

Fresh Del Monte to raise banana prices

Higher procurement costs weighed on first-quarter results.

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CORAL GABLES, FLA. — Buying bananas has become too costly for Fresh Del Monte Produce Inc., which warned of plans to raise prices on the fruit in North America following first-quarter results that fell below expectations. For the three months ended March 27, the company reported net income of \$44.2 million, equal to 80c per share on the common stock, down from \$58.9 million, or \$1.04 per share, in the prior-year period. Net sales increased to \$1,008.4 million, up from \$982.3 million the year before. “During the quarter we benefited from strong demand for Del Monte bananas in North America and higher sales in our other fresh produce segments supported by higher demand and increased selling prices in our fresh-cut and avocado product lines,” said Mohammad Abu-Ghazaleh, chairman and chief executive officer, during an April 28 conference call with

financial analysts. “This led to a \$26 million increase in net sales, despite the unfavorable impact of foreign exchange.

“Even with these positive developments our earnings performance was not in line with our expectations as a result of further challenges in production areas in Florida, Chile and Costa Rica that adversely affected our earnings during the quarter. We experienced significantly higher banana procurement costs, decreased tomato and grape quality along with reduced banana and pineapple yields.”

Net sales in the banana segment increased 4% to \$454.3 million, driven by higher sales in North America, and gross profit advanced to \$36.1 million. Still, the company said a price increase is needed to keep pace with economic conditions.

“Banana selling prices are too low, and this cannot be sustained,” Mr. Abu-Ghazaleh said. “I want to make it very clear that pricing must be increased.” He said banana prices haven’t increased for many years, in spite of inflation and additional costs the company incurs each year.

“When I said we have to increase prices, I meant for North America in particular because the other markets are not contractual, and we gain on the spot actually; when the market is high we make our money, and when markets are soft we can still survive,” Mr. Abu-Ghazaleh said. “But in North America since everything is contracted we have very little room to enjoy high markets during the shortages and still have to supply our customers even though we face so many issues.

“Like we said we have incurred tremendous costs during that quarter just to secure volumes to satisfy our customers and their contracts, which, in my opinion, you know, it is unfair because we have incurred tens of millions of dollars to be able to meet our contractual demand, and that has a cost, and I believe that this cost should be reflected in the price.”

Elsewhere in the portfolio, performance was mixed. Net sales for the other fresh produce segment rose 2% to \$464.6 million during the quarter as a result of higher sales volume in non-tropical, tomato and fresh-cut product lines. Gross profit dropped to \$50.7 million.

For the prepared food segment, net sales declined 2% to \$89.5 million, due to lower sales volume in Fresh Del Monte’s poultry product line. Gross profit advanced 21% to \$13.6 million.

“Looking forward we have a strong track record of taking expenses out of the business and creating operational efficiencies, and we are steadfastly committed to that mission,” Mr. Abu-Ghazaleh said. “We also see significant opportunities for continued growth in the value-added product line through new products and channel development and we are investing heavily in these areas. We remain focused on seeking opportunities to tap

unmet consumer needs for Del Monte's healthful, wholesome and nutritious fresh produce and prepared food products."