broader marketplace, including private label, is also beginning to pay off. With a recent signature customer win and opportunities to come, we will begin delivering significant private label salad volume in Q1. This new signature win alone is equivalent to low single-digit volume growth on our 2012 salads base. Volume growth is the most important driver of margin expansion in our salad segment. And as with bananas, the value chain efficiencies we deliver will translate to progress versus our operating margin goals.

The restructuring itself is mostly completed. We have already taken actions that will enable us to realize over 75% of the annual savings that were announced in August. These savings will total at least $60 million annually. And specifically to date, all major employee-related SG&A decisions have been implemented. Many value chain efficiency actions have been deployed and will begin to deliver in Q1, 2013. And we are in process of reviewing every portfolio spend area and innovation stream with an eye toward insuring resources are properly allocated to deliver gains on those businesses and activities most likely to create sustainable shareholder value for Chiquita.

We've announced the exit of unprofitable businesses, such as our North American deciduous business, primarily comprised of grapes. And we have eliminated the costs associated with managing these businesses. While these businesses accounted for $40 million of net sales, they represented a negative contribution of $2 million to the bottom line. And there was no clear path to profitability in the foreseeable future.

In sum, the strategic choices are clear and sensible. The required actions to get to industry competitive SG&A and efficiency levels have been implemented with speed. Our team is excited to be playing to win in the marketplace. I should also say that having talked to most key customers and suppliers in my first month with the Company, they also are excited to see Chiquita refocusing on our core, and driving efficiencies in our business. They clearly value our team and our brands and they're excited to work with us to grow revenue.

Now let me turn it over the Brian to review the quarter.

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

Thank you, Ed. And on behalf of Chiquita employees worldwide, we are happy to have you on board. Our third-quarter results actually exceeded our expectations. And excluding certain unique items would have demonstrated even further progress against our long-term earnings profile. After a recap of the reported results, I will discuss a number of those unique items.

Third-quarter 2012 net income, on a comparable basis, was a loss of $22 million, or $0.47 per diluted share. Versus a loss of $16 million, or $0.35 per diluted share, in 2011. US GAAP results for the third quarter of 2012 were a net loss of $67 million, or $1.45 per diluted share. Versus a net loss of $29 million, or $0.63 per diluted share, in 2011. The adjustments between our comparable results and GAAP results are included in the table in the press release. And I will touch on some of the larger ones in a few minutes.

Looking at the Banana segment, sales were 1.6% lower at $446 million. The comparable operating loss of $2 million was impacted by the weakening euro, lower pricing in North America bananas, and slightly higher delivered fruit costs. Local pricing gains in Europe partially offset these impacts. Remember, as a note, when comparing year-over-year financial performance, that Chiquita reconfigured its European shipping operations in September of 2011. As a result, accounting practices required us to accelerate approximately $12 million of what otherwise would have been 2012 and 2013 fuel hedging gains into the third quarter of 2011.

North American banana pricing was 2% lower on essentially the same unit volumes. In Europe, local prices were 8% higher than in 2011. However, similar to the second quarter of this year, the increase was not enough to offset the large decline in the value of the euro. The euro decline alone negatively impacted our year-over-year operating income comparisons by some $10 million. Volumes in Europe were 8% lower as we chose to forgo sales where we could not achieve our targeted returns.

Lastly, in order to complete the picture on our bananas segment, our third-quarter banana results were dampened by a $7 million reserve for bad debts against a Middle Eastern customer receivable. Excluding this reserve, and the year-over-year impact of the euro, Chiquita's banana results would have actually doubled versus the comparable results of the third quarter of 2011.

In our Salads and Healthy Snacks segment, second-quarter net sales were steady at $240 million. Retail sales volume for the quarter were about 4% below 2011 levels. However, increased sales volume in both our food service and healthy snack businesses offset the revenue effect of lower salad volume. As another key indicator, salad volumes at existing customers, or continuous customers, continue to benefit from increasing retail sales velocities, driven by improved product quality. Again, considering the private-label contract business that will start shipping in 2013, and all other things remaining equal, retail sales volumes for next year would grow around 4%.

Average pricing of retail sales for the quarter decreased approximately 3% from the third quarter of 2011. For the quarter, the Salads and Healthy Snacks segment delivered $1 million in operating income on a comparable basis, versus a loss of $3 million a year ago. The results of operations for the quarter would have increased more. But we experienced approximately $5 million of costs associated with precautionary product recalls and related expenses.

Certain one-time items have been excluded from comparable results. But are worth mentioning as they have had an impact on our third-quarter GAAP results. As we have previously described, both Chiquita's relocation to Charlotte and the restructuring that Ed just mentioned earlier in the call are mostly complete. In the third quarter, we incurred $6 million in charges -- $4 million net of tax -- related to the relocation from Cincinnati. We anticipate the remaining $2 million of costs related to the relocation will be recognized in immaterial amounts at various times through 2013. Related to the restructuring, our third-quarter GAAP results include $16 million of charges -- $12 million net of tax -- related to the restructuring activity.

Lastly, based on a change in strategy that occurred this quarter, the desire of both partners to focus on their core businesses and geographies, and the related discontinuation of a key product by the Danone joint venture, Chiquita was required to evaluate the carrying amount of its joint venture investment with Danone. As a result of that analysis, including the current view of long-term prospects of the venture compared to the original outlook and previous trajectories, Chiquita recognized a $28 million impairment charge related to our investment in this venture. Chiquita's future cash funding obligations to the JV are limited under the JV agreement. Today, despite the impairment charges, the JV carries on its activities. And both partners continue to assess the future of our collaboration.

As we turn to look towards the future, I would like to provide a little color on the balance of 2012. During which Chiquita will continue to face challenges from some of the head winds that we've seen in the first three quarters of the year. In the balance of the year we will continue to face difficult year-over-year comparisons because of lower euro exchange rates and higher fuel costs, net of hedging. Although certain additional trends should be favorable for the Company. The banana market is in a relatively balanced supply-and-demand state. As a result, we expect pricing in Europe to continue to show favorable year-over-year comparisons through the fourth quarter of 2012.

Recent banana contract wins in North America will result in higher banana volumes for the fourth quarter than originally anticipated. The euro/dollar exchange rate has improved from early in 2012. And provides some unexpected tail winds versus our expectations in the middle of the year. We remain significantly hedged against our euro exposure for the balance of 2012 and in 2013. And Chiquita will continue to utilize cost-effective structures to hedge its euro-based exposure for a period up to 12 to 18 months looking forward.

Salad volumes are expected to be down 5% from 2011 levels for the full year. But incremental private-label volume will drive retail volume growth starting in the first quarter of 2013. Many trends, if they continue, should benefit Chiquita into 2013. In addition to customer wins that we already mentioned, we continue to have opportunities to increase volumes in bananas and salads. In salads, in particular, we will see increasing volumes as a result of our increased offerings, including private label, organic, and additional salad product, such as whole head lettuce. The financial benefits of our restructuring should be fully realized in 2013. The annual savings are expected to be at least $60 million, some of which will be offset by increasing costs in our core business.

The balanced nature of the supply and demand of bananas out of Latin America is likely to continue through the first half of 2013 and should support pricing. Lastly, the consolidation of our Midwest salad facilities near Chicago, which is currently on track and on budget, will be complete by the end of the summer. And we will begin to see operating cost savings from this project.

Chiquita's focus in 2013 and beyond will be on our competitiveness in our core product line. All the initiatives that we have discussed this afternoon -- our restructuring, our increasing volumes, pricing in a balanced supply situation -- support our progress along the path of our long-term earnings targets.

Before we answer questions, I would like to turn the call back to Ed.

Ed Lonergan - *Chiquita Brands International, Inc. - President and CEO*

Thanks, Brian. Before moving the call to questions, I would like to reiterate a few points in closing. In summary, I'm excited to be at Chiquita. I'm confident the strategic choices and plans we're executing will drive value. While 2012 has been a difficult year, our third quarter was better than we expected. And would have been better still if not for several unique Q3 events. We are making speedy progress against our restructuring plan, our expanded salads strategy and our banana growth aspirations. Our team and our customers have embraced these choices, which gives me comfort that we are a path to deliver our long-term financial targets.

With that update, operator, we'd like to move back to the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Reza Vahabzadeh with Barclays.

Reza Vahabzadeh - *Barclays Capital - Analyst*

Can you talk about the timing of when you would expect to achieve the EBIT margin targets that you outline? And do they require certain levels as far as euro is concerned, fuel costs and other metrics? And then my second question is, you talked about the pricing declines in North America Bananas, as well as North American Salad. Can you comment on that, what's driving those factors? Thank you.

Ed Lonergan - *Chiquita Brands International, Inc. - President and CEO*

This is Ed. Let me take a couple of minutes on the first question and then I will ask Brian to tackle the question on pricing and bananas. In terms of our glide path to our EBITDA margins, the restructuring that we put in place, both to get our SG&A structure right and to get our efficiencies right in the value chain, as we noted, will begin to take effect in 2013. We've said that within the next 24 to 36 months we would see margins approaching the 4% target in bananas, and 7% to 8% in salads. And I think it will be a glide path. Certainly we expect to see the immediate benefits of the restructuring, but then we had additional work to do on productivity across our enterprise that will get us to the long-term goal. That's partially driven by volume and partially driven by ensuring that we maintain strong focus on our cost structure. So I think the 24 to 36 months that we've called out is an accurate number that you can build in for your models. Let me ask Brian to tackle the bananas question.

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

Yes, we talked a little bit about this in the second quarter, Reza. If you remember, in the first half of this year there was some year-over-year negative pricing variance associated with the force majeure surcharge in 2011 that did not repeat in 2012. In addition we've seen, up until this time, you will remember some of last year and the middle part of this year, second quarter, we actually had an excess of supplier demand. You would have heard us talking in the middle of 2011 about supply that exceeds demand. And we saw that impact pricing a little bit, particularly in North America. As supply balances a little bit better with demand, we've had an opportunity to recognize some price in Europe. You will see that in both our second-quarter and third-quarter results. But, as North America is an annual contract type market, it takes a little while for that supply imbalance to filter through to contract renewals. So pricing for the quarter on bananas in North America was down 2%. That's essentially the cause. As we move through the renewal cycle, we'll have an opportunity to address pricing in any one of those renewal periods.

On the salad side, it certainly has a little bit to do with mix. We've had a change in the mix of customers. We have also had some timing associated with some trade spend. So, in our world, when you do some promotions, that's actually a reduction of revenue for the quarter. And it ends up in price, so there's a little bit of timing into that. But it's been both a change in customer mix, as we've had some distribution that came off in the first half of the year, as we've added distribution here in the second half. That will start to take effect in the first quarter. And then the timing of the trade promotions, we've seen a little bit of pricing degradation in salads.

Ed Lonergan - *Chiquita Brands International, Inc. - President and CEO*

Got it. Thank you both.

Operator

Heather Jones with BB&T Capital Markets.

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

Welcome, Ed. I had a number of questions. First, just real quickly, that $7 million bad debt reversal, and the $5 million product recall cost, I assume you included that in your adjusted number. So that would take your EBIT number from a negative $17 million to a negative $5 million.

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

Actually, let me just be crystal clear in both of those. Those were both included as an expense in comparable income. So our comparable net income of minus $22 million would have been $12 million better.

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

Okay. Going to next year, the $60 million cost savings, which I understand doesn't include the savings from the Midwest consolidation, you mentioned that some of that would be offset by higher expenses. And clearly there's not perfect visibility into that but can you give us a sense of what you're anticipating, how much the offset will be from higher expenses?

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

No, I really can't. I know there are different industry input costs. Fuel is higher. We're hedged, but fuel is higher than it was a couple of months ago. And if you look at the fuel curves headed out, it will be higher. That also means it will impact agri-chemicals and paper and plastic. So there are some offsets. I don't necessarily know at this point in time how much that is in terms of visibility. Nor would we probably be in a position that we could communicate it. However, we did want to make sure we provided some visibility that next year's results will include some impact of increased volume, both on the banana and the salad sides. It will include the results of the restructuring and the savings that we can generate there. But we will also face a little bit of pressure in some of the commodity input costs.

Ed Lonergan - *Chiquita Brands International, Inc. - President and CEO*

Heather, this is Ed. I would just add one small thing. And that is, I don't consider the commitments we've made on restructuring a static number. So, as we refine our strategic choices over the course of the year, we'll continue to look for efficiency improvements in our value chain and in the way we go to market. And we'll keep you posted as the quarters unfold.

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

Do you foresee any chance that we're sitting here on the Q3 call next year and less than half of that $60 million has fallen to the bottom line because of costs? I'm trying to get a sense of, volume and pricing move around, but something that's under your control, like the cost savings, do you fully anticipate at least half of that is going to fall to the bottom line in 2013?

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

We have complete confidence that that would happen. Now, let me just stop there. We have complete confidence that that would happen.

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

Okay. Moving on to other, you have exited your Chilean deciduous business. You have exited avocados. And yet that generated a $4 million loss for the quarter. When I look at year-to-date results, it's a little over $11 million loss. That compares to a loss of $6 million last year, and income of $4 million the prior year. So that's a pretty large swing for stuff that's not a core business. And you, Ed, in your original comments, talked about focusing on the core, being bananas and salads. I'm trying to figure out what else is left there that could rise up and bite us in other quarters? Or should we expect that to be just a basically break-even line item from here on out?

Ed Lonergan - *Chiquita Brands International, Inc. - President and CEO*

What's left is primarily pineapples, which are sourced similarly to bananas. And which we have skills and capabilities that we think can make that an interesting business going forward. But I think your assumption is a good one. At worst case, we would not want to be in the business if it didn't at least deliver some value.

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

And is that a commission-type business or do you take a lot of price risk on that business?

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

We have a mixture, Heather.

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

Okay. And then my final question for the quarter is, your corporate expense wasn't down that much year on year. Which, given your cost-cutting mode that you're in right now, I would have thought it would be down. How should we be thinking about that going into Q4 and 2013?

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

You mean the segment that is specifically for the corporate piece?

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

Yes. You're showing $12 million and I think last year it was $12.7 million.

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

Right. I think I would like to turn that around a little bit. In any one quarter there might be some unique items that impact comparability. But if you look at the nine-month period for this year, it's down $12 million year-over-year for nine months. And we will continue trying to drive efficiency where we can.

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

So looking at Q4, should I expect that to be more flat with last year, given that it was lower in the first half? Or do you think Q4 will be down year on year?

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

Q4 will be somewhere around flat. Again, there might be a couple adjustments that come through at year end that impact that. But if you look at our overall SG&A, SG&A is down overall, almost $40 million for the nine months ended September 30. And if you look at corporate expenses, it is down 25%, $12 million. 25% for the nine months ended September 30. And I think that gets back to Ed's comment about our focus on making sure that our job in saving costs will never be finished. We'll never remark -- Okay, we're done, it's over. We'll continue driving at this, we'll continue trying to improve efficiencies and eliminate waste where we can.

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

Okay, awesome to hear. Thank you.

Operator

Jonathan Feeney with Janney.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Welcome, Ed. The first question I had was, when you mentioned a target margin for salads of 7% to 8%, that is creditably ambitious. And I wonder what level of expense level advertising spend do you anticipate in that business. In other words, does this transition to private label mean that you are not going to be supporting that business with advertising anywhere near the level of the past?

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

John, I think that's fair to say. We came out in the second quarter that we wanted to focus our advertising, our consumer advertising, in areas and geographies that it would make the most sense to us. And for our business, that really means in Europe where we have brand premium and can support the brand premium. We've talked specifically in North America about reducing the consumer advertising. We still will have trade advertising where it really pays off. But I think, yes, it does mean that we will not have the consumer advertising that we've had the past couple of years. And we will focus on driving efficiencies in the value chain, delivering the service that we can deliver in both our branded and private label customers. And supporting the category through some of our more traditional trade programs than necessarily some consumer marketing.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

That certainly makes sense to me. But I wonder, as you've cut spending, certainly I know spending behind that business has come down significantly already, even before you get into that target margin. Do you worry that the category itself suffers as a whole? Because I'm imaging Dole's not putting a lot of spending behind it. They're relying on their brand halo. We know the category dynamics, as a whole, for bagged salad have been pretty weak the past few years. As you've taken those steps down in spending, have you see the category get hurt? Or do you think we've washed through all that?

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

Jon, I would actually think of it a little bit different way. We're still going to maintain our trade programs. So we're still going to do stuff, promotional material in-store with our customers. We're still going to try to drive awareness that we have done all along. What we are reducing is the more brand-related consumer advertising dollars and investment. And we're doing that for a very simple reason. It didn't deliver the returns that we anticipated. And it didn't deliver the returns we needed to continue that investment. So I would think of it a little bit differently. Not that this reduction in consumer marketing is going to hurt the category, because we're still going to work with our trade partners on some programs regarding awareness and shelf presence. But we're not going to spend in an area, or invest in an area where we didn't generate the returns we needed over the last couple of years. So I don't see it as having an impact on the category or consumption, in total.

Ed Lonergan - *Chiquita Brands International, Inc. - President and CEO*

Mind if I add another quick thing? The other thing, Jon, I think, is in many cases in the United States, the retailers made the choice for the consumer which branded product they will find on the shelf. And so the data we have says the trade spending against promotion to the consumer is critically important to growing volume. And then the work we do on creating innovation that excites the consumer in the category is critical to volume. And so our focus is ensuring we have the right trade programs to deliver significant value to them that they can market the product to the consumer. And then to significantly focus on our innovations that will drive interest from the consumer. Ranging from organics to our expansion in clam packaging, to kits, and trays that we're either launching or have launched in recent months.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Very helpful. Thank you. Just a couple more detail questions. Capital expenditure. I know this is an area where you've historically always provided explicit guidance. But it occurs to me that this disciplined focus on certain core markets, divest and things would lower your structural CapEx needs. If that's the case, can you give us an annual run rate CapEx for 2013?

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

It already has. If you remember, earlier in this year we had guidance on CapEx that was somewhere in the $65 million range. Now we've changed that to $55 million to $65 million. I think you will continue to see us challenge our capital allocation decisions. And make sure that we're pushing as hard on wise choices in the capital area as we are on trying to drive out costs in our base business. So I don't have specific guidance to give you on CapEx for 2013 yet. I think we'll make sure that we have a chance to do that when we address your end results. But you will see the same discipline that we're trying to drive throughout the value chain. You'll see that in our CapEx targets, as well.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

That's great. Thank you. Just one last thing. Forgive me if you already said this. If the euro didn't move from today, through December 31, 2013 -- which I realize the odds of that are nil -- but if it didn't move from today, what would the effect be year-over-year?

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

If it didn't move today. So we were already through the nine months ended --

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Jonathan Feeney - *Janney Montgomery Scott - Analyst*

If it's simpler then through the nine months, would be fine.

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

Through the nine months we've already been impact negatively by $38 million.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

And so it's that simple, then, if the euro didn't move, and forgetting about Q4 for a second, or those periods, you'd be looking at a plus $38 million swing in 2013?

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

Yes. It's in the banana business. It's in Europe. So when you look at our segment results, that almost, in and of itself, brings us back to our 2011 levels by just accounting for the euro. Not quite, but obviously it's significant. And if you look specifically in Europe, their results would have tripled if the euro would have stayed the same year-over-year. So I think we are making a lot of progress on our base business transformation, on our value chain, on efficiency of operation. It is just unfortunate that we've had the euro trading this year that has masked all the progress we're making in our banana business.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Thanks. And while you are making so much progress, what is your target for debt reduction? I'm assuming all this goes -- it seems like there's some potential for some significant improvement in cash flow here. How low does debt need to get before you buy back stock?

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

Let me not answer that last question. We're probably not going to speculate on when we, or if we put in a stock buyback program or anything else from that type of strategic perspective. But I will give you a couple of frames of reference. One, reducing debt and deleveraging and using our excess cash -- the reduction of debt is the number one goal for our use of excess cash. We just want to be clear. I think I repeated it five times in the last call. Ed repeated it this call. I'll repeat it again. We'll be happy to repeat it more times. The reduction of debt is our number one goal with excess cash flow.

Let me also give you, for context -- and this is all information we've disclosed before. If we achieve the target margins that I mentioned, and Ed repeated this period, 4% on bananas, 7% to 8% on salads, that translates roughly to about $175 million of EBITDA. At our current debt load -- if it takes us two to three years to get there, and we'll be paying down debt in the meantime, but at our current debt load and $175 million of EBITDA, that would be right around 3 times cash flow. So that just gives you some context for where we're headed. I mentioned in the last call, we won't mention a specific coverage ratio target or debt level target. But we'll keep pounding away until we get to that level and then see if we need to pound away more.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Okay. Thank you. That's very helpful.

Operator

Carla Casella with JPMorgan.

Carla Casella - *JPMorgan Chase & Co. - Analyst*

I have a couple of questions on the salad business. How much ultimately do you think private label could be as a percentage of your salad sales?

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

Of the category, private label is 25%. Could it be 25% of our business? Theoretically, we're a long way from there. I think what's important for us right now is we go out and be competitive and win private label where it can most help us. And where it can most provide efficiencies in the supply chain where we can most demonstrate our value to the customers. We're fortunate in that we've had a signature win that will start delivering immediately volume improvements in the first quarter of 2013.

Carla Casella - *JPMorgan Chase & Co. - Analyst*

And the win you have this year, does it replace any of your branded business?

Ed Lonergan - *Chiquita Brands International, Inc. - President and CEO*

No.

Carla Casella - *JPMorgan Chase & Co. - Analyst*

Okay. And then when you sign new volumes, either in private label or in branded in bananas or salad, how sticky is that? Is that something where you're assured that for the year? Is it a six month? Is it a multi-year?

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

The contracts vary by region, but in North America where we're talking about in salads it's generally a minimum of a one-year contract. It might go as long as two. And in bananas, generally a year.

Carla Casella - *JPMorgan Chase & Co. - Analyst*

Okay, great. And then I know you just took a question on debt reduction. Have you considered any refinancing plans for the high-yield notes at this point?

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

I will give you the same answer that I gave you last quarter, I think. We constantly are trying to evaluate that. One of the things that we want to make sure we do is focus on our core business and drive cash flow in our core businesses. We do recognize that there's some, let's say, interesting market dynamics for an issuer right now. And we're evaluating that and what that means for us. So that's really the best that we can tell you right now.

Carla Casella - *JPMorgan Chase & Co. - Analyst*

Okay. And then just one last question on the banana business. How much of your gains in volume are regaining contracts that you had in the past versus new volume?

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

Almost all of it is regaining volume we had in the past. So customers like where we're taking the business, like the competitiveness of our new strategy. And have responded positively as a result. But they're generally customers that know us and like the brand.

Carla Casella - *JPMorgan Chase & Co. - Analyst*

Okay, great. And you said that the economics of it is no less favorable than in the past -- or more favorable.

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

Yes. When you combine the efficiency actions that we're taking in our value chain with the pricing that we're building in the contracts, that's accurate.

Carla Casella - *JPMorgan Chase & Co. - Analyst*

Great. Thank you.

Operator

Bryan Hunt with Wells Fargo Securities.

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

Ed, welcome. And I want to thank Carla for leading into my question. You did mention, just reiterate what you just said, that the new banana contracts you signed achieved the appropriate return metrics, with the cost savings baked in. So that implies that you've sold forward some of your cost initiatives. Or should we assume that all the cost savings that you have baked into these new contracts have already have already been achieved? Could you frame up what you've done here?

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

Yes, Let's make sure that we're very clear. What we were trying to articulate is the combination of the pricing that we achieved in these new contracts and the supply chain, and what we've been working on in the value chain, is accretive to Chiquita. We just want to make sure it's absolutely clear. This business is accretive to Chiquita. It makes us in a better state today than we were yesterday.

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

Got you.

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

That's the message that we're trying to get across. Now, we will continue to work on value chain initiatives to try to drive even more value for us as importers. And deliver the value to the customer that we can deliver. But specifically on this new banana volume we want to be very clear that it's accretive to our operation.

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

Okay. Next, when you look at your penetration of head lettuce and private-label lettuce with customers, based on what you're saying, is it just one significant win you've had so far?

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

Several, is the right thing to say at the moment. But the signature win that we talked about is enough volume so that it has a meaningful impact on year-on-year volume growth. And that's where we get the low single digits volume growth from.

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

And then based on the breadth of your customers, I imagine you've had conversations with all of them so far. Is there any way you can gauge the interest, or tell us what they're thinking with regards to their private-label programs versus your offering?

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

I think the key issue here is that private label contracts tend to be slightly offset from what we would normally see in, say, an annual bananas business. So they mature at different times and they run to different lengths. So with all of our key customers, we're having the discussion about our interest in the business, and our ability to serve that business with quality and safety and range. And so we're picking them off as they come through. But at the moment there's only been a few in which we've had an opportunity to participate in RFQs.

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

Does your wash technology play into that discussion, as well?

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

It does, but it depends upon the product.

Ed Lonergan - *Chiquita Brands International, Inc. - President and CEO*

Yes, it's only -- remember, Bryan, it's on a couple of different product in the retail space.

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

Got you. And then, lastly, and, Brian, maybe to be crystal clear, when you look at the $7 million of bad debt expense, and then the other $5 million expense on recall costs, did that all flow through cost of goods?

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

No. $7 million would have flown through SG&A and $5 million through cost of goods.

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

I appreciate your time. Thank you very much.

Operator

Karru Martinson with Deutsche Bank.

Karru Martinson - *Deutsche Bank - Analyst*

When we look at the cash on the balance sheet, I'm trying to get a sense of, what do you feel is the appropriate cash balance here to run the business?

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

We've had that question before. We really look anywhere from $35 million to $50 million as the right level to manage this business on a day-to-day basis. Knowing that we've got some business in Europe, we've got some business in different territories. And we have to have enough money to feed the machine on a regular basis. I think a cash balance somewhere in that north of $35 million -- right around $35 million or north is good for us. We've had it higher, depending on different times of the year. But if you look at core cash we need to manage the day-to-day operations of the business, it's probably right around that $35 million level.

Karru Martinson - *Deutsche Bank - Analyst*

Okay. And when we look at packaged salads, obviously you guys are emphasizing the gains here in private label. We've heard from your competitors, as well. Is this just a category where the brand really doesn't matter to the consumer any more?

Ed Lonergan - *Chiquita Brands International, Inc. - President and CEO*

No, I wouldn't say that. As I mentioned earlier, the retailers in the United States make part of this choice for the consumers. So they tend to stock only one branded player, either ourselves or one of our competitors. And in most cases now are stocking a private label. And there are branded consumers in those stores that prefer to pick the branded product up. So today the two branded players have share ahead of the private-label business on a national basis. I can't give you a picture of the future there, but our objective is to continue to grow this business through innovation going forward.

Karru Martinson - *Deutsche Bank - Analyst*

Okay. And when we look at the recent hurricane, and the storms that we had, has there been any impact that we should be keeping in mind here for the current quarter in terms of whether it's shipping delays or deliveries or lost product?

Ed Lonergan - *Chiquita Brands International, Inc. - President and CEO*

Shipping delays and deliveries, I think, are manageable. We still probably haven't seen the impact of the fact that people couldn't go to stores in the Northeast for a week or so. We don't have any specific calculation yet, but if I give you a frame of reference., If you remember Hurricane Katrina, and when that devastated Gulfport and Louisiana, at the time we had a $2 million impact from some supply. From the fact that people weren't going to the stores. So, again, I want to be clear I'm not trying to give you guidance on what the impact is for this event but I can think of a similar event in our history, and that's the order of magnitude of type of impact it had on us.

Karru Martinson - *Deutsche Bank - Analyst*

All right. Thank you very much.

Operator

That does conclude our question-and-answer session. I would now like to turn the conference back over to Ed Lonergan for any additional or closing remarks.

Ed Lonergan - *Chiquita Brands International, Inc. - President and CEO*

Okay, thanks. And thank you very much for your questions and for joining us today. Hopefully you can appreciate that, while 2012 has been a difficult year for us here at Chiquita, we're optimistic about the next two years. And as I get settled, I look forward to getting out and meeting many of you over the next few months. We look forward to updating you on Chiquita's continued progress throughout the balance of 2012. Thanks again. Have a great night.

Operator

That does conclude our conference. You may now disconnect.
