Fresh Del Monte Produce Inc. NYSE:FDP

Earnings Call

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Call Participants

EXECUTIVES

Christine Cannella
Vice President of Investor Relations

Mohammad Abu-Ghazaleh
Chairman & CEO

Monica Vicente
Senior VP & CFO

Presentation

Operator

Good day, everyone, and welcome to Fresh Del Monte Produce First Quarter 2026 Conference Call. Today's call is being broadcast live over the Internet and is also being recorded for playback purposes. [Operator Instructions] Thank you.

For opening remarks and introductions, I would like to turn today's call over to the Vice President, Investor Relations with Fresh Del Monte Produce, Ms. Christine Cannella. Please go ahead, Ms. Cannella.

Christine Cannella
Vice President of Investor Relations

Thank you, Krista. Good day, everyone, and thank you for joining our first quarter 2026 conference call.

Joining me in today's discussion are Mr. Mohammad Abu-Ghazaleh, Chairman and Chief Executive Officer; and Ms. Monica Vicente, Senior Vice President and Chief Financial Officer.

I hope that you have had a chance to review the press release that was issued earlier via Business Wire. You may also visit the company's IR website at investorrelations.freshdelmonte.com to access today's earnings materials and to register for future distribution. This conference call is being webcast live on our website and will be available for replay after this call.

Please note that, our press release and our call today include non-GAAP measures. Reconciliations of these non-GAAP financial measures are set forth in the press release and earnings presentation, which is available on our website.

I would like to remind you that much of the information we will be speaking to today, including the answers we give in response to your questions, may include forward-looking statements within the safe harbor provisions of the federal securities laws.

In today's press release and our SEC filings, we detail risks that may cause our future results to differ materially from these forward-looking statements. Our statements are as of today, May 5, 2026, and we have no obligation to update any forward-looking statements we may make.

During the call, we will provide a business update, along with an overview of our financial results, followed by a question-and-answer session

With that, I will turn today's call over to Mr. Mohammad Abu-Ghazaleh. Please go ahead.

Mohammad Abu-Ghazaleh
Chairman & CEO

Thank you, Christine. Good morning, everyone, and thank you for joining us. Following up on our last quarter, we reached an important milestone this quarter with the closing of the Del Monte Foods transaction, bringing the brand back under a single owner for the first time in nearly 4 decades. The quarter included approximately 1 week of contribution from the acquired business. So the financial impact in the quarter is limited due to timing.

We are encouraged by the initial performance of the Del Monte Food business, and we see clear opportunity as we begin to thoughtfully scale the business and believe there is a meaningful opportunity to realize the full potential of these assets.

As I mentioned during our last call, this acquisition is not expansion for expansion's sake. It's alignment, bringing the brand, the portfolio and the platform back under a single focused owner. This acquisition not only reunites one of the oldest and most recognized brands in the world, but it also positions us to operate from a more complete platform, expanding our presence across both the perimeter and center of the store and allowing us to offer customers a broader, more integrated portfolio.

Our priority during this early phase remains continuity, ensuring stability for customers, partners and employees, while taking a disciplined approach to evaluating the business and identifying where we see the strongest opportunities.

We are focused on strengthening the platform, prioritizing key customer relationships and building a more focused, high-quality portfolio over time.

It is important to dedicate a portion of today's call to discuss the broader environment shaping our business, the industry and the global food system.

The conflict in the Middle East has introduced a meaningful shock across key input fundamentals to food production, energy, fertilizers, packaging and transportation. There is no part of agriculture that is not energy dependent from inputs to packaging to transportation. As a result, movements in energy costs do not remain isolated. They cascade through the entire system.

Agriculture does not operate in real time. The timing of impact varies meaningfully by category. In crops like pineapples, for instance, where production cycles extend to approximately 18 months, the inputs being deployed today will be reflected in cost and pricing later this year. Bananas by contrast, move more quickly through the system and therefore, respond more immediately to changes in input costs.

As a result, the pressures that emerged during the quarter are now embedded in the system and will continue to move through the value chain in the periods ahead, regardless of how conditions in the Middle East evolve from here.

We are already seeing this dynamic take hold from higher fertilizers and packaging costs to increase ocean freight and inland transportation driven by fuel and labor. The impact is more pronounced in our fresh business given its production cycles and input intensity, while other parts of the portfolio are affected differently based on their supply chain structures.

This is not a short-term volatility. It's a natural transmission of input costs through a global time lag system. The situation remains dynamic, and we are managing the business with discipline and flexibility. This is an environment we are well positioned to navigate, but it will not be without challenges. We expect pressure to build in the coming quarters, particularly in the second and third quarter, as these costs continue to flow through the system and the full impact move through the value chain.

Our global footprint, diversified sourcing and integrated supply chain enable us to adjust and respond across markets. While our scale and disciplined execution position us to manage through this period effectively, these are the conditions where those advantages become more evident. We have navigated complex operating environments before, and we will continue to do so with clear focus on execution, cost management and operational efficiency.

With that, I will turn it over to Monica Vicente, our CFO, to discuss our financial results.

Monica Vicente
Senior VP & CFO

Thank you, Mr. Abu-Ghazaleh, and thank you, everyone, for joining us this morning. I will begin with our first quarter results and then share our expectations for the year ahead. I will cover key items affecting comparability, most notably the Del Monte Foods acquisition and updates to our segment reporting structure.

We closed the Del Monte Foods acquisition late in the quarter. Results include 1 week of contribution and have no meaningful impact on the first quarter results. We are assessing the cost structure and spending profile to establish a near-term cost baseline while identifying efficiency opportunities we expect to execute over time.

We are also evaluating the operating footprint, including a recent purchase of a warehouse previously leased by Del Monte Foods in Wisconsin with a focus on optimizing asset utilization and portfolio alignment across our facilities.

We paid a total cash consideration of $308 million, which included $285 million base purchase price plus $23 million in cash, representing wind-down and closing costs, along with adjustments for working capital associated with the transaction.

The acquisition was funded through a combination of cash on hand and borrowings under our revolving credit facility. The consideration closely approximated the fair value of the identifiable net assets acquired. The acquisition is expected to be accretive to net sales by $600 million and adjusted EBITDA by approximately $23 million in 2026 as operations normalize.

As a result of the acquisition, beginning this quarter, we updated our business segment reporting to better align with internal management reporting. A new reportable segment, Prepared Foods, combines the Del Monte Foods business acquired with our existing Prepared Foods operations.

Prior period segment information has been recast for comparability. We also completed the previously announced divestiture of Mann Packing in December 2025.

Our first quarter results reflect continuing operations. Prior period comparisons are presented as reported and where applicable on an adjusted basis with reconciliations in today's earnings press release.

With that context, I will turn now to our first quarter financial performance. Year-over-year results reflect portfolio changes following the divestiture of Mann Packing, alongside pricing, volume, cost and foreign exchange dynamics, as well as the recent geopolitical developments.

Net sales were $1 billion, primarily driven by lower net sales in our fresh and value-added products segment. This reflected the divestiture of Mann Packing and lower net sales in our avocado product line due to industry-wide oversupply, which resulted in lower per unit selling prices. The decrease was partially offset by the initial contribution of Del Monte Foods and the favorable impact of fluctuations in exchange rates, primarily the euro.

Gross profit was $89 million, reflecting lower gross profit in our other products and services and Prepared Foods segment, where results were impacted by lower selling prices in our poultry and meats business due to softer demand and the conflict in the Middle East.

In our Prepared Foods segment, higher per unit production costs weighed on results. Gross profit was generally affected by supply chain disruptions in the Strait of Hormuz and the unfavorable impact of a stronger Costa Rica colon. These impacts were partially offset by higher per unit selling prices in our banana and pineapple product lines, as well as the contribution of Del Monte Foods.

Gross margin increased to 8.5%. Adjusted gross profit was $91 million and adjusted gross margin was 8.7%. Operating income was $20 million, primarily driven by higher asset impairment and other charges net.

Adjusted operating income was $40 million. Asset impairment and other charges were related to the Foods acquisition.

Income from equity method investments was $7 million. The increase reflected higher equity earnings from unconsolidated investments, primarily from distributions received in excess of our carrying value upon the liquidation of a fund in which we previously held an interest.

Fresh Del Monte net income was $10 million. And on an adjusted basis, Fresh Del Monte net income was $30 million. We delivered earnings per share of $0.21 and adjusted earnings per diluted share of $0.63.

Adjusted EBITDA was $58 million, with a margin of 6% as a percentage of net sales, reflecting disciplined cost management amid a dynamic cost environment.

I will now go into more detail on the quarter performance for each of our business segments, starting with our fresh and value-added products segment.

Net sales were $549 million, primarily driven by strategic reductions in our fresh and fresh-cut vegetable product lines, reflecting the divestiture of Mann Packing, as well as lower per unit selling prices in our avocado product line driven by industry-wide oversupply. These declines were partially offset by higher net sales in our pineapple product line, reflecting higher per unit selling prices and the favorable impact of exchange rate movements, primarily the euro.

Gross profit was $60 million, driven by the divestiture of Mann Packing, which generated negative gross profit in the prior year, as well as higher per unit selling prices in our pineapple product line. The increase was partially offset by higher per unit production costs as well as weather-related events in North America that negatively impacted sales volume in our fresh-cut fruit product line and contributed to lower per unit selling prices in our melon product line. Gross margin increased to 10.9%. Adjusted gross profit was $61 million.

Turning to our banana segment. Net sales were $357 million, primarily driven by lower volume and market disruptions across regions, including adverse weather and supplier changes. The decrease was partially offset by higher per unit selling prices across all regions and the favorable impact of fluctuations in exchange rates.

Gross profit was $16 million, driven by higher per unit production and procurement costs, partially offset by higher per unit selling prices. Gross margin was in line at 4.6%. Adjusted gross profit was $18 million and adjusted gross margin increased to 5%.

Moving to our Prepared Foods segment. Results reflected 1 week of contribution from the Fresh Del Monte Foods acquisition, along with contributions from our existing Prepared Foods operations. Net sales were $83 million, including $22 million of net sales from the acquisition, partially offset by lower net sales in Europe due to supply availability constraints of pineapple used in our canned pineapple product line.

Gross profit was $9 million, primarily driven by lower net sales in Europe and higher per unit production and distribution costs. Gross margin decreased to 10.8%.

Lastly, our results for other products and services segment. Net sales were $56 million, driven by higher net sales of our third-party freight services business, partially offset by lower net sales in our poultry and meats business due to lower per unit selling prices. Gross profit was $4 million and gross margin decreased to 6.8%.

Now moving to selected financial results for the first quarter of 2026. Our income tax provision was $8 million, reflecting changes in the global tax and regulatory environment and higher earnings in certain jurisdictions. Net cash provided by operating activities was $44 million.

Cash flow was primarily driven by net earnings and partially offset by higher noncash items, including asset impairments as well as working capital movements, mainly lower inventory levels and higher trade receivables due to the timing of period-end collections.

Turning to capital allocation. At the end of the first quarter, long-term debt stood at $438 million, and our average adjusted leverage ratio is at 1.4x EBITDA. This compares to $173 million in long-term debt at year-end, with the increase reflecting the closing of the Del Monte Foods acquisition.

Capital expenditures totaled $14 million during the quarter, reflecting pineapple expansion and packing facility construction in Costa Rica, equipment investments in Kenya and the replacement and maintenance capital.

As previously announced, our Board of Directors declared a quarterly cash dividend of $0.30 per share payable on June 11, 2026, to shareholders of record as of May 19, 2026. On an annualized basis, this equates to $1.20 per share, representing a dividend yield of approximately 3% based on our current share price.

During the quarter, we repurchased 100,000 shares of our common stock for $4 million at an average price of $40.24 per share. As of March 27, we had $116 million available under our $150 million share repurchase program.

Together, our capital allocation actions during the quarter, including dividends, share repurchases and the completion of the Del Monte Foods acquisition reflect our balanced approach to capital deployment. We continue to prioritize reinvestment in the business and a competitive, reliable return to shareholders.

Turning to our outlook for the full year of 2026. We are providing our expectations for our business segments and key financial priorities, including SG&A, capital expenditures and cash flows. This outlook is based on the information available to us today and our experience managing through comparable industry and macroeconomic cycles.

Given the current environment, our priorities for 2026 are clear: first, protecting the long-term earnings power of the portfolio; second, maintaining balance sheet and liquidity flexibility; and third, managing through near-term volatility with discipline.

Our 2026 outlook reflects Fresh Del Monte's continuing operations. It excludes the Mann Packing business exited in December 2025 and includes 9 months of contribution from Del Monte Foods transaction.

We expect net sales on a continuing operation basis to increase between 13% and 15% year-over-year, reflecting execution across our base business and the contribution from the Del Monte Foods transaction, which we expect will contribute $600 million of net sales in 2026.

As discussed, developments in the Middle East have driven higher energy, shipping and commodity input costs. Based on current assumptions and observable market conditions, we estimate the impact of these cost pressures to be approximately $40 million to $45 million, which will impact us starting in the second quarter. These impacts are primarily related to ocean freight costs, including bunker fuel and war-related surcharges, inland transportation, fertilizer and packaging costs, consistent with recent elevated oil and fuel price trends.

Our outlook also reflects approximately $20 million to $25 million of headwinds over the balance of the year, roughly 50% from foreign exchange impacts, primarily related to the Costa Rica colon and the remainder driven by higher domestic transportation and logistic costs resulting from shortage of -- of driver availability in the U.S.

Separately, tariffs implemented beginning in March 2025 continue to function largely as a pass-through. Tariffs had a modest impact in the first quarter. And given the uncertainty around recoverability and timing, we have not assumed any tariff refunds.

In banana, near-term industry supply and cost dynamics, combined with trade dislocations following Middle East-related disruptions are creating incremental volume pressure in North America and Europe markets, which is reflected in our guidance. At the same time, per unit costs are higher, driven by lower production from Costa Rica and the disease management efforts on our own farms. Fertilizer inflation has added further pressure. These headwinds are reflected in the segment gross margin ranges we are providing today.

Consistent with our established cost management approach, our outlook reflects a disciplined and active response to the current environment. This includes targeted pricing actions where market and customer dynamics support them, contractual fuel recovery mechanisms and continued focus on cost containment and operational efficiency.

Just as important, it reflects ongoing deliberate trade-offs around timing, mix and service to protect customer relationships, sustain throughput and preserve long-term earning capacity during a period of elevated volatility.

Turning to gross margin expectations by segment. In our fresh and value-added products segment, we expect gross margin to be in the range of 11% to 12% compared with 14% last year. This reflects higher per unit production and distribution costs across the segment as well as industry-wide supply constraints in pineapple volumes that limit our ability to fully benefit from increased market demand from our premium pineapple varieties.

In our banana segment, we expect gross margin to be in the range of 3% to 4%, consistent with the cost supply and market dynamics discussed before.

In our Prepared Foods segment, we expect gross margin to be in the range of 13% to 14%. This reflects the combination of Del Monte Foods transaction, which brings an inherently higher-margin branded CPG profile with our existing Prepared Foods operations as well as integration, timing, input cost volatility, and mix across geographies.

Importantly, the reported range does not yet reflect the full margin potential of the Del Monte Foods platform as integration progresses. In our other products and services segment, we expect gross margin to be in the range of 12% to 13%, consistent with prior years.

Selling, general and administrative expense is expected to be in the range of $270 million to $280 million, reflecting the inclusion of Del Monte Foods and our intentional shift to a branded CPG operating model, which carries a higher SG&A profile than our historical fresh produce operations. This range also includes wage inflation and targeted investments in technology and organizational support to operate and scale a global branded foods platform.

Capital expenditures for the full year are expected to be in the range of $85 million to $95 million, focused on production expansion in Central America, growth in our fresh cut and Prepared Foods operations in Europe, a recent warehouse investment and other investments related to the Del Monte Foods acquisition as well as investments in core technology systems.

For the full year, we expect net cash provided by operating activities to be in the range of $40 million to $50 million, which reflects lower cash generation than we historically produced as a pure fresh produce company.

With the addition of Del Monte Foods, our cash profile now reflects the seasonal working capital dynamics of a branded CPG business. This includes higher working capital requirements in the second and third quarters as inventories are built to support seasonal packing and processing activities that ramp through the harvest season and peak from summer through fall.

As those inventories convert to sales, we expect stronger cash generation in the fourth quarter and into the first quarter, driven by peak demand during November and December holiday season and again around the Easter holiday period. Due to the timing of the acquisition, working capital needs will be higher in 2026 than in future periods.

In summary, while the operating environment remains challenging, we believe the underlying fundamentals of our portfolio are sound, and our focus remains on disciplined execution, prudent capital allocation, protecting long-term value, consistent cash generation across the full operating cycle and maintaining flexibility and financial resilience as conditions evolve.
This concludes our financial review. We can now turn the call over to Q&A. Krista?

Question and Answer

Operator

[Operator Instructions] And we have no questions at this time. I would like to turn the conference back over to Mr. Mohammad Abu-Ghazaleh for closing comments.

Mohammad Abu-Ghazaleh
Chairman & CEO

Thank you, Krista, and thank you everyone for joining us today, and hope to speak with you on our next call of the second quarter. Thank you, everyone, and have a good day.

Operator
Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation, and you may now disconnect.