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CQB - Q1 2013 Chiquita Brands International, Inc. Earnings Conference Call

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OVERVIEW:

CQB reported 1Q13 GAAP net income of $2m or $0.05 per diluted share.

CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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Carla Casella *JPMorgan Chase & Co. - Analyst*

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PRESENTATION

Operator

Good day and welcome to the Chiquita first-quarter 2013 earnings call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Steve Himes. You may begin, sir.

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

Thank you, Aaron.

Welcome to Chiquita Brands International's first-quarter 2013 conference call. On the call today are Ed Lonergan, President and Chief Executive Officer, and Brian Kocher, Chief Financial Officer. Also with us today is Rick Frier, who will succeed Brian Kocher as Chief Financial Officer immediately upon the filing of our first-quarter Form 10-Q.

As previously announced, Brian will become Chief Operating Officer at that time.

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 contains 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 securities laws. Factors that could cause results to differ materially are described in the Forward-looking Statement section of today's press release and in Chiquita's SEC filings, including its annual report on Form 10-K and quarterly reports on Form 10-Q.

And now I'd like to turn the call over to Ed.

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

Thanks, Steve.

Operator

Mr. Ed Lonergan, please check your mute function.

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

Okay. Let me start over. We had a misfunction on a headset.

Thanks, Steve. Good morning and thank you all for joining us.

We are pleased with the first-quarter results we are reporting this morning. The results reflect the benefits of our new focus on our core product lines -- Bananas and Salads -- and the positive impacts associated with the restructuring efforts we've discussed on our last few calls.

We are reporting $39 million of adjusted EBITDA and $23 million of comparable operating income for the quarter, and this despite a $12 million currency hedging headwind in the comparison to a year ago.

For perspective a year ago, we delivered $28 million of adjusted EBITDA and $13 million of comparable operating income. Brian will run through many of the specific variances, but we are seeing positive momentum and remain optimistic across our core product offerings.

These results reflect a commitment our employees have made to deliver against the return to the core strategic choices. We remain convinced these choices will enable the Company to profitably grow volumes in our core portfolios.

In support, we gained customers in both Bananas and Salads in Q1, and productivity was strong across our business lines as we maintained discipline in both our value chain and overhead expenditures.

We continue to make progress against the objectives of our restructuring.

First, with regard to increasing revenue and profitability in our core Bananas and Salads businesses, our results reflect our increased attention. In North America, banana volume increased due to contract wins and category growth within our existing strategic customers. We continue to grow share in responsible ways, and we are aligned with the right business partners.

In Europe, pricing taken at the end of 2012 enabled us to enter 2013 with positive momentum and, in most cases, we are able to maintain prices throughout the quarter. We continue to prioritize price over volume in our key European markets.

And in Salads and Healthy Snacks, we saw strong velocity trends in existing retail and food service customers that enabled us to meet our expectations, despite an extremely challenging supply situation in the quarter.

Toward our objective to drive costs out of the value chain to be more competitive in our core markets, the results of the restructuring have been clear.

The shipping and agricultural practice efficiency actions limited late in 2012 met our expectations in the first quarter, and the results to date are aligned to the benefits we promised in our restructuring plan.

Owned-farm production benefited as planned from implementation of revised ag practices, and our improved shipping rotation significantly improved logistics efficiency year on year.

We are also encouraged by the implementation of plans to align our overhead structure to industry benchmarks. SG&A expense improved 160 basis points year on year, in Q1, to 6.9% of sales, and we remain confident full-year 2013 SG&A spend will remain below the 8% of sales target we communicated last fall.

Toward our objective of evaluating and addressing noncore, unprofitable businesses and minimizing investment and diversification and innovation outside the core, we continue to wind down our joint venture with Danone.

In addition, we have temporarily suspended operations at a Chiquita fruit solutions facility in Ecuador to improve capacity utilization for CFS products. We have identified and are in process of exiting the remainder of our targeted non-core businesses. These businesses do not contribute meaningfully at either top or bottom line, but they represent a distraction for our team.

The progress that we continue to make toward our objectives will manifest in our financial results as we work toward our previously disclosed target operating margins, which are 4% for Bananas at a euro exchange rate of $1.23 a EUR1 and 7% to 8% for Salads.

I'd like to spend a few minutes highlighting certain trends we saw in our core markets during Q1.

Looking specifically at our North American Banana segment, volume increased in the quarter, and our business continues to improve. We continue to win market share in the US based on our quality, service, innovation and brand, while remaining the premium price player in the market.

We've had additional contract wins in Q1 that we expect to add an incremental 1 million annualized boxes to our base. These wins reflect our renewed sales attention on the core, the benefits of our quality and service record, and a more competitive operating cost structure. To be clear, we have not added volume at a price that doesn't benefit the bottom line, and we have no plans to do so.

We have seen lower North American banana prices in Q1 2013 as compared to Q1 2012. Contract renewal pricing was about as we expected. However, there is plenty of fruit in the market, and contrary to most typical Q1s, supply and demand remain generally balanced. This placed downward price pressure on commercial volume traded in the wholesale channel, which represents about 15% of our volume.

We expect supply to outpace demand for the balance of the year.

In Europe, we began the year with improved pricing as a result of contract improvements in our year-end renewals and a relatively tight supply in Q4 2012 impacting the weekly pricing market.

As in North America and unlike traditional Q1s when supply typically tightens, supply and demand remained balanced in the quarter. As a result, we did not see the normal weekly pricing uptick we'd normally expect in the European business.

At this point, the change in supply dynamics has not significantly impacted the financial results of Chiquita. We exited 2012 well, and we have held those prices by prioritizing price over volume.

That said, we are closely monitoring these markets because we anticipate that supply may begin to outpace demand in the coming months, which would create a potential drag on pricing for the balance of the year.

In both our North American and European Banana businesses, the restructuring has produced value chain savings that improve results compared to Q1 2012. Sourcing and logistics expenses declined significantly from both the improved yields on our owned farms, which reduced the need to purchase fruit on the spot market, and the savings and logistics, primarily from shipping. Our improvements in both areas met our previously communicated expectations.

Within our Salads and Healthy Snacks segment, Q1 2013 was a challenging operating quarter. Below-average temperatures in Yuma, Arizona, where we purchase raw product in the winter months, impacted quality of certain raw product salad types and substantially impacted supply across the industry.

For a portion of the quarter, we were unable to supply select portfolio products, including spinach, which resulted in unfulfilled orders. And for most of the quarter, we were unable to support trade merchandising. However, during Q1 and despite the adverse impact of the Yuma weather conditions, we successfully produced and delivered against several private-label contract wins, including the signature win we disclosed at year-end.

As well, we exited contracts covering about 1 million cases that failed to meet our profit expectations and replaced them fully with new business wins promising better mix and profitability.

Ultimately, we were able to meet our volume expectations for the quarter as we experienced strong velocity trends at our existing customers in both retail and food service. Every customer grew on a same-distribution-point basis, excluding the impact of the supply constraints we discussed.

Our retail salad market share stabilized in Q2 of 2012 and has grown over the last six months, despite substantial supply constraints in 2013. Operating income for Salads and Healthy Snacks improved in the first quarter as increases in raw product costs were offset by savings from restructuring activities and deferrals in marketing expenditures.

We also improved our mix profile as a result of new products introduced in 2013.

Our food service business, which is approximately 20% of our Salads and Healthy Snacking segment, increased net sales as a result of both higher pricing and higher volumes. This reflects a continued trend toward more healthier meal options, utilizing more of our vegetable ingredients and healthy snacking options.

Now, let me turn it over to Brian to review our financial results and provide more commentary on the year ahead.

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

Thank you, Ed.

For the first quarter of 2013, we reported GAAP net income of $2 million or $0.05 per David share compared to GAAP net loss of $11 million or $0.24 per diluted share for the first quarter of 2012.

Chiquita reported comparable operating income of $23 million compared to $13 million for the first quarter of 2012.

For the reported period, any adjustments between our comparable operating income and GAAP results are reconciled in a table in the press release. For the first quarter of 2013, Chiquita generated $39 million of adjusted EBITDA versus $28 million in this period of 2012.

Our results continue to be impacted by movement in the euro exchange rate. Although average rates during the period were not significantly different, the settlement of our hedges -- which we entered into in 2012 to protect downside risk for this year -- resulted in a $12 million negative impact to comparable earnings as compared to last year.

Looking specifically at bananas, comparable net sales for the first quarter of 2013 were 3% lower at $505 million, primarily because of reduced volumes in Europe as we continue to prioritize price over volume, the negative impact of our realized net hedge euro position, and lower prices in North America. These factors were partially offset by higher local currency pricing in Europe and increased volume of bananas in North America.

Banana segment comparable operating income was $27 million for the first quarter compared to $25 million in the same period of 2012. Improvements in sourcing and logistics costs related to Chiquita's value chain restructuring and SG&A -- and improvements in SG&A offset the decrease in sales.

For the quarter, North America banana pricing was approximately 3 million -- excuse me, 3% lower, while unit volumes were almost 11% higher, primarily as a result of the previously described volume wins from 2012.

In Europe, local prices were 5% higher during the period, and volumes were approximately 13% lower, as we chose to prioritize price over volume.

Turning to our Salads and Healthy Snacks segment, net sales for the first quarter were essentially flat at $240 million.

Just as we expected, sales volume of retail packaged salads were approximately 5% lower relative to the first quarter of 2012. The quarterly comparison was negatively impacted by the cycling out of distribution lost in the first quarter of 2012 -- as we previously foreshadowed -- and the impact of the raw product situation that Ed discussed above.

The quarterly comparison was positively impacted by the launch of private-label volumes in 2013 and higher velocities in our existing customers.

Additionally, increased sales volume in both our food service and healthy snacking businesses continue to offset the revenue effect of lower retail salad volumes.

For the period, Salads and Healthy Snacks segment reported comparable operating income of $8 million versus $2 million from Q1 a year ago, principally due to the savings from restructuring and exiting non-core businesses, which more than offset increased industry costs during the quarter.

Quickly, related to Other Produce, pineapple volumes in Q1 were stable, although market pricing was down. Sales for the segments were lower relative to 2012 due to our exit from the grape and the avocado businesses in 2012. However, we improved profitability versus Q1 2012 as comparable operating income was flat versus a loss of $4 million a year ago.

We expect Other Produce to remain at approximately breakeven in 2013.

The first-quarter results were a good step in our journey to deliver a solid 2013. We expect 2013 will result in an appropriate glidepath to the 24-month to 36-month financial targets we have articulated over the last several months.

In addition to the transfer from our restructuring, we have certain priorities for the balance of 2013. These priorities include renewing existing customer contracts and adding profitable volume at both existing and new customers, improving pricing in key markets, and completing the transition of manufacturing operations to the Streamwood, Illinois facility on schedule and on budget.

Our expectation for improved results in 2013 have not changed. And important developments that are expected to positively contribute to 2013 include the following -- banana contract wins that are driving US-segment share growth in 2013, private-label salad wins that commence shipments in the first quarter of 2013, the swap of low-value contracts with contracts that have had improved mix in overall profitability in our Salad business, and new wins in our Salad business that will begin to enter the system in Q2, agricultural practices and logistics interventions in the second half of 2012 that met our efficiency and productivity expectations in Q1 and are expected to continue to deliver through the year, ongoing benefits of our 2012 SG&A restructuring, and the consolidation of the Midwest salad facilities in Streamwood that will be completed in Q3 and should begin to drive operating cost savings towards the end of 2013.

We feel good about our ability to deliver against the return to the core strategy, and Q1 begins to give us comfort that the actions are, in fact, delivering as expected. That said, we do see some headwinds in the balance of the year against which we are focusing concerted attention.

These headwinds include our 2013 euro hedge exposure, which at current rates would continue to negatively impact the balance of 2013. Although downside risk has been largely mitigated even through mid-2014, for this year we are hedged at a blended rate of $1.26 per euro.

Banana supply trends out of Latin America are expected to remain balanced with demand through the first half of the year and then are likely to exceed demand in the second half, which presents a potential drag on pricing.

Packaging costs are expected to increase, primarily paper-related costs. And, of course, we need to replenish the variable compensation pools in the Company following several years of missed expectations and low-to-no payoffs.

Considering all the trends, we are not standing still. We continue to seek additional efficiency and productivity opportunities to help mitigate risk and enable progress towards our long-term financial goals. These initiatives include a third-party supported strategic sourcing initiative designed to improve our purchasing efficiencies. We expect to see benefits primarily in 2014, but we will see some gains in the second half of the year as the second half of the year unfolds.

We continue to focus on exiting non-core, non-contributing businesses and product lines.

While we are substantially complete, there are a few additional opportunities, primarily in Europe, that we are winding down.

We have third-party strategic -- third-party-supported strategic work on the value-added Salads category, which is delivering promising insights into our forward business plans, and we will be diligent in improving the efficiencies of our operating structure to ensure we maintain a competitive SG&A overhead.

With all the changes impacting 2013, we want to take the time to again remind you that our earnings profile will look different this year than previous years, with almost 1/3 of our EBITDA being realized in the back half of the year. This reflects the sustained benefits of more efficient operations in both our value chain and operating overheads, which benefit each quarter ratably and help mitigate the financial impact of the excess fruit situation in the industry -- that the industry normally undergoes in the second half of the year.

And in 2013, this also reflects the pacing of new business wins in North America Banana and Salads.

As we have said before, we are pleased with our Q1 results. Although these results are a little better than expected and taking into account the trends we discussed earlier, we have not changed our internal expectations for the full year at this point.

Now, before we answer questions, I'd like to turn the call back over to Ed.

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

Thanks, Brian.

Before we close, I want to welcome Rick Frier to Chiquita. You will be hearing much more from Rick on future earnings calls. Rick joins us as Chief Financial Officer responsible for all aspects of the Company's financial operations worldwide.

With 30 years of experience in finance and operational roles, Rick has a strong background and a proven track record of success across a variety of industries. His experience in leading organizations through turnaround situations and his demonstrated leadership skills are well-suited to help Chiquita implement its refocused strategic direction.

Rick, would you like to add anything?

Rick Frier - *Chiquita Brands International, Inc. - SVP & CFO*

Thank you, Ed, for the introduction.

I'll keep it short today. I'm happy to join the Company. I'm excited about the team and the growth potential of the business. I look forward to meeting our wide range of stakeholders and helping the Company execute on its strategic plan.

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

Great, Rick, and welcome to Chiquita.

In closing, Chiquita's focus in 2013 and beyond will continue to be on driving sustainable competitive advantage in our core products. Our restructuring is complete, and we are seeing the results we expected. We are driving costs out of the value chain to leverage the velocity advantages of our brands with the right value proposition to the consumer and the customer. These initiatives that we've been discussing over the last months support our progress along the path to our long-term earnings targets.

With that update, operator, we'd like to open the call for questions. Thanks.

QUESTIONS AND ANSWERS

Operator

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

Brett Hundley - *BB&T Capital Markets - Analyst*

This is Brett Hundley standing in for Heather this morning. Good morning, gentlemen, and welcome, Rick.

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

Hi, Brett.

Brett Hundley - *BB&T Capital Markets - Analyst*

I wanted to start with some questions on Banana and then maybe move over to Salads. In Europe, the data that we watch shows broad price declines for Q1, yet you guys put up a pretty good number, price-wise, in that area. And you talked about prioritizing price over volume; I was just wondering if you could flesh that out a little bit further and maybe talk about also how some of the regions that you operate in that area might be benefiting you?

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

Yes, Brett, this is Ed. Let me give you a little bit of color commentary.

We -- you know, if you were to look at our European performance in quarter one, we would see about 5% local pricing improvement, about 6% in US dollars, offset by about, call it, 12% or 13% volume decline.

If you look across Europe, our contracted business, which we've said is around 35% of our revenues in Europe over time, held pricing that we had taken at the end of the year, and that's primarily in northern Europe. And the weekly pricing markets in southern Europe, the MED and Middle East would have seen the impact of a robust supply of bananas in the course of that quarter.

If you were to look at the MED and Middle East, we saw about 1% improvement in pricing in the course of the quarter and about a 5% decline in volume. In both southern Europe and in the MED, we chose not to participate at the aggressive pricing in those markets and held our price and took the volume that came with that price premium.

Brian, I don't know if there's anything you want to add?

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

No, I think the whole the only thing I would add, Brett, is that -- that is one of the advantages of having a brand, a consumer-preferred brand -- is that you can hold onto pricing in the market and consumers are willing to pay a price premium on the shelf.

Brett Hundley - *BB&T Capital Markets - Analyst*

Okay. Yes, very helpful.

All right. And so, staying on that, I mean, banana results across the industry thus far that have been reported, you know, they haven't been robust, but they've been decent. And in the face of that kind of outlook language across the industry has been very muted, and one of the things -- you know, Brian, you acknowledged it and Ed, you mentioned it previously -- how H2 supplies are expected to outstrip demand. But, Brian, you acknowledged that's normally the case; that usually happens.

And so I'm just trying to understand, just given some of the commentary that's coming out, is there anything else that you're seeing outside of that kind of normal equation, and more particularly what are your expectations of kind of how Q2 Banana results are falling in relative to Q1?

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

Well, let me start off by just giving you some perspective on how we feel about the quarter.

The fact of the matter is we are happy with the results of the first quarter, but it's one quarter, and we want to make sure that we are consistently delivering. So we're trying not to, let's say, get too excited about over-delivering for one quarter, and we also see some of these trends.

I mean, yes, there is -- I think the first quarter has been a little different than other quarters. There's been enough fruit in the market in the first quarter, and that's not typical in the Banana business. And so to a certain extent, we've been able to optimize the conditions that we've had in the first quarter, but we also know that if there's more fruit in the first quarter potentially there could be more than we expect in the second half.

And I think what we are trying to do is manage the appropriate expectations, because we are building a model that we will consistently deliver over time, not one quarter deliver and then another quarter miss.

So the idea is that we try to deliver consistent earnings over time, and we build a value-chain infrastructure and a cost infrastructure to help us do that. It doesn't mean that volatility will be completely eliminated in our business, but we have put in place the structure and the process to help us manage through the volatility that comes around with operating in a commodity market.

Brett Hundley - *BB&T Capital Markets - Analyst*

Okay. And on Salads, just a quick one. From your new wins that came in Q4, just to confirm, have you began shipping on all the new wins that you talked about in Q4?

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

We've begun shipping end of quarter one against a couple of private-label salad wins, including the signature salad win that we announced in Q4. But those are fairly substantial contracts with a fairly wide range of SKUs. So we pace those shipments into the course of the quarter, and we weren't fully producing until the beginning of quarter two.

Brett Hundley - *BB&T Capital Markets - Analyst*

Okay. And then just one more -- you guys noted deferrals in marketing expenditures in Salads that looked to help profitability, and we were just looking, you know, what kind of expense should we expect later in the year and kind of how that will fall across the quarters?

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

Actually, when we talk about deferrals, it's a very small number, and if you think back to the comments we made around the quarter, we faced significant supply constraints in quarter one in production out of both Mexico and Arizona. And as a result, we weren't able to support significant trade merchandising during the course of the quarter.

And so when we talk to the marketing expenditures, it tends to relate to the merchandising that is scheduled during the quarter. So we would see both the benefit of merchandising going forward but also the cost of the merchandising, and it shouldn't have dramatic impacts on our results from Q2 onward.

Brett Hundley - *BB&T Capital Markets - Analyst*

Perfect. All right. Thanks, guys.

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

Sure.

Operator

Carla Casella, JPMorgan.

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

Hi, you mentioned some QSR opportunities. Is there anything more potentially to drop in terms of potential additional opportunities later in the year, or do you think you've cycled through most of the wins that you were going after?

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

Hi, Carla, it's Ed.

I think -- a good question. I mean, we made a few comments in the discussion that I think we ought to go back to.

We exited several contracts worth somewhere north of 1 million cases to us, that we had in our base year ago, for reasons of profitability. It just didn't make sense to stay in those businesses. And over the course of quarter one, we've replaced that lost business with Fresh Express business that has better mix and profitability going forward.

We continue to look for opportunities to grow business with the customers we have, either through better use of our merchandising funds, better distribution of the range that we have, and chasing business that's out there.

Unlike Bananas, of course, Salads contracts tend to come up at varying times during the year. And so we have a funnel that we've identified, customers that we think are good fits with our business, both in food service and in retail, and we're putting concerted efforts, including top-to-top efforts, against driving those wins.

So we have gone positive in the year relative to not only to the Q1 wins but additional private-label wins in Q2 and some branded wins in Q2 that we don't expect, at this point, to have a significant impact on the year beyond what we've already promised you all. But we continue to see excitement in the market for our return to focus on the core categories.

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

Great. And on the other side, the contracts you've exited, both in Europe, as well as in the Salad business in the US, the lower profitable contracts, are there more to come? Are there more rolling off, or do you think you've done the bulk of the work there?

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

Well, we went through in quarter four of last year an assessment of every contract that we had. And we either took pricing to the customers that were not meeting our standards or we agreed with those customers not to supply them going forward. And so, Brian, I would say at this point we've -- we feel pretty comfortable that the contracts we don't want to play in we are not playing in.

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

Yes, I think that's right. The only thing that I would point out, Carla, particularly in our European banana business is -- remember, about 60%, 65% of that business is sold and priced weekly.

So there are some decisions we will make on a weekly basis to continue prioritizing price over volume. If we can't get the price that we need, it's better for us to not buy fruit, not ship fruit and not sell it, than it is to sell it into a bad market. And so we'll continue to manage that on a weekly basis because, quite frankly, the market is managed on a weekly basis.

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

Okay. And then just one housekeeping -- on your Bananas, how much -- what percentage of your bananas are now grown on your own farms versus purchased?

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

Call it just under 40% this year. I think we've talked in the past somewhere in the range of 35%. We also talked about change in ag practices where we are rejuvenating our farms and changing our de-handing processes, and this year we would project, I think we -- pretty much in line with what we promised the end of last year, about a 15% improvement in productivity per hectare on our own farms. And that will take it to somewhere in the range of 40% of our volume.

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

Great. Thank you.

Operator

Brian Hunt, Wells Fargo Securities.

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

Good morning. I think I can almost see you guys out the window, so. (laughter)

First of all, when I look at Q1, I mean based on your comments, it was a little better than expected. You overcame $12 million of euro pressure sourcing issues in Salad. I was wondering, can you talk about where you exceeded your expectations for the quarter?

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

Sure. I think we exceeded our expectations in holding on to price in Europe. That certainly helped us. We exceeded expectation on productivity in both our own farms, as well as our banana logistics operation. We exceeded expectations on SG&A, and we were also helped by the volume in our North American Banana business.

Now, when all is said and done, I'd also -- and despite the salad growing conditions and the issues caused by some of the weather conditions in Yuma and Mexico, I still think we exceeded our targets in growth on a distribution point -- like-distribution-point basis in Salads. Every one of our customers were up, heading into March when we experienced some of the supply disruptions, and I -- it's not often that you go through and you have to cut back merchandising, you have to have some orders go unfulfilled, and yet overall you still met your volume target for the quarter. So I'd say that's the other area, Brian, that helped us out.

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

It is Ed. I would just add one thing -- I think in salads, if I'm -- correct me if I'm wrong, Brian, but quarter one '13 is the first time we've seen positive growth in the Fresh Express brand since 2007.

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

Yes, correct, yes.

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

And are we talking -- that's at retail, so that is -- and that includes -- and why is that? Is it same-store, or is it because you picked up additional contracts? I mean, what was the -- (multiple speakers)?

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

Q1 is same-store, primarily, and it's driven by velocity improvements within the customers that we already have, based on much smarter management of the business by our teams.

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

As well as the private-label growth?

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

No, this is Fresh Express. (multiple speakers)

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

So anyway, when you look at all the actions with sourcing, logistics, G&A savings, do you believe based on what you've done so far in Q1 and late last year, that your targets remain reasonable, or do you believe those targets are low -- the ones that you gave us on the refinancing?

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

Yes, I think -- you know, what we told you is the 4% in Bananas, 7% to 8% in Salads, was reasonable based on historical performance of the Company and that we thought it would take us 24 to 36 months to get there. We are exactly on the glide path that we promised to our investors, and we feel quite comfortable about it.

Now, you know, Brian mentioned there's headwinds that we are facing that we always face in this industry, and we are spending a bunch of time inside the Company on ensuring that we build contingencies for those headwinds.

And so the strategic sourcing initiative, we are quite excited by that work. We've brought in a firm that I've worked with several times before. They've always helped companies I've worked with to deliver results, and here as well while we are early in the project, we find many opportunities to operate more efficiently going forward. And we'll continue to look at our efficiency as an operating company and ensure that we are competitive in the industry.

So, I'm not ready at this point to take the numbers up. I don't think Brian or Rick are as well, but I think there is more comfort around this table. While one quarter does not a trend make, there's certainly more comfort that what we promised you all in last year and the restructuring and efficiency changes in the Company are starting to bear fruit in reality.

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

All right. And two more questions, and one is just a housekeeping. So -- you all want an incremental 1 million cases in bananas. You noted that you're going to continue to target gaining additional volumes, as well as retaining what you have.

I mean, how do those opportunities taste throughout the year? I mean -- because it sounds kind of unusual that you win 1 million cases of volume in contract negotiations during Q1 or early Q2. (multiple speakers)

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

Remember, most of the contracts in Bananas are annual contracts that are negotiated in the fall and run for the following year. There are incremental opportunities during the year that aren't quite based on the annual calendar, and this just happened to be some of those accounts where we've had a chance to demonstrate or stress our service, our quality, the brand, the power of the brand, and we were able to win some business.

We have a few opportunities that are in the balance of the year that we will continue to manage. But if you -- Brian, if you thought about, I don't know, just as a rule of thumb maybe 75% of the contracts run that annual calendar basis and then the others are dispersed during the year, that that would be a pretty decent rule of thumb for the Banana business. For the Salads, it's much more ratably throughout the year.

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

In your press release, you gave us cash and your availability on your ABL. Is there any way you can just give us your debt structure at the end of the quarter?

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

Sure. So, in our debt structure, we have the senior convertible notes that are at the parent-company level. They are $200 million of par value. They are basically $156 million of accretive value.

We have $35 million in ABL facility. We actually paid down at the end of the quarter about $9 million of ABL borrowings. Remember, we said our number one priority with excess cash is to pay down debt. And then we have the $425 million of senior secured notes at the op co level at well that we issued.

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

Very good. I appreciate your time. Thank you.

Operator

Jonathan Feeney, Janney Capital Markets.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

I wanted to ask first about your performance with Europe elasticity, I mean, to take pricing like that in the face of what's been a tough market on all sides -- and you saw the penalty and volume seemed to have been better than I would have thought. Was the elasticity experience better than you thought, getting 5% pricing with a 13% volume loss?

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

Well, I may change your question a little bit. Remember, we entered into the year -- the fall had pretty tight supply conditions, and we entered into the year with pricing at a high level. And I'm not sure we took as much pricing as we managed to maintain pricing. And so I'd want to be clear and transparent in that.

One is the fact that we entered the year a little bit higher than we expected, but we were able to hold onto that. And as we mentioned to a previous question, it's about service and brand and the consumer preference for our brand in Europe that allows us to do that.

And I think I also mentioned that that was one of the areas that certainly we would have said exceeded our expectation with respect to pricing in Europe.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

But you held on to -- just to be clear, though, Brian, you held onto pricing when others were pretty (multiple speakers) aggressively rolling off that pricing, right?

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

Correct. Absolutely.

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

And I think -- this is Ed -- I think we should just note what we started talking in Europe a little bit earlier in the call, is that about 35% of our volume is on contracted business. We signed those contracts at the end of the last year, and generally those contracts included pricing because we needed that pricing in order to deliver the expectations we had out of that business.

So the real trade-off in the course of the year is in the weekly pricing markets, particularly in the South, where clearly there are more bananas than would normally be available in Europe at this time of year.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Okay. Great. Turning to the North American Salad business for a sec, can you give -- what's the general difference in pricing per unit of volume when you transition business from Fresh Express to private label? What's that difference at the wholesale level, roughly?

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

Our objective is not to transition business from Fresh Express to private label; we already did a lot of that from '08 to '12. (laughter)

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Right. Sure.

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

You know, going forward (multiple speakers) --

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

Everyone else is private label!

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

Right!

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

But your business -- but your business -- maybe I should rephrase that question so Ed doesn't have to. I think that your business has mixed towards private label a little bit because you just got into it, and I'm trying to understand what the difference, just if you were very successful with that, what the price mix effect that would have on your business would be?

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

Yes, Jonathan, I don't know if you remember, but when we went through the year end and went through the Senior Notes offering, we tried to cover a lot of the dynamics of a private-label market in Salads. And it's different than anywhere else in the store, and ultimately if you think about private label from building it up from the cost profile, the lettuce is substantially the same, the conversion cost is substantially the same, the transportation cost is substantially the same.

So more often than not, the wholesale price, the price to our customers is very similar to a branded product when it's like for like. I mean, certainly there are adjustments from recipes, and there's adjustments from -- for blends or kids or something of that nature. But the pricing and the margin profile of private label is similar -- partly because a lot of the gross price we give on the branded side is jointly used with the retailer to help the merchandising or promotional activity.

So when you look at the economic profile, we do not see a significant margin shift, even if private-label volume became more substantial than it is today. And also remember, at our current utilization rates, volume will be accretive whether it's private-label or branded.

So I hope that helped.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

That definitely helped, thank you. And just finally, I know historically you've been careful in what you've said about profitability between North American Bananas and Europe Bananas, but if you -- right now with this shift in pricing, I mean, would you -- at least as it compares to history, is North America getting marginally more profitable relative to Europe right now or --? I had been thinking that up until now, but then you just took this big pricing in Europe, it would seem to swing that pendulum back towards Europe. How should I think about how that profit splits between those two businesses?

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

Well, let me -- we have been careful not to disclose those (laughter) the profitability levels of those geographies, but let me give you maybe something to think about.

If you go back to 2005 -- now this is a way back, Jonathan -- but if you go back and (multiple speakers) --

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Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Oh, I remember

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

(multiple speakers) -- the tariff quota regime and a North American business that -- this is not a very technical term, but stunk. If you go back to that time, you would say the majority of our profits in Bananas were in Europe, very little in North America.

As the tariff quota regime changed and as the structural pricing changes happened in the North American market, what you saw is a little bit more of a crisscross. The profitability in Europe came way down, and the profitability in North American Bananas went up.

I would say one thing that I can tell you is that the revenue mix between Europe and North America is about 50/50. I mean, in round numbers, we do about $1 billion of bananas in North America and $1 billion of bananas in Europe, and that may be a pretty decent proxy for some of the things that you're thinking about.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Okay, great. That's very helpful.

Operator

Carla Casella, JPMorgan.

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

Just a couple quick things, one on the Salad consolidation in the Chicago area facility. Is that already producing, or will that turn on in third quarter?

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

Hi, Carla. This is Ed. We began production in that facility pretty much at the end of Q3, early -- well, I'm sorry, end of Q1. It will take us most of quarter two and quarter three to transition our business. We are basically moving three production facilities and a warehouse facility 18 miles up the road to this new, single facility. And so we're being very careful in terms of how we pace the move of the production lines, the move of commitments to our customers into that plant.

But you can think of it as being substantially completed by the end of Q3 and starting to see the benefits in Q4.

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

Okay. And then you've talked a bit about the third-party strategic sourcing. Can we just discuss why -- which products that you're using that for and kind of the timing of the shift?

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

Well, basically when we look at strategic sourcing, we're looking at every spending pool in which the Company plays, and that can range from lodging and airline travel to paperboard and fuel.

And so at this point, we only kicked off the initiative early in first quarter this year. We've identified our spending pools. The firm that we're using to help us in this process are teaching the skills inside our organization as well, are sharing their global benchmark data. So we've got a pretty good idea emerging of what we think we can take out of the value chain and the SG&A operations of the Company.

And this is good stuff because it's not people we're talking about; it's not the capability to do work. It's simply being smarter about what we buy across the world so that we gain the benefit of our scale.

I'm not ready at this point to tell you exactly what pools we're playing in and exactly how much it's worth, but as we progress through the year, we are going to provide more commentary as we go forward because it will be a key part of our continued effort to get to our long-term goals.

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

Okay. Great. Thanks.

Operator

It appears there are no further questions at this time. I'd like to turn the conference back to Ed Lonergan for any additional or closing remarks.

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

Great. Thanks, all, for your questions and for joining us today. We believe 2013 is off to a good start for Chiquita, and we look forward to updating you on our continued progress through the year.

Thanks, again, for taking time to join us.

Operator

That does conclude today's conference. We thank you for your participation.
