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CQB - Q2 2013 Chiquita Brands International, Inc. Earnings Conference Call

EVENT DATE/TIME: AUGUST 08, 2013 / 1:00PM GMT

OVERVIEW:

CQB reported 2Q13 comparable sales of $814m and GAAP net income of $31m.

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good day, and welcome to the Chiquita Brands Q2 2013 earnings call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Steve Himes. Please go ahead, sir.

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

Thank you, Jim. Welcome, everyone, to Chiquita Brands international's second quarter 2013 earnings conference call. On the call today are Ed Lonergan, President and Chief Executive Officer; Brian Kocher, Chief Operating Officer; and Rick Frier Chief Financial Officer. After today's prepared remarks, we will take question, 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 and 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 10K 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 & CEO*

Thanks, Steve. Good morning, and thank you all for joining us. Our Q2 results show significant year-on-year profit improvement resulting from increased volumes in our core product lines, as well as savings from previously announced SG&A and value chain efficiency enhancements. For the quarter, we're reporting $58 million of adjusted EBITDA versus $40 million in the second quarter of 2012. These results reflect both the single-minded execution against our focus on the core strategy, and the ability to leverage the strengths of our core product brands and capabilities in the current marketplace. We continue to make progress against the objectives we discussed on the last few earnings calls. Our plans to drive increased revenue and profitability in our core bananas and salads businesses are progressing well. Our share of bananas in North America continues to increase as a result of growth with existing customers and from new contracts. Additional contract [wins] were made in Q2 add accretive contribution.

In Europe, we continue to manage our premium banana brand for price, as opposed to volume. We have exited unprofitable contacts, improve realization in our remaining contracted volume, and have steadfastly focused on customers that recognize the service and quality implicit in our brand in a year in which supply and demand have been largely in balance. In our salad business we are reporting the first year of year over year volume growth since 2008. Our business is growing, and we strategically well-positioned as we continue our turnaround. Our solid revenues have increased as a result of volume gains with existing customers, and contract wins in both branded and private label products. Despite volume gains, the profitability of our salad business is off versus a year ago.

Brian will share more of the details, but the reduction is a result of three factors. First, higher than expected transition costs that arose as we consolidate our three Midwest salad plants into the new facility. These costs will impact both second and third quarter salad and healthy snacks results. Second, increased raw product costs that resulted primarily from weather conditions in Yuma, and more recently in broader iceberg lettuce growing regions, as well as higher costs incurred due to unanticipated demand from successful food service customer product launches. Third, short-term changes in a product mix driven primarily by holiday promotional activities during the quarter.

Absent the substantial transitioning quality impacts in the quarter, the salads and healthy snacks business would have performed in line with our plan expectations and ahead of year ago. We believe the action plans we have in place now will mitigate both impacts moving into 2014. We continue to expect the Chicago plant conversion to drive efficiency improvement as we enter 2014. With regard to our strategy of driving costs out of the value chain to be more competitive in our core markets, our productivity has significantly improved versus prior years, and in line with our plan to move $35 million of cost from our value chain in 2013. Owned farm productivity is about 15% ahead of year ago, and in line with our plan, reflecting efficiency improvements implemented beginning quarter four of 2012.

We also continue to see savings from logistics actions implemented in January, and particularly the changes to our shipping rotations and improvements in our backhaul business. We continue to exercise good financial discipline in overhead cost management and capital spending. Headcount is essentially unchanged since our restructuring. In the second quarter, SG&A was 7.7% of sales, down from 7.8% last year. This is despite the fact that the year ago quarter included the release of performance-related compensation accruals that were deemed unearnable based upon first half 2012 results. This year, our annual savings target of $25 million remains on track, and we are rebuilding our performance bonus pools while remaining below our committed target of 8% SG&A.

We have successfully exited or divested a number of non-core businesses and assets identified in our restructuring, and we have remain focused on our core products. While we have mentioned some of those exits in prior announcements, they include the discontinuous of our avocado and deciduous grapevines in 2012 and the divestiture of our European healthy snacking business in quarter two 2013. We also recently reached agreement to conclude the wind-down of our joint venture with Danone with the no additional expense beyond what has been previously disclosed and accrued. While these businesses accounted for $57 million of revenue in our 2012 base, they were unprofitable. And the strategic exits have had positive contributions to our bottom line. Our actions have resulted in elimination of activities that amounted to $6 million of annual negative EBITDA contribution. We remain focused on exiting or divesting several other non-core businesses that provide minimal contributions to our results, and expect this activity to be completed in 2013.

We have as well improved our balance sheet. During the quarter we repaid the $28 million outstanding balance on our ABL revolver. As Rick will describe, this provides us with additional financial flexibility and confirms our commitment to reduce debt as free cash flow improves. Overall, we are pleased with the early results of our strategic turnaround, as reflected in the first half 2013 results. Bananas have performed well. We have reversed the decline of our salad business, and while the salads transition and higher raw product cost impact will continue into the second half of the year, we believe our long-term targets of 4% EBIT in bananas and 7% to 8% in salads and healthy snacks are achievable.

With that, I would like to turn the call over to Brian to discuss our operations and what we're seeing in the marketplace.

Brian Kocher - *Chiquita Brands International Inc - COO*

Thank you, Ed. In our banana business, we have been successful in focusing on the controllable factors of our business and positioning ourselves to take advantage of prevailing market conditions. We have won additional volumes in North America based on the benefits of a more competitive operating cost structure, as well as on our quality, service, and brand. For instance, Chiquita has added volume in certain situations where direct importers have experienced problems with poor quality and longer transit time. Chiquita has been successful in these situations because of our diverse sourcing advantage and experience. We continue to enjoy a premium in the marketplace, particularly in Europe, as customers recognize the quality and service we provide.

While our year over year quarterly volumes have decreased in Europe, as we continue to prioritize price over volume, market volumes improved sequentially in the quarter, reflecting improved consumption as a result of a delayed summer fruit season. Unlike typical years, when we begin to see supply outpacing demand as we move through the summer, supply this year has been hindered by weather conditions in Latin America and Ecuador. As a result, supply and demand are relatively balanced entering quarter three, and pricing has remained stable. We are maintaining our focus on price over volume in Europe, are selling all the products that we have available, and expect equilibrium to hold through the summer.

Sourcing cost for bananas have improved significantly as a result of the value chain efficiency actions that we launched in late 2012. These actions include new stem utilization techniques and the benefits of widespread agricultural operation improvements across our farms. As a result, yields on our own farms have exceeded expectations, which has had the benefit of reducing the overall cost per box of exported fruit, and simultaneously reducing the need to purchase more expensive fruit on the spot market. As Ed mentioned, we are -- we also continue to see savings on logistics primarily from shipping rotation in (inaudible) and improved backhaul efficiency.

Turning to salads, we are reporting the first quarter of year over year retail salad growth since Q1 2008. The overall prepackaged salad segment is growing, and Chiquita's retail salad volumes are benefiting from improved velocity at existing customers, and new customer acquisitions in both branded and private label segments. We have successfully launched supplies to new private label customers, including the signature win announced previously that commenced at the end of the first quarter. We expect this win, plus additional ones in branded and private label contacts, to add approximately 4 million annualized value-added salads cases to our base volume.

Despite commercial success and overhead improvements, certain factors have driven lower than expected financial results in the salads business. We have seen higher than expected cost resulting from strategic investments made in our Midwest plant transition. These incremental costs are expected to continue in Q3. We will be fully transitioned in Q4.

We also continue to experience raw product quality and cost impacts, primarily from disruptive weather in both Arizona and California. Currently, higher temperatures in the summer growing areas are affecting iceberg quality and availability, and these affect our continuing into Q3. 2013 is still the beginning of the transformation for our salads business. Without these one-time expenses, we would be showing solid earnings progress, although the back half of the year we will continue to face the challenges that we have seen so far this year. Nevertheless, we still expect to achieve a run rate EBIT margin of 7% to 8% by the end of 2015. 2013 will show marginal EBIT progress, and we believe 2014 will start to demonstrate the benefits of our strategy, as we cycle through the Midwest plant conversion costs, see that efficiency benefits of this move, and benefit from improved throughput in our plant.

Now, Rick will run through the financial results.

Rick Frier - *Chiquita Brands International Inc - CFO*

Thanks, Brian. With the second quarter of 2013, we are reporting comparable sales of $814 million, compared to $833 million in 2012, a decrease of 2%. Sales would have been unchanged year over year, if not for the $19 million of revenues related to the non-core businesses exited because they were unprofitable. Sales were also reduced $5 million as compared to the second quarter of 2012 as a result of the euro hedges that were put into place to protect downside risk in 2013 during a relatively low euro exchange rate environment last year. For Q2, GAAP net income was $31 million versus $6 million last year, and adjusted EBITDA was $58 million versus $40 million a year ago. This represents 45% year over year improvement in quarterly adjusted EBITDA. We should point out that Q2 2013 results include $3 million of favorability due to timing of certain events that we expected to occur in Q3.

The three biggest drivers of growth in adjusted EBITDA were, one, reduced logistic costs; two, reduced food sourcing costs; and three, increases in North American banana volumes. As Ed mentioned, we also continue to focus on our SG&A expenses. We are trending ahead of our 2013 target, and we are confident that we will achieve the $25 million of restructuring benefits related to SG&A, as planned. The biggest driver in the decrease in SG&A is related to the reductions in positions that were made following the restructuring announcement. Although we have maintained discipline in staffing post-restructure, we do have some spending in other areas that will put some pressure on our 2013 SG&A results.

As we have mentioned previously, we are accruing to fund our bonus program in 2013. In the second quarter, this variance to 2012 was impacted by both the accrual for 2013, and also the reversal of the year-to-date bonus accruals last year, due to the outlook at that time for the balance of 2012. In 2013, we also invest in certain strategic spending that we had planned along with our restructuring. These investments are related to reinvigorating our salad business and improving our purchasing efficiency across our consolidated Company, and they further will help us achieve our long-term margin goals.

Looking specifically at our segments, we are reporting $519 million of comparable sales in our banana segment compared to $533 million in the second quarter of 2012. This represents a decrease of 2.5%, and includes a marginal negative variance related to changes in euro currency exchange rate, net of hedging. The change in sales was a result of lower volume sales in Europe and in the Middle East, as well as lower prices in North America, offset by increased sales volume in North America. Comparable operating income for the second quarter in 2013 was $55 million, compared to $29 million in 2012, as a result of significantly lower sourcing and logistics costs, partially offset by the reduced sales.

In the salads business, sales were $260 million in 2013, compared to $252 million in the same period last year. The increase was largely a result of increased sales in both value-added salads and healthy snacks. Comparable operating income in salads was $3 million in 2013, versus $11 million in 2012. As we've discussed, the lower results were because of the Midwest plant transition costs and higher raw product costs, in part from weather impacts in Yuma and California, partially offset by higher sales. Without the impact of plant consolidation, comparable operating income would've been approximately $10 million.

Looking at our balance sheet, in the second quarter repaid the full $28 million outstanding on our ABL revolver. The debt repayment and EBITDA improvement are beginning to substantially reduce our leverage. Our gross and net leverage ratios have been reduced by 1.6 turns at the end of the second quarter 6.1 times and 5.4 times, respectively. Cash flow from operations was $47 million for the second quarter of 2013, compared to $8 million for the second quarter of 2012. At the end of the second quarter cash and equivalents were $67 million, and the Company had $100 million of availability under its ABL facility, net of amounts outstanding for letters of credit. We like our liquidity position going into the second half of the year when we typically generate less cash than in the first six months.

We have two primary uses of our existing cash position, that is to fund the business, including capital expenditures, and to continue to repay debt. As we look at the balance of the year, we continue to expect that capital expenditures will be approximately $50 million to $60 million, of which 50% will be considered maintenance capital. Depreciation and amortization is expected to be about $60 million. Our gross interest expense, which reflects our refinancing and includes the non-cash interest associated with our convertible notes, should be approximately $55 million to $60 million. Lastly, cash taxes are expected to be around $10 million to $15 million.

With that update, I would like to turn it back to Ed to run through expectations for the balance of 2013 and closing remarks.

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

Thanks, Rick. As I mentioned at the beginning of the call, we're pleased with our results for both the second quarter and the first half of 2013. We continue to see tangible progress from the restructuring, and our expectations for improved results in 2013 have not changed. Despite results in the first six months that were above internal expectations, our overall outlook for the year remain unchanged. This reflects the balance of higher than expected second half results in bananas, offset by additional salad and healthy snacks plant transition and raw product acquisition costs in second half. We remain on our glide path to the long-term target margins and financial results that we have articulated.

Some of the factors we believe will positively contribute to Chiquita's results for the balance of 2013 include banana contract wins that are driving US market share growth, shipping and related logistics efficiencies, balance supply and demand of bananas which is likely to continually at least through the summer, and should support pricing at a time when excess supply typically pressures prices, agricultural practices and logistics process improvements implemented beginning quarter 4, 2012 that are projected to continue to deliver improved results throughout the year, branded and private label wins in our salad business that will result in year over year volume growth for the first time since 2008, and the continued benefits from the 2012 SG&A restructuring. We believe as well a number of headwinds will balance these benefits in the second half of 2013. While you can be assured that each will receive focused concerted attention in the balance of the year, our full-year expectations remain unchanged, despite better than anticipated progress in the first half. These headwinds include the Company continues to implement a substantial change process with the consolidation of its Midwest salad plants. We are spending above plan to effectuate a quality transition in physical line relocations, personnel, and production startups while maintaining customer service in an environment of increased demand, while salad product costs are expected to remain unfavorable as weather continues to impact quality harvest, and currency hedging implemented in 2012 as part of the Company's risk management strategy will continue to negatively impact results. Downside currency risk has been largely mitigated through mid-2014. However, at the current euro currency exchange rate, the 2013 hedges will continue to negatively impact results through the year.

With that update, Jim, we would like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

Certainly.

(Operator instructions)

Brett Hundley.

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

In salads, I apologize, I may have missed this in Rick's commentary, but can you guys, or did you guys give the impact from transition costs versus higher lettuce costs?

Rick Frier - *Chiquita Brands International Inc - CFO*

Sure. On the impact of the facility transition costs, we stated in our Q, $7 million hit in Q2.

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

Okay, thank you. Then, so it sounds like salads maybe continue to trend lower year-on-year in Q3, should rebound some in Q4. You guys are talking about a marginally lower operating margin year-on-year, and then, Ed, I think you said 2014 should start to normalize as you realize ongoing benefits related to restructuring and the market normalizes a little bit. Is that correct?

Rick Frier - *Chiquita Brands International Inc - CFO*

Yes, that's right. We'll certainly cycle out the transition costs that we incurred this year in a pretty substantial change process, and then as we had talked in the past, we expect ongoing benefits from the simplified plant infrastructure in the Midwest.

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

Okay, great. And then last one on salads. Your volume was clearly up nicely during Q2. Can we expect this same type of comparable performance year-on-year going forward? How should we think about the way you've gained volumes so far, and how that will go forward?

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

Yes, Brett. It may have been missed in the prepared comments, but what we tried to do is articulate that. With the private label and branded contract wins that we have had, we are adding, on an annualized basis, now those are phased in over the year, but on an annualized basis, we're adding about 4 million cases of value-added salad. So when you look at that on a business that does, let's call it $45 million, $47 million, that gives you some perspective of the growth.

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

Okay, great, thank you. And then, as I am trying to think about your back half performance, your potential back half performance in 2013 from a consolidated standpoint, you guys named a number of puts and takes. And internally, you said that nothing has really changed. I guess I want to ask the question, do you still -- or do you see a situation where there would be losses in the back half? Or can you paint a scenario where you would be profitable in H2? Can you speak to that?

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

Yes Brett. Let me give you a couple of thoughts. We said in the script that that about $3 million of benefit that we expected in Q3, we actually realized in Q2 due to timing. Earlier, I think on the last couple of calls, we talked about a reshaping of our earnings profile by semester, and that we expected about a third of our earnings to take place in the second semester. I think we're still in the same ballpark. And that is more heavily weighted to quarter four than to quarter three, clearly with the investments we are making in the salad business and the raw product costs situation at the moment. But we would not change that at all, I think, in terms of our guidance. And if you look historically at our business, that would be about right, based on where we have performed in the past.

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

And then last one for me, just from a broad level, you guys talked about a balanced supply/demand environment in bananas. I'm just wondering if you can give maybe, if possible, a longer term outlook for the banana industry? You expect supply/demand to remain favorable, at least through the end of the summer, but if you could address that, at least part. What gives you hope that supply/demand can remain favorable longer than that? Thank you.

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

Sure, Brett. I think a couple of things that we ought to recognize on the call is that this is an atypical year for banana supply. When you think about it, supply has been balanced most of the year. In a very typical year, your demand outpaces supply in the first half, and then supply outpaces demand in the second half. And so we have seen that be rather balanced. And we have been able to take advantage of that condition, where appropriate. So we have stretched our premium in Europe. We have managed to gain some volume in North America, based upon service and quality and some of those non-price factors, and I think we have tried to manage through that as much as possible. We also see, based upon our projections, that through the summer it looks to be fairly balanced, and then the school season starts globally, and the Banana Bible would suggest that demand picks back up again heading into the fall. So longer term, I don't know that we have seen anything that would suggest there's some big structural change in the banana supply condition. Maybe we would say it's too early to tell on that, but we have seen weather patterns change, we have seen reactions to some of the regulatory changes in Ecuador. But overall, we see a balanced supply through the summer. And then I would expect heading into the future, we want to think about it in terms of a more typical year.

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

Thank you.

Operator

Bryan Hunt.

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

Thank you. You all explained part of the reasons for the larger than expected startup costs in the bagged salad facility of $7 million in the quarter. What do think is a reasonable expectation of the remaining investment to get that plant to hit your productivity expectations and quality expectations in the back half?

Brian Kocher - *Chiquita Brands International Inc - COO*

(Inaudible) the way you might want to look at this is you have $7 million for Q2. Q3 will also have cost in there, and then hopefully we think Q4 we will be done. But Q3, I would say, you should think of not quite $7 million, but in the same territory, around that number, is where I think we will fall in Q3.

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

Great, thanks, Brian. Thanks for the context. And sticking with bagged salads, there was another recall, kind of a ghost recall because all of the product's been consumed at this point in time. Do you see an opportunity to pick up volume in the food service channel from your competitor that just had a recall, just given the magnitude of this recall?

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

This is Ed, Bryan. I have been involved in the food business for long time, and food safety is a real always a real question mark about how we should handle it. The reality is, any event in our industry is an event for the industry. And consumers make choices about what they eat based on what they hear and see in the marketplace. We have not been involved in this event, and we do have a substantial investment in food safety standards that exceed the benchmarks of the industry. We also have a substantial food service business, mostly in quick service restaurants, and we do process that product with [freshtrants] which is proprietary treatment chemical. So we believe we are well-positioned in that industry. We certainly have capacity and capability to take on more, but our objective as an industry is to make a safe industry and an industry that the consumers trust, and we all benefit.

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

Two more questions. If you look at CapEx, you're running 20% below budget, if I were to annualize what you have done so far. What do think the likelihood is that you actually hit your $50 million to $60 million target?

Rick Frier - *Chiquita Brands International Inc - CFO*

I think it's a good likelihood. We have projects that are coming here in the back half of the year in salad. We were structured anyways internally with our planned spend, and I think that range that we've provided to you, you should believe.

Brian Kocher - *Chiquita Brands International Inc - COO*

I would just add a couple of things. I think the capital spend that we're doing today is really built around improving the efficiencies of our Company, both in salads and in bananas. So the investments we have scheduled in the second half are in ports and farms and plants that will enable us to make progress against our goals in '14. So I think Rick's counsel is right, we do plan to spend the money.

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

Great. And then my last question. Ed, you alluded to on the last call, and as well as during the refinancing of the notes, that there were additional cost saving opportunities in non-saleables and office procurement and other. What is the magnitude of that opportunity? Is there any way could give us additional color on what you see, that hasn't (multiple speakers) so far?

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

We haven't announced anything. What we did say is that we have brought in some outside resources with whom I've worked in the past to work with our team to think through everything we do from a cost of goods sold perspective, and those teams have been working now for most of two quarters, I guess. We have identified a broad swath of things that we think we can do better in our business. Some things we do quite well. But in most places that we have looked, we have found ways to be smarter in what we buy, how we buy, how we manage our farms, et cetera. The key here is working with our suppliers as opposed to doing something to our suppliers. The objective is to create a win on both sides. As we announce Q3, our expectation will be also give you some outlook for 2014 on what we think to take out of those plans. We call it Project Evolution. You should think about the idea that there is very little that we will realize this year. We have to pay the cost of the resources in order to go do this, which will offset the savings we get in the year. But as we go to 2014 and beyond, my objective is to continue to drive savings year-on-year across the value chain.

Brian Kocher - *Chiquita Brands International Inc - COO*

I'd say Bryan, the only other thing that I would say about the initiatives are we view this as a very aggressive action to get smarter,to get more efficient in our sourcing, because we also know we have some commodity cost increases that will happen. Fuel goes up, agrochemicals based on fuel goes up, paper based on fuel goes up. So we want to make sure that we've got the right infrastructure, the right expertise, and the right process in place to help us manage those commodity change, input cost changes as best we can.

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

Thanks for your comments.

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

Sure.

Operator

(Operator instructions)

Karru Martinson.

Karru Martinson - *Deutsche Bank - Analyst*

Good morning. When we look at kind of the contract wins for North America banana business, normally annualized contracts, I mean, is it reasonable here that we continue kind of these market share gains into the first half of 2014? Is that how you guys are looking at this as well?

Brian Kocher - *Chiquita Brands International Inc - COO*

I think a couple of things. Remember, some of this were the contract wins that we secured at the end of 2012, the fourth quarter of 2012. So some of that will be lapping here in September, and therefore should be a more, let's say even year-over-year variance on those contracts. We have picked up some volume in the second quarter, we picked up some more here early part in the third quarter. Not huge levels, but we continue to picking up volume, which obviously we would expect that to continue into -- a little bit into 2014 as well. So I'm not sure it's enough to change the financial outlook of the business on a material basis. But it certainly is something that will help us drive our business, continue expanding our presence in the retail shelf, and help reinforce the strategic initiatives we are taking to make our operating model more competitive.

Karru Martinson - *Deutsche Bank - Analyst*

Okay. And when you look at contracts on the salad side, can you remind us in terms of how are those structured? Do they flow kind of through the course of the year? Or are there certain periods of time where you guys are actively competing?

Brian Kocher - *Chiquita Brands International Inc - COO*

We are actively competing on some portion almost all of the time. But they do really flow much more ratably throughout the year, the salad contracts, and sometimes they're one year, sometimes they're two year contracts But it is much more evenly dispersed, whereas bananas would be more heavily weighted towards the fall period.

Karru Martinson - *Deutsche Bank - Analyst*

Okay. And just lastly, on the higher yields on your own farms, where do you stand today, and where do think it will go, in terms of your own farms versus spot market sourcing?

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

This is a Ed, Karru. We are self-supplying through controlled farms. I use controlled carefully. We own a significant portion of our farms, but as well we long-term lease a number of farms, and actually provide the leadership and the staffing to run those farms. And so in total I think we're at about 40% of our production on farms that we control in one way or another. The idea here is as long as the box price is lower on a farm that we own than a farm that we buy from, than we prefer to own or manage it. So we are actively looking at opportunities to expand the ground that we manage. The tropics organization that we have in place can manage more hectares that they do today without increasing costs, and so obviously that has a great absorption affect for the Company, but it's not easy to find land. Obviously, every banana company is doing the same thing. So we will be smart about it where it make sense, and the cost of leasing that land or owning that land makes more sense than buying from a third party, than we will look at doing it. But you shouldn't see dramatic changes in the amount of ground that we manage directly versus where we are today. Our competition is probably in the low 50% range of owned or managed farms, and so we're about 10 points below that today.

Karru Martinson - *Deutsche Bank - Analyst*

Thank you very much, guys. Appreciate it.

Operator

Bryan Hunt.

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

Yes, thank you for taking my follow-up. I was wondering if you could tell us what business was sold in Q2? And correct if I'm wrong, the proceeds were about $11 million, is that correct?

Rick Frier - *Chiquita Brands International Inc - CFO*

Not $11 million. It was a small fresh-cut fruit operation that we had operated out of the Netherlands, Bryan. The proceeds were like $3.5 million, $4 million. We can help on where we you got the $11 million, but.

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

Yes, that was the year-to-date cash receipts in the investment line.

Rick Frier - *Chiquita Brands International Inc - CFO*

Okay. There were also --

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

There must have been something else as well.

Rick Frier - *Chiquita Brands International Inc - CFO*

Yes, we had an old distribution plant warehouse that we sold. But the business specifically that we sold in the second quarter was a small fresh-cut fruit operator in the Netherlands.

Brian Kocher - *Chiquita Brands International Inc - COO*

Yes, we had a couple of old production facilities that also with the quarter. So that's why it will show up in the line.

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

Great. And then my next question is, when you look at the business wins, are those Chiquita Brands wins, or are those any your second or third tier brands, like [Console] or Amigo?

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

The wins that we talk about in the banana business are Chiquita Brand. We do a little bit of the second in what I would call our market customers, and that fluctuates a little bit up and down. But when we talk about contract wins, we are talking about Chiquita Brand. And if you think about it, Bryan, that is where we really can compete the best with our service and our quality and the consumer preference. That's where we want to grow, that's where want to drive our business.

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

Great. Those are my only two follow-ups. I appreciate it.

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

Sure.

Operator

At this time, that will conclude the question-and-answer session. I would like to turn it back over to Ed for any additional or closing remarks.

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

Great. Thanks, Jim. And thank you very much for your questions, and for joining us today. We are pleased with what we've accomplished in the first half of the year. We look forward to updating you on Chiquita's continued progress in the balance of the year. Thanks again.

Operator

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