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Third Quarter Results 2023

CORPORATE SPEAKERS:

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PRESENTATION:

Operator^ Welcome to the Dole plc Third 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. For opening remarks and introductions, I would like to turn the call over to Head of Investor Relations with Dole plc, James Regan.

James Regan^ Thank you. Welcome, everybody. And thank you for taking the time to join our third quarter 2023 earnings conference call and webcast. 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.

During this call, we will be referring to presentation slides to supplement the 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 law. 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.

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

Rory Byrne^ Thank you, James. Welcome, everybody. And thank you for joining us today as we discuss our results for the third quarter. So turning to Slide 6 and the financial highlights for the third quarter. Well, following on from our good performance for the first half of the year, we are very pleased to report another strong result for the third quarter.

We delivered revenue and adjusted EBITDA growth, driven mostly by our two diversified fresh produce segments. Group revenue increased by 4.2%, driven largely by higher pricing and adjusted EBITDA increased by 7.6%. Adjusted diluted earnings per share was $0.24 for the quarter compared to $0.28 in the prior year, with the reduction primarily due to higher year-on-year interest expense.

We continue to focus on optimizing our balance sheet, and we are pleased to report that in excess of $45 million cash proceeds were realized from the sale of surplus lands in Hawaii and Honduras in the quarter. Combined with good working capital management across the group, these proceeds contributed to a reduction in our net leverage to 2.4x at the end of September.

So now I'll turn to Slide 8 for our operational highlights. Our Fresh Foods segment delivered another good result in Q3. The result was driven by strong performance from our European operations, which continued to benefit from a better supply-demand balance in '23 compared to 2022.

In North America, our operations are continuing to perform well in spite of intense competition in the marketplace, higher sourcing costs, and the impact of lower commercial cargo profitability. As always, supply and demand dynamics in the banana market and to a lesser extent, the pineapple market, remain important variables as we approach the end of 2023. Weather remains the most important variable we're monitoring and the impact of El Nino in particular. There have been very high levels of accumulated rainfall in Ecuador in the year-to-date, which have impacted production volumes and spot prices.

Banana supply is currently tight and is forecast to decrease for next year. To date, we've managed the challenges posed by El Nino very well and we remain keenly focused on maintaining good drainage, irrigation and flood protection in our farms and optimizing our diverse sourcing base so that we continue to service our customers well even if supply challenges persist.

Moving on then to our diversified EMEA business. Our diversified EMEA segment has continued its good momentum from the first half of the year, delivering another quarter of strong revenue and adjusted EBITDA growth.

Revenue growth continues to be driven by higher pricing as well as the expected benefit from foreign currency translation after we experienced translation headwinds in 2022. And at current

exchange rates, we expect to see a further marginal benefit from FX translation in the Fourth Quarter.

We continue to make good progress by managing our cost base efficiently and delivery of synergies across this segment. We've seen the benefits of our investments in ripening, handling and pre-packing and these are supporting further expansion across the European marketplace.

We also continue to identify and execute on small bolt-on acquisition opportunities that are delivering value for the group. Altogether, we're expecting to have a positive end to 2023 in this segment.

Our Diversified Americas segment had an improved performance in the third quarter, benefiting from a favorable prior year comparative

Improved supply chain conditions in 2023 are allowing for better export conditions, and we anticipate a more stable performance in this regard in the Fourth Quarter also. Our performance in the North American market remains robust across most of the commodities in the market, driven by stronger pricing, which is offsetting lower volumes and some ongoing challenges in the berry category.

Looking ahead to the remainder of the year, we are keenly focused on the start of the Southern Hemisphere export seasons in some of our important categories such as cherries and grapes and delivering a strong service to our customers.

Turning to the Fresh Vegetables divisions. As you know, earlier this year, we announced our decision to sell our Fresh Vegetables Division to Fresh Express and the regulatory review is still ongoing. We do need to let that review play out, so we cannot provide any substantive updates today. We do, however, have some concern regarding the length of this, the regulatory review.

While the combination with Fresh Express is still, in our view, the best outcome for all stakeholders, if we are not able to close that transaction due to regulatory reasons or otherwise, we remain committed to exiting the business.

We continue to believe that doing so will benefit our strategic priority of accelerating growth in our core business areas.

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

Jacinta Devine^ Thank you, Rory. And good day, everyone. Firstly, turning to the group results on Slide 10. From a group perspective, the results for the third quarter were very pleasing. Revenue increased $82 million or 4.2%. And on a like-for-like basis, the increase was 1.2%.

Adjusted EBITDA increased $6 million to $85.2 million. Growth in Diversified Fresh Produce in EMEA and Diversified Fresh Produce Americas and Rest of World were the key drivers. And our Fresh Fruit segment delivered a strong result against a strong prior year benchmark.

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On a like-for-like basis, adjusted EBITDA increased 4.2%. For the first nine months of the year, we delivered $308 million of adjusted EBITDA, an increase of $25 million compared with the prior year. Net income increased to $54 million from $46.6 million and income from continuing operations was $55.7 million compared to $58.3 million.

The increase in net income was driven by higher adjusted EBITDA and a gain on sale of assets of $28.8 million. Diluted EPS from continuing operations was $0.50 and diluted EPS was $0.48, a 14% increase from the prior year. Adjusted net income decreased to $22.6 million from $26.2 million and adjusted diluted EPS was $0.24 compared to $0.28 in the third quarter of 2022.

The decrease was predominantly driven by the increase in interest expense over the last 12 months as well as higher income tax expense, partially offset by the increase in adjusted EBITDA.

In the third quarter, underlying performance within the fresh vegetables business continues to improve despite an ongoing challenging operating environment. And this can be seen in the decreased loss from discontinued operations for the third quarter of 2023 compared to 2022.

Turning now to the divisional updates for our continuing operations and starting with Fresh Fruit on Slide 12.

The Fresh Fruit division delivered a good result in the third quarter. Revenue decreased marginally by 0.3%.

The decrease was primarily due to lower banana pricing in North America, which was partially offset by higher worldwide volumes of banana sold, an increase in worldwide pricing of pineapples and stronger banana pricing in Europe.

Adjusted EBITDA decreased by $4 million or 8.6% due to a strong comparative third quarter in 2022.The decrease was mainly due to lower revenue, higher food sourcing costs and a decrease in commercial cargo activity, partially offset by lower shipping and logistics costs as well as by strong underlying pricing.

Turning to Diversified Fresh Produce EMEA. This division performed very strongly in the quarter with revenue increasing 12.7% and driven by a favorable impact from foreign currency translation and pricing increases across the segment. On a like-for-like basis, revenue increased 4.8%.

Adjusted EBITDA increased by $4 million or 13.8%, again positively impacted by foreign currency translation. On a like-for-like basis, the increase was 6.6% and driven by a strong performance in Ireland, the U.K., Spain and the Netherlands.

Finally, Diversified Fresh Produce Americas and Rest of World on Slide 14. As expected, this segment outperformed the comparative period in the third quarter. Revenue decreased 2%,

primarily driven by lower revenue for berries in North America as well as by lower volumes of most other commodities, partially offset by inflation justified price increases.

Adjusted EBITDA was $5.2 million, an increase from a $900,000 loss in the prior year. The prior year loss was due to one-off supply chain disruption, which impacted the Chilean grape business. There was a continued strong performance in most marketed products in North America in the quarter.

Now turning to Slide 15 to discuss our cash generation, capital allocation and leverage. Firstly, I draw your attention to our cash flow statement in our GAAP financial statements and highlight that this is now split between continuing operations and discontinued operations.

We have set out a definition of free cash flow from continuing operations, a non-GAAP measure in the appendix of our press release and also on this slide of our earnings presentation. For the first nine months of 2023, free cash flow from continuing operations was $105.8 million, driven by strong adjusted EBITDA performance and good management of working capital across the group.

For the full year, our current expectation is that working capital will be neutral and we are targeting free cash flow from continuing operations of at least $110 million.

Capital expenditure from continuing operations was $15.7 million in the third quarter. Expenditures included farm renovations in bananas, new plantings in plantains and ongoing investments in IT, logistics and efficiency projects in our warehouses and processing facilities. For the full year, we now expect CapEx from continuing operations to be $85 million.

We continue to dispose of noncore assets within the group. And as Rory mentioned, we received proceeds of $45.5 million in the quarter, primarily from the sale of a large parcel of land in Hawaii. At the end of September, the combined value of our assets held for sale and actively marketed property was $24 million, and we remain optimistic that we can deliver further asset sales in the Fourth Quarter.

Interest expense has increased approximately $5.2 million year-over-year to $20.9 million following the rising rates over the past 12 months. For the full year, we are retaining our forecast of $90 million, which is inclusive of interest expense allocated to discontinued operations.

Continuing our commitment to return cash to shareholders, we are pleased to declare a dividend of $0.08 for the third quarter, which will be paid on January 4, 2024, to shareholders on record on December 14, 2023.

Finally, we are pleased that the strong free cash flow generation and asset sales contributed to a reduction in our leverage to 2.4x at the end of the quarter, continuing the downward trend in our leverage over the last 12 months. Now I will hand you back to Rory, who will give you an update on our full year outlook and closing remarks.

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Rory Byrne^ Thanks, Jacinta. Well, the results of the group over the first nine months of the year have been very pleasing. Group revenue of $6.2 billion is 3.2% ahead of ‘22 million and group adjusted EBITDA of $308 million is 9% ahead. This translates to an adjusted EBITDA margin of 5% compared to with 4.7% for this first nine months '22.

While the wider macro environment continues to remain complex and weather impacts remain unpredictable, we are confident in the strength of our diversified supply base and the experience and quality of our operating teams across the globe to deal with challenges as they arise.

Overall, our strong results in the first nine months position us well to deliver a good result for the full year, and we are now targeting an adjusted EBITDA for 2023 of at least $365 million.

Our strategic priorities for the remainder of the year remains the same, and to recap these are accelerating growth in our core business areas and categories. exiting the Fresh Vegetable business, focusing on cost control and operating efficiencies across our businesses, including the ongoing value creation and collaboration projects, and continuing with a disciplined approach to capital.

I want to finish by once again thanking all our people across the group for their ongoing commitment and dedication to drive Dole plc forward as well as our suppliers and customers for their ongoing support, which provides us with confidence as we look out towards the remainder of the year. With that, I'll hand you back to the operator, and we can open the line for questions.

Operator^ (Operator Instructions) Your first question comes from the line of Chris Barnes of Deutsche Bank.

Christopher Barnes^ I guess, first, Rory, I just wanted to ask about El Nino. I know you called out the Ecuador rains impacting banana supply conditions, but there's also been a fair amount of trade press regarding shipping bottlenecks through the Panama Canal. So amidst the drought there. So it would be great just to hear a status update on what you're seeing on the ground today and how you expect these conditions to evolve over the coming months.

Rory Byrne^ Yes. I mean you are seeing and we've highlighted the areas that have impacted us sort of the potential to impact us most in Ecuador, obviously, is huge banana producing country and we've seen unusual rains there. You're right, you have seen droughts in the areas around Panama, and there are restrictions on the use of the Panama Canal. So far, that hasn't had a material impact or hasn't even had material impact on so even for the banana business. We don't tend to cross the Panama Canal.

Peru and Chile are having a little bit of volatility and unusual rains as well that can affect grapes or cherries in particular, over the next couple of months. So we're keeping a close eye on that. So far, so good with our diverse sourcing base across the different countries and the different geographies, we're managing our way through it adequately. But it is something that we will just keep our eyes on as it evolves over the next six months.

Christopher Barnes^ Got it. That's helpful. And then I just wanted to follow up on the Fresh Vegetables transaction. I mean I appreciate the updated language in your filing and in your prepared remarks. But maybe could you just offer some perspective around what shape the alternatives you mentioned might take to the extent that you can't close the transaction with Fresh Express?

It looks like the business is still under some pressure based on the step back in revenue this quarter. So maybe could you just talk about what drove that softness and maybe how EBITDA like EBITDA, excluding the cyber incident is trending year-to-date just as we contemplate potential alternatives for that business?

Rory Byrne^ Johan, maybe you could make some comments on the trading aspects of our business, please?

Johan Linden^ Yes. So when we look at the trading, we have a much better performance this year compared to 2022. It's mainly driven by better performance in the Fresh Pack, our commodity business, whole head. But we're also doing better- in the packaged salads side of the business. So overall, we're doing much better, but we could do even better.

So we are not pleased with the performance, but we are moving in the right direction. We feel we are supplying our customers well. So we believe we are in a good position also to recapture some of the market share that we have lost.

Adam Samuelson^ Okay. Great. So I guess, Rory, just thinking about the updated guidance, the 365 -- last year, the two diversified segments did about $37 million of adjusted EBITDA in the Fourth Quarter. So just help me think about, how you're thinking about all three businesses (inaudible) '23. But how should we think about the implied 4Q -- relative to last year's performance across the three businesses?

Rory Byrne^ Yes. Maybe just me, Adam, but the line is not perfect but I think I caught the question, but it was just some clarity around the guidance for the full year and some focus on the Fourth Quarter. So I suppose the question of guidance is not an exact science. It is true to say that we had a very, very strong finish to Quarter four last year. And really what we're doing is we're giving a good strong message with the greater than 365 expected for the full year. So trading is fine at the moment. And that really is the summary of our position on guidance.

Adam Samuelson^ Okay. And then you talked about more competition in fresh fruit in North America. How should we think about that kind of marketplace dynamic relative to what seems to be a tightening supply environment on bananas as we move into 2024?

Rory Byrne^ Yes. I think it will be an interesting dynamic. And we operate in a competitive world as ever, I guess, over the last year or so it has seemed and felt a little bit more competitive than usual. And there is the backdrop of those supply dynamics, and we do expect a shorter amount of fruit so that normally goes to price. So we'll see.

But again, we have an experienced team, we've been dealing with these kind of challenges forever and will continue to do them hopefully in a successful way going forward over the course of '24 and into the future.

Operator^ (Operator Instructions) Your next question comes from the line of Gary Martin of Davy.

Gary Martin^ Just congrats on a good set of results, just to start things off. So just two questions from my side. Just first, just on the input cost backdrop, I mean I appreciate there's been some softening of key input costs. But I think just in general kind of procurement costs have gone up. Is that just the impact of, we'll say, of higher Costa Rican Colon or higher Colombian peso.

Is it just currency-based inflation that you're seeing there? And then just secondly, just on the kind of pipeline of asset sales that you have into the Fourth Quarter. I'm going to appreciate you actually gave good color in the prepared remarks. But if you could just give us a bit of an update as to kind of what you're seeing there and what you expect in the Fourth Quarter in terms of asset sales?

Rory Byrne^ Maybe just, Johan, you take the first of those and Jacinta, you could comment on the second one, perhaps.

Johan Linden^ Okay. So if you look at the cost pressure that we're having, they're coming a little bit from all over the place, but you're right to point out, it's coming from the currencies. The Costa Rican Colon has been very strong. So that is impacting cost. We also see the growers having pressures when it comes to them for the independent growers that we're having.

They have pressures when it comes to salary increases on the field. So we see them asking for higher pricing, and you can see that in the official price coming out of Ecuador, that is coming up. So we're going to have to pay some more for the fruit.

But on the other hand, we see some other input costs moderating. We see paper moderating. We believe there is something to be done in shipping. So we see cost pressure, but we believe that we are in a good position to handle them.

Rory Byrne^ Then Jacinta on the surplus aspect.

Jacinta Devine^ Yes. So just to recap, so in the quarter, we delivered sales of $45 million. And year-to-date, we've achieved $64 million. So we have a pipeline, if you like, of $24 million, which sits on our balance sheet. And we're working through sales for the Fourth Quarter, but it's really very difficult to predict the timing of when sales may close.

Obviously, Q3 was very strong, and we wouldn't expect anything at that level going into Q4, but I hope for some small incremental asset sales before the end of the year. But again, timing is difficult to predict.

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

Rory Byrne^ Okay. Thank you all for joining us today. And obviously, we're very pleased with our third quarter and our year-to-date numbers. The third quarter represents another strong quarter in a sequence now of consistent good quarterly performances. However, plenty of challenges out there, plenty of opportunities, but we do look forward to the future with great enthusiasm, confidence and optimism. So thank you all very much for joining us today.

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