THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CQB - Q3 2013 Chiquita Brands International, Inc. Earnings Conference Call

EVENT DATE/TIME: NOVEMBER 07, 2013 / 2:00PM GMT

OVERVIEW:

CQB reported 3Q13 comparable sales of $725m and GAAP net loss of $18m.

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

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

Brian Kocher *Chiquita Brands International Inc - COO*

Rick Frier *Chiquita Brands International Inc - CFO*

CONFERENCE CALL PARTICIPANTS

Bryan Hunt *Wells Fargo Securities, LLC - Analyst*

Brett Hundley *BB&T Capital Markets - Analyst*

Hale Holden *Barclays Capital - Analyst*

Carla Casella *JPMorgan Chase & Co. - Analyst*

Karen Eltrich *Mitsubishi - Analyst*

PRESENTATION

Operator

Good day and welcome to the Chiquita Brands third-quarter 2013 earnings conference call. Today's conference is being recorded. And at this time I would like to turn the conference over to Mr. Steve Himes. Please go ahead, Sir.

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

Thank you Kayla. Welcome to Chiquita Brands International third-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 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. 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 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 with that I would like to turn the call over to Ed.

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

Thanks Steve. Food morning and thank you all for joining us.

Our third quarter results reflect continued focused execution against our return to the core strategy in both Bananas and the Salads business. For the third quarter in 2013 we are reporting $18 million of adjusted EBITDA versus a $1 million loss in the year-ago quarter. We remain confident in the key points of our turnaround strategy. We have kept the promises made when we announced the restructuring, and we have demonstrated progress against the priorities discussed in the last few earnings calls. We have increased both revenue and profitability in our Bananas business.

In North America we have profitably grown both volume and value shares thanks to velocity improvements at current customers and a new contract wins. North American volume gains remain strong through the quarter and pricing overall was only marginally below a year ago, primarily reflecting the impact of the wholesale segment weekly pricing market. Pricing showed sequential improvement versus the year-to-date overall.

We delivered significant third-quarter favorable pricing variances in our European Banana business. This reflected both improved annual contract pricing in the north and the benefits of balanced supply in the weekly pricing markets through the summer. As we have said previously, we continue to prioritize pricing over volume in both our core European and the Mediterranean markets.

In the third quarter supply and demand of bananas remained balanced longer than typical, well into July and August and we held high-season pricing longer than is typical in the Europe and the Med. Of course, performance in the weekly markets varies with banana supply and this summer presented in a-typical situation in the South, from which we benefited.

Toward the end of the quarter supply moved from balance to excess and in September we began to see the negative impacts of increasing supply and seasonally lower demand on market pricing, but rapidly eroding the realization per box we had enjoyed in the early months of the quarter. Brian will talk with us in more detail about the relatively balanced supply of bananas that existed through most of the first three quarters of 2013 adjusted in September, and we are currently in excess supply situation that we believe will last through most of the fourth quarter.

Our tropical value chain efficiency actions continue deliver as planned, with owned farm productivity up 15% year on year and shipping enhancements performing to plan. We are on track to deliver at least $35 million in annualized savings from these key elements of our turnaround plan. We will always be subject to the volatility of selling agricultural products such as bananas; nonetheless we believe we understand the actions required to react speedily to market conditions and to operate our business efficiently in difficult as well as good banana markets.

Our Salad business continues to build momentum and we are excited to be growing again at Fresh Express. In fact, for the first time since 2007 we are leading retail value-added salad category growth. In Q3 we grew retail value-added salads volume 7.5% year over year driven by improved velocity of existing customers and new customer acquisitions in both branded and private label products. As discussed in our last call, we continue to experience transition costs from our Midwest plant consolidation and increased raw products sourcing costs which have impacted segment profitability. Both of these issues have presented headwinds throughout the year and will impact Q4, although we expect these Salad headwinds to abate substantially in Q1 2014.

Operations at the new Salad of facility are normalizing in the current quarter and the plant is expected to perform to designed productivity in 2014. On the supply side, sourcing quality and yield has been impacted by adverse growing conditions throughout the year, most recently affecting iceberg lettuce. We are deploying enhanced growing strategies in leafy greens to mitigate these kind of agricultural risks. This combined with a substantially improved apple crop, will provide benefits to the Salad and Healthy Snack segment in 2014.

In all aspects of our business we remain focused on disciplined resource management. SG&A and operating efficiency interventions are delivering returns in line with expectations. SG&A spend year to date is 7.7% of sales. We remain on track to deliver out $25 million annual savings commitment and to deliver annual SG&A below 8% of sales, while rebuilding the variable compensation spending pools.

The headwinds we are experiencing from both core businesses will challenge Q4 and will likely result in EBITDA from the second half of 2013 between 20% and 25% of annual EBITDA, versus the roughly 1/3 that we expected in our plan. This contracts to an average of 12% in the most recent five years.

Overall, contract renewals and efficiency actions are progressing as planned. We continue to gain new business in North American salads and bananas and we are better utilizing the multiple grades of bananas produced on our own farms to play more completely in the distribution of our European retail partners. We remain focused on efficiency actions both in our organizing structure and in our operations insourcing and we remain focused on delivering premium value for customers from our premium brands. Lastly we are delivering our 4% target EBIT margin in Bananas and remain on an appropriate glide path to deliver target EBIT margin of 7% to 8% for Salads by the end of 2015.

With that I want to turn the call over to Brian to discuss our operations.

Brian Kocher - *Chiquita Brands International Inc - COO*

Thanks Ed.

As we described on our last quarter, call the banana market we saw unfolding early in the third quarter was more stable than we usually experience during the summer. Weather conditions limited supply from certain countries, including Ecuador, and we experienced balanced supply and demand in July and August.

We delivered 13% year-over-year local currency pricing improvements in Europe in the quarter. This reflects the continued impact of North Europe annual contract improvements versus 2012 and optimized price-volume trade-offs in our weekly price markets due to the balanced supply we experienced in the front-end of the quarter.

As Ed mentioned, toward the end of the quarter we began to see the negative impacts of increasing supply on market pricing and volumes sold. Increased supply came from both Ecuador and Central America, and came in a season when demand typically lags due to availability of alternate fruits.

Demand has also been impacted by turmoil in the Med trading markets, which have traditionally absorbed excess fruit in the second half. In particular, Syria, Egypt, and Libya have been less reliable outlets this year, forcing more fruit into the remaining markets. This has impacted pricing in the Med trading markets to an extent we have not seen since 2009 as well as impacting pricing in core European and North American wholesale markets.

We anticipate that there will be excess fruit in the market through the balance of the year. We expect this to negatively impact weekly pricing markets through Q4. While we have maintained and even stretched a price premium with customers that recognize our brand, quality, and service advantages, the overall weekly trading market in the Med is paying sharply lower prices for bananas today than they were in August, which causes us to revise our outlook for the balance of the year, as Ed mentioned earlier.

Our North American Banana business performed well in the quarter. Chiquita continued to experience significant year-over-year volume growth from existing customers and new contracts. Volumes were up 11% and retail-measured value share is up more than 11% or 360 basis points since last year. North American demand remained strong through the quarter. Our Banana value chain efficiency actions continue to deliver as planned. In addition to increased owned-farm productivity we continue to see savings on logistics, primarily from shipping rotation enhancement and improved back-haul efficiency.

Lastly, this is an important time of year as we renew many of our customer contacts. The process is proceeding as planned. Globally, we are focused on aligning with customers that appreciate our differentiated quality service and innovation and are willing to reward us for value creation. We have exited some low value contracts in the face of competitor discounting, but more than replaced that volume with incremental business at value-enhancing customers.

Turning to Salads, we continue to build sales momentum in the third quarter. The overall prepackaged salad segment is growing and we are now leading that growth. Retail salad volumes increased 7.5% from the year-ago quarter, which represents the second consecutive quarter of year-over-year retail volume growth.

We see volume gains from improved velocity at existing customers and from new customer acquisitions in both branded and private label products. We have, as a result, added approximately 4 million annualized value-added Salad cases to our base volume in 2013.

We are also demonstrating category leadership in launching several successful new kit products and single-serve multipacks. These products were introduced late in Q3 at accretive margins and with promising early sell-through results.

On the cost side, as Ed mentioned earlier, we continued to experience setbacks from our Midwest plant consolidation and raw products sourcing, which have impacted Salad segment profitability. Both have presented headwinds throughout the year. Transition costs at our Midwest facilities are in excess of plan, and Rick will discuss the context of those charges on a quarterly and annual basis.

On a positive note, we have finished all the line transitions. We are beginning to see improvement in yields and labor costs at the facility and each week the Midwest facility relies less on the balance of our manufacturing network to produce its own sales demand. We do expect the plant to operate at plan in 2014 and expect the efficiencies of a single operation versus four separate facilities to enhance our bottom line.

We also expect to incur above planned lettuce expenditures through the fourth quarter due to unfavorable growing conditions in the regions from which we source iceberg. This has impacted yields as much as 30% versus our expectation and contributed to substantial price pressure on the few available excess fields. The Chicago plant transition and the leafy green quality and yield impacts throughout the year have had -- have substantially impacted our results.

While we are not satisfied with our current cost structure in this business, the retail value-added Salads top-line growth is promising. We see improvements in our Healthy Snacking pricing and cost situation and we will cycle out the Chicago transition costs in 2014 and begin to reap the efficiency benefits from improved throughput in our plans. Using learnings for 2013 we also expect to mitigate some of the volatility from raw product supply disruptions thanks to improvements in our raw product planning, regional growing strategy, and varietal plan.

I will now turn the call over to Rick to run through our financial results.

Rick Frier - *Chiquita Brands International Inc - CFO*

Thanks Brian.

For the third quarter of 2013 we are recording comparable sales of $725 million versus $714 million in 2012 an increase of 1.5%. Sales were almost 4% ahead of last year if normalized for $12 million of revenues related to exit of non-core businesses and $4 million negative impact of euro hedges implemented to protect downside risks in 2013 during a relatively low euro exchange rate environment last year.

Q3 GAAP net loss was $18 million versus a loss of $67 million last year. Adjusted EBITDA was $18 million versus a $1 million loss a year ago. The three biggest drivers of growth in adjusted EBITDA in the quarter were higher pricing in our European banana markets, reduced banana value-chain costs, and reduced SG&A expenses. EBITDA would have been higher without the impacts related to the Midwest plant consolidation, which decreased profitability by approximately $7 million and higher normal costs associated with Salad's raw product supply.

As Ed mentioned, SG&A restructuring benefits continue to be recognized. We are confident we will achieve the $25 million of SG&A savings we committed in our plan. Third quarter SG&A at 8.4% improved 140 basis points year on year. Year-to-date, SG&A represents 7.7% of sales, a 100 basis point reduction and we remain on track to deliver SG&A below 8% on sale for the year.

Looking at our segments we are reporting $458 million of comparable sales in our Banana segment compared to $446 million in the third quarter of 2012. This represents an increase of 2.6% and includes approximately $6 million of positive variance related to increases in euro exchange rates net of hedging losses. The change in sales reflects higher local pricing in Europe and higher Banana sales volumes in North America, partially offset by lower volume sales in Europe and the Middle East.

Comparable operating income in the third quarter of 2013 was $20 million compared to a loss of $2 million in 2012. The increase was primarily the result of higher sales and lower logistic costs.

In the Salads business, sales were flat compared to Q3 of last year at $239 million. Higher volume sales of retail value-added salads, were offset by lower processed fruit ingredient sales in the quarter and the exit of a European Healthy Snacking business at the end of the second quarter of 2013. Comparable operating loss in Salads was $5 million in 2013 versus $1 million of income in 2012. As we discussed, the decline that resulted from Midwest plant transition costs and higher raw product cost, driven primarily by adverse growing conditions.

In Q3, plant transition costs were approximately $7 million. Q4 transition costs will be in the $3 million to $4 million range and we expect by the end of 2013 we will have incurred approximately $19 million of transition expenses due to this consolidation. Without the impact of the plant consolidation comparable operating income in the third quarter would have been approximately $2 million.

Turning to our balance sheet, we show a moderately increased net debt level resulting from reflection of capital reach impact of the new plant. Despite this LTM, EBITDA improvement continues to reduce our leverage profile. At the end of the third quarter, our gross and net leverage ratios were 5.3 times and 4.7 times respectively, compared to 7.2 times and 6.6 times at the end of 2012.

Cash flow from operations was $29 million for the third quarter of 2013, compared to zero for the third quarter of 2012. At the end of the quarter, cash and equivalents were $72 million reflecting our strong focus on working capital efficiency. The Company had no borrowings under our ABL revolver and $88 million of availability net of amounts outstanding for letters of credit.

We would like our liquidity position as we approach the end of the year. As you are aware, at this point 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 to the completion of the fiscal year, we expect that capital expenditures will be in the $50 million range to $55 million range, of which half would be considered maintenance capital. Depreciation and amortization is expected to be about $60 million-$65 million. Our growth-interest expense, which reflects our refinancing and includes non-cash interest expense associated with our convertible notes, should be approximately $55 million to $60 million. Lastly cash taxes are expected to be around $5 million to $10 million.

With that update, I would like to turn it back over to Ed to run through certain expectations for 2014 and closing remarks.

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

Thanks Rick.

As I mentioned at the beginning of the call, the Company remains focused on its return to the core strategy and on the basics of operating a branded commodity produce business with excellence. We continue deliver on our promises and the benefits of the restructuring initiative that we've produced. Improved results should continue in the fourth quarter. So as you have heard there remain significant risks in each of our core markets.

Key elements of the Company's plan should position us to remain on a glide path to our 36-month EBIT targets, again in 2014. These elements include disciplined contract renewals and acquisitions with continued benefits from customer acquisition in North America and focus on prioritizing price over volume in Europe; an accelerated pace of core innovation, especially in the Salads business in 2014; ongoing focus on owned farm and manufacturing plant productivity enhancements; continued discipline in SG&A expenditures; sourcing partnerships with key Chiquita suppliers to build efficiency enhancements in the value chain; shipping partnerships and rotations that drive efficiencies in bunker fuel and cost per box.

Cycling out of the substantial 2013 Midwest plant transition costs, and a portion of the weather-impacted in salads and healthy snacking raw material impact; capital spending in the same range as 2013, with the majority focused on farm, port, and plant productivity enhancements. Certain of the benefits of these elements will be offset to some extent by labor and paper-driven raw materials inflation in both Bananas and Salads; salary employee pay and healthcare benefits inflation; and by strategic marketing investments in both salads and bananas that support our premium pricing and volume growth targets.

Earlier this month I celebrated my one year anniversary with Chiquita. I believe as firmly today as I did in the power of our return to the core strategy, and I am very proud of the hard work our global team has done to execute against it. Chiquita is a different company today than it was a year ago. Over the last 12 months we have revitalized our core brands, exited distractions, kept our promise to deliver a more efficient value chain and overhead cost structure, and improved our debt position.

We are excited to have achieved our target operating margin in bananas in year one, and to be delivering growth and innovation in our Salad business. We continue to have a clear picture of what we must do to execute our strategy, reduce our leverage, and remain on the appropriate glide path to achieve our long-term performance targets.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Bryan Hunt, Wells Fargo Securities.

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

Thank you for taking my questions. Good morning.

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

Good morning Bryan. How are you doing?

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

I am doing great. First I would like to check my algebra. Using your 20% to 25% second half EBITDA contribution to the whole year, you know, I am backing into a number that would imply Q4 is roughly in the $30 million range. Does that -- does that fudge with your numbers as well?

Rick Frier - *Chiquita Brands International Inc - CFO*

Let me take that one. You know, with -- your number is high -- with -- your calculation. I think again, what we are saying is if you take our first half number EBITDA, which is -- publicly we stated (inaudible) and you have a range of the back half being 20% to 25% and you can do the math and I will circle around a range for you that way. But your number is high.

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

Got you.

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

Just to clarify, Brian, we said that second half EBITDA will probably be 20% to 25% of the total. Not fourth quarter.

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

Right. Yes. I think I was using fourth quarter. Thank you. And then my next question is, when I look at Q3, can you give us an idea of what the impact was to cost from raw materials in the salad business? You gave us the start-up cost.

Rick Frier - *Chiquita Brands International Inc - CFO*

Yes. On raw materials, we do not specifically want to call that out because it is typical through a year that we have issues with raw product cost. We do think it is higher than normal, but we do not like to separate that out.

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

And just a point of clarification, on the start-up cost, did you say it was $19 million for the year on the transition in the Midwest facility or was that over last year and this year?

Rick Frier - *Chiquita Brands International Inc - CFO*

Correct. It is $19 million over the year and that is over last year too. $19 million.

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

All right. So if I kind of bridge $19 million of start-up and consolidation cost in the Midwest plant and an $8 million benefit that you all projected previously. I mean, is that a good bridge to next year to think that you have potentially $27 million type of benefit as you transition into 2014 just on the Midwest salad facility?

Rick Frier - *Chiquita Brands International Inc - CFO*

Well, I think you are absolutely right on the $19 million. That is going to cycle through. We may bleed over a little bit in Q1 with some cost, but not much. Our goal is to get everything transitioned here in 2012. As far as the efficiency number, we did put out $8 million before, and we need to see the plant up and running in full capacity, fully integrated to make sure that that number sits. So what we could commit to you is to come back to guys back in the next quarter and give you that number of efficiencies for 2014.

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

Okay. And then --

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

I think for sure we operated three separate manufacturing facilities and a separate distribution center in 2012. Today we operate a single facility and you know, it stands to reason that the efficiency of operating out of one plant versus three plus a DC is going to help our P&L next year. But as Rick said, I think it is important to see the plant work as we have gone through the transition and then we can come back to you with the numbers.

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

All right. And then, Ed, my last question -- I've hounded you on this for the last couple of quarters -- you have said there's other opportunities to reduce cost outside of the exercises that have been gone through so far, particularly on the corporate side on things that you all do not sell, in terms of salads and bananas. Can you give us an idea where you are in that process and maybe with the magnitude of savings maybe for 2014?

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

Sure, Bryan. We have been running a strategic sourcing project we call Evolution for most of the year now. And we have looked at every spending pool we have corporately with the exception of bananas and leafy green lettuces, which we of course are procuring in cost of goods. In most cases we have found smarter ways to work with our suppliers to take costs out of the value chain for both they and ourselves. We have a couple of big negotiations in process right now, one on inland freight on logistics in North America and the other in our liner board and box businesses. And frankly those are the two largest pools that we have and we do not have conclusions yet in either pool.

So while we have made progress on many of the smaller spending pools, whether that's films, cleaning and sanitation, plants, ingredients for our salads, until so we get through those two major negotiations, it will be hard for us to give a number for next year. We will have it done, of course, this quarter but we won't have final details until our next call.

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

I really appreciate your time. I will get back in the queue. Thank you.

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

Thanks.

Rick Frier - *Chiquita Brands International Inc - CFO*

Thanks Brian.

Operator

Brett Hundley, BB&T Capital Markets.

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

Hi. Good morning gentlemen.

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

Good morning Brett.

Rick Frier - *Chiquita Brands International Inc - CFO*

Hi Brett.

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

Just on your last comment there regarding freight and liner board, you still feel confident, however, given that you are going to be on a glide path towards your expected margin goals in 2015? And, A, can you confirm that? And then just B, can you delve further into -- you've named a few things -- but you can you delve further into the confidence that you have in gliding toward those salad margins by 2015?

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

Yes. Sure. We are, as we said in the script, we are very confident in our ability to deliver our glide path over the 36-month period of the plan. And obviously that has moved faster in bananas than it has in salads, partially because we are in a major change process in the salads business at present.

You know, I think as we think about salads going forward, there's a few things that we look to in order to deliver our glide path. One is to improve utilization in our facilities. So as you know all of our facilities were underutilized as we entered 2013. We have disclosed that we have picked up about 4 million incremental value-added salad boxes during the course of the year. We continue to chase new private label and branded salad businesses and we have been quite adept at holding the business that we have. So we feel strongly that we will see improved utilization in our facilities moving forward. So we already run the shifts, being able to drive more throughput through the facilities during those shifts is the primary enabler of our plan.

The second is we are continuing to make structural -- infrastructure investments in our plants that improve our SG&A efficiency in those plants and our throughput. And we are shifting our capital spending from the other stuff that we worked on over the last number of years in non-core businesses to make our core more productive. So that will continue to give us benefits in cost of goods sold. We are also working on improving collaboration with our suppliers. So through Project Evolution we have looked at every spending pool that we have, sat with our suppliers who for the most part have been with us for a long, long period of time and thought about smart ways to unwind the entire value chain and look for operating efficiencies for both of us in that value chain and then share the benefits. And then I think the last bit is we are very excited about our acceleration of core innovation. We have launched more new initiatives in 2013. Bryan, you can help me, than we did in the last three years.

Brian Kocher - *Chiquita Brands International Inc - COO*

Combined.

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

Combined.

Brian Kocher - *Chiquita Brands International Inc - COO*

In products SKUs.

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

We -- many of those SKUs just hit the market in September but they are topical SKUs for consumers. They have the right greens that they are looking for, like kale for example, chop kits that are hot at the moment and some new to the market innovations like salad bags that include two conjoined packs. So the consumer can open one, use it today, and save the second for tomorrow and maintain the freshness of the salad. So we are excited about it. We have a very strong plan that we have shared with our customers for next year. And we are going to continue to focus on driving value and volume through innovation.

Brian Kocher - *Chiquita Brands International Inc - COO*

Brett, the only other thing that I would add that gives us a different perspective this year and confidence in achieving our glide path is this is a growing business. This is now the second quarter in a row that we have had year-over-year volume growth. This quarter was really impressive with 7.5% volume growth. We are growing our market share and as Ed mentioned, having that growth provides a lot of advantages to our customers, to the consumer, to our own value chain and utilization. And I think that is another very promising sign of our ability to achieve our glide path in salad.

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

I appreciate the comments and, Brian, is there -- is there anything, category wise -- any risks related to the category that concern you guys at all?

Brian Kocher - *Chiquita Brands International Inc - COO*

Well, that is a pretty broad question. But let me -- the category is growing, and then, we are leading the category in growth. So those are two positive signs. We are also reestablishing our reputation as an innovation leader. So Ed mentioned some of the areas that we are innovating and we have another robust pipeline of product launches that are coming out in the first half of 2014. To hit on the hot areas. If you look at the category in total, organics is an area that is growing and continues to grow. We are the fastest growing organic company -- organic salads provider in the category. Again, off of a small base. So we need to put that in perspective, but we are growing faster than anybody else there.

So I think from a category perspective, you always have risks in the category on growth and things of that nature, and we put -- detail those in all of our forward-looking statements and risk factors, but importantly for the category, it is growing again. We are leading the growth, and we have got a really robust pipeline on innovation and customers are voting with their wallets. So we are growing in new acquisition -- customer acquisition both on the branded and private label side. So that is how I would look, really at the categories.

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

But I think I had one more thing that probably addresses Bryan's question a bit as well. As we look ahead, weather impacts this year certainly had more impact on our business through the year than we have seen in past. Both in bananas and in salads. And specific to the salad business, we see water availability and weather impacts as something we will have to live with going forward. So one of the things we are doing to address that as we move forward is to reshape our over-plant strategy relative to the needs we have for leafy green lettuces during each quarter and planting cycle, and ensuring that we have enough extra product so that we can deliver the quality we want to at the price we want to our customers and consumers. And then where we grow is also an area that we have put some quite focus to over the last year and will continue to morph our regional growing strategy to give us more flexibility and more protection from weather events that hit primary growing regions today.

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

That is helpful. I appreciate it. Just -- last one on salads, so -- you may have just answered this, Ed, somewhat. The $7 million transition start-up costs, very similar to Q2. You also had some slight raw product type activity in Q2, but clearly the magnitude of the impact in Q3 was bigger than we had expected. So how do I think about that going forward? It's going -- going forward it is going to linger in Q4. But if I back into what I think the number was for Q3, are we going to have that big of a magnitude again in Q4 or is some of the actions you have taken should mitigate that somewhat?

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

Well, let's talk a little bit about the plant first and then I can have Brian talk a little bit about how we are handling the ag-op side. There are four areas that we are tracking closely at this Streamwood start-up. In Q3 of course we started the quarter with only about, I think, a third of our lines actually moved into that facility. By the end of Q4, we had installed the last lines, had gone through the start-up qualification process, and were producing salads.

There are four areas that we have been tracking: productivity, yield, labor, and waste. In the course of quarter three we saw improvements in productivity and yield, so of the lettuce coming in, how much is going out and how much are we getting out per machine per minute? That impacts the amount of cross-stocking in that we were doing from other facilities to support the plant during the start up. Less cross-stocking is a good thing because that obviously has a transportation cost attached with it to move it around the country. So we see productivity and yield both moving toward the targets that we anticipated out of this plant as we went through the quarter. We still see some issues with labor and waste. From a labor perspective we have more people in the plant manning those lines than we would have preferred to have at this point in time and that is what is impacting Q4. And a little more waste in the process than we would have preferred. I think Rick said in his comments it could be $3 million to $4 million impact in the quarter.

As we look at our productivity and planning cycles through the end of the year, we see those numbers moving as well to target. And so that is why we have said there might be a little impact in Q1 going forward out of that plant but we are assuming that by Q1 we get to our plan and then we work on efficiencies in the plant both in process and in lines so that we start to move toward our long-term savings objectives.

On the ag-ops, Brian, I don't know if you --

Brian Kocher - *Chiquita Brands International Inc - COO*

Yes. I think on the ag-op side we are experiencing some growing conditions now and have been probably since the middle of October. I would expect that that would last through the end of November. That will put a little bit of pressure on fourth-quarter results. As we mentioned in the prepared comments, we are using those learnings to make sure that we take some actions for 2014 to help offset the risks of those raw product events. So we are addressing our over-plant strategy in terms of providing a little bit of insurance volume to focus on quality and service availability.

We are changing both the timing and the growing region to help us have better managed transitions through different seasons. We are looking at variety plantings to ensure that we are matching the best varieties with the right microclimates to help again with yield. So we have a focus on yield in our agricultural operations for 2014. And I would expect you would start to see some of those benefits in the first quarter and some of the protection against raw product events.

I mean, you know Brett, it is hard to say this but we actually started some of that in the middle of the year. And we had some benefits of that already. For instance, not many people know there was a hail storm in Denver that wiped out a lot of acres for us. We actually did not have a blip because we had already increased our over-plant strategy to manage that. So you will see us doing -- being of little bit more aggressive in that area. And the cost of planting acres for harvest 90 days out is a fraction of the cost of trying to buy acres for harvest tomorrow, so we are tying to be a little bit smarter in terms of the planning process as well.

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

Understood. And then, Brian, I just have two quick ones on banana. I am just curious to get your thoughts on the supply commentary and, Ed, you mentioned as well just as far as oversupply, lingering well into the remainder of Q4 but then that things could improve. And I just wanted to hear your thoughts on what brings about an improvement in supply and demand? Is it just that as we move into Q1 we start to enter a traditionally better period demand wise. Are you seeing something from a supply standpoint that we are not? Are you seeing something from the Med-Middle East market that we are not seeing? If you can just touch on that, it'd be helpful.

Brian Kocher - *Chiquita Brands International Inc - COO*

Sure. So let's go back a little bit. Excess supply is nothing new. In this period of time with the banana world, excess supply is not new. In fact, we plan for excess supply most of every year so that we have volume available in the first half and it creates a little bit of excess in the second half. So it is not a new phenomena and the industry typically has reacted in a way to manage through that.

There are some root causes. There is higher demand in the first half of the year associated with cold weather, weather, the lack of competing fruits, the school season starting back up, so there are some things that drive demand in the first half of the year. There is also some natural production yield curves that increase supply in the second half for certain sourcing markets. So you have a bit of a mismatch that goes along with that. That is all standard and happens almost every year in the banana world. If you check the banana bible, it would say those facts.

If you look more specifically at this -- and let me just also verify -- we have a little less excess supply then we planned for. So just to give you some perspective on what we were thinking and while during the first part of the year we did have some balanced supply, if you remember, we were always talking about -- but it is too early to tell if there's structural change and we were not changing our year-end guidance because we knew that there was some excess supply that was coming and we were not quite sure of the market impact. So that is the broad-based picture that I think is important to ground any discussion on excess supply.

The other things that I would talk about, related to what we are seeing now is, I would say we are seeing a firming of the market in the Med. Not a correction, not a turnaround, but we are selling bananas this week a little bit more than we were selling two weeks ago. We -- even our own production yield curve would suggest that our own excess fruit starts to dwindle now and -- with less of an impact going forward. So there are some signs that we see in the market and some signs we know from our own production cycles. And we do expect, according to the banana bible, I will say, we do expect that demand starts to increase in January as weather turns a little bit cold across the US and North America, some of the competing fruits go out of the market, you will see some of the demand pick up. And that is why we are talking about, yes, we see it in the fourth quarter, yes it has had an impact on the industry, we believe we have the ability to manage that because we have a premium price brand, which allows us to stretch our premium a little bit and we have variability in our system.

So we have a shipping configuration that allows some -- that does not force us to sell into bad markets. We have a little bit of variability so we can make choices on whether to sell. And each box that we sell during an excess period, we evaluate for the way to maximize cash flow. Do we sell it in the Med at a depressed price? Do we try to trade it in the tropics to someone else? Do we transition it to our puree business to make raw product for puree? They are -- each box, and every week we go through that analysis to maximize the cash flow that we are going to return on every box.

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

My last question is very quickly, Brian, you talked about -- or you guys talked about globally aligning with customers in the banana segment that appreciate value. You talked about exiting low-value contracts and picking up value-enhancing contracts. You have long talked about price versus volume. You know, from the very definition of the word global, can I assume that you are following that strategy whether you are in North America, Europe, etc?

Brian Kocher - *Chiquita Brands International Inc - COO*

Yes. Yes.

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

Thank you.

Operator

Hale Holden, Barclays.

Hale Holden - *Barclays Capital - Analyst*

Thank you for the call. I have two quick ones. You mentioned, in order to hit the salads margin targets for 2015, would require kind of an increase in volume because you already have the manpower on the lines. I was wondering how much volume you had to see going through the plants from where you are now or how much excess capacity utilization you need to absorb to get to those margin targets?

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

Yes. Maybe -- this is Ed. I ought to just clarify for a minute. We have room to add people to our plants if that was necessary. Today we have the right people -- amount of people to manage the lines for the volumes that we have. But the plants that we have were designed for higher throughputs than we are currently delivering and you can see that based on the salad results over the last four or five years.

So what I was trying to get across is we want our sales folks to sell more because we can put more through those facilities without spending a lot of money on capital in order to make the facilities more efficient. So it really is the confluence of many things that come together in order to deliver those targets, getting throughput in the plants is just one of the key things we wanted to highlight.

Hale Holden - *Barclays Capital - Analyst*

Got it. And the second to the last question from us is, you had -- if you could talk a little bit more about the North American contract wins that you are getting. Are those coming sort of broadly across the industry or are you capitalizing on one specific weaker competitor. I was kind of curious where you are gaining share from.

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

Are you talking salads or bananas?

Hale Holden - *Barclays Capital - Analyst*

Bananas. Sorry.

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

Okay. In -- you want to take it?

Brian Kocher - *Chiquita Brands International Inc - COO*

Yes. I think in bananas we're -- we have gained some share in the Northeast. We talked about that as of, even the last year at about this time. We have gained share in the Northeast that's carried forward through year. We have gained share in some other spots but importantly, we have also gained share with existing customer and velocity at existing customers. So my response would be, we are gaining share in customers that appreciate innovation, quality, service availability. We have gained it across several regions in the Northeast, was a big win for us that started in the fourth quarter of 2012 and has carried forward. But we have gained it across the spectrum.

I think as Ed and I confirmed a few minutes ago, the important part for us is making sure we align ourselves with customers who appreciate quality, service, innovation. We have the right value proposition for them. And work with them jointly to create value and to grow. So we have many efforts with customers to help them grow their category and we start to see some of the benefits of that as well. So yes there have been some new customer acquisitions. I would not discount the growth we are having in velocity with existing customers either.

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

I think what we have been consistent saying all along is the 10%, 11% growth you see in banana volume in the US consistently through this year was not achieved by cutting the price.

Brian Kocher - *Chiquita Brands International Inc - COO*

Correct.

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

It was achieved by delivering superior quality, superior service, and the right innovation and as we are going through the renewals into next year, we are never the lowest priced guy in any contract renewal discussion that we have. And so in order to win the contract we need to win on the basis of quality, service and innovation. And there are a couple of instances this year where we have exited contracts that we did not think were valuable to us long term but have more than offset those exits with new contract wins as we go into 2014 that are at the right values for our company.

Hale Holden - *Barclays Capital - Analyst*

Excellent. Thank you very much.

Brian Kocher - *Chiquita Brands International Inc - COO*

By the way, it works the same way in the salad business.

Operator

Carla Casella, JPMorgan.

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

Hi. Actually to that same point you just made, it sounds like you are really focusing on building more of a premium brand in the US like you have in Europe. Can you talk about what the spread is between your pricing and the average market in Europe and then what it is in the US?

Brian Kocher - *Chiquita Brands International Inc - COO*

Well, let's -- yes. We can cover some of that because some of it is publicly traded. But I want to make sure that I also clarify one thing. We believe that we have and have had for a long time a premium brand in the US. Probably not as big as some of the premium that we see in Europe, but we believe for a long time we have had a premium and as Ed mentioned, there is not a contract renewal process that we go into that we are the low price provider. We do charge a higher price based on the service and the quality and the innovation that we can provide.

If you look at some of the publicly available data in Europe, and the best way to do it is look at the retail price that you will see, there are times when we're -- let's say between 15% and 25% premium versus another competitor in Europe. And you can see that on the retail pricing. If you look in the US, you can also see on retail pricing, a premium. We probably, on retail pricing data from IRI or the Perishable Group, you might see a price difference that is somewhere in the 7% to 9% range. So again, those are all retail price data points. It is all public. But we really try to reinforce the premium brand, the premium consumer preference. In the US consumers prefer our brand 2 to 1 over the next competitor. We really try to reinforce that with the quality and the service and the innovation that justifies a price premium.

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

Okay. Great. And on the private label front, how much of your business now is private label versus branded?

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

In bananas, virtually no private label. It is generally our second label fruit, Consul or Amigo. In salads about 60% I guess of the 4 million incremental cases would be in the private label business, about 40% would be in the branded. So overall it is still a very small portion of our total value-added salad business. But we like it. We like the business that we have picked up. We believe we are delivering the quality service and innovation expectations of those customers and so we anticipate we will grow both branded business and private label.

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

Okay. And then are there any more contracts that you are evaluating -- larger contracts for exit? You mentioned you are still working for gains and some of the gains you have made but are there any others you are considering exiting?

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

I think we are pretty much through that process, both in Europe and in the United States at the moment. We are still obviously in the process of negotiating our contracts for next year in both regions. But generally the customers that we have, our customers that we think share our view that the best quality greens and the best quality bananas are what they need to provide to their consumers and they are willing to pay the premium in order to get that.

Brian Kocher - *Chiquita Brands International Inc - COO*

And they sell the best and therefore the whole entire chain is maximized.

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

We can demonstrate a clear volume advantage, value advantage to our customers across the world.

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

Okay, and then just one housekeeping, what percentage of your business, say is food service versus retail?

Brian Kocher - *Chiquita Brands International Inc - COO*

In our banana business, the food service aspect is irrelevant. In salads, we probably have about 20% of our overall business that is food service.

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

Okay. Okay great. Thanks.

Operator

And we will take our final question from Karen Eltrich with Mitsubishi.

Karen Eltrich - *Mitsubishi - Analyst*

Thank you, as you mentioned you have a very robust pipeline of new products and current products in the salad category. What is your thoughts with regards to marketing? What do you think is the most effective practice and do you think it is even necessary to raise consumer awareness?

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

You are talking in the salads business, Karen?

Karen Eltrich - *Mitsubishi - Analyst*

Yes. Salads, thank you.

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

Okay. I think there's a couple of key facts that we look at and then that determine how we best do our marketing. One -- fact number one is people in North America consume about 35 salads a year, which is woefully small. That is on a per capita basis. Of that, about 11 salads a year are bagged salads. So rather than try to convince all the people in the United States to eat more salads, we are really focused on converting commodity salads to value-added bagged salads where we can. The second key fact is we are in distribution in, what, 35% of stores or so in North America in our value-added salad business. So national media for example is not particularly effective because people only have the opportunity to find that bag in a certain number of stores in the US. So our best route tends to be partnering with the retailers that stock our products to move more product through their stores, and we do have as a result a velocity advantage in their stores versus competitors that do not stock Fresh Express.

What I'm really excited about is having been in the center store categories for a long period of time, that the traditional branded CPG companies and retailers have partnered for a long time leveraging insights to their individual consumers and shoppers at the stores through loyalty card data. Most retailers have some way to access who shops their store and what they buy. And then partnering with the retailers to find people who already are predisposed buy salads to buy more salads at their stores is where we are putting our efforts.

So as part of our salads reinvention program in 2011 we have gone to our retail partners with a number of initiatives that we think are going to target high users, so consumers who are already predisposed to eat more than the average per capita of salad and to get them to do more value-added salads during the course of year. And as we roll that out, we will talk about it more in 2014.

Karen Eltrich - *Mitsubishi - Analyst*

Great. And I mean, as you look at your product assortment obviously you've talked about bananas, salad but there's also pineapples in the mix. I guess are you looking to expand pineapple capacity? And are you using to bundle the products with your retailers at all and to get some -- extract some leverage from being a one-stop service shop?

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

We have grown our pineapples business during the course of this year, so when you look at our other produce segment there is a decline showing, but that generally because of the exit of stone fruit and avocados over the base period.

Brian Kocher - *Chiquita Brands International Inc - COO*

Decline in revenue, increase in profitability.

THOMSON REUTERS

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

Decline in revenue, and that is the key point. We said in the beginning that bananas and salads are our core, but we are also substantial players in processed apples, so in cut apples for food service and retail. And in pines. We do not grow any pines ourselves but we partner with growers who already deliver bananas for us in the same region. They move on our vessels and we sell them through the same sales force. We said that as long as we make money in that business, it is interesting, and we will continue to focus on growing it and today we make money in that business. Last year we did not. And so we do have plans to grow the business again next year. We also like the organics banana business and the plantains business, which is very fast growing in North America today for example and we will continue to put effort against those businesses as well.

Karen Eltrich - *Mitsubishi - Analyst*

I'm sorry, in terms of getting back to bundling your products with retailers in terms of again being able to service them as a one-stop shop for these categories.

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

Yes. Some retailers like it and some do not. And so we where our retailers prefer bundling, we are ready and waiting to supply both in Europe and in the United States. And those retailers that prefer to have multiple sources of supply, the gain there is slightly different. We are available if they would like us to supply during certain parts of the year but many do not lock in specific contracts.

Brian, I do not know if you want to --

Brian Kocher - *Chiquita Brands International Inc - COO*

No. I think that is right. The other thing that we manage through a little bit is the practicality of the retail organizations. I mean, typically the category management team and buying and merchandising team for salads are different than tropicals. So you know a lot of times they may even have different -- slightly different agendas. But as Ed says, there is not a day that our salespeople go by and do not try to sell bananas, salads, and pines and apple slices and everything that we have in the bag. But depending on the customer, there is more value to a bundled approach and in some others there's more value to a focused approach.

Karen Eltrich - *Mitsubishi - Analyst*

Great. Thank you very much.

Operator

And there are no further questions at this time. I would like to turn it back to our speakers for any additional or closing remarks.

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

Okay. Thanks, all of you very much for your questions and for joining us today. We are pleased with what we have accomplished in the first nine months of 2013 and we look forward to updating you on Chiquita's continued progress in the balance of the year. Have a great day.

Operator

And this concludes today's conference. Thank you for your participation.