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Dole plc

Third Quarter 2024 Results

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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:

Christopher Barnes
Deutsche Bank; Analyst
Gary Martin
Davy; Analyst

PRESENTATION:

Operator^ Welcome to the Dole Plc Third 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.

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, Krista. Welcome, everybody. And thank you for taking the time to join our third quarter 2024 earnings call.

Joining me 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 to supplement our 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 these 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. Welcome, everybody. And thank you for joining us today as we discuss our results for the third quarter of 2024.

So, turning firstly to Slide 4 and the Q3 financial highlights.

Well, the third quarter was another positive quarter for our business, continuing the good momentum built up over the course of this year. Group reported revenue increased by 1% and on a like-for-like basis, the increase was 5.8%.

Adjusted EBITDA of $82 million was in line with market expectations for the quarter and 2.3% ahead of the prior year on a like-for-like basis. The growth in adjusted EBITDA on a like-for-like basis was driven by a very strong performance in our Diversified Americas segment, offsetting modest decreases in Fresh Fruit and Diversified EMEA.

Cash management and capital allocation continue to be a major focus for us, and we are pleased to see our leverage reduce further, driven by a $36 million decrease in our

absolute level of debt despite a relatively high level of capital investment made in the quarter, which we will discuss in more detail later on the call.

Turning now to Slide 6 and our operational highlights and starting with the Fresh Fruit segment. This segment delivered another good performance in the third quarter.

Adjusted EBITDA was $42.9 million, a small decrease compared to last year, but a result that was ahead of our own expectations, taking into account the higher shipping costs in the quarter due to the ongoing dry-docking process that we flagged in our previous earnings calls.

North America has been the market predominantly impacted by dry docking. However, we had a good overall performance with higher volumes of bananas sold and better pricing, partially compensating the anticipated higher shipping costs.

In the European market, we continued our positive momentum, driven by higher volumes in bananas as well as by lower shipping costs.

Looking ahead to the remainder of the year for both the North American and European markets, we believe we are well placed. Both banana and pineapple supply remained tight on an industry-wide basis, leading to higher sourcing costs, but also allowing for some positive pricing momentum in certain markets.

As the year has progressed, the benefits of our experienced team and our diversified supply base have again been clear, allowing us to deliver a consistent, competitive and quality service to all our customers.

Overall, we anticipate the Fresh Food segment having a good end to the year, taking into account a continued expectation of higher shipping costs during the dry-docking process.

Before turning our attention to the diversified segments, I would also like to highlight our recent agreement to expand our shipping fleet by bringing two vessels currently on charter under our own ownership in early 2025 through an option to purchase agreement.

Strategically, adding a second service to our U.S. East Coast operation this year with the two chartered vessels provides us the flexibility to dry dock the vessels in our primary East Coast service without any major service disruption, but also gives us a pathway for additional growth in the marketplace.

So, moving on to the Diversified EMEA segment. This segment was impacted by some seasonal timing differences as well as one-off IT costs and a lower supply of certain categories in the quarter, but still delivered a good overall result in Q3, broadly in line with our own expectations.

Spain had some temporary shortages of supply of Canary Island bananas, whereas in other parts of the segment, we had the continued impact of shortages for some important seasonal crops typically sourced out of South America as well as poor weather impacting trade for some of our foodservice and wholesale businesses.

Positively, revenue growth did remain strong in the quarter, indicating that on an underlying basis, our business is in a good position, and we expect to be able to deliver a satisfactory result on a full year basis.

Diversified Americas. This segment delivered another very strong quarter on a like-for-like basis, taking out the impact of Progressive Produce following its sale in Q1. The strong result was driven by a positive quarter for our North American operations with good volume and price growth across most commodities, and avocados in particular.

Our North American Berry business, still having much scope to continue to improve, showed a good turnaround from the prior year. And our South American export business also had a positive quarter with good developments in winter season products.

Looking ahead to the remainder of the year, activity will again pick up on the export side as we progress through Q4 with the start of several key export seasons out of both Peru and Chile.

As always, the specific timing of harvests will play an important role in how profitability gets recorded through the year-end. However, we anticipate a strong seasonal

performance on the export side as well as continued good momentum in our North American operations.

Turning to the Fresh Vegetables business.

As noted in our most recent calls, since the termination of the sale agreement with Fresh Express, we have been actively exploring strategic alternatives for this business. That process is ongoing, and we remain hopeful that we will ultimately deliver a good outcome for all our stakeholders.

Operationally, we are very pleased that this business is continuing to deliver improved results and is on track to deliver positive operating income in each quarter of 2024. The continued good performance in the third quarter was delivered despite the anticipated softening of the favorable fresh pack market conditions experienced earlier this year, demonstrating again the good underlying performance that our committed management team is making in both the fresh packed and value-added business units within this division.

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

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

Firstly, turning to the group results on Slide 8. Reported revenue increased 1% against the prior year and 5.8% on a like-for-like basis, excluding the impact of FX and the sale of Progressive Produce. Strong operational performance across all segments drove this growth.

Adjusted EBITDA decreased 3.7% or $3.1 million, primarily driven by decreases in Fresh Fruit and Diversified EMEA segments, partially offset by strong performance in the Diversified Americas segment. On a like-for-like basis, adjusted EBITDA increased 2.3% or $1.9 million.

Interest expense for our continuing and discontinued operations decreased $5 million year-on-year due to lower debt levels and also lower market interest rates.

The increase in income tax is due to changes in our jurisdictional profit mix compared with the prior year and the impact of discrete tax items in the period.

Net income of $21.5 million in Q3 '24 was $32.5 million lower than Q3 '23, primarily due to the prior year having the benefit of an exceptional $28.8 million gain on the sale of land. There was also a decrease in other income of $9.3 million. This was primarily related to fair value adjustments of financial instruments. Partially offsetting this was a continued improved performance in our fresh vegetable business with income from discontinued operations of $6.3 million recorded this quarter.

On an adjusted basis, adjusted net income was $18 million, and adjusted diluted EPS was $0.19 per share. Year-on-year decrease was mainly due to lower adjusted EBITDA and higher income tax expense, partially offset by lower interest expense.

Turning now to the divisional updates for the third quarter for our continuing operations.

Firstly, turning to the Fresh Fruit on Slide 10. The Fresh Fruit division delivered another good result with revenue increasing 6.6%. The increase in revenue was primarily due to higher worldwide volumes of bananas sold as well as higher worldwide pricing of bananas and pineapples partially offset by lower worldwide volumes of pineapples and lower pricing and volume for plantains.

As anticipated, Adjusted EBITDA was lower this quarter due to the impact of dry-docking related costs. However, the result of $42.9 million was ahead of our expectations, primarily due to strong revenue growth.

Turning to Diversified Fresh Produce EMEA on Slide 11. This segment delivered $5.1 million revenue growth in the quarter, driven by a strong performance in Ireland, the U.K. and the Netherlands as well as a $13.6 million favorable FX impact and an incremental positive impact from acquisitions of $1.8 million. On a like-for-like basis, revenue increased 3.3%.

Adjusted EBITDA declined 13.1% or 14.5% on a like-for-like basis, primarily due to higher one-off IT charges in the U.K. and temporary supply issues and seasonal timing difference in Spain and South Africa.

Finally, turning to Diversified Fresh Produce Americas and Rest of World on Slide 12. This segment delivered a very strong result in the quarter. Reported revenue was impacted by the sale of Progressive Produce earlier this year. However, on a like-for-like basis, revenue increased 7.2%, primarily due to the volume and price growth across most commodities in North America.

Adjusted EBITDA increased $3.6 million, primarily driven by improved performance in our North America berries business and positive margin development in avocados as well as revenue growth across most commodities in North America.

These positive impacts were primarily offset by the disposal of the Progressive Produce business.

On a like-for-like basis, Adjusted EBITDA was $9.2 million ahead of the prior year.

Turning to Slide 13.

We remain very focused on capital allocation and managing our leverage and are pleased that our leverage reduced further in the quarter to 1.86x. The reduction was driven by a $36 million decrease in our net debt compared to Q2.

Net cash provided by operating activities from continuing operations was $106.2 million in the year-to-date.

As anticipated, we saw a significant positive inflow in working capital in the third quarter. And while being conscious of the variability that seasonal timings around year-end can bring to working capital, this is a trend we expect to continue into the year-end.

Cash capital expenditure from continuing operations was $21.1 million in the third quarter.

As Rory mentioned, we recently secured an agreement to expand our fleet with the addition of two vessels currently on charter bringing them under our ownership in early 2025. Due to this commitment, we have recognized a finance lease, adding both the asset and financial obligation to our balance sheet as of the 30th September.

For the full year, after the opportunistic addition of these vessels, we now expect total capital expenditure including additions by finance lease to be in the range of $130 million to $140 million.

As I mentioned earlier, interest expense has continued to decrease compared with the prior year due to lower debt levels as well as lower base rates.

For the full year, we now expect our interest expense including discontinued operations to be approximately $75 million.

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 3, 2025, to shareholders on record on December 11, 2024.

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

Rory Byrne^ Thank you, Jacinta.

So, we're very pleased to have delivered another robust performance this quarter, putting us in an excellent position to deliver strong results for the full year. And as we move towards the end of the year, we are raising our full year Adjusted EBITDA target to at least $380 million for 2024.

On the investment side, we are pleased that our disciplined approach to capital allocation has given us the flexibility to opportunistically execute quickly on a positive transaction this quarter to support our operations and bring two additional vessels into our fleet.

As we move forward, we will continue with our disciplined approach to all our investment activity, while also ensuring that we have the capabilities and capacity to

both execute on our planned strategic aims and any opportunistic -- opportunities for different possibilities that emerge.

In conclusion, we're very pleased to have again added another good operating and financial performance to our track record and are now fully focused on finishing the year strongly and delivering on our enhanced full year target, while also focusing on our key strategic priorities for the remainder of the year.

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

So, 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 Christopher Barnes with Deutsche Bank.

Christopher Barnes^ I guess just first to start with EBITDA guidance. The full year target of at least $380 million implies the fourth quarter could be down 18% at the low end. I know you're really just setting a floor, but could you walk through the puts and takes that we should be mindful of across Fresh Fruit and the Diversified businesses in the fourth quarter specifically. I know you called out strength from Peru and Chile export seasons as well as tighter banana supply conditions, but -- any additional color would be helpful.

Rory Byrne^ Yes. I mean I think as we flagged Chris at the end of half one, this may be a year that's more typical of the historical years where there's a heavier weight towards the first half of the year compared to the second half of the year. You've got to remember as well that we've sold Progressive. So that has an impact on Q4 and overall full year impact on EBITDA of some $ 25 million.

Forecasting, as we know in today's world is far from an exact science, you just need to look at what happened with the dollar post the election with a quite a strong improvement in the strength of the dollar. With a strong finish to the year last year in 2023.

We do know that our shipping costs in the back half of the year are going to be higher, particularly with the dry-docking issues that we've got. We're comfortable with certainly the base of $380 million. We've stepped it up from $360 million, $370 million and now $380 million.

So, putting everything into the mix, we think it's the appropriate number to give to the market.

Christopher Barnes^ Very helpful. And then secondly, the Diversified Americas business profitability has been notably strong year-to-date. Essentially, masking the impact from divesting Progressive Produce.

So is there any way to frame how much of that improvement is real underlying strength in that business versus some of the like seasonal timing that's shifting profitability around in the first nine months. And then separately, Lunar New Year in '25 is two weeks earlier than it was in 2024. Is that going to have any positive impact on the fourth quarter for Chilean Cherry's -- or is that really just a 2025 dynamic? And then I'll pass it on.

Rory Byrne^ Thanks, Chris. Yes. I'm going to -- if we look at the Diversified Americas business, it's probably the segment that suffered most from, and you go right back to 2020, '21, with the supply chain disruption to logistics, the very significant shortage of containers and the dramatic increase in freight rates, sort of a very big impact on that segment.

We had periods where we couldn't get product discharged into the North American market. So that's all settled down.

I think we'd have to say as well within that division, particularly from Chile instead of having lots of negative headwinds we probably have a few tailwinds sort of behind us, the flow of product in terms of the change of seasons from American production into import production has worked well. The flow of products from cherries into the Chinese market has worked well. And we've done a lot of work in terms of improving all the management processes and streamlining that organization and it's worked well.

I think there can be a little bit of volatility. We do on a reasonable amount of own production in Chile, so that can have -- it can be a little bit more variable than, say, EMEA, a division which tends to be a more stable, consistent profit level. But we're comfortable that we repositioned that entire business, but they have had an exceptionally strong year this year.

So, it would be wrong not to recognize that, and we've got to take it when it's there as well.

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

Gary Martin^ Congrats again on another strong set of results. I got a few questions on my side. I'll just ask them one by one, if that's all right.

I guess just starting off and maybe touching on the last question a little bit. I mean should we expect maybe a more normalized cherry season into Q4? Is that the best way to frame it? And I guess the extension of that is, should we expect a more normalized kind of Diversified Americas and Rest of World profitability and revenue into Q1 next year as well just off the back of that?

Rory Byrne^ Do you want to make any comment on that, Johan, maybe just to add what I already said.

Johan Linden^ Yes. No. I think what you said is right. And when it comes to normalized, yes, when you look at Q1, you could probably say it will be normalized with some of the cherry volume falling into this year considering where the Chinese New Year is coming.

Gary Martin^ Understood. That's helpful. And then just on Fresh Fruit. I mean you flagged a number of times that it was above your expectations. I mean what are the kind of the supply and demand factors that are driving the kind of overall outperformance on volumes across both Europe and North America? And I guess if we -- if I put my forecasting hat on and I look into Q4, should we expect to see another fairly consistent quarter on a sequential basis in terms of profitability and revenue?

Rory Byrne^ Do you want to address that as well Johan, maybe?

Johan Linden^ Yes. So as always, Fresh Fruit is very dynamic with a lot of puts and calls on it. So, what we have right now and what we saw during Q3, we saw a very good and solid demand for bananas driven by organic bananas, but also the normal bananas, good demand. And at the same time, we have a tight supply on the back of weather events.

It's been drier up in -- drier in Ecuador, wetter in Central America, and that's on the back of El Nino last year when it was vice versa. So the weather has tightened up the supply.

So, we have had a good supply-demand balance because even if the supply is tight, it does not directly impact the core markets as it's normally the secondary markets that are taking the hit.

But we're also selling some in the secondary market. And there, we have seen a tailwind, and that has been beneficial to us. And we do expect to see some of that benefit also in Q4. But we see it more consistent like a normalized year where we don't have the same benefit that we had last year that was very strong. And the reason for that being then shipping costs being higher, the Dole Ocean cargo business where we sell space on our ships being a little bit lower. And we have also seen some cost of fruit being a little bit higher as volume has been low on pines.

Gary Martin^ That's really, really helpful. And then maybe just one final one, just on the two vessels that were previously chartered coming in, in early 2025. I mean you outlined the greater flexibility when it comes to dry docking cycles, that makes perfect sense. But you also touched on further growth potential. Do you want to maybe just go through in a bit more detail the potential growth upside there?

Rory Byrne^ Yes. I mean we did take the vessels on charter, short-term charter, annual charter really with a view to giving us the capacity flexibility given the dry-docking programs. We found that with our increasing volumes that the extra capacity, we believe, will give us the capacity to grow. And there may be a couple of other areas where we can develop the volumes, avocados a little bit more out of Colombia.

We haven't put a specific number on that yet, Gary, but we do think that having the capacity to make sure that we fully comply with the very important service level requirements of our major North American retailers is very important.

We've seen a huge amount of volatility on freight rates over the course of the last six months, particularly with the Red Sea issues and the closure of the Suez Canal and having certainty about capacity of the rightsized ships, the right capacity, certainty on our trade lanes into the different markets, we think it's a strong advantage and will give us a strong position to grow over the course of the next number of years.

Operator^ We currently have no further questions in our queue.

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

Rory Byrne^ Thank you. Well, we're very pleased with the way 2024 has evolved. I think it's another good quarter to add now to a very strong sequence of solid results over a sustained period of time. We've got a good focus on all areas of our business operationally, financially and strategically. So, we believe we're very well positioned for continued growth.

So, thank you once again to all our committed people, our investors, our customers, suppliers. And thank you for joining us today.

Operator^ This concludes today's conference call. Thank you for your participation. And you may now disconnect.