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Second Quarter Results 2024

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CORPORATE SPEAKERS:

James O' Regan
Dole plc; Head of Investor Relations
Rory Byrne
Dole plc; Chief Executive Officer
Jacinta Devine
Dole plc; Chief Financial Officer
Johan Linden
Dole plc; Chief Operating Officer

PARTICIPANTS:

Adam Samuelson
Goldman Sachs; Analyst
Gary Martin
Davy; Analyst

PRESENTATION:

Operator^ Welcome to the Dole PLC Second Quarter 2024 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 Head of Investor Relations, James O' Regan.

James, please go ahead.

James O' Regan^ Thank you, Krista.

Welcome, everybody. And thank you for taking the time to join our second quarter 2024 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.

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During this call we will be referring to presentation slides for supplemental remarks. 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.

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'm pleased to turn today's call over to Rory.

Rory Byrne^ Thank you, James. And welcome, everybody.

So thank you all for joining us today as we discuss our results for the second quarter of 2024.

So turning firstly to Slide 4 and the financial highlights for Q2.

While the second quarter of 2024 was another strong quarter for our business, continuing our positive momentum. Group reported revenue was in line with last year and on a like-for-like basis, when the impact of the Progressive Produce disposal is excluded, revenue increased by 4.3%.

Adjusted EBITDA increased by 2.2% to $125.4 million and on a like-for-like basis, increased by 8.2%. The growth in adjusted EBITDA from continuing operations on a like-for-like basis was driven by strong performances in both our Fresh Fruit and Diversified Fresh Produce Americas segments and supported by continued good stable performance in our Diversified Fresh Produce EMEA segment.

Our Fresh Vegetables business also delivered a strong quarter, contributing to the increase in absolute net income to $88.1 million compared to $52.3 million in the prior year.

On an adjusted basis, net income was $47 million, and adjusted diluted EPS was $0.49 per share.

As ever, cash management and capital allocation continue to be a strong focus for us.

And with that, we are very pleased to see our leverage continue to reduce, falling to 1.9x at the end of Q2 and resulting in a lower interest charge in the quarter compared to the prior year.

Turning now to Slide 6 for our operational highlights and starting with our Fresh Fruit segment.

Our largest segment delivered a very strong performance in the second quarter with adjusted EBITDA of $70.6 million, 7.3% ahead of the prior year.

Looking at the European market, we continued with a positive momentum in the second quarter of 2024, driven by higher volumes in bananas as well as by lower sourcing and shipping costs.

In North America, we also continued with a solid performance with higher banana volumes and pricing and an increase in overall revenues but offset in part by anticipated higher shipping costs due to the scheduling of dry docking activity for a number of our vessels. Most of this additional cost will be seen in the second half of the year whenlower seasonal sales volumes allow for a better scheduling opportunity to complete the necessary work.

Looking ahead to the remainder of the year for both the North American and European markets, we believe we are well placed. The banana supply remains tight on an industry-wide basis. Despite a recent appreciation of the dollar against the Costa Rican Colon, in particular, the strength of some key currencies on the sourcing side remains a challenge.

However, with our diversified supply base and experienced team, we have been proactively implementing initiatives to control our cost base, enabling us to continue to serve our customers competitively.

Overall, we continue to anticipate another strong financial performance for the Fresh Fruit division on a full year basis.

Our Diversified EMEA segment delivered another good stable performance in Q2, consolidating its strong start to the year after an excellent first quarter. Revenue growth remained positive and continue to be driven by higher pricing, while volume for the quarter -- the volumes for the quarter were impacted by supply shortages with several products typically sourced out of South America.

On an Adjusted EBITDA level, good contributions continue to come from all regions with a particularly positive performance in the Nordics, Spain, and South Africa.

Looking out to the rest of the year, we remain confident that by continuing to leverage our strong market positions, operational integration and investment opportunities, we will deliver another satisfactory financial results for the full year.

Our Diversified Americas segment delivered another very strong quarter on a like-for-like basis taking out the impact of the Progressive Produce disposal. The strong result was driven again by positive underlying performance and the benefit of some seasonal variations, which led to several export season extending further into Q2 than in prior years.

From a volume standpoint, we had higher grape volumes, in particular in Q2 but additionally saw a good overall marketplace for several products leading to better margins. Excluding some of the seasonal timing factors, the quarter was also positive and consistent on an underlying basis with strong pricing and small volume increases across most of our North American business.

In the South American export side, the transition to winter season products has started well.

Looking at the second half of the year, after an excellent first half, we are expecting to consolidate our performance year-to-date and deliver a full year -- strong full year results on a like-for-like basis. Conscious of seasonal timing may again have an important impact in the fourth quarter.

So turning to the Fresh Vegetables business. And as noted on our last call, since the termination of the sale agreement with Fresh Express, we have been actively exploring strategic alternatives for this business.

We continue to seek the best possible outcome in the interest of all our stakeholders.

Operationally, we are maintaining a keen focus on the day-to-day running of the business, and I've been very pleased to see the hard work of our committed management team paying off so far in 2024.

While the standout performer in the Vegetable segment has been our Fresh Packed business, which benefited from favorable market conditions in '24.

Our value business has also made important progress on an underlying basis. The combined businesses have generated operating income in both quarters of '24 have also contributed positive cash flow to the group in the first half.

And with that, I'll hand you over to Jacinta to give the financial review for the second quarter.

Jacinta Devine^ Thank you, Rory. And good day, everyone.

Firstly, turning to the group results on Slide 8.

We are pleased to have delivered another strong performance in the second quarter of this financial year. Reported revenue was in line with the prior year and on a like-for-like basis, excluding the impact of FX and the sale of Progressive Produce, revenue increased 4.3%, and -- adjusted EBITDA increased 2.2% and 8.2% or $10 million on a like-for-like basis. The like-for-like increase was driven by the Fresh Fruit and Diversified Fresh Produce Americas segment.

Interest expense decreased year-on-year due to lower debt levels. The increase in income tax is due to changes in our jurisdictional profit mix.

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Net income was $88.1 million in the second quarter, an increase of $36 million from Q2 2023. The increase was driven by strong trading performance across the group including the Fresh Vegetables business, which is captured within discontinued operations.

For the first six months, income from discontinued operations increased to $25 million from a loss of $26 million in the first half of 2023.

This income converted to net cash from discontinued operations of $16.7 million for the first six months compared to an outflow of $8.3 million in the first half of 2023. Diluted EPS was $0.84 compared to $0.44 in the second quarter of 2023.

On an adjusted basis, predominantly excluding discontinued operations, adjusted net income and adjusted diluted EPS decreased 3% to $47 million and $0.49, respectively. The year-on-year decrease was mainly due to higher income tax expense, driven by the jurisdictional earnings mix.

Turning now to the divisional updates for the second quarter for our continuing operations and starting with Fresh Fruit on Slide 10.

The Fresh Fruit division delivered another strong consistent result with revenue increasing 1.5% and Adjusted EBITDA up 7.3%. The increase in revenue was primarily due to higher banana volumes in Europe and North America, higher worldwide pricing of bananas and higher volume of plantains sold, partially offset by lower volumes and pricing for pineapples.

The $4.8 million increase in adjusted EBITDA was driven by higher revenue and lower fruit sourcing costs, partially offset by higher shipping costs.

Turning to Diversified Fresh Produce EMEA on Slide 11. The second quarter saw another consistent result from this segment, continuing its good momentum over the last number of quarters. Revenue increased 3.2%, primarily due to a strong performance in Ireland, U.K. and Spain. Adjusted EBITDA was in line with prior year, driven by strong operating results in Spain and South Africa.

Finally Diversified Fresh Produce Americas and Rest of World on Slide 12. This segment was impacted by the sale of Progressive Products in March.

On a like-for-like basis, predominantly excluding the impact of this sale, the segment produced a strong result.

Revenue increased 11.3% or $47 million on a like-for-like basis, primarily due to seasonal timing benefits as well as positive underlying revenue growth in most commodities in North America. Adjusted EBITDA increased 36.4% on a like-for-like basis, primarily due to the benefit of continued seasonal timing differences in South America and an improved performance in our North American diversified business.

Now turning to Slide 13 to discuss our capital allocation and leverage.

We remain very focused on capital allocation and managing our leverage and are pleased that our leverage reduced further in the quarter to 1.9x. The reduction was driven by both our strong EBITDA in the quarter as well as a small decrease in our net debt.

Net cash provided by operating activities from continuing operations was $40.2 million in the quarter.

As usual, at this time of the year, we have a higher investment in working capital due to the typical seasonal peaks for our business, and we expect that this will reverse over the course of the second half of the year.

Cash capital expenditure from continuing operations was $17.5 million in the second quarter and included spend on shipping containers, efficiency projects in our warehouses and ongoing investments in other assets.

For the full year, we continue to expect total capital expenditure in the range of $110 million to $120 million. Along with the scheduled drydocking of some of our vessels, our other investments in the second half of the year will include further efficiency projects in our Nordic warehouse assets, vehicle additions and the expansion of processing capacity in some of our Chilean facilities.

Following the sale of Progressive Produce in March, we used the proceeds to repay $100 million of our term loans in April. This contributed to lower debt levels compared to the prior year, leading to a decrease in interest expense. For the full year, we continue to expect our interest expense, inclusive of discontinued operations to be in the range of $75 million to $80 million.

Continuing with our commitment to return cash to shareholders, we are pleased to declare a dividend of $0.08 for the second quarter, which will be paid on October 3, 2024, to shareholders on record on September 11, 2024.

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

Rory Byrne^ Thank you, Jacinta.

So we're very pleased to consolidate our strong start to the year with another very good performance in the second quarter, which really puts us in an excellent position to deliver a strong result for the full year.

But while forecasting obviously remains complex.

We are raising our full year adjusted EBITDA target to at least $370 million for 2024.

In conclusion, we are pleased to have added another quarter of stable, strong and consistent earnings to our track record and are now keenly focused on delivering on our enhanced full-year target while also advancing on our strategic priorities for the remainder of the year.

I want to finish by once again thanking all our excellent people across the group for their ongoing commitment and dedication to continue to drive to Dole PLC forward as well as to our suppliers, our customers for all the ongoing support it.

So with that, I'll hand you back to the operator, and we can open the line for questions.

QUESTION & ANSWER:

Operator^ (Operator Instructions) Your first question comes from the line of Adam Samuelson with Goldman Sachs.

Adam Samuelson^ So Rory, I just want to just maybe the first question.

As we think about kind of the outlook over the balance of the year, you raised the full year guidance, you also had a strong first half.

Can you just calibrate for us the -- how much of the increase in the full year outlook really reflected second quarter or first half outperformance and maybe how the second your expectations for second half of the year have changed, if at all, from where you were three or six months ago?

Rory Byrne^ Yes. Thanks, Adam.

So in forecasting is clearly not an exact science, as I said, and I think our diversified range of activities, those geographies across sources, customer bases, customer profiles, does give us a good balance to cope with a lot of things, which we've done over the last number of years.

I think the profile of earnings between first half and second half may just vary a little bit this year compared with the last number of years, certainly on the Fresh Fruit side of the business, there's no doubt that we have overperformed in the first half of the year, and we have anticipated, particularly with the dry docking of the ships and the knock-on cost consequences of that. Q3 in particular in the second half of the year will be a little bit below last year's numbers.

We'll measure the Fresh Fruit division like all those divisions on a full year basis, we're not, unduly worried about the switches between one quarter and the other.

We look out at some of the other major issues. There are some of the other contributors, EMEA in particular, had a really strong finish to the year. Just a lot of things went right.

So we don't necessarily budget that repeating itself this year.

But overall, we put everything into the mix, and we're comfortable with the target we set ourselves for the remainder of the year.

Adam Samuelson^ And I guess just with the leverage where it has gotten to, the fresh vegetable business showing some good earnings in disc ops and hopefully, a divestiture and sale process there..

Can it help us think about the need to deploy incremental cash and cash proceeds towards further debt reduction from here or how you would evaluate share repurchase versus organic growth prospectively, just what would seem like there doesn't need to be as much of an emphasis on deleveraging incrementally from here, and I'd just love to hear how you're reassessing that is as.

Rory Byrne^ Yes.

I mean -- It's, as you know it's a very dynamic process, Adam.

We constantly look at our level of debt and our profitability.

We look at the growth opportunities through acquisitions that are available to the group.

And I think I have pointed out that some of the private deals have actually been significantly higher value than the public rating attributable that's made it a little bit challenging, but we do keep our eyes on that world, and we hope that, that gap narrows at some point in time. There are some investment opportunities within our existing business to continue to consolidate and grow our business. And then obviously we're looking at the macroeconomic situation as well. And looking at -- we've seen a lot of volatility in the stock markets over the last couple of weeks. A lot of speculation is still what might happen with interest rates.

And then as you say, we've got the veg question, it’s still a work in progress in terms of where we end up on that.

So all of those go into the mix to determining what the final outcome. And over the years, we've been -- we've adapted to utilize pretty much every one of those capital allocation levers in the appropriate circumstances. That will be the approach we will take -- we will continue to take going forward.

Adam Samuelson^ And I just squeeze one more quick one in. Just if I look at the -- just the updated full year guidance, the $370 million of continuing ops to EBITDA and the CapEx and interest, just how do we think about the free cash flow conversion that would net out of that, presumably also subtracting out the $30-odd million of dividends and non-controlling that you could have.

Jacinta Devine^ Yes. Adam, -- so I suppose last year, we had very strong working capital inflow at the end of the year. And while we expect very strong inflows this year, maybe not quite at the same level. You remember, I talked about the seasonal impacts of the Chilean business and also the impact of the unwind of the stocks we built up in 2022.

So in overall terms, I suppose, we consider a free cash flow conversion of 30% to 35% to be a normalized level, I think that's a reasonable approximation.

Operator^ Your next question comes from the line of Gary Martin with Davy.

Gary Martin^ First congrats on a strong set of results.

So just a couple from me, just kind of jump into the divisionals. Just on Fresh Fruit, just first of all, I mean it's been another strong quarter in terms of volumes across Europe and North America.

I mean I'm sure square the circle on this.

I mean is this a better sourcing from Dole?

Is this market share growth? Is this just a general demand dynamic? Or what's the best way to think about this? And is it going to persist, do you think?

Rory Byrne^ Johan

Johan Linden^ We are working on making it persist. And first of all, the overall team has done a very good job when it comes to focusing on quality and service, and that's on the back of a very good sourcing network that we have, the good shipping setup that we have.

But we also have some very high-quality customers.

So we can see some of the retailers we have gaining market share.

So of course, we are gaining then some volume on the back of that, but we have also been able to take some new -- some new customers.

And yes, we are hoping and working on continuing that into the future.

Gary Martin^ And then just maybe secondly, just on -- I know you've spoken previously just about the kind of bridge into the second half of the year. And I think you kind of -- you maybe kind of focus on the negatives, but I think in the statement, you kind of good momentum into H2.

I mean is some of this may be the unwinding of some of the volume shortages that you've noted in diversified EMEA? And maybe just are there -- is there an expectation for some of the, well

say, the seasonal timing kind of upside that you now in Americas and rest of the world to potentially persist? Or what's the best way to think about the second half just across the diverse business?

Rory Byrne^ Yes.

I think if you look at the Diversified EMEA, it's had a strong first half of the year.

But if you look some downs on some of them are interlinked, if you look at, say, our Americas business where pricing and margins on some of the key products, some of which get exported into Europe have been very, very strong, and that is those markets opportunities to sell to Far East or other locations that are not in Europe.

So you can see less fruit may be coming into Europe and some by our divisions.

I think what we're seeing is, over the back half of the year, we're expecting the profile to be a little bit different but not dramatically different.

Obviously relatively pleased that within the Americas side of it, taking out, despite taking out Progressive Produce or disposing of Progressive Produce that we going to have a very strong year within that division as well on overall full year basis.

Operator^ (Operator Instructions) And that concludes our question and answer session.

I will now turn the call back over to Rory Byrne for closing comments.

Rory Byrne^ Thank you.

Well following on from what we thought was a very good 2023.

We're really pleased to such a strong start to 2024 and the outcome for the first half of 2024. That adds to a very strong sequence of good strong quarterly performance going back over quite a number of quarters at this point in time.

Huge amount of dedication, work, thoughts going into all aspects of our business, and we believe we're well positioned for continued growth.

So thank you once again to all of our hugely committed people and to all of you for joining us today. Thank you.

Operator^ This concludes today's conference call. Thank you for your participation.

And you may now disconnect.

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