Dole Plc (Q4 Results 2022)

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Corporate Speakers:

- James O'Regan; Dole plc; Head of IR
- Rory Byrne; Dole plc; CEO & Executive Director
- Jacinta Devine; Dole plc; CFO & Executive Director
- Johan Linden; Dole plc; COO & Executive Director

Participants:

- Benjamin Bienvenu; Stephens Inc
- Adam Samuelson; Goldman Sachs & Co. LLC
- Christopher Barnes; Deutsche Bank Securities, Inc.
- Gary Martin; Davy

PRESENTATION

Operator^ Welcome to the Dole plc Fourth Quarter and Full Year 2022 Earnings Conference Call and Webcast. Today's conference is being broadcast live over the Internet and is also being recorded for playback purposes. (Operator Instructions) For opening remarks and introductions, I would like to turn the call over to the Head of Investor Relations with Dole plc, James O'Regan.

James O'Regan^ Thank you. Welcome, everybody. Thank you for taking the time to join our fourth quarter and full year 2022 earnings conference call. Joining me on the call today is our Chief Executive Officer, Rory Byrne; our Chief Operating Officer, Johan Linden; and our Chief Financial Officer, Jacinta Divine.

During this call we will be referring to presentation slides and supplemental remarks and these, along with our earnings release and other related materials are available on the investor relations section of the Dole plc website.

Please note our remarks today will include certain forward-looking statements within the provisions of the federal securities safe harbor laws. These reflect circumstances at the time they are made, and the company expressly disclaims any obligation to update or revise any forward-looking statements.

Actual results or outcomes may differ materially from those that may be expressed or implied due to a wide range of factors including those set forth in our SEC filings and press releases.

Information regarding the use of non-GAAP financial measures may be found in our press release, which also includes a reconciliation to the most comparable GAAP measures. With that, I am pleased to turn today's call over to Rory.

Rory Byrne^ Thank you, James. Welcome, everybody. Thank you for joining us today.

Well, 2022 was the first full financial year for the group from the completion of the merger of total produce of Dole Food Company on the subsequent IPO of Dole plc in July 2021.

The continued integration of the two-legacy business was a key operational focus for us during 2022, and we're very pleased with the progress made. Starting out with the rebranding of our operations, we created the backdrop for one new combined entity under the iconic Dole brand.

We launched Dole Exotics and the BE Exotic! brand in Europe. This specialist division is dedicated to the growing procurement, ripening, and marketing of exotic produce such as avocados and mangoes, aligning with our strategy to focus our efforts in categories with strong growth potential.

We released our first sustainability report as Dole plc and set ambitious goals for the near, medium and long term. These sustainability efforts were recognized by a number of industry bodies during 2022.

- The American-Costa Rican Chamber of Commerce recognized us with the Social Responsibility and Action Award
- Dole Ireland was awarded the Origin Green "gold" accolade, which is awarded the companies with exceptional annual performance on sustainability targets.

Post year-end, we announced that we reached an agreement to sell our Fresh Vegetables division to Fresh Express for a gross consideration of approximately $293 million, concluding the strategic review process for this division, which we undertook during 2022. We believe the combination with Fresh Express will improve the offering and service for customers and consumers through increased investments in innovation, efficiencies and food safety.

I want to express my gratitude again to the dedicated employees and partners of the Dole Fresh Vegetables business for their valuable contributions over the years and the support in particular of the management team as we worked our way to reaching this agreement.

Returning this division to profitability was a key focus for management last year, and the sale will allow us to focus on our core activities. We expect to use the net proceeds to reduce our debt, to strengthen the financial position of the group, and providing more flexibility to finance our future growth.

So turning to Slide 7 and the fourth quarter financial highlights.

We've delivered a very strong result for the fourth quarter, driven by a particularly good performance in our Fresh Fruit segment. Group revenue increased by 4.7%. On a like-for-

like basis, excluding the impact of foreign currency translation movements and M&A, it increased by 10.2%.

Adjusted EBITDA increased by 21.7% to $74.4 million, driven by the strong performance in our Fresh Fruit segment. This increase in adjusted EBITDA drove the increase in adjusted net income and adjusted diluted earnings per share.

On Slide 8 then, we recount the overall full year performance.

Against the backdrop of an unprecedented economic and operating environment, we are pleased with the results for the year.

Group revenue came in at $9.2 billion, in line with the prior year on a pro-forma basis and also in line with our guidance to the market. On a like-for-like basis, revenue increased by 5%. Price increases in response to inflation were the primary reason for this growth.

Adjusted EBITDA of $338 million was in line with our guidance. The decrease year-on-year was primarily due to the loss incurred by Fresh Vegetables following the challenging year, along with the impact of negative foreign currency movements.

Our Fresh Fruit segment performed very strongly, taking advantage of its strong strategic asset base. Our diversified fresh produce segments also performed well in '22, remaining agile in the face of challenges from supply chain disruptions, inflationary pressures and economic uncertainty.

So moving on to Slide 10 for our Operational Highlights.

Our Fresh Fruit division had a very positive end to the year and an excellent overall performance in 2022. North America and Commercial Cargo operations continued to perform very well with a healthy supply and demand balance and good shipping rates driving our performance. In Europe, high shipping rates and adverse currency movements continue to impact their profitability but were partially offset by an improved supply and demand balance in bananas, which allowed for better market pricing in Q4.

Importantly, this dynamic has also extended to better contract pricing in Europe for 2023. The recent customer renewals have allowed for important cost variables to be reset to more sustainable levels for the industry.

Overall, while supply and demand dynamics in the banana market remain an important variable for 2023, with our diverse sourcing base and leading customer portfolio, we believe we're well placed to have a strong year.

Our diversified EMEA segment continued to trade well on a like-for-like basis in Q4 while also benefiting from its extensive product and geographic diversity. Inflationary pressures and supply chain challenges continue to be apparent in certain markets.

But overall, our businesses continue to demonstrate the ability to price dynamically and provide consistent and high-quality service to our customers. Looking now to 2023. We continue to be encouraged by our success in managing supply chain complexity and with our dynamic plan pricing model, we expect to have a consistent year.

Our Diversified Americas segment continued to be impacted by specific supply chain challenges in Q4 with disruptions impacting a number of products, particularly on apples and kiwis. More positively, our important Chilean cherry business had a strong start to its season and our U.S. operations continue to perform well, particularly in products such as potatoes and onions.

Overall, in 2022, the negative impact of supply chain disruptions on the export side of the business offset positive development in the rest of this division. However, the scale and range of activities in our Diversified Americas segment still allowed us to maintain a solid level of performance overall.

Our fourth quarter performance of Fresh Vegetables remained somewhat disappointing as the industry went through an exceptional period of supply shortages that led to significant increases in sourcing costs in Q4. Performance improved at the end of the quarter as supply began to improve and also as our turnaround plan began to deliver benefits. We remain focused on driving continued improvement in this business while it remains a part of the group.

Turning to Slide 12, to our sustainability highlights in 2022.

We published our first sustainability report for Dole plc, which our ambitious goals for the coming years. Summary of these goals are set out on Page 13 of our presentation.

We achieved a 4% reduction in our Scope 1 and 2 emissions, a B rating for CDP disclosures and committed to the Science-Based Target Initiative. We continue to make investments in new and renewable energy sources as we transition from fossil fuels. Examples of this include the further roll out of solar panels to power facilities in Ireland, the addition of two wind turbines and manufacturing facilities in Salinas, and the addition of five new electric tractor rigs at the San Diego port terminal.

Our business model remains driven by adding value to society by delivering on social investment evidenced by our long track record in Latin America through the Dale Foundation, promoting healthy nutrition to consumers and finally, being a good steward of our natural resources like water, biodiversity, and soil.

Detailed goals for emissions will be itemized during 2023 and submitted to SBTI, and we will continue to focus on climate risk management. Our second annual sustainability report will follow in the fourth quarter of '23.

So with that, I'll hand you over to Jacinta to give the financial review.

Jacinta Devine^ Thank you, Rory. Good morning and good afternoon.

Turning to the group results on Slide 15.

Firstly, it is worth noting that the results for the fourth quarter are the first set of quarterly results where we compare to reported rather than pro-forma financials. As Rory mentioned, we delivered a strong performance in the fourth quarter and to recap on the key numbers:

Revenues for the fourth quarter increased over $100 million compared to the prior year, driven by higher pricing across all segments. On a like-for-like basis, revenue increased over 10%. Adjusted EBITDA for the fourth quarter increased 21.7% or $13 million to $74 million, with the increase driven by a strong performance in fresh fruit.

On a like-for-like basis, adjusted EBITDA increased 29%. Adjusted net income was $8.9 million, and adjusted diluted EPS was $0.09 in the quarter versus breakeven in Q4 2021, with the increase driven by higher adjusted EBITDA, offsetting higher interest expense versus the prior year.

On a full year basis, revenue remained in line with prior year, whereas adjusted EBITDA decreased 14%. The decrease was predominantly due to the significant challenges in our fresh vegetables segment, which resulted in a $33 million adjusted EBITDA loss. Foreign exchange translation also had a negative impact of $15 million. These impacts were partially offset by a strong year in Fresh Fruit.

Adjusted net income and adjusted diluted EPS, both decreased versus the pro-forma comparators for 2021, driven by the decrease in adjusted EBITDA and higher interest expense.

I will now provide some more detail on the fourth quarter performance for each of the operating segments.

Turning to Slide 17 for Fresh Fruit.

Fresh Fruit had a strong fourth quarter and end to the year with revenue increasing 8.7% and Adjusted EBITDA increasing 163%. Similar to the third quarter, the increases were driven by higher pricing for bananas worldwide, continued strong performance from commercial cargo, and higher pineapple volumes.

Operating costs remained elevated, particularly shipping and packaging costs and costs of sourced fruit. However, higher prices have offset these cost increases.

Moving on to Slide 18 for Diversified Fresh Produce - EMEA.

The good underlying performance in this segment was demonstrated by the 6.9% increase in revenue on a like-for-like basis, driven by higher pricing.

Adjusted EBITDA decreased 19.5%. However, adjusting for FX and M&A, this decrease reduces to 4.8% on a like-for-like basis. This decrease was mainly due to higher logistics and sourcing costs faced by our Scandinavian businesses and an unfavorable grape yield in South Africa, offset by strong performance in our Spanish, Dutch, and Czech businesses.

Turning to Diversified Fresh Produce - Americas and Rest of World on Slide 19.

Revenues for the fourth quarter increased 19.6%, driven by higher pricing and volume of cherries in Chile and continued strong sales of potatoes and onions in North America.

Disappointingly, adjusted EBITDA decreased 24% during the quarter following a weak season for Chilean apples and kiwis and lower pricing of raspberries in North America, partially offset by a strong start to the Chilean cherry season and higher pricing of potatoes and onions.

Finally, turning to Fresh Vegetables on Slide 20.

Revenue increased 6.1% as we saw the benefit of higher pricing for value-added products and continued strong pricing for the fresh-packed range. We continue to incur losses in the fourth quarter in Fresh Vegetables, particularly due to sourcing challenges and increased costs for vegetables and continued inflationary impact on other input and manufacturing costs.

Turning to Slide 21.

Capital expenditure for the fourth quarter was $31 million, and for the full year, we invested $98 million. For 2023, we expect CapEx to be circa $120 million, which is in line with depreciation for 2022.

We are pleased that our net leverage at the end of the year was 3x in line with our target. As expected, we saw the unwind of seasonal working capital in the fourth quarter, and this contributed to the reduction in leverage from the third quarter.

For 2023, we expect the pattern of seasonal working capital movements to be similar to 2022.

Our full year interest expense was $61 million in 2022. With the continued rise in market interest rates we currently expect our full year interest expense for 2023 to be circa $90 million before any benefit from the sale of Fresh Vegetables.

Finally, we have declared a dividend of $0.08 for the fourth quarter, in line with previous quarters this year and continuing our commitment to return cash to shareholders.

Now I will hand you back to Rory, who will give an update on our full year outlook and closing remarks.

Rory Byrne^ Thank you, Jacinta.

The operating environment so far in 2023 continues to bring both new opportunities and new challenges. As we noted in a recent update, we experienced a cybersecurity incident in February identified as ransom ware, which although it had a limited impact on our overall operations was disruptive to our Fresh Vegetables division and our Chilean businesses in particular.

More positively, we moved quickly to contain the threat and engaged with leading third-party cybersecurity experts, who have been working in partnership with our internal teams to remediate the issue and secure systems.

Switching to looking at the supply chains. So far in 2023, we are seeing signs of improved logistical efficiencies in several areas. However, we've also seen further weather events, such as colder weather, particularly in southern Spain, which has created challenges for importers in Northern Europe at the start of the year.

And lastly, when looking at the macroeconomic environment, we've seen positives for our business with the strengthening Euro, lower and more stable fuel prices, as well as some signs of inflation moderation in certain areas. However, as the environment remains uncertain, we need to remain fully and highly focused on managing costs and delivering operating efficiencies.

Overall, for 2023, we believe our business is well positioned for growth. And while forecasting in the current environment is complex, we are targeting full year adjusted EBITDA of $350 million. Our forecast assumes no contribution from the Fresh Vegetables division.

In conclusion, we're very pleased to finish '22 with a strong fourth quarter and to have agreed a deal to sell our Fresh Vegetables business.

Our principal priorities looking into '23 are obviously completing the sale in the Fresh Vegetables business, continuing to focus on cost control and operating efficiencies across our businesses, including the ongoing synergy projects, continuing with a disciplined approach to capital, and accelerating growth in our core business areas post completion of the Fresh Vegetables transaction.

I want to finish by thanking again our committed team for their ongoing efforts to drive our business forward and also by thanking our critical partners and customers for their ongoing support, which allows us to look to the future with great confidence. With that, I'll hand you back to the operator, and we can open the line for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) I'll pause for just a moment to compile the Q&A roster. Our first question comes from Ben Bienvenu with Stephens.

Benjamin Bienvenu^ I want to ask when we look at your $350 million of EBITDA guidance that you provided, some of the core assumptions that go into that, and I recognize that you noted you expect no contribution from Fresh Vegetables. But if I take this year's results and I back out Fresh Vegetables, it looks to be above that $350 million level. So maybe talk to us about what the push and pulls are in that $350 million guidance commentary.

Rory Byrne^ Sure. Thanks for the question, Ben. Yes, I think the overall question is that the environment is still quite volatile out there and forecasting continues to be very complex and a difficult science without a doubt. There is ongoing supply chain disruption and who knows where foreign exchange is going to end up.

It has been quite volatile over the last couple of years. Unfortunately, we've got the war still going on in Europe, in Ukraine. Energy costs quite volatile, fuel is quite volatile, inflation, although we've seen some indication that it might be moderating and then on the last day or two, maybe some European markets looks like it's increasing still.

So well, we're doing very well to manage all of those variables and then we look at what something just unexpectedly getting something like the cyber-attack, which while in the overall scheme of things, is not a material effect, here's a lot of work to try and reestablish the systems and continue to operate as we could do.

And on the other hand, FX may well be favorable. Other ups and downs across the business and nothing major. Overall, we've had a solid start to the year. So I think putting all of that into the mix, I think we're not too far off the expectation of the combined group of analysts that covers it.

So if we take the average across all the analysts, it's somewhere around $370 million. We take off the contribution from Fresh Veg that the analysts have gets you back to about $363 million and then what we've done for the purposes of looking at the forecast for 2023, we reallocated the head office costs that was previously absorbed by the Fresh Vegetables division, and you take that off and that gets you back to somewhere around the $350 million.

So obviously, the head office cost, we've got a separate project underway. But once we finally divest of the Fresh Vegetable division, we will realign our cost base to reflect the new business, and that should be a benefit that will come through in 2024.

So, I mean, you can stand back from this. It's just forecasting is difficult, really. The target we've assessed -- I think you do stand back for the sale with an increase in EBITDA, plus somewhere north of $250 million cash. I think our enterprise value goes

up by $350 million to $400 million, but just doing those two things. So that's really the summary of what you we're asking.

Benjamin Bienvenu^ Okay. Very good. And you noted the cash coming in the door from the sale of Fresh Vegetables. I think the primary objective is to pay down debt. Can you talk about your appetite as you pay down debt and you start to see some of the other business lines improved perhaps some of the headwinds that you identified ease? What is your appetite to accelerate growth investments and/or pursue M&A?

Rory Byrne^ Yes, we obviously are focused on this. And the interest rate environment continues to increase a little bit. So that probably drives a little bit of caution in terms of investment or M&A. We are still seeing something of a disconnect between the public and private markets that good private companies in our sector are still been valued considerably ahead than the largest player in the sector is being valued by the stock market, so that's a little disappointing and it discourages us on making serious M&A activity.

So, we keep it under review. We keep our balance sheet under view and we'll manage this as the company evolves over the next year or so.

Benjamin Bienvenu^ Okay. Thank you so much.

Operator^ Our next question comes from Adam Samuelson with Goldman Sachs.

Adam Samuelson^ So I guess, first question, maybe kind of continuing on the kind of the puts and takes around 2023. Can you talk about where the supply-demand balance in bananas and pineapples as it sits today? How, where you see kind of the most kind of improvement on demand or focus on supply productivity? And then kind of a related question on the guidance. Is there any kind of thoughts on phasing first half, second half seasonality that we should be particularly conscious of?

Rory Byrne^ Yes. I think in relation to seasonality, we're expecting a broadly similar profile by quarter. There may be some variations in some switches, but not -- we don't think it's going to be a materially different as '22 was versus '21. So it's some ups and downs.

But as you know, Adam, we look at this business on a full year basis rather than quarter-on-quarter, but we don't expect such radical moves. As for example, we have between Q1 '22 and Q1 '21. So we're a little bit a little bit more aligned to 2022. And then perhaps, Johan, do you want to make some comments on the overall supply-demand balance on the banana, which was Adam's first question?

Johan Linden^ Sure. So, we feel that we are in a good place right now. We started the year good. The market has been tight. So, the supply has been tight when it comes to bananas, but we have had supply. So, we have been able to perform well. The supply position will ease a little bit to the overall market, but we still feel that we are in a good

position when we look out for the full year. We feel that we have a good and well balanced year when it comes to supply and demand.

Maybe to put a little bit color on also one piece of our Fresh Fruit business is that we had, of course, an exceptional year also last year when it comes to commercial cargo. We believe we're going to have a good year in commercial cargo, but it's not going to be as exceptional that we had during 2021 and especially during 2022.

Adam Samuelson^ All right. That's all very helpful. And just a quick follow-up. What's the expectations for interest expense and CapEx for the year?

Rory Byrne^ Do you want to take that, Jacinta?

Jacinta Devine^ Sure, yes. So, we're expecting interest expense of approximately $90 million, which is a reflection of the increase in interest rates. And then for CapEx, we're expecting about $120 million, which is pretty much aligned with our depreciation number for 2022.

Adam Samuelson^ All right. That's super helpful. Thank you.

Rory Byrne^ Obviously, Adam, that excludes any benefit that we might get depending on the Vegetables to completes.

Adam Samuelson^ Got it. Thank you.

Operator^ Our next question comes from Chris Barnes with Deutsche Bank.

Christopher Barnes^ I just wanted to follow up on the Fresh Vegetables sale. Are you able to share any expectations on just the timing of when you expect this transaction to close? And then just also around your confidence in completing the transaction, just given potential antitrust concern on the sale of business.

Rory Byrne^ Yes. Thanks, Chris. I suppose there's a couple of things to point out on the veg deal. First of all, we believe that this is a very good outcome for all the stakeholders involved in this transaction.

We think it's a good deal for the buyer. We think it's a good deal for us, considering our financial dynamics. We think it's a good deal for the people involved in the business as well. We think this secures their future in a very good way. And most importantly, we also think that this is a good deal and the right move from a customer and consumer perspective. We think the combination will be good to create the ability of a great investment in innovation and efficiencies and particularly around food safety.

So as you know, the competition process is underway. We have been advised not to make too much public comment on it or we don't want to risk any interference in that process.

It's a process that's driven by the buyer with the appropriate input from ourselves on the program that we set out within the SPA in terms of how it would be approached and how the application process for competition terms would be undertaken has been followed rigidly. So we'll work our way through it. And at this point in time, we're not in a position to give any further updates. As the process evolves, we'll give an appropriate update.

Christopher Barnes^ Got it. Understood. I guess just in the meantime, while you do own the business, can you just provide any sort of like status update on returning the business to profitability. Like obviously, you had the cybersecurity incident earlier this quarter. But like have you seen any impact from like the extreme weather we've seen in California, like in January, creating new disruption? Just any sort of just update on how that business is performing? And what you expect while you still do own it?

Rory Byrne^ Do you want to take that, Johan?

Johan Linden^ Yes. So we are happy with the work that the division is doing. The focus has been on, as we have mentioned on the earlier calls that we had, is to service the customers. If you service the customers, you normally get the volume and you can get the price, and we are doing that well right now. Very strong operational cost focus to get costs down, and we have also seen good progress on that.

We have negotiated some new contracts, and there we've been able to push some price through. We have formulated some SKUs. So we believe that we are making good headway with the division. We had a good finish of the year. We had a relatively strong finish going into and also a good start of the year.

Unfortunately, we had the cyber attack that had an impact when it comes to serving our customers for a while, but we are back in servicing them fully now. So that's fine. The weather has had an impact. All the rain that we got in California, in January especially, although we don't have production there, we don't supply in January out of California, we do that in Arizona, but we had already started to plant.

So we will see some higher vegetable costs when we now do the transition here in a couple of weeks. So the yields will be a little bit worse. But overall, we feel that we are moving in the right direction.

Christopher Barnes^ Got it. That's helpful. And then just a final question for me. Just around the cyber incident. Do you expect to recover any of like the disruption amount like either later in the year just through like supply recovery or also like insurance proceeds? And I'll pass it on at that. Thanks.

Rory Byrne^ I suppose the simple answer on that is no, we don't expect to recover in either of those categories. Insurance is prohibitive. You can’t get sufficient insurance in North America for cybersecurity at the moment. And no, we don't expect to recover in any other particular way.

Christopher Barnes^ Got it. Thanks so much.

Operator^ Our next question comes from Gary Martin with Davy.

Gary Martin^ Just a quick question for me, just on the recent update just on the poor weather in Southern Europe and Northern Africa. Is this expected to be a Q1 only issue? Or is there going to be an impact just throughout the first half of the year? And just similarly, just in terms of the low yield in Chile, is that expected to just be a Q4 issue? Or will it transition into Q1, Q2 of FY '23? That's just my first question.

And then just a second one just on inflation-adjusted prices, just on some of the higher value of fruit and vegetable products. Have you seen any just demand attrition so far with the higher prices? Thanks.

Rory Byrne^ Yes. I mean given first of all with the current shortages in Northern Europe, it hasn't had a material impact on our business, some impact on our wholesale businesses in the U.K. and some impact on our Irish business, and we do expect that to normalize over the coming weeks, in fact.

So I think there's just been something of a perfect storm there between supply chain issues, weather issues, Brexit issues, and perhaps even diversification issues around Brexit from U.K. supermarkets, and reluctance to accept some of the price increases may have caused some of the Spanish producers on short cycle crops to plant a little bit less. So we think that the market will adjust that over time and we're seeing signs of that improving at the moment but not a material impact from our perspective.

And Chile, in terms of the apple business or the kiwi business, we're obviously hoping for improvements going into 2023 and it would be a late this year issue, and the grape season has been better than last year, but still not profit. But again, overall, we've taken that into our guidance for the year.

And in terms of inflation, obviously, I suppose our biggest single product line still offers huge and great value for customers in terms of banana pricing. The product still is a really good value item and we haven't seen any elasticity to pricing on bananas.

I mean, in some of the other products, we are seeing marginal resistance on the very high price per kilo or price per pound products, but it hasn't been material. I think what's happening is you're seeing consumer spending becomes discretionary how the produce is last on the list to be cut. So far, it hasn't been a material factor is.

Gary Martin^ Thanks so much. Good color.

Operator^ There are no further questions at this time. I'll now turn the call back over to Rory for closing remarks.

Rory Byrne^ Okay. Thank you very much. So thank you all for joining us today. So obviously, we're very pleased to follow a very strong Q3 with a very strong Q4. Overall, despite some significant challenges in '22, we're pretty pleased with the full year performance.

We think it's a very good outcome on the veg business, and we need to make sure that we complete that over the course of 2023. I think that will leave us very well positioned for the future years. So thank you all for joining us today. Thank you very much.

Operator^ This concludes today's conference call. You may now disconnect.