

January 2, 2018

**Fresh Del Monte Produce Inc. (NYSE:FDP)**

**Eric Bjorklund**

**Sector: Food, Beverage and Tobacco**

**Industry: Consumer Staples**

**Current Price: \$47.88**

**Target Price: \$60.98**

Fresh Del Monte Produce Inc. is one of the largest, most innovative, fresh fruit and vegetable producers worldwide. While specializing in bananas, it has seen gains in the pineapple, avocado, other fresh produce and prepared food segments.

## BUY

Current Price: \$47.85

Target Price: \$60.98

Market Cap: 2.30B

Beta: .71

Other key Metrics/Ratios

Gross Margin 8.08

Operating Margin 3.83

ROA 4.46

ROE 6.79

Current Ratio 2.59



## Thesis:

Fresh Del Monte Produce Inc. is a produce company that is coming off a globally rough year in the industry. With prices set to rebound, as well as future diversification of their product line, FDP stands to improve their margins substantially. This combined with a recent acquisition of Mann Packing will allow FDP to achieve synergies reflected in horizontal integration to match their heavily hedged and vertically integrated company.

## Catalysts:

- Short Term (within the year): Global Banana Market Rebounding
- Mid Term (1-2 years): Mann Packing acquisition synergies coming to fruition
- Long Term (3+): Diversification of product line hedging against poor performance

## Earnings Performance:

FDP has reported EPS (diluted) of \$2.44 in 2017 compared to \$4.74 in 2016. This is due in part to a stock buyback program the company has started. In 2017 Q4, 987,000 shares for \$45,750,000 were repurchased. Other reasons for the drop in EPS were lower profits due to a depressed banana market, a product in which FDP heavily relies on to produce good margins. 43% of their business revolves around the banana trade. Net sales were \$954mm in 2017 Q4 compared with \$955mm in 2016. Gross profit of \$51mm in 2017 Q4 and \$55mm in 2016 Q4 were achieved. There was a net loss of \$4mm in 2017 Q4 compared with net income of \$14mm in 2016 Q4. Historically, Q3 and Q4 produce the lowest amount of revenues due to smaller farms, particularly in North America growing competing products for relatively cheap, thus saturating the market with produce. Primary gains are made in Q1 and Q2, where crops can only be grown in the Latin American countries in which FDP has most of their production facilities. FDP is down 24% compared to 1 year ago, mainly due to macro effects, which makes it a cheap company, and the time to strike is now.



## Business Strategy:

FDP has made it clear that its strategy consists of several synergistic entities. Leveraging their assets, diversifying their product mix, and investing in joint ventures all join together to paint a promising future for the company.

### Leveraging Assets

FDP owns a lot of land, and leases much more. This allows them the flexibility to grow many different products to suit their needs and satisfy demand. This graphic taken from the 2017 annual report shows the breakdown of their productive land. While much of it is located in Central America, mainly Costa Rica, there is also significant production in many other regions. This hedges against a catastrophe wiping out all of their production.

Location	Acres Under Production		Products
	Acres Owned	Acres Leased	
Costa Rica	44,463	5,901	Bananas, Pineapples, Melons
Guatemala	9,131	4,917	Bananas, Melons
Brazil	2,402	—	Bananas, Other Crops
Chile	3,934	2,041	Non-Tropical Fruit
Kenya	—	11,488	Pineapples
Philippines	—	19,395	Bananas, Pineapples
Uruguay	4,169	—	Citrus
Nicaragua	—	—	Bananas, Pineapples
United States	4,223	4,067	Melons, Tomatoes and Other Crops

FDP also possesses a lot of logistical assets including refrigerated ships, trucks and containers, and distribution centers that cover much of the U.S., its largest market. Their plan is to improve the supply chain dynamic so that high margin products essentially “ride for free” thus driving down overall COGS. They plan to streamline the distribution centers for easy integration of new products especially with the recent acquisition of Mann Packing. Their sales capacity also allows them to reach a wider area for all of their products and will be used tactically in the coming years to target the most profitable customers.

### Diversification

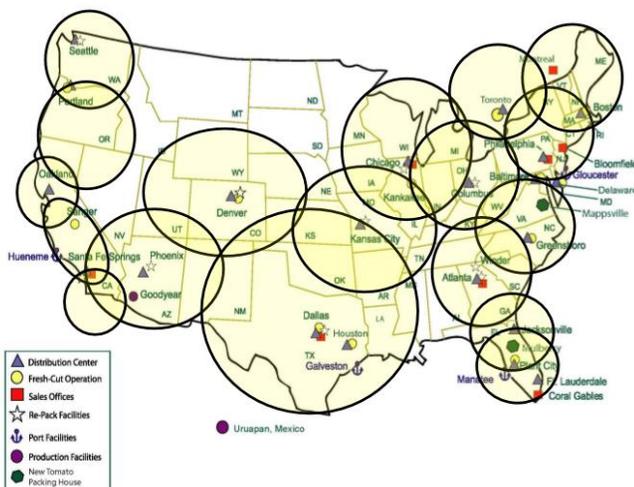
Currently 43% of FDP’s business relies on the banana trade. Management has realized this and recently began efforts to diversify the product mix. FDP is #3 in banana production worldwide, #1 in pineapples worldwide and the #1 producer of fruit in the USA. Part of their diversification initiative is to minimize exposure to a depressed banana market, much like what was seen in 2017. The 2017 banana market is viewed by experts as the bottom floor, so it will go up in the near future, but additional steps must be taken to minimize risk in the

future. This includes growing more pineapples, avocados and other high margin products that are in public favor at the moment. FDP also plans to diversify its global footprint by moving into new international markets. They plan to attack this channel with a fresh cut initiative, as opposed to a canned line in order to break into emerging markets.

### Joint Ventures

FDP is in the process of investing in joint ventures with other companies to tap untapped markets. One of the main initiatives is small stands/stores that sell strictly FDP products. These are mainly located in airports, schools and hospitals to target the on the go, healthy shopper. The avocado and guacamole market is growing at a rate of 227% CAGR over the past 10 years. This opens up a market for FDP to capitalize on, being that they are a leading producer of Avocados in America. Other ventures FDP plans to advance on are chilled juice and refrigerated fruit.

### Vertical Integration:



lines year round, while taking on extra capacity during seasonal high demand periods, mainly the first 2 quarters of the calendar year. This is effective in reducing ocean freight costs and mitigating exposure to the charter shipping market. Logistics is the second largest cost next to cost of products, so FDP pays close attention to every optimization they can implement. FDP ships its products to retail stores, foodservice operators, wholesalers and distributors in over 80 countries, so the complexity of logistics is made easier by the amount of control FDP maintains through their assets.

FDP prides itself on a highly vertically integrated operation. This enables them to control costs, increase efficiency, and preserve a fresh product for delivery. FDP owns 11 cargo ships and charter 7 for delivery all over the world. 4 of the ships are refrigerated and 3 ships with capacity for refrigerated containers. FDP operates a fleet of approx. 6,000 refrigerated containers, 98% of which are leased. 2 new ships are under contract to be delivered in 2020 which will expand their distribution capabilities. The mix of ownership and chartered shipping allows FDP to maintain shipping



## Mann Packing Acquisition:

Mann Packing Co. was acquired in February 2018 for a price of \$361mm. Their annual sales were \$535mm in 2017. Due to the already established nature of this brand, we can expect to see benefits in time for the next earnings call on May 2, 2018. This acquisition has the potential to be accretive to FDP in that it is in line with every aspect of their strategy. Mann Packing specialized in prepackaged, on the go, healthy alternatives to snacking through vegetables. This also allows FDP to break into the vegetable market of the produce consumer, whereas in the past they have focused on fruit. Mann has a diverse customer base that ranges from every day consumers, to food service and distributor companies. This allows it to blend in line with FDP's current market and will make the transition smooth and non-disruptive. Their products are simple, but due to clever packaging and design, they are high margin. For example, they pre-tray vegetables with dips in order to appeal to on the go customers. This is simply to cost of packaging added onto the cost of vegetables and logistics, but they can charge a premium and no one will bat an eye. Mann's sales are primarily on the west coast and northern US, so FDP's dominance in southern territories will allow a larger reach for the products. Mann has a history of innovation, which will also help FDP to realign their products correctly to target the most profitable customer. Mann's fresh cut vegetables complement FDP's fresh cut fruit in a way that will allow them to immediately start reaping the rewards of the acquisition.



## Segment Analysis:

<p><b>Bananas</b></p> <ul style="list-style-type: none"> <li>• 2017 Q4 sales are at \$421mm, down from 2016 Q4 \$431mm</li> <li>• Due in part to lower sales in the Middle East and Asia</li> <li>• Overall volume is down 6%</li> <li>• Worldwide pricing is up 4%</li> <li>• Worldwide Unit Cost up 2%</li> <li>• Gross profit is \$15mm in 2017 Q4 compared to \$5mm in 2016</li> <li>• 2017 was viewed as the bottom floor of banana pricing, it can only go up</li> </ul>	<p><b>Avocados</b></p> <ul style="list-style-type: none"> <li>• Sales are up \$8mm (13%) in 2017 Q4</li> <li>• Higher volume due to increased demand</li> <li>• Volume increased 20% in Q4</li> <li>• Pricing is down 6%, unit cost down 3%</li> <li>• 277% CAGR over past 10 years in U.S. avocado consumption</li> </ul>
<p><b>Pineapples</b></p> <ul style="list-style-type: none"> <li>• Patent on extra sweet pineapples since the 90s</li> <li>• Sales in 2017 Q4 up \$4mm</li> <li>• Overall volume increased 7%</li> <li>• Unit price down 4%, Cost down 2%</li> </ul>	<p><b>Fresh Cut</b></p> <ul style="list-style-type: none"> <li>• Sales up 6% 2017 Q4</li> <li>• Increase in volume and price 3%</li> <li>• Unit price up 3% and cost up 9%</li> <li>• Shift in production towards Fresh Cut in strategic plan</li> </ul>
<p><b>Non Tropical</b></p> <ul style="list-style-type: none"> <li>• Sales down \$4m in 2017 Q4</li> <li>• Volume down 13% in Q4</li> <li>• Pricing up 6%, unit cost 5%</li> </ul>	<p><b>Prepared Foods</b></p> <ul style="list-style-type: none"> <li>• Mann synergies play into this segment</li> <li>• Lower selling prices in industrial pineapple line decreased gross profit \$9mm in Q4</li> </ul>

<p><b>Other Fresh Produce</b></p> <ul style="list-style-type: none"> <li>• Net sales up \$14mm compared to Q4 2016</li> <li>• Gross profit down \$7mm compared to Q4 2016</li> </ul>	<p><b>Macro Costs</b></p> <ul style="list-style-type: none"> <li>• Banana fruit cost increased 1% worldwide and represented 30% of total cost to sales</li> <li>• Carton cost increased 11% and amounted to 4% of TC/Sales</li> <li>• Bunker fuel cost/ton increased 25%, representing 2% of total costs</li> <li>• Total Ocean Freight Cost was 7% lower</li> <li>• Ocean freight represented 9% of total cost of sales in 2017 Q4</li> </ul>
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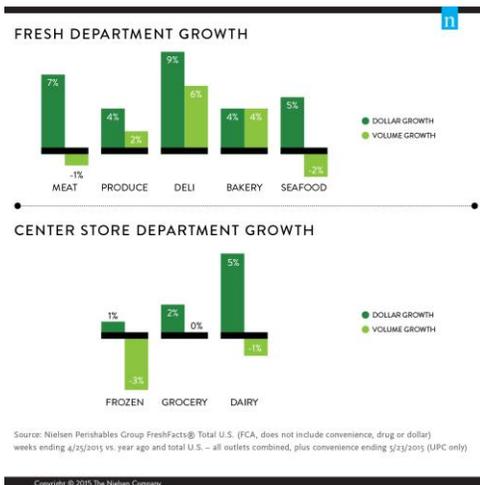
**Customers:**

<p>Retailers</p>	
<p>Foodservice</p>	
<p>Warehouse &amp; Club Stores</p>	
<p>Casual Dining &amp; Quick Serve</p>	
<p>Convenience Stores</p>	

**Ownership:**

Compare Current Stats Against 04/05/17		04/02/17	Curr ↓	Change
Ownership Type				
11) Investment Advisor		61.10	67.34	+6.24
12) Individual		32.66	29.26	-3.40
13) Hedge Fund Manager		3.53	1.21	-2.32
14) Pension Fund		1.00	0.98	-0.02
15) Sovereign Wealth Fund		0.94	0.46	-0.48
16) Bank		0.04	0.24	+0.20
17) Insurance Company		0.33	0.20	-0.13
18) Other		0.09	0.13	+0.04
19) Government		0.10	0.09	-0.01
20) Brokerage		0.17	0.05	-0.12
21) Unclassified		0.03	0.03	0.00

## Fresh Healthy Foods in the U.S.



- Consistent shift to organic, fresh foods in U.S. purchasing
- Driven by Millennials
- 88% of people are willing to pay more for healthier foods
- Consumers want healthy, convenient, on the go products
- FDP is able to provide basic produce to companies, or process into their own unique product
- FDP has distribution centers covering most of the continental U.S.

## Conclusion:

FDP can be expected to return much better margins by the May 2 earnings call. This coincides with a rebound of markets, specifically bananas, as well as the historically strong Q1 effect the company realizes every year. Currently, FDP is cheap due to some uncertainty of the market, but due to FDP's unique strategy, they are more than able to come back and prosper even if the banana market does not rebound. Their acquisition of Mann Packing allows them to diversify as well as innovate their products to meet an ever growing healthy, on-the-go consumer market. The similarity of the two companies will provide tangible synergies within the next quarter. Del Monte Fresh Produce has a strong balance sheet with a healthy cash flow in order to support growth. The management team is confident and adept at executing their strategic plan for the company. FDP maintains a solid market share of the produce industry in North America and other regions around the world, supported by their vertically integrated supply chain. This company is hedged against negative downturns in most of their dealings, and with the banana market at its floor, it can only recover and subsequently grow FDP's price. FDP is a strong buy at \$47.88 with plenty of upside in the near and distant future.

**Fresh Del Monte Produce Inc.**  
(FDP)

**CENTER FOR GLOBAL FINANCIAL STUDIES**

**BULLISH**

**Analysis by Eric Bjorklund**  
4/5/2018

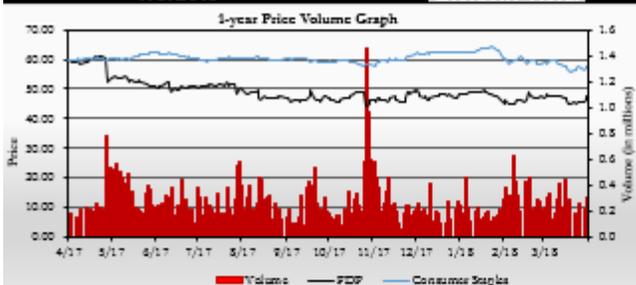
**Current Price:**  
**Dividend Yield:**

**\$47.88**  
**1.3%**

**Intrinsic Value**  
**Target Price**

**\$56.31**  
**\$60.98**

**Target 1 year Return: 28.61%**  
**Probability of Price Increase: 100%**



Description	
Fresh Del Monte Produce Inc., through its subsidiaries, producer, marketer, and distributor fresh and fresh-cut fruits and vegetables worldwide.	
General Information	
Sector	Consumer Staples
Industry	Food Products
Last Guidance	February 12, 2018
Next earnings date	April 27, 2018
Market Assumptions	
Estimated Equity Risk Premium	5.83%
Effective Tax rate	24%

Market Data	
Market Capitalization	\$2,327.26
Daily volume (mil)	0.14
Shares outstanding (mil)	48.61
Diluted shares outstanding (mil)	50.59
% shares held by institutions	109%
% shares held by investment Managers	60%
% shares held by hedge funds	1%
% shares held by insiders	38.57%
Short interest	4.51%
Days to cover short interest	9.08
52-week high	\$61.98
52-week low	\$43.02
Volatility	22.40%

Quarterly Earnings Surprises	
Quarter ending	Revenue
12/30/2016	-0.02%
3/31/2017	-1.61%
6/30/2017	N/A
9/29/2017	N/A
12/29/2017	2.10%
Mean	0.49%
Standard error	0.8%

Market and Credit Scores	
Recommendation (STARS) Value	--0
Recommendation (STARS) Description	--0
Quality Ranking Value	--NR
Quality Ranking Description	--Not Ranked
Short Score	--1
Market Signal Probability of Default % (Non-Rating)	--0.514%
Credit Modal Score (Non-Rating)	--bbb

Industry and Segment Information	
LTM Revenue by Geographic Segment	LTM Revenue by Business Segment
North America--58%	Banana--43%
Europe--16%	Other Fresh Produce--49%
Middle East--13%	Prepared Food--8%
Asia--1%	--
Other--1%	--

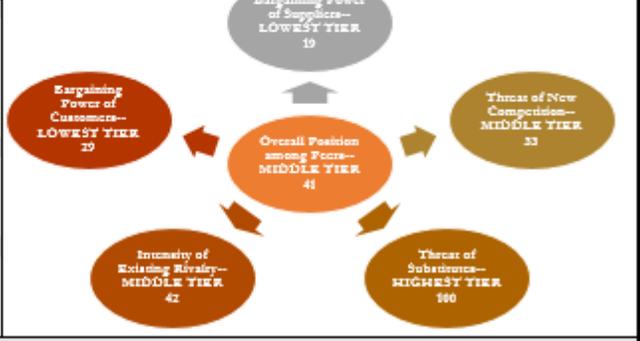
Management	
Abu Ghazaleh, Mohammed	Chairman & CEO
Centrorer, Richard	Senior VP & Chief Financial Officer
Lazopoulos, Emanuel	Senior Vice President of North America Sales
Rice, Paul	Senior Vice President of North American Operations
Zakharis, Youzef	President & COO
Cannella, Christine	Assistant Vice President of Investor Relations

Total Compensation Growth		Stock Price Growth During Tenure	
10.94% per annum over 5y	8.11% per annum over 5y	2.4% per annum over 5y	2.4% per annum over 5y
9.42% per annum over 2y	-100% per annum over 4y	35.8% per annum over 2y	7.02% per annum over 4y

Peerz	
Conagra Brands, Inc.	Total Produce plc
Campbell Soup Company	--
The Hain Celestial Group, Inc.	--
TreeHouse Foods, Inc.	--
Dean Foods Company	--

Profitability		FDP (LTM)		FDP Historical		Peerz' Median (LTM)	
Return on Capital (GAAP)	5.0%	5.47%	6.68%				
Operating Margin	4%	4.34%	8.05%				
Revenue/Capital (GAAP)	1.26	1.26	0.83				
ROE (GAAP)	5.6%	6.9%	21.5%				
Net margin	2.5%	3.0%	5.7%				
Revenue/Book Value (GAAP)	2.27	2.29	3.80				

Invested Funds		FDP (LTM)		FDP Historical		Peerz' Median (LTM)	
Cash/Capital	1.0%	1.4%	4.3%				
NWC/Capital	23.7%	23.3%	9.2%				
Operating Assets/Capital	65.2%	61.6%	56.4%				
Goodwill/Capital	10.2%	13.7%	30.2%				



Forecast Assumptions		Explicit Period (4 years)		Continuing Period	
Revenue Growth CAGR	3%	3%	2%		
Average Operating Margin	7%	7%	7%		
Average Net Margin	4%	4%	4%		
Growth in Capital CAGR	4%	4%	2%		
Growth in Claims CAGR	2%	2%	2%		
Average Return on Capital	6%	6%	5%		
Average Return on Equity	7%	7%	6%		
Average Cost of Capital	7%	7%	7%		
Average Cost of Equity	9%	9%	9%		

