

FRESH DEL MONTE PRODUCE INC
Form 10-Q
July 31, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 29, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

1-14706

(Commission file number)

FRESH DEL MONTE PRODUCE INC.
(Exact Name of Registrant as Specified in Its Charter)

The Cayman Islands
(State or Other Jurisdiction of
Incorporation or Organization)

N/A
(I.R.S Employer
Identification No.)

c/o Walkers SPV Limited
Walker House, 87 Mary Street
George Town, Grand Cayman, KY1-9002
Cayman Islands
(Address of Registrant's Principal Executive Office)
(305) 520-8400
(Registrant's telephone number including area code)

N/A
(Zip Code)

Please send copies of notices and communications from the Securities and Exchange Commission to:

c/o Del Monte Fresh Produce Company
241 Sevilla Avenue
Coral Gables, Florida 33134
(Address of Registrant's U.S. Executive Office)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 20, 2012, there were 58,001,277 ordinary shares of Fresh Del Monte Produce Inc. issued and outstanding, respectively.

Forward-Looking Statements

This report, information included in future filings by us and information contained in written material, press releases and oral statements, issued by or on behalf of us contains, or may contain, statements that constitute forward-looking statements. In this report, these statements appear in a number of places and include statements regarding the intent, beliefs or current expectations of us or our officers (including statements preceded by, followed by or that include the words “believes”, “expects”, “anticipates” or similar expressions) with respect to various matters, including our plans and future performance. These forward-looking statements involve risks and uncertainties. Fresh Del Monte’s actual plans and performance may differ materially from those in the forward-looking statements as a result of various factors, including (i) the uncertain global economic environment and the timing and strength of a recovery in the markets we serve, and the extent to which adverse economic conditions continue to affect our sales volume and results, including our ability to command premium prices for certain of our principal products, or increase competitive pressures within the industry, (ii) the impact of governmental initiatives in the United States and abroad to spur economic activity, including the effects of significant government monetary or other market interventions on inflation, price controls and foreign exchange rates, (iii) the impact of governmental trade restrictions, including adverse governmental regulation that may impact our ability to access certain markets, (iv) our anticipated cash needs in light of our liquidity, (v) the continued ability of our distributors and suppliers to have access to sufficient liquidity to fund their operations, (vi) trends and other factors affecting our financial condition or results of operations from period to period, including changes in product mix or consumer demand for branded products such as ours, particularly as consumers remain price-conscious in the current economic environment; anticipated price and expense levels; the impact of crop disease, severe weather conditions, such as flooding, or natural disasters, such as earthquakes, on crop quality and yields and on our ability to grow, procure or export our products; the impact of prices for petroleum-based products and packaging materials; and the availability of sufficient labor during peak growing and harvesting seasons, (vii) the impact of pricing and other actions by our competitors, particularly during periods of low consumer confidence and spending levels, (viii) the impact of foreign currency fluctuations, (ix) our plans for expansion of our business (including through acquisitions) and cost savings, (x) our ability to successfully integrate acquisitions into our operations, (xi) the impact of impairment or other charges associated with exit activities, crop or facility damage or otherwise, (xii) the timing and cost of resolution of pending legal and environmental proceedings, (xiii) the impact of changes in tax accounting or tax laws (or interpretations thereof), and the impact of settlements of adjustments proposed by the Internal Revenue Service or other taxing authorities in connection with our tax audits, and (xiv) the cost and other implications of changes in regulations applicable to our business, including potential legislative or regulatory initiatives in the United States or elsewhere directed at mitigating the effects of climate change. All forward-looking statements in this report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our plans and performance may also be affected by the factors described in Item 1A-“Risk Factors” in our Annual Report on Form 10-K for the year ended December 30, 2011 along with other reports that we have on file with the Securities and Exchange Commission.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)
(U.S. dollars in millions, except share and per share data)

	June 29, 2012	December 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$32.0	\$46.9
Trade accounts receivable, net of allowance of \$7.3 and \$7.4, respectively	320.7	290.7
Other accounts receivable, net of allowance of \$8.4 and \$9.8, respectively	55.7	63.9
Inventories	392.4	428.9
Deferred income taxes	12.7	12.4
Prepaid expenses and other current assets	56.4	49.2
Total current assets	869.9	892.0
Investments in and advances to unconsolidated companies	1.9	2.3
Property, plant and equipment, net	1,014.6	1,022.9
Deferred income taxes	55.7	56.9
Other noncurrent assets	121.9	127.6
Goodwill	403.1	402.3
Total assets	\$2,467.1	\$2,504.0
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$342.7	\$343.2
Current portion of long-term debt and capital lease obligations	41.0	2.2
Deferred income taxes	17.0	15.7
Income taxes and other taxes payable	22.8	8.7
Total current liabilities	423.5	369.8
Long-term debt and capital lease obligations	0.5	213.3
Retirement benefits	75.6	78.6
Other noncurrent liabilities	51.9	47.6
Deferred income taxes	77.8	79.6
Total liabilities	629.3	788.9
Commitments and contingencies		
Shareholders' equity:		
Preferred shares, \$0.01 par value; 50,000,000 shares authorized; none issued or outstanding	—	—
Ordinary shares, \$0.01 par value; 200,000,00 shares authorized; 58,001,277 issued and outstanding and 57,764,454 issued and outstanding, respectively	0.6	0.6
Paid-in capital	497.3	483.6
Retained earnings	1,314.9	1,206.8
Accumulated other comprehensive loss	(3.2) (1.6
Total Fresh Del Monte Produce Inc. shareholders' equity	1,809.6	1,689.4

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Noncontrolling interests	28.2	25.7
Total shareholders' equity	1,837.8	1,715.1
Total liabilities and shareholders' equity	\$2,467.1	\$2,504.0

See accompanying notes.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(U.S. dollars in millions, except share and per share data)

	Quarter ended		Six months ended	
	June 29, 2012	July 1, 2011	June 29, 2012	July 1, 2011
Net sales	\$957.6	\$1,039.7	\$1,855.5	\$2,013.7
Cost of products sold	841.2	936.8	1,626.7	1,788.0
Gross profit	116.4	102.9	228.8	225.7
Selling, general and administrative expenses	45.6	48.4	91.0	94.5
Loss (gain) on disposal of property, plant and equipment	—	(0.7	) 1.4	(0.8
Asset impairment and other charges, net	1.0	10.3	1.1	12.2
Operating income	69.8	44.9	135.3	119.8
Interest expense	0.9	1.5	2.2	3.7
Interest income	0.1	0.2	0.3	0.4
Other expense, net	3.1	0.4	2.6	3.4
Income before income taxes	65.9	43.2	130.8	113.1
Provision for income taxes	7.4	6.4	9.5	20.3
Net income	\$58.5	\$36.8	\$121.3	\$92.8
Less: net income attributable to noncontrolling interests	1.3	1.6	1.6	2.4
Net income attributable to Fresh Del Monte Produce Inc.	\$57.2	\$35.2	\$119.7	\$90.4
Net income per ordinary share attributable to Fresh Del Monte Produce Inc. - Basic	\$0.99	\$0.59	\$2.07	\$1.53
Net income per ordinary share attributable to Fresh Del Monte Produce Inc. - Diluted	\$0.99	\$0.59	\$2.07	\$1.52
Dividends declared per ordinary share	\$0.10	\$0.05	\$0.20	\$0.10
Weighted average number of ordinary shares:				
Basic	57,905,312	59,562,202	57,856,208	59,202,865
Diluted	57,995,333	59,887,929	57,948,057	59,579,250

See accompanying notes.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(U.S. dollars in millions)

	Quarter ended		Six months ended	
	June 29, 2012	July 1, 2011	June 29, 2012	July 1, 2011
Net income	\$ 58.5	\$ 36.8	\$ 121.3	\$ 92.8
Other comprehensive income:				
Net unrealized loss on derivatives	(3.9	) (4.8	) (1.1	) (3.6
Net unrealized foreign currency translation (loss) gain	(4.9	) 2.4	1.1	10.1
Net unrealized loss on available-for-sale investments	(0.7	) —	(0.7) —
Net change in retirement benefit adjustment, net of tax	0.1	0.2	—	0.3
Comprehensive income	\$ 49.1	\$ 34.6	\$ 120.6	\$ 99.6
Less: comprehensive income attributable to noncontrolling interests	1.7	1.8	2.5	2.8
Comprehensive income attributable to Fresh Del Monte Produce Inc.	\$ 47.4	\$ 32.8	\$ 118.1	\$ 96.8

See accompanying notes.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(U.S. dollars in millions)

	Six months ended		
	June 29, 2012	July 1, 2011	
Operating activities:			
Net income	\$ 121.3	\$ 92.8	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	35.1	36.8	
Amortization of debt issuance costs	0.8	1.3	
Stock-based compensation expense	5.3	4.0	
Asset impairment charges	1.8	8.7	
Change in uncertain tax positions	(7.0	) 4.1	
Gain on sales of property, plant and equipment	(0.5	) (0.8)
Equity in loss of unconsolidated companies	0.6	0.6	
Deferred income taxes	(0.4	) 2.0	
Excess tax benefit from stock-based compensation	(4.0) —	
Foreign currency translation adjustment	0.7	(3.4)
Changes in operating assets and liabilities:			
Receivables	(22.6	) (24.0)
Inventories	38.4	52.8	
Prepaid expenses and other current assets	(5.5	) 3.8	
Accounts payable and accrued expenses	29.2	73.5	
Other noncurrent assets and liabilities	0.7	(8.6)
Net cash provided by operating activities	193.9	243.6	
Investing activities:			
Capital expenditures	(34.1	) (42.4)
Proceeds from sales of property, plant and equipment	6.0	1.1	
Proceeds from sale of unconsolidated subsidiary	0.2	—	
Purchases of available-for-sale investments	(11.0) —	
Net cash used in investing activities	(38.9	) (41.3)
Financing activities:			
Proceeds from long-term debt	171.0	180.3	
Payments on long-term debt	(344.0	) (388.6)
Contributions from (distributions to) noncontrolling interests, net	5.0	(3.1)
Proceeds from stock options exercised	4.5	20.9	
Excess tax benefit from stock-based compensation	4.0	—	
Dividends paid	(11.6	) (5.9)
Net cash used in financing activities	(171.1	) (196.4)