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CQB - Q4 2013 Chiquita Brands International, Inc. Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 27, 2014 / 2:00PM GMT

OVERVIEW:

CQB reported 2013 GAAP net loss of $16m and 4Q13 GAAP net loss of $31m.

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PRESENTATION

Operator

Good day, and welcome to the Chiquita Brands earnings call. Today's conference is being recorded.

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 - IR*

Thank you, Kyle, and good morning, everyone. We welcome you to Chiquita Brand International's fourth-quarter and year-end 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 statement section of today's press release, and in Chiquita's SEC filings, including its annual report on form 10-K and quarterly reports on form 10-Q.

And with that, I'd 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. In 2013, Chiquita made substantial progress executing and delivering against our return-to-the-core strategy.

We delivered growth on our North American bananas and salads businesses. We prioritized profitability of our volume in Europe. We streamlined our operations and built efficiencies in our value chain. We exited non-core unprofitable businesses. We improved cash flow and improved [our] overall leverage profile.

Headwinds throughout the year in salad supply and cost overruns in our midwest plant consolidation negatively impacted our results in this business. We have learned from experience, and made organizational and operational changes to mitigate risk in the new year. An unexpected and substantial second-half supply expansion in bananas disrupted weekly pricing markets, and temporarily degraded results in that business. Chiquita weathered the banana impacts thanks to the strength of our brand, our superior customer service and innovation, and the operations discipline of our approach. In my opinion, it's how we perform in the worst markets that best defines the benefits of our differentiated approach to the marketplace, and our commitment to maintaining value for our customers and shareholders.

We have developed significant momentum in both our banana and salad businesses, and we are proud of what we accomplished over the last year. We are reporting adjusted EBITDA for the year of $118 million versus $70 million in 2012, a near-70% improvement. In both our core North American banana business and our pre-packaged salad business, we increased volume sold and improved our market position.

North American banana sales volumes increased 10.4%, reflecting benefits from contract wins and from volume enhancement at existing customers. We believe this reflects both the improved competitiveness of our streamlined value chain, and recognition that our quality commitment and brand drive consumer uptake for our customers.

In the salad business, retail pre-packaged salads volumes increased by more than 4%, as a result of private-label entry, new Fresh Express contract wins, and higher velocities with existing customers. The fourth quarter represents our third consecutive quarter of year-over-year growth in retail salads, and 2013 represents our first full year of volume growth since 2008.

In Europe, we focused on increasing profitability, and have chosen to focus on customers that recognize our superior quality, service, and brand. This choice, while right for us, resulted in lower overall sales volume.

In 2013, Chiquita delivered our promised value-chain cost savings and productivity initiatives. We committed to reduce spending in our value chain by at least $35 million. We achieved these levels, and improved flexibility in our sourcing, shipping, and logistics networks. We improved shipping efficiency, and increased productivity by more than 12% on owned farms.

On the last few calls, we noted we have also been focused upon improving our sourcing processes, so as to better manage our overall procurement costs. In addition to the value-chain savings achieved by our restructuring actions, our strategic sourcing initiatives have mitigated input cost increases across many of our key spending pools. We have established strategic procurement and supplier partnering processes to improve collaboration, enhance total value-chain productivity, and share the benefits of the efficiency enhancements.

Market-wide inflation and over-the-road logistics, materials, and services have been significantly, but not completely, mitigated in 2014 on the strength of these collaborative efforts. We believe that this strategic sourcing process, as well as Chiquita's capabilities in other areas, including how we leverage containerized shipping, and Great White Fleet back haul will continue to help mitigate materials cost inflation outside of agricultural products and labor over time.

Related to SG&A, overhead cost reduction initiatives delivered $41 million in savings from 2012 spending levels. In addition to the positions that were eliminated at the end of 2012, we maintained diligent focus on our overhead spending, and have reduced SG&A spending as a percentage of sales by over 130 basis points from 2012 levels. We accomplished this while increasing advertising 7%, and rebuilding the majority of the variable comp bonus pools in the Company. SG&A currently stands at 7.7% of sales, and we remain focused on driving further efficiencies in the year ahead.

In 2013, Chiquita shuttered or exited certain previously identified non-core and unprofitable businesses. These businesses not only lost money, but they as well distracted our operations and diverted capital from our core. In 2013, revenue was negatively impacted by $57 million from exited or disposed businesses, but EBIT improved $10 million by eliminating the losses generated by these businesses.

With that, I'll turn it over to Brian to discuss our commercial results.

Brian Kocher - *Chiquita Brands International Inc - COO*

Thank you, Ed. There were many unique characteristics to the banana market in 2013. As Ed mentioned, we started last year with a relatively tight supply market and higher prices than we normally experience at the beginning of a year. In Europe, weekly prices didn't reach the peak that we normally see in the Spring, however, a balanced supply situation existed through most of the first three quarters of the year, which allowed an opportunity to extend higher seasonal pricing well into the Summer.

The market adjusted in September due to unexpected and substantial output gains in Ecuador and Guatemala. In addition, the normal outlets for excess fruit in the Middle East and Black Sea regions were in turmoil, which served to limit port call and distribution options. As a result, we saw substantial degradation of weekly market pricing as we entered Q4. October and November pricing fell to levels last seen in 2009, before recovering to normal year-end patterns late in December.

As Ed described, our 2013 value-chain efficiency actions delivered as planned, with owned farm productivity up 12%, and shipping enhancements performing to plan for the year. In fact, the changes we implemented in our shipping and logistics network reduced our fixed costs and increased our flexibility, which allowed us to better manage the variability in supplies throughout 2013. We do expect to experience increases on the cost side in 2014, in particular in the cost of fruit, labor, and logistics. Our strategic sourcing initiatives have helped mitigate some of those impacts.

Additionally, in order for us to manage the risk associated with industry cost increases, our North American surcharge has been amended, and now reflects a combined surcharge for bunker fuel and paper-based materials tied to third-party indices. This surcharge helps reduce the future inflation risk associated with a key component of our banana cost structure.

Our North American bananas business delivered volume growth from both existing customers and new contracts throughout 2013 and Q4. In Q4 specifically, demand was largely as expected, although the global supply dynamics in the quarter pressured prices in our weekly price market customers. Contracting for 2014 was largely completed as planned, and approximately 75% of our expected total North American banana volume is locked in for 2014 at slightly higher pricing. For 2013, our European banana business continued to focus on customers that recognized our superior quality, service and innovation, and prioritized profitability over volume to support our brand premium.

In 2014, while we will continue to focus on profitability, we will also focus on maintaining volumes. In northern Europe, our banana contracting season went much as expected, and we renewed our contracts on favorable terms. Throughout Europe, we are better utilizing our multiple grades of bananas to play more completely in the distribution to our north European retail partners. This is an enhancement to our European go-to-market approach, and enables us to serve the broader needs of customers who choose to stock multiple grades and types of bananas.

In our retail packaged salad business, we continue to be encouraged by the outlook for this business. In 2013, retail salad volumes grew, and we have continued to build sales momentum. Q4 represented the third consecutive quarter of volume growth at a rate of approximately 7.4%, and we ended 2013 up more than 4%. Our focus and investment in driving measurable product quality improvements has also contributed to sales velocity in salads.

We took many steps to streamline and improve the management of the salad business in terms of quality, food safety and innovation. We have now upgraded functional leadership in every element of the salad and healthy snacking business. We believe we have the right talent in the right seats to capitalize on our momentum, and to ensure the value chain efficiently serves our requirements.

We are demonstrating category leadership by launching several successful new products at accretive margins to us and our retail customers. In fact, we introduced more new core salad products in 2013 than we had in the previous three years. New products have been focused in hot consumer growth areas such as single-serve bowls, juicing and cooking greens, on-trend salad blends, enhanced kits, and in organics. Our core innovation is performing well, and we expect to see margin enhancement from an overall improvement in product mix within the Fresh Express brand over time.

However, it remains critical that we improve on the cost side of the salad business in 2014. As we have discussed previously, we incurred transition costs at Streamwood that were in excess of our plan -- about $18 million of costs overall, and approximately $3 million in Q4. Based on performance to date in 2014, we do not expect Streamwood to be a drag on the year, and in fact, we expect to realize efficiency benefits as the year progresses. As a reminder, Streamwood transition costs were incurred primarily in Q2 and Q3 of 2013.

In the fourth quarter, we continued to incur above-plan raw product costs, as weather impacted harvest yield, quality, and availability for iceberg. Yields for iceberg lettuce were as much as 30% below normal, and contributed to substantially higher prices for uncontracted available fields. As agricultural operations have been a challenge over the last year, our new Ag Ops lead team is in the process of improving systems, processes, and practices related to growing and procuring raw salad products. This includes where we grow, what seeds we plant and in what manner, how we grow and harvest, and how we manage supply to demand, all in collaboration with our innovative and committed supplier partners.

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

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

Thanks, Brian. For 2013, we are reporting a GAAP net loss of $16 million compared to 2012 GAAP net loss of $405 million. Fourth-quarter 2013 GAAP net loss was $31 million versus a loss of $333 million for the same period in 2012. For the reported period, any adjustments between our comparable operating income results and GAAP results are reconciled in the table in our press release.

For 2013, we are reporting comparable operating income of $53 million versus $7 million in 2012. Adjusted EBITDA grew to $118 million from $70 million in 2012. The biggest drivers of growth in adjusted EBITDA in the year were higher local prices in Europe, increased volume sales in North America, reduced banana value-chain costs, and reduced SG&A expenses. EBITDA would've been higher without, among other items, the impacts related to the midwest plant consolidation, which decreased profitability by approximately $18 million, and higher-than-normal costs associated with salad's raw product supplies.

The SG&A restructuring benefits continue to be an important driver. In 2013, we achieved $41 million in SG&A savings versus 2012, or $16 million more of SG&A savings than we committed in our plan. At 7.7% of sales, we improved SG&A as a percent of sales by 130 basis points. It's important to note that we are committed to maintaining and, in fact, further reducing these levels in 2014 and beyond.

It's also worth pointing out that 2013 -- we had the final full year of the non-cash $14-million annual gain that Chiquita has booked related to the amortization of the gain on the sale of our ships in 2007. In 2014, we will have a partial year of the remaining gain, which amounts to about $6 million. As part of our restructuring and logistics planning, we have secured current market favorable replacements on our European routes commencing in May, and expect to do the same on our US routes.

For Q4, we are reporting a comparable operating loss of $14 million, the same as in the fourth quarter of 2012. Adjusted EBITDA improved slightly to $4 million from $3 million last year.

Looking at our segments, comparable operating income in our banana segment increased to $112 million in 2013 from $83 million in 2012. The increase was primarily the result of higher local pricing in Europe, higher sales volumes in North America, and lower logistics cost. In the quarter, the impact of the above-market fruit supplies was more than expected, resulting in abnormally low seasonal prices for excess fruit sales in trading markets. As such, comparable operating income for bananas in the quarter fell to $10 million from $31 million in Q4 of 2012, in which tighter supplies had resulted in above-normal pricing.

In the salads business, we ended 2013 with a comparable operating loss of $6 million compared to a loss of $4 million in 2012. While, as Ed and Brian mentioned, we continue to see volume sales growth in retail salads, these gains were offset by over $18 million of transition and start-up expense related to the midwest plant consolidation, as well as increases in raw product costs caused by adverse growing conditions. We do not expect these plant transition costs to continue in 2014.

These trends continued into the fourth quarter, as we incurred additional expenses related to the shortage of iceberg. While we have now completed our midwest plant transition, expenses related to the transition in the fourth quarter were approximately $3 million. Overall, in Q4, in the salad and healthy snacking segment, we had a comparable loss of $11 million compared to a loss of $18 million in 2012.

In summary, Chiquita maintained financial discipline throughout 2013, and our refinancing early in the year provided us with financial flexibility to focus on our core businesses. Cash flow from operations was $91 million for the year compared to $33 million in 2012.

Beyond funding our operations and investing in our core business, our excess cash flow was utilized to reduce debt, as promised. We fully repaid the $37-million outstanding balance on our revolver, and we recently repaid $10 million of our outstanding senior notes. Total debt on our balance sheet has increased slightly, as the capital lease for the midwest plant consolidation is now on the books. We continue to maintain our goal of achieving a leverage ratio of no more than 3 times EBITDA over the next few years, and we like our liquidity position as we start 2014.

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

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

Thanks, Rick. Our Company remains focused on its return-to-the-core strategy, and upon operating a branded commodity produce business with excellence. Before we take questions, I'd like to reiterate some of our key takeaways from 2013, and highlight our priorities for 2014.

To note: The benefits of the restructuring initiatives produced improved results in 2013. We have significant sales momentum in each of our core businesses, and we are focused on disciplined contract renewals and acquisitions. We have revitalized our core brands, and will continue to lead our markets through quality, customer service, and innovation. We plan to maintain a disciplined focus on productivity enhancements, especially in production and logistics, and efficiencies in SG&A.

Allow me as well to provide a little color regarding what we are seeing at the start of 2014. The banana market, and as such, the weekly pricing of bananas, started the current year somewhat soft, in particular as it compares to the start of 2013, which benefited from relatively tight supply at the end of 2012 and resulted in above-average weekly market pricing at the start of 2013.

As you know, second-half 2013 was impacted by a substantial and unexpected increase in Ecuadorian and Guatemalan exports, which resulted in a sharp drop in realized pricing in the weekly markets. As a consequence, we started 2014 in a lower weekly market pricing environment than we experienced a year ago. We expect Q1 2014 to resemble a more typical banana market; and as supply continues to tighten, we expect weekly market prices to rise.

We are, as well, experiencing weather patterns in the tropics that are reducing production on both Chiquita-owned and third-party farms in northern Central America. This is driving many producers, including ourselves, to procure volumes in the weekly spot market, primarily in Ecuador. These spot prices have risen sequentially from minimum exit price in January to a more typical Q1 spot in February. This has increased our costs; but as this fruit enters the end markets, we are beginning to see realized price increases in the weekly markets more typical of a normal banana season.

In addition, in the North American market, we would be remiss if we didn't mention the impact of a difficult Winter weather on our operations. The weather year to date has resulted in plant shutdowns and difficult logistical operations. In addition, cold weather has adversely impacted customer demand, in particular for salad products at retail and in food service. While these challenges will negatively impact the first quarter, we believe our ongoing innovation and efficiency actions across both businesses, and the benefits of improved midwest plant operations, will keep us on glide path over FY14 despite the headwinds we are experiencing in Q1.

At the end of the day, we remain confident in the key principles of our return-to-the-core turnaround strategy. We remain on glide path to our 36-month EBIT margin targets. We will continue to focus on efficiency actions in our organizing structure, and in our operations and sourcing. And we remain focused on delivering premium service and value under our premium brands.

I'd also like to note: We are committed to support our brands with consumer advertising where we believe it adds value. We have decided to invest an additional $10 million this year versus last, primarily behind bananas in our core European markets and behind Fresh Express. You may have seen the launch of the Fresh Express salad swap marketing by social media, FSCI, a mobile app, and trade marketing in January. We believe this 2014 strategic investment will pay out in long-term value in both businesses.

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, let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

We will take our first question from Brett Hundley with BB&T capital markets.

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

Hi. Good morning, gentlemen.

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

Hi, Bret.

Brian Kocher - *Chiquita Brands International Inc - COO*

Hi, Bret. How are you?

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

Doing well. I had a bunch of questions on salad, but I just want to start on bananas. Brian, you brought up some information that was, frankly, better than I expected. You talked about in North America 75% of your volume being locked in at slightly higher prices, and then you also mentioned that in northern Europe contracts were renewed on favorable terms.

I wanted you to give a little bit more color on both of those, because we have heard some retailers making some noise in northern Europe asking for much lower prices, and in the US market we had heard about kind of a mixed contracting season. With that as a backdrop, can you just give further color on both markets and in particular in the US can we talk about that other 25%? Was it signed at materially lower prices, or just some qualitative information would be helpful.

Brian Kocher - *Chiquita Brands International Inc - COO*

All right. Let's talk about North America first. Let me clarify one thing. We talk about 75% of our contracts being renewed. That is really because of the timing. There are still some more to be renewed in 2014. It is really the timing of the contracts versus 100% of our contracts were renewed and 75% on favorable terms and 25% on unfavorable.

That's not -- it was more the timing aspect. So there is still some renewals that will take place. But we feel good about the progress that we've made. So let me clarify that. The second thing that I want to talk about it is, remember, our strategy is based upon quality, service, innovation, and that includes the aspect of the brand.

No one can replicate the consumer preference that we have in both the US and in Europe. So when we talk about pricing, we do have an advantage with the brand, and it shows up in Europe on retail price. It shows up in North America on retail price. That is all public data that you can go validate with your various sources.

So, as we went through the contracting season, it's a competitive market. It is always a competitive market. It has been a competitive market since I've been here. But, again, our focus on quality, service, and innovation and not on price, I think has been to our benefit. Our retailers are able to recognize value that we provide, and we try to align ourselves with customers who appreciate value, service, quality, and innovation.

So, when we say at slightly higher prices, it is slightly higher prices. I don't want anyone to read too much into that. I mean, you are talking about the low single-digit price increases, but favorable, nonetheless. In Europe, I would say a very similar response. Again, the focus and try to align ourselves with customers who respect the brand, quality, service, and innovation.

And they also recognize that the price that they can charge on retail shelves. So we have had, let's just say, a favorable contract renewal season. It has been competitive. It has always been competitive, but we were able to make some strides in some favorable contract renewals there.

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

Brian, it's Ed. I think I would add, Brett, just one more thing. We've talked all year about being very disciplined in contract renewals in Europe and focusing on customers that value the premium brand that we bring to the table. We have applied that same approach in the North America contract renewal season as well. So there are several customers that we chose not to serve in 2014, and several [dc's] in customers that are supplied by multiples suppliers, but we have more than compensated for those volume losses with volume increases at customers that do value our premium brand. And so, on balance, we feel pretty good about the discipline we displayed in that process through the year.

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

Okay. Very helpful. Of course, your commentary on northern Europe does not include -- that is on the local price based, I would assume. Are your hedges on the euro somewhat heavier in H1?

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

Well, on the -- Brett, if you're talking about the euro hedges on the dollar, what we have is in total the hedge for 2014 about two thirds of our position -- of our Europe position. So we are at about $1.34 is the way you should think about that.

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

Okay. Wonderful. Okay. I want to focus on salads here. So $18 million in Streamwood costs. That could give you about 1.5% to 2% of margin year-on-year in 2014 by my math, so that maybe brings your consolidated salads margin up toward 1.5% just from those costs going away. Ed, I wanted to focus on four main buckets here. And I am trying to understand kind of where salad margins can go. You talked about a glide path toward your goals by 2015, et cetera.

But obviously, I'm trying to figure out what the potential can be for 2014. Streamwood costs come back, and then I want to talk about four buckets related to pricing, innovation, commodities, and capacity utilization. Now, your opening comments, I believe you said salad falls were up 4% plus, fresh express was up over 7%, so maybe that implies some limited private label type volume growth.

But, as we think about your plants filling up more fully in 2014, I would expect to see a margin benefit from that. You had some really tough lettuce issues in 2013, and I want to get into the outlook for that in 2014, but you should have some positive margin impact from that. You are innovating like crazy, and you have taken pricing. So I'm just trying to understand more completely about how the margin comes together in 2014 for the salads business.

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

Gee, Brett, you've only asked a few small questions there. Let me start with the simple one. Streamwood, your numbers are right. We anticipate to fully cycle that $18 million cost spend out of the numbers during 2014. In addition to that, as the year progresses, we would assume to deliver some portion of our efficiency benefits out of that plant.

As we talked over number of calls, due to choices we have made about investment in the plant, that number is still a bit of a moving target. But I would say we would like to see something in the area of $4 million to $5 million of benefits over the course of -- think of it as a run rate benefit out of that plant versus the plants that we had before. On the pricing side, we had a slight benefit from pricing in 2013, primarily driven by mix. Our fresh express salad mix improved fairly substantially, as our value added blends and kits percentage of overall sales increased.

As we picked up private label -- we've talked all along, we've picked up about 4 million cases of new contracts. About 60% of that volume is private label, and about 40% is new contracts or growth in our current customers on fresh express. We do find that the mix of private label of value added salads versus base salads is quite different from our own.

As we produce that volume, we will see a mix hit versus what we would do if we were only producing fresh express that you will see in our results over time. But our objective is to continue to chase both private label and fresh express new contracts, because at the end of the day on a SKU by SKU basis, our return on private label versus fresh express is about the same. When we work with a private label customer, we work within to improve their mix.

Our job is to help them figure out how to sell more value added salads as well. So we are -- the contract season in salads is much different from bananas. This is not an annual business. These tend to be longer-term contracts. So, we have identified contracts that we are interested in over the course of the year. I would say the biggest contracts don't come due until '15, Brian?

Brian Kocher - *Chiquita Brands International Inc - COO*

Right. That is the biggest US retailers playing on that space.

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

So that's a bit about mix and contract. Innovation --

Brian Kocher - *Chiquita Brands International Inc - COO*

And the only other thing I would add, and it relates to innovation, is, if you look at our innovation, Brett, it is really focused on A, the hot trending items for the consumers with things that you would see at restaurants, the things that are comfortable or at least enticing for consumers as it relates to convenience or accessability.

So we are hitting those. But the other areas of our innovation is focused on mix enhancement. So our innovation in the higher top 55%, 56% of the category where we are trying to continue to meet the consumer needs to help our customers drive better mix and satisfy more of their customers.

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

And the third area you wanted to talk about was commodities. This is an area that we have spent a lot of time on over the course of the last year. Now, we certainly in 2013 had a wild weather year. And it started in Yuma in Q1 with weather way out of pattern for that region.

It extended into our Mexican growing season where we had water at times of year when they've never seen water. And then in the Salinas Valley where weather was a bit out of norm as well. And so at the end of the day, we can't control the weather. We've got a much better at controlling where we plant and what we plant and how we plant.

Brian mentioned we have upgraded our entire fresh express team over the course of the last 12 months. The latest adjustment is in our Ag Ops team where we recruited from the marketplace a really talented long-term player in that space. And our R&D and Ag Ops teams at the moment are looking at seed varietals, planting locations. And it is interesting. On a given acre of ground in the course of multiple planting seasons, we will put different seeds in the ground, depending upon when it's going to mature.

We've never spent a lot of time disclosing exactly how much we think hit us in terms of commodity weather events in the year. And the reason we haven't done it is it's hard to figure out whether that was budgeting on our part or whether it was truly all about weather. It is of the scale that approaches the Streamwood impacts in the course of the year. We think that part of that will be absorbed by inflation and raw materials over the course of the coming year, but part of that is recoverable by better practices.

And so we haven't yet said how much we think we can bring into 2014, but we are assuming we will do better relative to commodities and weather events based on how we plant. Brian has talked in the last call about over plant, which give us more product available so we are not in the spot for product when the weather goes bad. I think as the year goes on, we can give you more color on exactly how that plays out, unless you guys have some other thoughts.

Brian Kocher - *Chiquita Brands International Inc - COO*

No.

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

And on capacity, as we have said, this is a game of filling our plants and ensuring that the ships that we have running are producing at their fullest potential. So the incremental contracts and volume we picked up in 2013 will fully realize in 2014.

In salads as in bananas, there are some instances where we choose not to participate in a new contract going forward, so there will be volume that goes out, or M&A activities in the business impact us, because our competitor happens to hold the acquirer. But in general, as we said, we are quite enthused about this business going forward.

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

All right. I appreciate you going through all of that. So it sounds like, Ed, is it fair to say that you believe that you are positioned well on lettuce given the drought in California?

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

Yes. The drought is selectively applied. So Huron is a problem. And Huron is a transition planting region for us between Salinas and Yuma and [Bach]. And we have had to ship production out of Huron into other growing regions, so we actually have increased our growing in Florida and in the southeastern United States. We increase our growing in Mexico. But, frankly, at this time, we are assuming that that drought will continue, and we are not hoping that we can plant there, and as a result we are contracting ground in other places.

Brian Kocher - *Chiquita Brands International Inc - COO*

Brett, we've been on -- it didn't just happen this year. We have been on a strategy for a couple of years of diversifying our growing regions for salad. Whether that means Florida or Texas or New Jersey, we have tried to expand those growing regions for multiple reasons, to get fresh product closer to the plants, to reduce transportation costs, but also to provide us some optionality when there are either weather events and/or drought conditions. Again, for the short-term we believe this is covered, and we will continue exploring our options to expand geographically.

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

Okay, great. Just two more quick questions. The citrus crop is damaged from freeze in California. The situation is not that great in Florida either. Does this help you guys from a banana standpoint in the US at all? Does it give the industry any leverage, or it's not really that big of a deal?

Brian Kocher - *Chiquita Brands International Inc - COO*

I don't think it gives the industry any leverage. It is hard to see -- it would be hard for us to come back to you next quarter and measure if it had a significant impact or not. In general, competing fruits do tend to impact banana consumption in the summertime, but I think it's going to be very hard to isolate that factor, Brett, to claim either helped or hurt.

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

And then you've got the weather situation in North America all through the first quarter. How do you figure out what is what? People can't get to the grocery store, they can't get to the grocery store for any product.

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

That's fair. Just my last one. There's rumors on your moving into Central America with greater land ownership. I was curious if you could give us a sense of where you are now from a percentage of total land ownership and where you might like to be on a percentage basis. Have you thought at all about how as the multis moves away from spot purchases overtime what happens to that spot fruit? I appreciate your time.

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

Okay. Well, this one is also pretty simple answer. We have said all along that we like to produce fruit. We have about 38% of our production sourced from farms that we own. That's a pretty substantial increase from a year ago, but that's reflective of productivity improvements that we've put in place over the last year.

We have picked up a few -- we can manage more -- let me step back for a minute. We have the capacity in Central America to manage many more hectares than we do today with the same teams that we have on the ground. We have a couple of opportunities in which to expand that managed hectares. One is through long-term leases and the other is through purchase.

To date, we have really focused on acquiring long-term leases for production in farms contiguous to the divisions that we run today. There has been quite a bit of press. We have been in talks with governments of -- with the government of Panama on the Armuelles region, and we have some work underway in a few other countries.

On Saturday, we will begin Chiquita production on the first owned farm purchases we have made since the 1990s in Honduras. Those farms are about 500 hectares. The purchase was made at very attractive pricing, which is fully within our covenant. The reason we would choose to own a farm as opposed to purchase is because the cost per box out of that farm is cheaper than it would be from purchasing in the marketplace. So that's the assessment we make in every situation. Brian, I don't know if there's anything you'd want to add.

Brian Kocher - *Chiquita Brands International Inc - COO*

I think we have been clear that over the course of the last 18 months that we would be willing to increase the percentage of our owned production. But we want to do is that the right value. It is not a blind march to some theoretical percentage. We want to pick the right spots at the right value. I was also interested in your comment on spot and exiting spot. I think spot plays a role in our sourcing philosophy.

Remember, one of the things that we believe help us operate and optimize our results, whether it's in a good banana market or a poor banana market is flexibility. If you have flexibility in supply chain, flexibility in your logistics, flexibility in your commercial contracts, flexibility in your sourcing, that gives you an opportunity to heavy up when the situation is good, to offload a little bit when the market is not so great.

I think you will see from us always a portion of our sourcing tied to spot, because it gives us some flexibility to manage the market situations that we are in.

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

Okay. Thanks so much, guys.

Operator

We will take our next question from Bryan Hunt with Wells Fargo Securities.

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

Thank you very much. Just three questions. One, weather impact. Can you -- is there any way you can quantify the weather impact to your productivity and logistics costs in Q4. It sounds like there could be a drag into Q1, whether it was moving bananas or salad around or getting people at your facilities to actually do the work required to meet your sales goals.

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

Yes. Well, there really wasn't a weather impact to our productivity in Q4. The only weather impacts were on the growing regions for lettuce, primarily iceberg, where different weather patterns, basically, disrupted yields of the iceberg product and as a result, we got less off of each acre. The Weather truly has been dismal in North America since January.

I can't give you an idea of what the weather impact is until the weather stops. It seems that every week we get yet another blast of cold air. But it has, certainly, you have seen from a number of fast food operators and retailers, it has disrupted the shopping patterns of consumers at this point. No color yet because we just know it's an issue. We don't know how long it's going to go until it stops.

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

The second question is you talked a whole lot about contract renewals in bananas. I was wondering when you look at bananas and bagged salads for 2014, in these contract renewals, are you getting additional volumes? Do you see additional contracted volumes going into 2014 other than what is carryover from 2013 negotiations?

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

Brian, it certainly differs by customers, but we have had opportunities to pick up volume in both salad and banana contracts and renewals. When we are aligned with the customer who appreciates value, service, quality, innovation, those things that we believe differentiate us in the marketplace. I think, yes, you will continue to see us push for more volume when it is at the right return for us and for the customer.

I think we have been happy about the opportunity to increase volume in our North American banana business. We have been And we know when we have great quality, velocities are higher off the shelf.

Our customers grow faster. Our customers see sales advantages. So it's really in the salad business, I would see some opportunities in distribution, but I see more opportunities in terms of innovation, quality, and some of the marketing efforts that we are doing.

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

Great. And then my last question is really about cash. You are out of the ABL. It looks like the transition costs are gone -- $18 million. You will get some synergies. That will probably run you $20 million kind of bridging into 2014 increase in cash. You brought back some bonds. Sounds like you are buying some land, or at least that's on the horizon. How do you prioritize your use of free cash flow in 2014?

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

Well, for us it is always focused, first, on the operations, as you were mentioning there. We're going to spend on ports, farms, plants, and make sure we get that best return on our dollar. With the excess cash flow from there, we are going to pay down debt. We are paying down our most expensive piece of debt. At the end of January, we pay down $10 million, and we will look for opportunities as time comes. It is a balance, but we will play where it is appropriate.

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

You said senior debt. Did you buy that $10 million of the converts, or do you buy $10 million of the secured notes in the open market?

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

The latter. The senior notes. So we bought $10 million at a premium of [103]. It's an opportunity for us that we thought to buy back some -- pay down some debt at a reasonably cheap premium.

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

Very good. I appreciate time. Thank you.

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

Thanks, Bryan.

Operator

We will take our next question from Jonathan Feeney with Janney Capital Markets.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Good morning. Thanks very much. Just a few question. First, on the land values, what is that you see in the market that -- are -- just Panamanian land, or is land broadly in Central America attractive to you now in a way it hasn't been for the past few years? What is driving these land acquisitions?

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

Well, we are not out buying all kinds of land across Central America. I think we need to be really careful in how we talk about it. What has been reported in the press in Panama is not about purchase of land. In fact, you can't own the land in Armuelles. It's about a long-term management of those hectares. But as we said, it's always a juxtaposition of what it cost us to procure fruit in the open market from third parties versus what it costs us to produce fruit on farms in those contiguous areas.

And if we can do better managing the forms on our own, and the acquisition price for the management price if it is a lease is reasonable, then we are willing to do it. A lot of the land in Central America is priced at a point that doesn't make sense for us. You shouldn't expect to see huge amounts of effort in trying to buy up hectares. There are going to be select opportunities where it is good and makes sense to us. For example, the farms we talked about just a few minutes ago our farms that produced for us in last year. We know the farms well.

At one point, they were owned by Chiquita, and they are contiguous to the farms we already run in the marketplace. So it's very simple for us to manage those and manage them at a benefit to where we were before, and we think it would bring a lot of value to the local economy, the local families that are there by providing more opportunities as time goes on through more farmed hectares.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Can you give me a sense of what kind of price per hectare or per acre would make sense for you?

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

No. I wish we could.

Brian Kocher - *Chiquita Brands International Inc - COO*

If you think about it, Jonathan, it really depends on so many different factors. It is not only the price per hectare, it is can it can be managed by an existing farm overhead structure, which gives us efficiencies? Is it the right distance to port of loading? Is it the right mix of first-half/second-half production based upon the growing cycle?

There are so many things that go into it that it is very difficult to give you or anyone really a well, here's a rule of thumb. I think the answer that we are trying to get across is we are interested in owning or controlling more of our own production when A it can augment our portfolio, B it can drive value for us and our shareholders. We are interested. We are not on a blind land grab.

We don't have an unlimited appetite, but we are looking selectively to make sure that if it is the right value, it fits into our portfolio well, that it can service our customers well, that is can provide the right quality fruit at the right times of the year. Then we are interested, and wouldn't be afraid to pull the trigger.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

I get it. Thank you. Turning to the salad business. How much volume do you think you need to reach your target salad EBIT? How much more volume from here? It seems to be primarily a question of -- you've cut a tremendous number of costs. Seems to be primarily a question of volume leverage. Am I wrong about that?

Brian Kocher - *Chiquita Brands International Inc - COO*

Well, I think -- yes, that's a component. Absolutely is a component. It's also an opportunity in terms of driving mix. I think we see some of our long-term earnings target achieved through innovation to change our mix profile to increase our share of the highest mix margin products. That's a big component as well, Jonathan.

We haven't gone out and said we need X amount more volume to reach our target. But, look, we are pushing to drive volume, again, when it is with the right customer at the right value who can appreciate quality, service, and innovation. We are pushing our innovation programs to increase our mix and accelerate volumes. We are leaning hard on quality, because we know salads are a visual buy. When the quality is good, the salads get purchased and velocity increases.

And then the last component that I would say is we are continuing to ensure that we are constantly refreshing the entire portfolio. So that it's always something new; it's always something fresh. Those are the areas that we want to drive margin. Those are the areas that we want to drive volume, and those are the areas that we believe will lead to the best utilization figures for us.

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

Brian, I think I'd add one more thing, Jonathan, and that is we have talked now for a year and a half about the fact that our forays into other things, smoothies and fruit cups, diverted capital and attention from the core business. As we have exited those businesses, we've also taken a hard look at our facilities and our plants and brought in some resources from outside the Company's that are adept in expert at improving efficiencies in manufacturing facilities. And so we are now investing within our working capital guidelines in making those plants more efficient in all aspects of operation. So I think there's a piece of that in the calculations as well.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

I got you. And just to clarify a comment you made about mix. You mentioned earlier in the call that you thought your mix between fresh express and private label is about flat. Could you give -- I assume you're talking about higher value added within fresh express and private label as a positive mix factor. Could you give us a sense how much more profitable are some of these innovative -- on a profit index basis how much more profitable are they?

Brian Kocher - *Chiquita Brands International Inc - COO*

Let me make sure we clarify one thing. So I think earlier in the call, and if it didn't come across this way, let's make sure. Our overall mix is improving. Overall, we are selling more of the higher-margin projects than we were in the previous year. What we have noticed is some of the customers who we have done business with in a private label manner, have a lower mix percentage then we traditionally see in our customer base.

So there isn't a cannibalization let's say between private label and branded product, because as we said many times before, the margin profile is about the same. There is a difference in the mix profile between some of the customers that we do private label with and some of the customers that have traditionally done branded business with. I think what Ed was saying is two things.

One, so even as we get more private label customers, in our overall retail volume, there's a little bit of mix shift there. And then, two, our job with that group of customers is to help lead them and show them how to improve their overall mix as well.

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

I think the key messages on an SKU by SKU. We are talking parity. The issue is we've done a really nice job growing high-value kits and blends, and that hasn't been the case in many of the private label businesses that are out there, so our job is to help the retailers do better.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Those kits and plans are both private label and fresh express or fresh express?

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

From a fresh express perspective, I think we have the highest penetration of high value kits and blends of any brand in the marketplace. Private label generally is much lower blend of high-value kits and much -- I don't know. Now I'm getting confused with the words I'm using. (multiple speakers)

Brian Kocher - *Chiquita Brands International Inc - COO*

A much lower mix of high value blends and kits.

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

(multiple speakers) is to help them their mix as well as long as it matches with their customer base.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

I think I've got it. Thank you very much.

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

Sure.

Operator

We have no further questions in queue at this time. I would now like to turn the conference over to Mr Ed Lonergan for any additional or closing remarks.

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

Okay. Thanks, everybody, for your questions in joining us today. We look forward to updating you on Chiquita's continued progress as we move through '14. Good day.

Operator

And this does conclude today's conference call. Thank you all for your participation.