

Transcript
Second Quarter 2009 Conference Call
August 6, 2009

ED LOYD (*Manager, Investor Relations & Corporate Communication, Chiquita Brands International*):

Welcome to Chiquita Brands International's second quarter 2009 earnings conference call. On the call today are Fernando Aguirre, chairman and chief executive officer, and Jeff Zalla, chief financial officer. After today's prepared remarks, we will take questions as time allows. If you have not received a copy of today's press release, you will find it on the company's website at www.chiquita.com or you may contact Chiquita's Investor Relations department at (513)784-6366. Please note our press release includes reconciliations of any Non-GAAP financial measures we mention today to their corresponding GAAP financial measures.

Before we begin, let me also remind you that this call may contain forward-looking statements concerning operating performance or industry developments and any such statements are intended to fall under the safe harbor provided under security laws. Factors that could cause results to differ materially are described in the Forward-Looking Statements of today's press release and in Chiquita's SEC filings, including its annual report on Form 10K and quarterly reports on Form 10Q. Now I'd like to turn the call over to Fernando Aguirre.

FERNANDO AGUIRRE (*Chairman and CEO, Chiquita Brands International*):

Thank you, Ed. Good afternoon and thank you for joining us. We are very pleased by the progress we continue to make toward our commitment of delivering sustainable, profitable growth for our shareholders.

We had an outstanding second quarter. Our results represent our strongest quarterly performance in more than a decade. We are now experiencing the rewards of our strategy and the disciplined choices we made to focus on profitability and to drive costs out of our business. The best news is the changes we have made are sustainable.

- Our performance in salads was exceptionally strong. We increased comparable operating income in the segment by \$36 million versus year-ago by driving sustainable cost reductions throughout the manufacturing and distribution network, while maintaining profitable volume and share leadership in the market. In fact, our cost-savings initiatives have gained enough traction that we are increasing our expectation for operating income in Salads and Healthy Snacks for the full year 2009 to at least 6 percent which is almost double our previous guidance. I am very confident that we will achieve that, even with our planned consumer marketing and innovation investments in the remainder of the year.

- Our banana business also remained strong in a tough global economy, as we achieved record pricing in Europe to offset euro weakness and used base price increases in North America to offset a reduction in fuel-related surcharges.

This exceptionally strong performance was better than we had expected for three primary reasons:

- We took advantage of market conditions to push record-high local banana prices in Europe;
- We accelerated the pace and magnitude of cost reductions in salads and;
- We drove better performance in Asia and the Middle East, primarily as a result of pricing initiatives with the trade.

We achieved these improvements despite a difficult economic environment. But even if the broader economy continues to remain sluggish, we are poised to outperform and continue to focus on our long-term profitability objective based on three foundational strategies.

- First we'll continue to leverage our trusted Chiquita and Fresh Express brands which offer a significant advantage, because consumers tends to choose brands that they know and trust, especially in the current market environment.
- Second, we will maintain a very attractive capital and cost structure that allows us to generate a profit in tough times.
- Third, we are passionate about keeping our business lean and efficient. Over the last two years we have reduced manufacturing overhead, closed plants, streamlined our management team and reduced SG&A expenses not only to improve profitability but also to fund innovation and other consumer initiatives.

Let me provide you more insights on why we believe our recent cost improvements are sustainable. During the past year in salads, for example, we have eliminated more than 500 individual products, or SKUs. By eliminated SKUs, we have permanently reduced special films, packaging, boxes, equipment, warehousing space, logistics and all the other costs and complexity associated with those 500 unprofitable SKUs. Instead, we are now focusing on running a lean and highly efficient operation for only those products that meet our growth and profitability objectives.

Another example is the headcount reductions we implemented in January that have reduced our ongoing SG&A costs. For instance, in North America we consolidated certain sales and customer support functions so that they are now more cost-effective and provide better service to our customers, across both bananas and salads.

In very simple terms, this has given us the operating structure that we need to grow profitability even while the salads categories are growing. We also see new opportunities to:

- Extend our brands to leverage consumer trends;
- Expand geographies and distribution channels and;
- Explore new higher-margin products.

We will strengthen our long-term competitive position by **extending** consumer loyalty and preference for our products. We will begin investing in consumer marketing programs during the second half of the year to further differentiate the Fresh Express and Chiquita brands in North America, and to accelerate growth in profitability in 2010.

In addition, we are pleased with our innovation program, which is **expanding** consumption opportunities. Gourmet Café, Chiquita to Go and Pineapple Bites are perfect examples of our strategy that is enabling us to capture non-grocery opportunities at convenience outlets, gas stations and coffee shops.

We also continue to **explore** opportunities to deliver higher-margin products. We are very pleased with ongoing rollout of Just Fruit in a Bottle in Europe, and we are strengthening our position as the No. 1 brand of smoothies in nearly all markets in which we compete.

In salads, the most recent IRI data also gives us reason to be optimistic, as we have maintained our profitable leading position in the category. Generally, U.S. consumers at all income levels are cooking at home more often, with 74 percent wanting to save money and 61 percent wanting to eat healthier. We are in the “sweet spot” of providing what these consumers want most.

During the second quarter, dollar sales for Fresh Express retail salads were up 2 percent, about twice the rate of the category as a whole. Most of our growth has come in the Northeast, where, as a result of the acquisition of our Harrisburg plant, we are now delivering fresher product to customers and consumers and have grown our dollar sales by 10 percent, versus a flat category.

Speaking of fresher products and better value, bananas in particular, provide an exceptional consumer value as one of the least expensive items in the store, and yet they provide more energy and nutrition per dollar spent than most power supplements or nutritional bars.

The economic environment continues to be a challenge, and we see some U.S. grocery retailers moving increasingly towards private label, especially lower-priced items. However, we are confident that we have the right strategy in place to leverage emerging global health and wellness trends and that we are positioned to win, in any economic environment. Our strategic pricing initiatives and the cost reduction in salads are sustainable and we continue to improve by innovating and selling our way through a tough economy.

As we look at the future, there will be quarter-to-quarter volatility and the normal seasonality that we always experience in the second half. Despite this, we expect to deliver at least as much improvement in comparable net income versus year-ago in the second half of the year, just as we did in the first-half of this year. As a result, we expect to deliver a third consecutive year of significant operating improvement on a comparable basis, which underscores that our sustainable, profitable growth strategies are working well.

Now, I'm going to ask Jeff to provide more detail on our financial results for the second quarter, as well as our outlook for the balance of the year. Jeff?

JEFF ZALLA (*Chief Financial Officer, Chiquita Brands International*):

Thank you, Fernando. As detailed in today's press release, on a comparable basis, second quarter income from continuing operations improved by \$40 million to \$95 million, or \$2.08 per diluted share.

Net sales decreased by 4 percent to \$955 million, due to the impact of the much lower value of the euro on our European banana business and planned reductions in foodservice volumes in salads. If the euro rate and foodservice volumes had remained at the same levels as the second quarter last year, net sales would have increased by 4 percent during the period.

In the **Banana** segment, year-over-year sales decreased 1 percent in the second quarter to \$557 million, and comparable operating income was \$96 million, versus \$89 million in the year-ago period. The increase in comparable operating income was due to record local pricing in Europe, and to a lesser extent Asia and the Middle East, which more than offset a net \$26 million negative impact from the lower value of the euro, and \$6 million of expected higher product supply costs as a result of flooding in Panama and Costa Rica in the fourth quarter last year.

- In North America year-over-year banana pricing and volume was flat in the period, reflecting tight supplies. During July, pricing remained strong - up 3 percent year-on-year, despite the fact that fuel surcharges are significantly lower than the year-ago level. Volume in July was higher by 2 percent.
- In our core European markets, banana pricing was up 16 percent on a local basis, and flat on a dollar basis, during the quarter. As always, we maximized our price premium, and pricing also reflected tighter-than-normal industry supplies in the quarter following the two-week strike of Colombian workers in May, as well as lower Latin America, EU and ACP volumes. Our volume decreased 7 percent, as we walked away from low-margin sales earlier this year, particularly in the UK and France. In July, local prices were higher by 12 percent, and dollar prices were slightly below the year-over-year period. Volumes in July were down 16 percent, mostly as a result of the elimination of volumes in the UK and France, but also reflecting higher prices and slower demand due to warmer weather and the onset of a delayed summer fruit season.

In our **Salads and Healthy Snacks** Segment, net sales decreased by 13 percent from the year-ago quarter to \$305 million, primarily as we reduced foodservice volumes and also discontinued certain retail products that did not generate sufficient profit.

Comparable operating income was \$30 million, compared to a loss of \$6 million in the year-ago period. This increase was due to cost reduction and network efficiencies that we achieved while maintaining our profitable leading share in the market, with some benefit from lower net fuel cost. Pricing for Fresh Express value-added salads was down 1 percent versus the year-ago period, and volume was up by 2 percent during the quarter. In July, our retail value-added salad volume was up 2 percent versus year-ago despite our elimination of unprofitable SKUs - and pricing was down 6 percent, driven primarily by product mix and lower fuel surcharges, which also reflect lower cost.

In our **Other Produce** Segment, net sales were \$93 million compared to \$81 million a year ago. Comparable operating income was flat at \$5 million.

Now let's review our **outlook for 2009** and how we are thinking about the broader trends in our business. Overall, we are encouraged by our strong first-half results, which represent a \$21 million improvement in year-to-date comparable net income versus 2008, driven primarily by sustainable cost reductions and network efficiencies in salads. We now anticipate that we will achieve at least as much improvement in the second-half of the year compared to 2008 as we did in the first half.

Even so, it is important to recall the seasonality of the business. While many of the improvements we achieved in salads during the second quarter are sustainable, local European banana pricing is subject to significant seasonal variation and is more uncertain. In the second-half, we expect normal seasonality in bananas. European banana pricing usually experiences seasonal lows in the third quarter, and prices in the second-half are also 10 to 20 percent below those of the first-half.

We also expect normal seasonality in salads, in which the fourth quarter typically is the weakest because of slower consumption. This year, we will also be investing more in consumer marketing and innovation, so our improvement in salads in the second half is not expected to be as strong first-half, even though we continue to expect sustained cost performance.

Now, for a few segment-specific comments:

In the **Banana** segment, overall supply and consumer demand remains tight. We continue to expect that a lower euro value will pressure margins in the third quarter compared to a year ago, when the euro averaged \$1.51 per euro in the quarter.

- The incremental flood-related costs that impacted our first-half results are now largely behind us, but banana sourcing and production costs will continue to be higher than in 2008 due primarily to purchased fruit contract pricing and government-imposed exit prices.
- Banana pricing in North America remains favorable and is expected to remain relatively stable, despite a significant decline in fuel-related surcharges as a component of price.
- Local European banana pricing, which is set weekly, is less certain, and dependent on many factors. Industry supplies to Europe were particularly tight in the second quarter, which benefited pricing, and pricing remains strong in July, but if industry volumes return to more normal levels, the degree of year-on-year pricing gains is likely to moderate.

In the **Salads and Healthy Snacks** segment:

- Based on our first-half performance and continuing trends, we now expect to deliver operating margins in salads of at least 6 percent for the full-year 2009, versus breakeven last year - even after higher investment in consumer marketing and innovation during the

second half of 2009. The full-year operating margin we now expect in salads of at least 6 percent is almost double our earlier guidance of 3 to 4 percent.

- The Salads and Healthy Snacks segment will also reflect reduced start-up losses in Just Fruit in a Bottle.

In addition, I want to comment on a few unusual items that will continue to impact reported results during 2009.

First, as we have discussed in prior quarters, we have relocated our European headquarters to Switzerland to optimize our long-term tax structure. We expect to incur total one-time costs related to this relocation of approximately \$19 million, at the low end of our earlier estimate. Of these costs, \$4 million was recorded during the second quarter and \$12 million in earlier periods. Most of the remaining \$3 million will occur in the third quarter of 2009. This will continue to be an adjustment in arriving at comparable net income.

In thinking through year-over-year comparisons for the remainder of 2009, investors should also keep in mind the following unusual items which were adjustments in arriving at comparable income for 2008:

- We had gains from open-market repurchases of senior notes of \$10 million in the third quarter and \$5 million in the fourth quarter last year; and
- We also had \$3 million in charges related to the closure of a UK ripening center in the fourth quarter last year.

One other update relates to capital expenditures. We have increased our estimate for the year to between \$70 million and \$80 million. This new higher amount includes an estimated \$15 million of investment related to an earthquake in Honduras and Guatemala in May, which did not interrupt our farm operations but has required major repairs to river levees and other farm infrastructure. Part of this increased investment will be funded through insurance proceeds.

Finally, I would like to comment on our capital structure. At quarter-end, we had \$159 million in cash, and \$128 million in borrowing capacity under a five-year revolver with a syndicate of highly rated commercial banks. With no more than \$20 million in principal maturing in any year until 2014, we are in a very strong financial position and expect to remain so.

In summary,

- Our results in bananas remain very strong;
- Our profit improvement plans in salads are working very well;
- Our innovation efforts are on track;
- Investors can take comfort in our very solid capital structure and financial discipline; and
- Lastly, we are confident that, barring any unforeseen weather or other event risks, the company will deliver at least as much improvement in comparable net income in the second half as we did in the first half.

Now I will turn the call back to Fernando.

AGUIRRE: Thank you, Jeff. I want to take a moment to acknowledge the announcement we made regarding our succession plans in Finance. Jeff Zalla, our CFO, will be leaving the company and pursuing a new business venture. Mike Sims, our Treasurer and 21-year veteran of Chiquita, was elected by the board of directors to assume the role of chief financial officer.

First, I want to thank Jeff for a terrific career at Chiquita. It has been a pleasure to partner with Jeff during his four years as CFO. We have been through a lot together, including the completion and integration of the Fresh Express acquisition, the re-engineering of an attractive capital structure and the significant effort to improve the profitability of the company. He has been a strong leader and role model throughout his 19-year career at the company. We will miss Jeff's integrity and intelligence and wish him success in his new professional life.

One of my primary roles as CEO is the evaluation and succession planning of our senior talent pool. We identified Mike several years ago as a primary candidate to become CFO one day. That day has arrived.

Let me share some of the reasons why we have chosen Mike as our CFO. Mike brings the broadest possible training in our finance organization. Since joining Chiquita, he has spent time in financial reporting, strategic analysis, investor relations, and corporate planning. He also served very successfully as the CFO of our European business for seven years and most recently in business development and treasury.

Mike has delivered outstanding results in every assignment as a result of his operational experience and discipline. Most recently, he was in charge of the very successful sale of our ships. In fact, one of the reasons we did not have any hiccups following the bankruptcy of Eastwind, which bought some of our ships, was because of Mike's abilities and execution of the sale agreement. He also led the sale of the Atlanta distribution business, generating an outstanding cash value. As treasurer, he was also an integral part of our recent refinancing efforts and today we have a very strong capital structure.

Mike has a proven record of accomplishments in collaborating with our business leaders. He knows our operations and people as well as anybody in the entire company and he has demonstrated a tremendous pragmatism in setting the course for our operations to improve profitability. He is the best operator in the Finance organization and his skills will fit well and build on the strong momentum we have generated.

I have been working with Mike closely since we brought him back from Europe and I have great confidence he is the right leader for our Finance organization at this time. We are very pleased with our terrific results so far this year and believe Mike's leadership and operations skills will make us even stronger.

Jeff will be around until October to ensure there is a smooth transition with Mike. Now, Jeff would like to say a few words as well.

ZALLA: Thank you, Fernando. I'm quite proud of all that we have been able to accomplish in my four years as CFO, as well as in my earlier roles with the company. Chiquita is in excellent financial shape, is posting great results, and has a bright future. But now it's time for me to pursue an even bigger dream. I have known Mike since I started with the company and I have the utmost confidence that he will continue to build on the company's momentum. To everyone whom I've had the pleasure to work with throughout my career here, I want to thank you for your support, and I wish you all the best. Mike?

MICHAEL SIMS (*Treasurer, Chiquita Brands International*):

Thank you, Jeff and Fernando. I have just two remarks really. I would first like to express my very deep appreciation to the invaluable support and numerous insights Jeff has provided to me, as we have worked closely together for a great number of years. Jeff has made a lasting mark on Chiquita, and I wish him the best of success in his next endeavors.

I also welcome the opportunity to contribute to Chiquita's next phase of sustainable, profitable growth. We have great products, great people and a very solid financial platform on which to build. I look forward to spending time with our shareholders and stakeholders in the near future as we continue to improve shareholder value.

AGUIRRE: Thanks, Mike. Mike and I will be traveling to several cities to meet with our investors, analysts and other stakeholders in the next several weeks. We will do our best to create opportunities for many of you to meet Mike.

At this time, Jeff, Mike and I would like to open the call for questions. We will take as many questions as time allows.

QUESTION AND ANSWER

MIKE OTWAY (Jefferies & Co.): Good afternoon, everybody. I just have two quick questions for you. It sounds like you outlined the building blocks for the EBIT improvement in salads, cost reduction and network efficiencies. How should we think about these buckets as they relate to the back half? For example, seeing more cost reduction versus network efficiencies or price and mix?

ZALLA: What we have seen is relatively stable demand and some modest change in mix, but the key fundamental driver of the earnings improvement has been network efficiency and cost reductions. That has been the focus of our strategy and the execution of the operating plan. That's going to continue.

You should continue to see significant improvement in the balance of the year. However, as we stated in the prepared remarks, it will not be to the magnitude that we've seen recently in the second quarter - particularly in the fourth quarter of the year when volume is slower, simply because of lower consumer demand.

OTWAY: Okay. Can you give us an update on the sourcing agreement in Africa and whether you are still on track to begin to export in 2010? And, how long you feel it will take before the 20 to 30 percent of your euro volume is coming from Angola?

AGUIRRE: Yes, Mike. As we have said, we are working on getting volume out by early 2011. So we still have a little more than a year to go before we have it. As we get closer to one of the two project dates – for example, Mozambique being the one that is more advanced – we will be able to share more details about how it's going to happen and where we are going to be sending the volume.

These things take a long time to plan. We have done a very good job of executing, but we want to wait until we get closer to the date to be able to announce more details in terms of what countries we are going to be sending to and how much volume. The 20 to 30 percent of our European volume estimates obviously assume that's more of a going rate. So at the very beginning, and let me call the first year 2011, we are not going to be reaching those type of volumes.

OTWAY: Okay. Great. Thank you for your time.

JONATHAN FEENEY (Janney Montgomery Scott): Hi, guys, thank you. Quick question about the volume. How nimble can you be about these high fruit sourcing costs to cut back volume? Was this literally a question of you couldn't get your hands on the fruit you thought you could and your growers fell down on expected volumes, or did you deliberately walk away from situations where you would make a negative incremental profit margin?

And related to that, when we think about Q3 in Europe, how flexible can you be about dealing with these high fruit costs by cutting back volume, particularly into Europe, if it's not profitable to be there?

ZALLA: Jonathan, we have the largest degree of geographic diversity in banana sourcing of any major exporter and in the second quarter, in North America, we've been able to maintain volume the same as last year.

In Europe, volume was down in core markets by 7 percent in the second quarter. That reflected the fact that in some markets, particularly the UK and France, the competitive market dynamics are such that the pricing is sufficient to cover cost that the industry, not just we have faced in terms of increases over the last couple of years.

We have walked away from volume deliberately when we have not been able to meet our margin objectives. While volume is tight in Latin America, we have very strong relationships with growers and great geographic sourcing. So where profit opportunities are available we are assured of being able to get the supply we need.

AGUIRRE: Jon, the other point that we have said all along is that as a company, we are much more focused on profitability, and that is now showing up in the results. In the past we would focus on volume and we would grab any box of volume that we could and ship it anywhere

without paying as much attention to the box's profitability. Today, we first look at the profitability of the particular boxes and then we decide whether or not we want to ship them. In other words, we question profitability first and then we execute accordingly. That's a significant strategic change that we plan on continuing.

FEENEY: Thank you. Now, Fernando, you made a comment in your opening statement about the second half of the year. Are you talking absolute dollars year-over-year when you say you expect the same kind of improvement in comparable net income? Could you clarify that comment?

AGUIRRE: Yes, it is absolute dollars, Jonathan. The way to think about it is the improvement that we made in the first half, that's the kind of absolute dollar improvement that we expect to make in the second half.

FEENEY: Including the extraordinary flood costs in Q4?

ZALLA: No, when we talk about a comparable net income in the first half last year we delivered \$96 million in comparable net income. This year we delivered \$117 million, a \$21 million improvement in comparable net income. That's the same dollar magnitude of improvement we expect the second half. Those numbers are not adjusted for the flood. In other words, whether the fourth quarter last year, or year to date, that's a normal part of operating earnings, not something we adjust for in arriving at comparable net income.

FEENEY: Okay. So what number are you using to get to the comparable net income for the second half?

ZALLA: Well, last year we lost \$47 million in comparable net income in the second half. So, we will improve those results by at least \$21 million.

FEENEY: By at least \$21 million. Okay.

ZALLA: Correct.

FEENEY: Is that just generally being conservative? It would seem that by ignoring the impact of the floods last year, you could make a statement that's considerably stronger than that. What factors are driving you to make that statement?

ZALLA: Jonathan, in the fourth quarter we had flood impacts of \$8 million. I'm not making any adjustment for that. So when we began the year, we said we would deliver earnings that were at least as good on a comparable net income basis as last year. Now we've outperformed through the first half. We are up \$21 million and we are saying we are going to double that degree of improvement in the second half.

AGUIRRE: There are a lot of other elements, Jonathan, such as: banana pricing usually experiences seasonal lows in the second half; the fourth quarter for salads is always the weakest; and we are also going to be investing more in consumer marketing and innovation.

FEENEY: What magnitude are you talking about there, Fernando, as far as investing in consumer marketing innovation? Because it seems like that's the moving piece that's sort of new.

AGUIRRE: Well, we have been extremely disciplined and we will continue to be very disciplined by not investing any marketing or innovation funds until we test them. But, we will clearly be investing more in the second half than we have invested in the past.

As you know, we don't provide very specific guidance item by item. That by itself would be a very advantageous number for our competitors to find out and know, and we are not going to provide that. Again, rest assured that we will be doing it in a financially responsible way. We are doing all kinds of different testing everywhere, but we will only be expanding and rolling out those programs that work from a profitability standpoint.

FEENEY: Thank you. Jeff, best of luck. It's been great working with you. I think you've done a terrific job at Chiquita. If you consider the hand Chiquita has been dealt over the past four years, I can't think of a CFO of the 27 or 28 companies I have covered in that time who has done a better job. So you should be very proud, and it's been a pleasure working with you.

ZALLA: Thank you, Jonathan. Very kind of you to say.

BRYAN HUNT (Wells Fargo): Thank you. I was wondering if you could help us walk through the salad improvement a little bit more. For example, in evaluating sustainability of the profit improvement, could you give us an order of magnitude - like the biggest buckets of cost savings, whether it is efficiency gains or SKU cuts? Again, if you can just help us out.

ZALLA: The biggest category is lower product costs and greater operating efficiencies in manufacturing and transportation. To put it in perspective, we posted \$30 million of operating income in this year's second quarter compared to a \$6 million loss in the same quarter a year ago, a \$36 million improvement year-over-year. Close to half of that came from lower product supply costs due to efficiencies optimizing the network and manufacturing and transportation. That includes the benefit of SKU reduction.

This quarter, we also got benefit of lower fuel prices as well as some benefit in packaging materials costs. That was the second biggest benefit. Those are the two primary benefits for salads themselves.

The total category including Healthy Snacks also showed improvement from lower operating losses in Just Fruit in a Bottle, and some improvement in a process food ingredients business that we operate whose results are also reported in the segment. But, those were modest by comparison. Salads is the key driver of the improvement.

HUNT: And with regards to Just Fruit in a Bottle, could you give us a better handle on what the loss improvement was?

ZALLA: It was \$4 million in this year's second quarter compared to last year.

HUNT: Great. And then maybe just to help us understand how complicated the salad business is; how many SKUs remain in rough numbers?

ZALLA: Roughly 200.

HUNT: And my last question is, looking at the free cash flow that you've generated in the first half of the year, the balance sheet improvement which has been dramatic, you all have talked about making more internal investments in R&D. Do you believe your balance sheet is in the shape it needs to be? Maybe, one, could you tell us what your target leverage point may be, and, two, whether would you now begin to evaluate acquisitions to continue to build this double-digit EBITDA target?

SIMS: Hi, this is Mike. We clearly have deleveraging as one of our goals. We are sitting at about a 3.7 debt to EBITDA coverage ratio today, and think ideally aiming at something in the three range makes sense as a mid-term target, and we are on a great track to achieve that. Clearly as we look at cash flow and activity through the balance of the year, though, let's keep in mind that although we are looking at big improvement for the second semester year-on-year, margins are still relatively thin. We still have the remainder of our normal capital spending and debt service to go. Cash from operations will not necessarily remain at rates in the place that it's at in the end of the year.

In terms of acquisitions, we are always considering things, but debt reduction is clearly our number one priority and that's what we will continue to focus on.

HUNT: So no acquisitions until you get down to that three-times leverage point or at least not considering anything until you get to that point?

SIMS: We are not shopping for anything right now.

HUNT: Okay. Thank you very much. I'll get back in the queue and, Jeff, best of luck to you.

ZALLA: Thank you, Bryan.

VINCENT ANDREWS (Morgan Stanley): Good afternoon everybody. In your prepared remarks you touched on some of these things, but could you first walk us through what's causing the banana volume to come out of the market? I mean this has been going on for almost two years and been caused for different reasons. Could you update us at this point on how much of the volume that's come out would you classify as a cyclical reduction, meaning it's because of weather or something else, and how much is secular, because people have exited the business for one reason or the other?

ZALLA: When you mean volume out, do you mean for Chiquita alone?

ANDREWS: No, for the whole industry. You're benefiting because your volume was flat but the competitive volume, broadly speaking, whether it was coming from an ACP country or

wherever, was lower. I'm just trying to understand why it's lower and how much we should expect to come back over time and how much we should think about as being permanently out of the market in terms of how long these prices can stay where they are and, in fact, can they get better?

ZALLA: It's a good question. If you look at data for the second quarter alone from total Latin exports, all the countries were down 15 percent year-on-year versus a year ago. There were only two sources in all the Latin America that were up. Ecuador was up slightly and Guatemala was up a good bit. But there were major reductions in Costa Rica, Colombia, Honduras, and even some in Panama.

A large portion of that is driven by weather disruptions, both flooding in the fourth quarter and early part of this year. It's going to take at least until the end of the year for those farms to come back. Some growers may take some farms out of production, but it's out for at least several quarters.

This is an agriculture business, subject to fluctuation, and it's hard to predict exactly how long these kinds of tight market conditions will persist. But as a general matter we believe the industry will be tight for the next couple of years.

ANDREWS: Okay. Obviously you've made great progress in the salads business. Congratulations to you all for this because historically this has been a challenging business for whomever has owned it. You have made pretty dramatic changes to the strategy of the business, and it's working.

My question is, as you reevaluate where the salad business is, on a go-forward basis, do you see more opportunity today to improve the margin structure of the business than you did one, three, five, nine months ago, or are things just going to play out the way that you kind of expected maybe six months ago?

AGUIRRE: Vincent, I would tell you that we are not finished yet with the work we started. We started a program that we expected to render results in the 18 to 24 month period, and clearly we are ahead of that plan. Our people have done a magnificent job of executing it and we have done a very good job of staying disciplined to our objectives. Although we still haven't reached the types of objectives we want, we are getting close to where the acquisition economics were.

We now talk about delivering at least a 6 percent EBIT margin this year. We have moved that up from the 3 or 4 percent range we expected at the beginning of the year. That 6 percent is getting pretty close to where it was when we bought the business, and we still have good opportunities to improve. There are opportunities for the category to go back to higher growths.

It would be pretentious on my part to predict when and if salads will go back to the type of double-digit growth this category had when we bought the business, but clearly this category has not grown, it is underdeveloped, and there is still a lot of opportunity for consumers to buy more packaged salads. There's more convenience that consumers can take on. There's opportunity for those people who are not going to restaurants that much any more. So there's a lot of good work

we can do internally and there are opportunities we can pursue to pull more consumers into the category. That's part of the reason why we are going to be doing consumer marketing in the second half.

Consumer marketing is something the salads category hasn't ever done. No player in this category has talked to the consumer directly about the benefit of buying a packaged salad, and we are going to be doing some of that work. Frankly, there's a lot of work to go, but internally we are quite pleased. We are ahead of our plan and we believe there is opportunity to grow some more.

ANDREWS: Okay. Thank you very much, and good luck, Jeff, congratulations.

AGUIRRE: Thank you, Vincent.

REZA VAHABZADEH (Barclays Capital): Good afternoon. First of all, Jeff, congratulations on your accomplishments, at least over the last 15 years that I've known you. Tremendous job and best wishes as well.

ZALLA: Thank you very much, Reza.

VAHABZADEH: Now for the hard question. Is the 9 percent EBIT margin for the salad business a normalized margin in the second quarter? Is that a base margin from which you are going to potentially see improvements going forward, or were there any benefits or factors that may not get repeated?

ZALLA: The results we delivered in the second quarter are sustainable. There's nothing significantly unusual. The 9 percent for the second quarter reflects the quarter that is seasonally the best quarter in the year for salads.

What we've talked about is a 6 percent operating margin for the business as a whole, for the full calendar year. Typically second quarter is the best. The fourth quarter is typically the least profitable in the salads business, in the category as a whole.

VAHABZADEH: Got it. And can you give us any guidance on the magnitude of increase, from a modeling perspective, as far as consumer marketing innovation spending, which you mentioned as being higher year-over-year for the second half?

AGUIRRE: No, Reza, we won't do that. As I said earlier, giving that particular number would be a great opportunity for competitors to know one of our key strategies, and we are just not going to do that.

But as I said, and I will say it again, we will be very judicious. We will be careful. We will be financially responsible. We are testing. We are checking with consumers. But, this is a category that has never spoken to the consumer directly and we think there's a real opportunity for us to create some profit.

VAHABZADEH: Got it. And on the banana side you talked about Latin American exports being down 16 percent year-over-year. Is there an expectation that at some point in the next six to 12 months that the export numbers will flatten or even get higher, which will help to get back to a normalized export level?

ZALLA: We would expect farms that were flooded in fourth quarter last year - some of which got re-flooded in the first quarter - to be back in production for us late this year. We expect them to be in production for the industry by early next year. So, we would expect a rebound to the extent that some of these reductions were driven by weather events.

VAHABZADEH: Okay. And last question, you mention CapEx of I think \$70 million to \$80 million for this year. How much of that CapEx number will be funded by insurance proceeds?

ZALLA: Just a portion of the \$15 million incremental spending related to the recovery from earthquake damage in May. We have foreign property insurance that has a significant deductible. Over and above that, we would expect to get roughly a third to a half of that \$15 million in reinvestment.

VAHABZADEH: A third of the \$15 million?

ZALLA: Correct.

VAHABZADEH: Thank you much. Good-bye.

HEATHER JONES (BB&T Capital Markets): Good evening. Congratulations, phenomenal quarter. A few questions, is 6 percent target for Fresh Express, in the back half, inclusive or exclusive of Just Fruit in a Bottle losses?

ZALLA: That's just for the salad business. So the improvement year on year in Just Fruit in a Bottle is over and above that.

JONES: Okay. Well, then that would imply to get to the 6 percent for the year that the \$21 million or so that you are targeting at the back half would just be in Fresh Express alone. So basically, there will be no improvement in bananas even though Q4 2008 was impacted by flooding. Can help me get a handle on what your assumptions are behind this outlook and what's driving it?

ZALLA: A couple of things to remember: compared to the second half last year, foreign exchange is going to be a negative in the third quarter, and we also see year-on-year significantly higher purchase fruit costs as a result of higher exit prices and higher contract prices with growers.

JONES: Right, but pricing was up 12 percent in Europe in July?

ZALLA: In the month of July, that's right, but we also said that the pricing in Europe, which happens weekly, is much harder to predict. So if more volume comes into the European markets,

for whatever reason, that could limit the degree of upside in European price. So European price was up 12 percent in the month of July on a local basis, but it was actually down in dollars.

JONES: Right. And in Q4, are the increased costs in purchase fruit more than the \$8 million relief you'll see from flood costs?

ZALLA: In the balance of the year, yes.

JONES: So the balance, but in Q4?

ZALLA: I don't have that number top of mind, Heather, but for the balance of the year, yes.

JONES: Okay. Is the consumer marketing and advertising spending going to be concentrated in Fresh Express?

ZALLA: Much of it will be in Fresh Express, but we are not going to divulge what proportion of it will be.

JONES: Okay. Are you still targeting \$8 to \$10 million in reduction in Just Fruit in a Bottle for the year losses?

ZALLA: Yes.

JONES: Okay. And then my final question is in regards to Wal-Mart's increased emphasis on fresh, and the overall impact that project is having on Fresh Express due to the reallocation of shelf space for packaged salads. Specifically, Fresh Express seemed to occupy more shelf space in the reset location versus other locations that haven't been reset. Can you address whether you see that as an opportunity and if our observations are consistent with what you are seeing? Also have you had discussions with Wal-Mart?

AGUIRRE: One store does not make a representative space for what everyone does, so don't be misguided by that. We have had discussions with Wal-Mart. They are working on a very interesting concept and are trying different things in different settings.

Now, we have a great amount of confidence since our brand is the market leader, the fact that we stand for freshness, we have great awareness among consumers, and on top of that, hopefully with the type of marketing we will be doing in the second half, we will be reinforcing all of our benefits and strengths including food safety, including the freshness that we deliver. Hopefully consumers will react to that, but clearly it is an opportunity.

We also think there's a real opportunity for the market leading brands to thrive in an environment where customers are interested in only stocking those brands that move more. And Fresh Express is currently the leader in that category.

JONES: Alright. Thank you, and good luck, Jeff. We'll definitely miss working with you.

ZALLA: Thanks very much, Heather.

AGUIRRE: Well, thank you very much for all your questions and for joining us today. We obviously look forward to updating you on our continued progress in the quarters ahead, and this will conclude the call. Thanks again.

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