08 - 17 - 2023

Dole Plc

Second Quarter 2023 Results

Dole Plc

Second Quarter 2023 Results

CORPORATE SPEAKERS:

James O'Regan
Dole PLC; Head of Investor Relations
Rory Byrne
Dole PLC; Chief Executive Officer & Executive Director
Jacinta Devine
Dole PLC; Chief Financial Officer & Director
Johan Linden
Dole PLC; Chief Operational Officer & Director

PARTICIPANTS:

Benjamin Bienvenu
Stephens Inc.; Analyst
Adam Samuelson
Goldman Sachs Group, Inc.; Analyst
Christopher Barnes
Deutsche Bank AG; Analyst
Bryan Spillane
BofA Securities; Analyst
Gary Martin
Davy; Analyst

PRESENTATION:

Operator^ Welcome to the Dole plc second quarter 2023 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. You may now start the conference.

James O'Regan^ Thank you, Ellie. Welcome, everybody, and thank you for taking the time to join our second quarter 2023 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 Devine.

Dole Plc

Second Quarter 2023 Results

During this call, we will be referring to presentation slides, 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, and thank you all for joining us today as we discuss our second quarter results.

So firstly, turning to slide six and the financial highlights of the second quarter. While following on from our good performance in the first quarter, we're very pleased to report that our second quarter performance was equally strong.

We delivered revenue and adjusted EBITDA growth, driven by strong performances in our Fresh Fruits and Diversified Fresh Produce EMEA segments. Group revenue increased by 4.4%, driven by higher pricing. Adjusted EBITDA increased by 9.7% to $123 million, achieving an adjusted EBITDA margin of 5.7% compared to 5.5% in the second quarter of 2022.

Adjusted diluted EPS decreased due to higher interest expense.

While we continue to work through the regulatory process for the planned sale of the vegetables business, I'm also pleased to note that on an underlying basis, this division has continued to sustain the improved performance we saw in the first quarter despite a challenging operating environment.

Now turning to slide 8 for our operational highlights. In our Fresh Fruits segment, we delivered a very strong result in Q2 driven by a significantly improved performance in our European operations and in our noncore markets, offset in part by the anticipated decline in commercial cargo profitability.

As noted on our last call, 2022 was a challenging year in Europe as we could not quickly pass on significant cost increases to customers due to an instability in the marketplace following the start of the Ukraine war. Supply chain disruption was more prevalent in noncore markets in the

second quarter of 2022 where significant market oversupply led to excess fruit moving into these markets at low prices.

We are pleased that the healthier supply and demand balance in the first half of the year has both allowed for a better pricing environment in Europe and much improved selling conditions in noncore markets. However it remains a challenge to continue to push pricing further to offset some of the inflationary pressures we have faced in Europe.

In North America, our operations continued to perform well despite intense competition in the marketplace. We were pleased to launch our golden selection pineapple up in the quarter, which was very well received by our customers and provides a strong base for further planned innovation within this category.

As always, supply and demand dynamics in banana markets remain an important variable as we look out into the second half of 2023. Overall, we continue to see a good balance between supply and demand, tempered by an ongoing and volatile macro environment.

The onset of the El Nino climatic conditions can also have an impact on production. However, we believe that with our diverse sourcing base and our advanced farming practices that we are well placed to deal with any challenges that could emerge.

Our Diversified EMEA segment has continued its good momentum in 2023, delivering another quarter of strong EBITDA growth. Inflationary-driven price increases are continuing to allow for good revenue growth across our markets. However volumes remain impacted in certain markets as pricing has increased. We're managing our cost base well and placing a strong focus on driving synergies across the segment and also taking advantage of bolt-on acquisition opportunities to support our growth plans.

As anticipated in our Q1 call, we began to see improving FX comparison second quarter after a challenging headwind from FX translation over the last 12 months. While Q2 '23, exchange rates remain broadly in line with Q2 2022, we are now beginning to see more favorable comparators for the second half of the year.

Our diversified Americas and Rest of World segment has had a slow start to 2023, predominantly due to lower volumes across the segment and challenges faced in the berries category. Despite these challenges, our overall performance has remained satisfactory as we continue to see good product performance in the North American potato and onion category as well as seeing the benefits of some of the additional investments we made to support this segment.

Looking ahead to the remainder of the year, we remain confident that the division will deliver a stronger second half than in 2022. With that, I'll hand you over to Jacinta to take up the financial review.

Dole Plc

Second Quarter 2023 Results

Jacinta Devine^ Thank you, Rory, and good day everyone. Turning to the group results on slide 10. We delivered a strong result in the second quarter with revenue increasing $90 million or 4.4%. On a like-for-like basis, the increase was 3.8%.

Adjusted EBITDA increased $11 million or 9.7% to $122.7 million with the increase driven by a strong performance in Fresh Fruit and Diversified Fresh Produce EMEA, offset by a decrease in Diversified Fresh Produce Americas and Rest of World. On a like-for-like basis, Adjusted EBITDA increased 9.2%.

For the first half of the year, we have now delivered $223 million of adjusted EBITDA from $4.1 billion of revenue. Income from continuing operations increased to $63.7 million from $59.6 million and net income increased to $52.3 million from $48.4 million. Adjusted net income decreased $4.1 million to $48.4 million and adjusted diluted EPS was $0.51 in the quarter compared to $52.4 million and $0.55 in the second quarter of 2022. The decrease in adjusted net income was driven by an increase in interest expense, partially offset by the strong adjusted EBITDA performance.

As Rory mentioned, the Fresh Vegetable division's underlying performance has improved. However the current period was impacted by nonrecurring costs and the cessation of depreciation and amortization due to the assets held for sale reclassification.

Now turning to the divisional updates for our continuing operations and starting with Fresh Fruits on Slide 12.

The Fresh Fruit division delivered another strong result in the second quarter. Revenue increased 4.1%, driven primarily by higher bananas and pineapple pricing. Volumes of bananas sold increased on a worldwide basis whereas pineapple volumes were lower. Adjusted EBITDA increased 16.9% compared to the second quarter of 2022 driven by revenue growth, which offset higher sourcing costs and higher cost of shipping, packaging and handling, as well as lower commercial cargo activity.

Turning to Diversified Fresh Produce EMEA on slide 13. This division also performed strongly in the quarter with reported revenue increasing 7.7%, driven by higher pricing. On a like-for-like basis, primarily adjusting for a $16 million increase to revenue from bolt-on acquisitions as well as $1 million negative impact from foreign currency retranslation, revenue increased 6%. Adjusted EBITDA increased 10.8%. And on a like-for-like basis, the increase was 10%. There was a strong performance across the segment with our Spanish, Dutch, Czech and Irish businesses performing particularly well.

Finally, Diversified Fresh Produce Americas and Rest of World on slide 14. Due to lower volumes across the segment arising from our export strategy for 2023 as well as challenges faced in the berries category, revenue decreased 6.8% year-on-year. Partially offsetting these factors was continued strong performance for potatoes and onions in North America. Adjusted EBITDA for this division decreased by 16.4%.

Turning to slide 15 to discuss our capital allocation and leverage. Capital allocation and managing our leverage remains a key focus for the group, and we are pleased that at the end of the quarter, our leverage was 2.6x. A reduction in leverage from the first quarter was driven by strong adjusted EBITDA performance and good management of our working capital across the group. Following a similar trend to Q1, interest expense has increased approximately $9 million year-over-year to $19.8 million, following the rise in interest rates over the past 12 months. For the full year, we are retaining our forecast of $90 million.

We continue to dispose of noncore assets within the group and received proceeds of $12 million in the quarter primarily from the sale of two vessels, which we discussed in our last earnings call and the sale of a property in Latin America. We expect to deliver further sales as the year progresses. Capital expenditure for the second quarter was $21 million, of which $18 million related to continuing operations. Expenditures included farm renovations and ongoing investments in IT, logistics and efficiency projects in our warehouses and processing facilities.

For 2023, we now expect CapEx to be circa $110 million, and this includes $10 million of CapEx attributable to the fresh vegetables division.

Finally, we are pleased to declare a dividend of $0.08 for the second quarter, 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^ Thanks, Jacinta. Well as we look back over the first half of the year, we're very pleased with the group's performance, delivering some $223 million of adjusted EBITDA.

So far in 2023, we've seen the benefit of improved logistical efficiencies in several areas, which is helping to bring more stability to our core food business. Counterbalancing this of course is the reduction in commercial cargo contribution and activity.

With the onset of the El Nino climatic conditions, there is the potential for disruption in many of our key growing regions in Central and South America in the second half of '23 and into 2024. However as I said earlier, we are monitoring the changing weather patterns closely and believe we’re well-placed to deal with potential challenges, using our diverse sourcing network and indeed due to our advanced farming practices.

From a macro perspective, similar to Q1, we continue to see positives for our business from the strengthening euro, more open supply chains, and continuing signs of inflation moderating. However, there are some headwinds, and we see higher interest rates and a continuing strong Costa Rican Colon.

In summary, while the macro environment remains volatile, we believe our strong first half has put us in an excellent position to deliver a good result for the year, and we are now targeting an adjusted EBITDA for 2023 of at least $350 million.

In conclusion, we're very pleased with the excellent results we've delivered for the first half of the year, and we hope to continue the momentum in the second half while also delivering on the wider strategic priorities that we outlined for the year.

To remind everyone, our principal strategic priorities for '23 are: completing the sale of the Fresh Vegetables business, focusing on cost control and operating efficiencies across our businesses, including the ongoing value creation and collaboration projects, continuing with a disciplined approach to capital, and accelerating growth in our core business areas.

I want to finish by once again thanking, again, all of our people across the group for their ongoing commitment and dedication to drive Dole plc forward, as well, of course to our suppliers and customers for their ongoing support, which provides us with confidence as we look towards the remainder of the year.

We'd also like to take this opportunity to add one further thought. As most of you will know, Dole has its origins and a great affinity with Hawaii, and we'd like to just take this opportunity to express our deepest concerns, sympathy, and all of our thoughts with the people of Maui who have been so tragically affected by the recent fires. We sincerely hope that with the help of all of us together that they can recover from this tragedy.

So with that, I'll hand you back to the operator, and we're happy to take questions.

QUESTION & ANSWER:

Operator^ We are now open for the question-and-answer session. We have our first question from Ben Bienvenu from Stephens. Your line is now open.

Benjamin Bienvenu^ Hey, good morning everybody. So I want to start with the guidance. I appreciate the nuanced kind of guidance raise that you provided us with this morning. When you think about the elements of variability, it sounds like it's an abundance of caution relative to the unknown, and the unknown being primarily weather. Is there any evidence of disruption thus far? And can you guys give us a sense of when kind of the window where that risk is most acutely manifesting itself so that we can be aware of -- maybe when we're in a spot where we have better visibility?

Rory Byrne^ Yes. I mean obviously there's a few things go into it. We had a very strong finish to the year last year, half two in particular, Q4 was particularly strong and particularly in our Fresh Fruit division. Complicated times to forecast just generally, I mean we've been hit with so many uncertainties over the last couple of years, from Russia-Ukraine, oil prices, energy issues,

weather, and continuing complications. So just the art of forecasting accurately becomes a little bit more difficult.

But having said that, we're feeling very positive and we have added the “at least” to the $350 to underpin that confidence. I think if any impact is likely to come in, in terms of weather or otherwise, it could be in Q4. But it's a little early to call it. But we are, generally speaking, feeling good. There's nothing in the current trading that would require us to make any kind of comments to suggest something different to that.

Benjamin Bienvenu^ Okay. Great. And then maybe thinking about -- I know it's early, but thinking about next year, I kind of think of this business as a very steady grower on an organic basis, call it low to mid-single-digit, EBITDA growth. Is it your expectation that once you've got the Fresh Vegetables business sale behind you, and notwithstanding unpredictable external variables, this business seems poised to deliver that as you guys continue to generate cost efficiencies and you're seeing strong performance return from a top line perspective across your businesses?

Rory Byrne^ Yes. I mean it's a little early to give any kind of guidance or forecast for 2024. -- But your broad summary of the scenario is accurate, and we'll be planning and working over the next few months to make sure that we maximize our position in 2024.

Benjamin Bienvenu^ Okay. Fair enough. Congratulations.

Rory Byrne^ Thank you.

Operator^ Our next question will come from Adam Samuelson from Goldman Sachs.

Adam Samuelson^ Yes, thank you, good morning, everyone. I guess the first question, maybe sort of working off Ben's point, if you look back historically at -- in El Nino periods, can you maybe talk about the parts of the business that have proven more susceptible or at risk of supply disruption or maybe the geographies and crops you're most kind of closely watching based on historical precedents in El Nino periods?

Rory Byrne^ Johan?

Johan Linden ^ Yes. So good morning, Adam, yes. So historically, the biggest impact has been within our Banana segment, and you will have rains in Ecuador and you will basically have droughts in the other places. And if you go back historically, for the last two big ones we had, one was in the end of the '90s and one was -- I think it was '15, '16. In the end of the ‘90s, the volume -- the overall volumes in Ecuador came down 8% because of the rain.

What has happened since then is, of course at least if we look atourselves is that we have a very experienced -- we have the best team in the industry. They lived through already what happened

in the late '90s. We have prepared when it comes to drainage, we have ag practices so that we feel that we are in a very good position to handle what might come at us.

Also, when you look at the dry areas, we have more irrigation in place and also different ag practices than we had then. So we don't believe the impact will be as big as it was in the late '90s.

Then there are some other impacts in Peru when it comes to avocados and berries, their seasons get a little bit delayed and volumes get a little bit lower, but the big ones are for bananas.

Adam Samuelson^ Okay. No, that's very helpful. Then I guess -- and clarify on the EBITDA guidance for the year, and I appreciate that there's the modifier of “at least”. But I guess first half EBITDA of 2023, just the implied second half kind of is almost just a $350 million would almost be equal to what you did in the second quarter alone. Appreciating their is seasonality, but can you just maybe talk about where seasonality you expect -- you think seasonality might be more pronounced that a $350 million EBITDA level would be.

Rory Byrne^ Yes, historically, Adam, if you go back over the banana business, it was a strong first half and a much weaker second half. Last year, certainly, the back half of the year was disproportionately strong. So it's a little bit of an unusual year. We're seeing a little bit more consistency in earnings over the course of the year with some of the dynamics -- some of the underlying dynamics changing as we move along.

And so -- I mean look, we've just put the factors into it. We're happy with Q2. We're happy how we're trading at the moment, and we're feeling positive about the full year outcome. But we just don't think there's any sense in being more specific than that at this point in time.

Adam Samuelson^ Okay. All right, that’s helpful, I’ll pass it on. Thanks.

Rory Byrne^ Thanks, Adam.

Operator^ Our next question comes from Christopher Barnes from Deutsche Bank.

Christopher Barnes^ I guess I'm also going to pick up on the EBITDA guidance. It just seems like with like the way the European currencies are moving, moderating inflation, being even more beneficial over the back half versus what we just saw in the first half, alongside like easing comparisons in the Americas, Rest of World business with the comparison with the grape business a year ago, like where specifically do you see like the grape -- like what's causing you, like, the greatest, like, cause for concerns, like, over the back half? I know, like, spot rates for Costa Rica Colon and Colombian peso appear to be moving against you. But like any -- just any incremental color over the back half would be helpful. Thanks.

Rory Byrne^ I think really, as said earlier, a lot of it relates to the outcome in the back half of last year. We had an exceptionally strong set of circumstances and everything came together in a positive way, particularly in the Fresh Fruit division in the last quarter of 2022. The back half of

the year historically tends to be quite a bit weaker, and we're not suggesting that this year, it's going to be dramatically weaker, but it's just -- we put all the factors into the mix and we think let's take it step-by-step, and let’s not get ahead of ourselves in terms of putting out a figure and then having to justify it.

So we're feeling comfortable, we’re feeling positive, and we've put the guidance out on that basis into the market.

Christopher Barnes^ Got it. Thank you. And Johan, like as it related to the volume decline of like 8% for the bananas in the late '90s, El Nino, like are you able to -- like, how much of, like, an EBITDA headwind would that have amounted to? Obviously you mentioned all the improved operational practices you have in place. But this is a way, like, as a -- like what -- if we have a worst-case scenario, like, what kind of an EBITDA headwind are we looking at? Thanks.

Johan Linden^ The beauty for us is that if the worst comes to pass and there is a very dramatic decrease in volumes, we have a diversification both when it comes to our sourcing network, and how our shipping is set up, that we will be able to handle that better than the industry in general. So we don't believe it will have a big hit if it comes to pass. For us.

Christopher Barnes^ Okay. That's helpful. Thanks. And then one last follow-up. Like, the gross debt reduction this quarter was nice to see. Like how much further, like, do you expect to be able to reduce debt over the balance of the year, just as a result of, like, just organic cash flow as well as, like, noncore asset sales? Obviously the timing of the Fresh Vegetable business is out of your control. So I'm just trying to understand, like, what within your control you can do to continue reducing debt? Thanks.

Jacinta Devine^ So for the balance of the year, we would hope to have a working capital inflow similar to last year. And asset sales, we do anticipate asset sales, but I suppose it can be difficult to predict the exact timing of those. So we'll be expecting to come in somewhere in the range of around $950 to $970, something like that towards the end of the year.

But look, it's difficult to predict, particularly with the working capital movements, but we're pleased with the progress we've made so far this year in that regard.

Operator^ (Operator Instructions) We have our next question from Bryan Spillane from Bank of America.

Bryan Spillane^ Thanks, Operator. Good morning, everyone. Just I wanted to just pick up maybe on that last question with regards to cash flow and free cash flow. If we look at the first half, we've got EBITDA up pretty meaningfully, and we actually have cash from operations down pretty meaningfully. Free cash flow conversion and net income is like 14%. The conversion from EBITDA pretty low.

So I guess two questions. You just mentioned you expect some working capital improvements in the back half of the year. But maybe more broadly, can you just give us some guidepost on how we should think about free cash flow as a percentage of EBITDA or net income? Just what's the normal free cash flow conversion in this business, just simply because it's very erratic. It's moved around a lot. And just trying to get a level set as we kind of work through our DCF models, how we should really be thinking about cash flows.

Jacinta Devine^ Yes. It is difficult to predict. With our large turnover, we obviously can have significant working capital movements. So the impact in the year-to-date is very much normal. It's seasonal. We're actually -- despite the outflow in working capital in the six months, we're actually pleased because that reflects a reduction in inventories, which you might recall from last year, we had increased our inventories as the defense mechanism against supply chain disruptions. So overall, that working capital movement is positive for us at this time of year.

Very -- really challenging, to be honest, to answer more comprehensively than that. All I can say is we're working hard to manage our working capital, but obviously with higher prices, and managing that, that can impact the gross amount of working capital. But anyway -- and that's of course ignoring the Fresh Veg transaction, which will obviously change our cash flow significantly if we complete that at the end of the year.

Bryan Spillane^ Yes. But the divestiture isn’t free cash, like, that's nonoperating.

Jacinta Devine^ No. No, no, absolutely. It's net debt obviously. It's net debt
Bryan Spillane^ Yes. I just -- but -- so I guess two follow-ups there. If I'm understanding it correctly, what you're working hard on in terms of working capital is really inventory? Is that where the biggest sort of lever is, if you will, in terms of converting EBITDA to free cash flow, of the working capital items? Is it inventory that we should be watching?

Jacinta Devine^ Yes. Inventory is important. Trade receivables are important, at different times of the year, our funding of our growers and suppliers can move around a bit. So that's important, and the timing of seasons makes that difficult. So the end of the year can be impacted by the timing of seasons in that regard. So that moves around quite a bit, yes. But it is, it's focused on working capital to manage that as tightly as we can, all the levers that we have in that regard.

Bryan Spillane^ Okay. And then again, I'm going to ask again, I'm just trying to get a sense of -- as we're modeling out years, I'm not asking for just a pinpoint estimate, but just what's the range of just converting EBITDA to free cash flow? 50% of EBITDA, 20% of EBITDA?

Jacinta Devine^ Yes. So we’d hope to have somewhere around 50-ish, $50 million for the year or so. Yes.

Bryan Spillane^ $50 million of free cash flow.

Jacinta Devine^ Yes.

Bryan Spillane^ Okay. Is that a normal -- like, again, is it just kind of thinking of that as a ratio of net income. Was that kind of a normalized free cash flow conversion?

Jacinta Devine^ (inaudible) Yes, that's sort of a normalized number. Based on the year to day, yes.

Bryan Spillane^ All right, perfect, thank you very much.

Operator^ We have our next question from Gary Martin from Davy.

Gary Martin^ Hi Rory, Johan, and Jacinta, congratulations on a very strong set of results today. Just a few questions from my side. Just first, starting with -- I know you mentioned continuation of strong supply and demand dynamics for Fresh Fruit. But just to double click into that a little bit more, are you expecting positive volumes into the second half? And also just in congruence for that, you'd mentioned a strong pricing in Fresh Fruit as well, particularly bananas. Are you also expecting that to persist into the second half?

Rory Byrne^ Yes. I think Johan'd like to take that one. I think, I mean volumes we're expecting to be pretty stable. We've said that there's a healthy supply/demand there and pricing will be pretty similar driven from that stability in volumes to the first half of the year, maybe a slight weakening, but it's too hard to call -- too early to call yet.

Gary Martin^ Then just second, just on the small bolt-on acquisitions made in diversified EMEA during the quarter. It was interesting to see, I mean should we see this as a bit of a starting pistol to kind of kick back into just kind of more acquisitions in the diversified space? I mean what's the best way to think about this?

Rory Byrne^ Yes. I mean it's pretty small, and we're constantly looking at whether its neighboring businesses with our existing businesses that can add something and get efficiencies, and that's an ongoing process. So over time, we may add in a few more bits and pieces like that. But they're not going to move the down materially, those kind of acquisitions, but they're interesting, help solidify our position, help build our categories, build our position with customers. And historically, in the Total Produce model, it's what we did, and we'll continue to do that going forward.

Gary Martin^ And then just maybe a final one. Just I know you've touched on El Nino quite extensively. But I suppose just touching on the European heat wave in June and July, I mean is that expected to have any knock-on impact later in the year? Like is there any kind of fruit and veg production issues off the back that's expected to impact Dole in anyway? And what's the best way to think about it?

Rory Byrne^ We don't think that last heat wave is going to have a material impact on us. It will affect some categories of supply into Northern Europe, coming out of Southern Europe, in

particular the temperatures in Spain, Southern Spain in particular. It can have an impact, but we're not expecting that to have a material impact on us.

Gary Martin^ Okay, that’s really helpful, thanks so much. I’ll pass it on.

Rory Byrne^ Thanks, Gary.

Operator^ It seems like we don't have any questions as of right now. I'd now like to hand back to our management for the closing remarks.

Rory Byrne^ Okay. Thank you. So I think we can look back at Q2 as being another good quarter and a strong sequence of good quarterly performances. Plenty of challenges, but we also see there's plenty of opportunities and we look forward to the future with optimism. So thank you all for joining the call today. Thank you very much.

Operator^ Thank you, everyone. You may now all disconnect to the conference.