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TUP - Q2 2015 Tupperware Brands Corp Earnings Call

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OVERVIEW:

Co. reported 2Q15 EPS, without items, of $1.21. Expects 2015 EPS, without items, to be $4.42-4.52 and 3Q15 EPS, without items, to be $0.69-0.74.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. And welcome to Tupperware Brands Corporation second-quarter 2015 earnings conference call.

(Operator Instructions)

Thank you. It is now my pleasure to turn the call over to Mr. Rick Goings, Chairman and CEO. Please go ahead.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Thank you very much, Maria. Good morning, everybody. I'm here at our headquarters in Orlando with Mike Poteshman, our CFO, and Lien Nguyen, our Head of Investor Relations. You see there on slide 2 the future outlook comments with regard to forward-looking statements, and you all know the drill on this.

Let me turn to slide 3. We are pleased to see continued strong performance in a number of our units including Argentina, Brazil, China, Korea, both our South African businesses and also Tupperware US and Canada. However, we were disappointed with the results in a number of other markets. We'll get into those. Overall sales were up plus 4%, just shy of the low end of our range. And on the profit side at $1.21 earnings per share, that was above the high end of our range. And actually what it speaks to is the strength of our value chain. Mike will get into that later in the call.

Total sales force, this, as you know, is the main catalyst for growth. It's at 3 million. It was up 3% versus last year. And also our sequential improvement quarter over quarter, it's good to see. We are optimistic that the initiatives with regard to recruiting and retention are going to continue to lead to sales force growth. Active sellers were also up modestly in the quarter, an improvement from first-quarter comparison, but as I've said to many of you at our meetings, I think the key thing to look for is total sales force because of the difference in business models in many of our countries.

Looking at slide 4, I'm going to go into some of the segments geographically and then take you a little bit lower. Euroland was an interesting operating landscape that we see today, challenging. I just got back. It really does, as you've been reading, the Greek situation has diffused. A lot of focus on individual country economies. We've got a lot of high unemployment we're dealing with, particularly on the bookends from Spain and Portugal on one side to what's going on in Greece on the other end of it.

CIS, I was just there this last week, and the Ukraine situation, a lot of tension still there in central Europe. And now Europe has experienced a number of terrorist attacks, the latest last week in Turkey. However, in spite of all this unsettling activities externals, we continue to navigate forward and have some positive results.

First, let me cover the good news with regard to Europe, Africa, Middle East. We continue to see strong performance in both of our South African businesses where we were up 9% as we lapped June shipments last year in front of a transportation strike that was going to happen in July. We also did well in our Avroy Shlain business in South Africa, growing sales 19%, and had a good contribution from growth in our Middle East and North African businesses, which reflected really good KPIs and also some favorable timing. I was in most of these markets last month, and I've got to tell you the young management team gives confidence to us of a bright future, and there's a lot of opportunity ahead for us.

Turning to Germany, a very important market for us in Europe. We were able to continue our trend of improvement. If you recall, we had a disappointing January and we were able to increase sales in both February and March. That momentum continued and we were up 23% in Germany. I've got to say we had some easy comps there, but momentum was really continuing to grow. I spoke with Simon Hemus, our Chief Operating Officer, about an hour ago and he was in Germany yesterday, he's in France today. And he continues also to be pleased with what he sees on not only the quality of our management team but their strategies and the building momentum, particularly in Germany.

We also continue to see improvement in our CIS business, which was up 15% in the quarter. I just was in Moscow three or four days last week. Again, we had an easier comp but we also saw an increase in our active sellers. And as we noted last quarter, we had a high number of deletions late last year. We clearly had to just flush out the system due to a change in sales force standards. And we're not going to lap that until first quarter of next year, so it will kind of distort it. It's clear it was a good move. The externals in the CIS, they're difficult. The ruble is down 33% versus a year ago. But our management team is really again navigating through this very well. Spent a lot of time with the regional sales managers and with all 155 distributors, and I'll tell you I get a sense that they are motivated to get back to the growth levels that we saw from 2000 to 2009, and many of those years we grew double digits. So I'm seeing they're inspired now.

Italy, down 25% in the quarter. Very difficult comps, though. They were against 32% up in second quarter last year. Yet we've got some issues there. We're making some targeted investment to better engage not only the sales force but consumers as well. And it's likely to take more than a quarter to get that momentum going in the right direction.

France, down in the quarter. It continues to be impacted by party cancellations and low party scheduling. And frankly, we haven't recovered from the terrorist attacks in January. Beginning in January we started to see party cancellations. That hurt sales and took away important recruiting opportunities. And it also resulted in us not being able to match last year's performance in important promotional push period. It's interesting, we do a lot of our annual business in the first quarter, and it kind of sets the tone for the rest of the year. And we lost that with those attacks. So we're focused on smoothing these peaks throughout the year. And again I mentioned Simon Hemus is there today, and he said he's never been so impressed with the management team as he's seen in our branch business there. A lot of really young but seasoned Tupperware people there. So it's going to take some time, but we'll get back. This is a wonderful business for us with wonderful margins, and a very well respected brand.

Let me turn to Asia Pacific. Stars there were China, Korea, Philippines. All had double-digit growth. China up 17%, and they were coming up against really difficult comps of 28% growth in the second quarter last year. Their growth continues to be driven by two things: the outlet expansion, we're up to 5000; and increased outlet productivity. So this 5000 is 13% above last year. Regarding the economy, yes, consumers are starting to feel the impact of a little bit slower growth in their economy. However, so many of these clarion calls about winding down of China are premature. You may now see growth in the overall economy not be the double-digit people have been used to seeing a decade ago, but the 7% on a much larger economy really is significant. Anyway, we're, I think, doing a great job growing with that country.

Korea continues strong performance in the quarter, up 16%. That's three straight quarters of double-digit increases in local currency sales. So overall, very solid business.

Also Philippines, up double-digit, 12% in the quarter. Higher active sellers. Also third quarter of sales increase. And our guys have done just a great job there with merging both Tupperware and BeautiControl. And so it's about 50/50, the sales mix. And really the only other place we really do that is in Latin America. Someone asked, why does it work in the Philippines? Well, most of you know Philippines was a Spanish colony for more than two centuries. So we're there, not only brands but channels. So it works very, very well and people buy a lot of their products via direct selling.

Now let me turn to some markets in Asia Pacific where we had declines. India was down 4%. However, continuing sequential improvement from previous quarters. I just talked yesterday to Michael Tziallas, who is our area Vice President that part of the world, and he says that recruiting is really robust. We see those numbers. Now there's a double-digit sales force size advantage. We just got to start to get more productivity. There have been some regulatory changes that have led to us mandatorily lowering requirements to [become] the sales force, so we saw a 9% higher active sellers, but when you lower the requirements you don't get the flow-through in productivity. So we've got to manage that very well. But again, it's been mandated.

Indonesia, that was down 5%. That is sequential improvement, though, I've got to say, too. But the strengthening that we believed we would see when we did our first-quarter call, it's taking longer. This is, however, a very strong business. We've grown double-digit there for eight years. Actually, we were just looking at the CAGR of this past eight years, is over 46%. Starting late last year we started to experience some bumps in the roads. And one, we're usually able to navigate through externals, but we saw a number of them come together. Firstly, consumers really started to sit on the sidelines more with the uncertainty over the presidential elections, which actually turned out to be quite smooth, but there was uncertainty leading up to it.

There was a big devaluation of the rupiah which really caused pressure on consumer spending. And the government really introduced a reduction in fuel subsidies, a big thing when you've got a nation of 13,000 islands and the bulk of your population lives in Jakarta. At any rate, these things together impacted our business. But I believe more than two-thirds of it was really internal. We've experienced this phenomenal growth I just alluded to, but it was driven by growth of the sales force and growth in unit managers, and unit managers are our first level of leadership. And anytime we chart our sales force size and manager count and put them next to our sales numbers, that's what drives the whole business. Well, both our sales force size and our manager counts are now just about even with prior year. And we simply believe we put too much pressure on sales leaders to retain their sales force because we had a high turnover. And they -- what that played out is, they focused a little bit too much on quality and not quantity. Both are important, but job one is have that funnel wide open. Recruit quantity, and then through onboarding, trade to quality. So we're now really focusing on recruiting and promoting. Our team has revamped the new consultant onboarding program. And I am pleased to report that in recruiting we saw a 10-point sequential improvement in the year-over-year recruiting comparison in Q2 compared to Q1. So these are really the signals of what's to come.

We also need to do better, though I've got to say in Indonesia, on our product program. We have focus simply too long on food conservation, what some would call storage, and on serving products. We have now moved into really incredible demonstratable products that have led to success in many markets, like the Quick Chef. I was just looking at the numbers. We have one called an Herb Chopper. We've sold 12 million of those. Those are the kind of products that lead people to do demonstrations. We have to do more of that stuff in Indonesia.

Malaysia/Singapore, a big and profitable market for us, but it was down 7%. And so a rocky time there. Year-over-year basis, we are about even. We mentioned last quarter some of the sales that were pulled in the first quarter in front of a consumption tax went into effect in April. So that also had an impact. And it's explained better when you see that year to date we're even. I'm going to be there in a couple weeks and we'll have a clearer picture of what's going on.

Our business in Australia and New Zealand, down in the quarter 15%. Unit had a small but very productive sales force. We've got a good business there. Our assessment is that the qualification levels for hostess gifts have been too hard to achieve and that really caused greater difficulty in booking parties, and therefore -- and the party average as well. We put the actions in place. Fortunately we have a sales force size advantage, and we've seen some traction from our moves as we've entered the third quarter. I will say, though, for a period of about five years it was our market of the year, Australia and New Zealand. So I want to see us get back to that again.

Let me turn now to the Americas, our third geographic portfolio. Just a quick run-through. Venezuela, we continue to stay business there. We've got a sales force there of over 40,000. We don't want to abandon them. We hope things get better. We're working hard. We're raw material supply that we can pay for them in bolivars. And so they were up.

Nuvo in Uruguay was up double-digit. Argentina, was pleased with the progress there. And I guess what Mike and I really look at there is there's big inflation, what's the progress of ahead of inflation. That's what really matters, and we're seeing it.

Fuller in Mexico was up modestly. And Tupperware in Mexico was up mid-single digit. I might comment on Fuller and the Mexican environment. Some of our staff brought me some of the brochures from key competitors down there, and just we're dealing with an atmosphere of incredible discounting. And yet we've continue to stay the course. Were building a brand, and you don't build brands discounting unless you are a discount store.

So anyway, let me move forward to Brazil, our largest unit on the Americas. It generated another good increase with 19% higher sales, and more than half of this is from higher volume generated by a larger, more active sales force. Last quarter we mentioned that our 46% increase had some timing. So we had expected a good increase this quarter, but not the same blowout of 46%. We continue to recruit well. Ended the quarter with a 19% higher total sales force. Things are getting a little bit more difficult, and you got a push a little bit harder in Brazil. But we're taking, we believe, the right kind of actions to mitigate these pressures. So we expect to continue to generate strong double-digit increases in Brazil.

In the US and Canada we were very pleased to see double-digit increase, up 13% in the quarter, our fourth consecutive quarter of growth and our first double-digit performance in four years. We had better-than-expected result in May and continued strong underlying performance indicators. This includes sales force size advantage, which is 14%, and 18% more active sellers. Last quarter we mentioned some compensation changes that were going to be effective in Q3 in Canada. Pleased to see that we haven't had the disruption that we kind of -- I can't say we planned for, but we were prepared for. But they were the right kind of changes. So momentum looks good there. With that, let me turn it over to Mike. Mike?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Thanks, Rick. Turning to slide 5 on sales with our plus 4% in local currency in the second quarter. We improved sequentially from the plus 3% we had in the first quarter, and we're just marginally below the 5% low end of our guidance range. Versus last year the big positive contributors were Brazil, China, Germany, the Middle East and North Africa, and Tupperware US and Canada, with France being the one down unit of this magnitude. Versus our high-end outlook, our most significant miss was in Indonesia. And Rick has walked through the things of note going on in these units.

On total sales force size, the comparison also improved sequentially in the quarter by 1 point to plus 3%. The most significant increase was in India where we improved active sellers but not as much of the total sales force, and we also had meaningful improvements in BeautiControl, Germany and Tupperware US and Canada. As with last quarter there was a hit on our whole Company year-over-year total sales force size comparison of about 2 points from the changes in standards in CIS and from operating in a more constrained manner in Venezuela that we won't fully lap until the first quarter of 2016. In both cases these were the right moves, and both units had healthy local currency sales increases in the quarter.

Average active sellers were up 1%, which was a 2-point sequential improvement that came primarily in India and from a less of a shortfall at Fuller Mexico. Some of you like to look at our active seller comparison without the Beauty North America segment, and for our other four segments as a group, we were up 3%, 1 point better than how we did in the first quarter.

Turning then to slide 6, you've seen that we came in for the quarter with $1.21 in EPS without items, $0.02 above the high end of our range, despite being about 2.5 points below the high end of our local currency sales range. Our better-than-expected profitability was in our Europe and Tupperware North and South America segments. The benefit in Europe was mainly from a higher-than-expected gross margin that included lapping some inventory costs last year, and we also benefited from low employee benefits cost in the quarter. In Tupperware North America we had less-than-expected investment in the quarter associated with transitioning under the compensation plan change in Canada. And in South America we had a good gross margin related to sales force awards in Brazil and a strengthening value chain in Argentina. Versus last year we also benefited from the improvements that we've made to the value chain of BeautiControl as of the beginning of April, and continue to see the benefit of lapping high supply chain cost in 2014 in Brazil.

On slide 7 you see all of this led to a 13.8% pretax return on sales without items. That was up from last year by about 100 basis points in local currency, although down by 90 basis points in dollars due to translation foreign exchange. A few words on our quote, unquote items. You may recall that last year in the second quarter we had $0.42 of expenses related to currency devaluations in Venezuela. This year we had two Orlando land transactions that produced income worth $0.13. We had a few other items of the nature that we usually do, but taking this Venezuela item last year and the land transactions together gave us a $0.55 benefit versus last year on our GAAP earnings per share, none of which is included in the EPS without items that we also speak to.

Turning to cash. It was a good quarter with cash flow from operating net of investing activities of $34 million. While this was down from $47 million last year, the comparison includes a $20 million cash hit from translation FX. In this year's quarter we had $12 million of proceeds from the land transactions and much better management of our inventory position, which was partially offset by higher current trade receivables from higher June sales. We're holding our full-year 2015 cash flow outlook in line with where we were in April at $180 million to $190 million, balancing the land proceeds that were not in our outlook with the impact of our revised guidance range for earnings. Within this we now perceive full-year capital spending at $65 million versus the $70 million we indicated in April.

Slide 8 shows our sales and earnings outlooks for the third quarter and full year. On sales our first-half local currency growth was 4%, and together with outlooks of plus 4% to 6% in both the third and fourth quarters, our full-year outlook is now for plus 4% to 5%. The largest sequential improvements that we see bringing us from plus 4% in the second quarter to plus 6% at our high end in the third quarter include a positive year-over-year comparison in Indonesia in light of an increase there in sales to end consumers in the second quarter, notwithstanding our 5% decrease in Company sales to our distributors. We also expect better comparisons in Italy and France in the third quarter, although we haven't assumed it will be in plus in those units.

On slide 9 you see full-year earnings per share without items is expected to be in the range of $4.42 to $4.52, $0.18 lower than the outlook we gave in April. This includes the $0.02 upside versus our high end that we had in the second quarter in local currency along with a $0.09 hit from worse foreign exchange, an impact from the shift in our sales growth away from Asia where we have our highest return on sales, an impact from Greece in light of the credit and economic crisis there, along with investment to grow and motivate the sales force in Europe, most notably in Italy, Turkey and France. Going the other way you've seen that we raised our expectations for return on sales performance in South America, and that is for better profit recovery in Brazil and a strengthening value chain in Argentina.

On slide 10 is a high-end, then, expectation for pretax return on sales without items is 13.0%, a 45 basis point improvement over 2014 in local currency, although down 90 basis points in dollars after a 135 basis point hit from translation foreign exchange. At the segment level for the full year we foresee local currency sales in Europe to be up slightly compared with 2014, Asia-Pacific up by a low single-digit, up mid-single-digit in Tupperware North America, a low single-digit decrease in Beauty North America and an increase in the mid-20%s in South America. Versus our April guidance, Europe and Tupperware North America are slightly better and the other segments slightly worse.

On segment profit return on sales without items, we foresee Europe to be down about 1 point, no significant change versus last year in Asia-Pacific, down 0.5 point in Tupperware North America dollars and even in local currencies, up 1.5 points in dollars and 2.5 points in local currency in Beauty North America, and down about 0.5 point in dollars and up about 3.5 points in local currency in South America. The local currency changes here versus April are improvements in South America and both of the North America segments, and a lower return on sales in Europe.

The outlooks for full year unallocated corporate expenses and net interest expense at $66 million and $46 million respectively have not changed from April. Our expectation for a full year tax rate excluding items remains at 25.5%, and we expect to be at that rate in the third quarter as well.

Along with the plus 4% to 6% local currency sales in the third quarter, our earnings per share outlook without items is to be in the range of $0.69 to $0.74, which at the high end would up 9% in local currency and down 18% in dollars after a $0.22 hit from translation foreign exchange. The third quarter local currency pretax return on sales improvement without items is about 40 basis points.

A word here with respect to our further out sales growth expectations. We continue to believe that longer term we will operate in the plus 6% to 8% annual local currency sales increase range with growth of about 10% in the emerging markets and low single-digit growth by the established markets. As we did for 2015, we'll likely give our initial 2016 sales guidance in October, which will be based on what we see then in terms of our sales force size comparisons trends and opportunities around the initiatives that we are implementing.

Finally turning to resin. In April we indicated a $6 million full-year benefit in 2015 versus 2014 on cost of goods sold from lower resin cost in local currency. Our update now is that we foresee about $150 million of resin in cost of goods sold this year and no change in the full year resin benefit from April, with about $4 million expected to come through in the second half of the year. We had about a $2 million benefit from resin in the second quarter, as had been included in our outlook.

So now with that, I'm going to turn the call over to Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Stephanie Wissink, Piper Jaffray.

Stephanie Wissink - *Piper Jaffray - Analyst*

Good morning, everyone. We have two questions. Rick, if you could just talk a little bit about the iROAR deployments globally. Can you give us some insight into how widespread the adoption has been so far, and if that had any influence on some of the improvements you're seeing in both total and active rep counts? And then Mike, if you could help us reconcile the cash flow in the quarter? I think you mentioned that you had a back-end weighted sales cycle. So you have some increases in your receivables level, but just help us walk through the cash flow detail if you could to get it to that free cash flow number for the quarter. Thank you.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Mike, why don't you handle that, and then I will cover what's going on with iROAR.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Sure. Stephanie, on the receivables item we had higher sales in June. And so those are current trade receivables that we'll collect going forward. So higher sales than last year impacting the cash flow. On the positive side we had the big improvement in the inventory situation versus last year. We normally and did still build inventory in the first half this year, but not nearly to the extent that we did last year. So those were a couple of the big drivers. And then we had the $20 million impact that I mentioned from translation FX which is the value of our results. So it's a cash item that also flowed through the results in the second quarter along with those proceeds from the land sales, the land transactions that were around $12 million positive.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

And Steph, I'll handle the other part of that with regard to iROAR. There's really -- these pieces of iROAR starts off with first of all that much more inspirational leadership that matters in our kind of a business. And we have created a whole series and are going out there phasing out digital tools that will help our people get better with regard to that. And the onboarding is the next piece of it. Somebody gets a kit from us. What do we do with them? The success formulas, then they come into our business then. And how do we get them active quickly, and then what we do with retention? That basically is what iROAR stands for.

We're really looking at Brazil and Germany that are doing the first pilots on onboarding, and they're using kind of a toolkit. And initial results show higher retention. You see continued productivity increases and higher activity in those markets. They've even created digital tools, like they call it Tupper City, and if you'll imagine a new sales representative joins us and she goes online and she gets trained in person and attends training classes. But more Millennials, they want an and-training. I want that, but I also want the ability to go on and fill in and learn the way I want. And she literally has a picture of a thing called Tupper City. And there's different buildings and she can click into it if she wants to see the laboratories and learn about products, if she goes into orders, if she goes into recognition programs. It is such a logical approach. And as a matter of fact, I would compare it to what Rosetta Stone has done with regard to language learning. So it's very, very interactive.

Extending the reach is a big piece of this as well. And we're -- that's the next phase. You and I talked about brand ambassadors. The good news is we recruit 3 million people per year, and the bad news is we're about the best in the industry at retention but we go through about that many per year. And once somebody's with this and a unit manager, they tend to have only turnover around 25% and distributors is less than 10%. But all those people, we just had a study done in Germany and 50% of the people that we deleted, and we've kind of talk about it as we unfriended, 50% in the research said they miss Tupperware. So something changed in their life and they couldn't stay active, but we're working on a program to really modify it because they'll become brand ambassadors.

The lower discount in the future, but we will find ways to perhaps five to six times per year through merchandising keep them involved. And we're going to be working on that in our US business, in our Malaysia/Singapore business and in our Austrian business. It's in different phases in different parts of the world.

I will tell you something that was the first time we've ever done it. Week before last we held a webinar with not only all of our managing directors, but their management teams as well. It was an hour-long Monday, Tuesday, Wednesday and Thursday. They all tuned in. We covered all these new initiatives for the future to bring them up to date where we are, who's doing what, where we're going and then on Friday we did one that was a town hall.

So it's a new way using new technology to bring our entire global organization forward. So I'm -- I think we're changing what our business model is and contemporizing it. And it's going to be the right kind of thing, especially for Millennials. Forgive the long answer, Steph.

Stephanie Wissink - *Piper Jaffray - Analyst*

No problem. Thank you, guys. Best of luck.

Operator

Jason Gere, KeyBanc Capital.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Thanks. Good morning, guys. I guess the question really is about, I guess, the pricing versus volume kind of context of the quarter. Can you. I guess. Mike can you tell us how much price contributed to the 4% organic sales? And then in the same context, if you could talk about some of those key markets? Brazil obviously has remained pretty strong and there's some pricing in there. And Indonesia obviously has still some work to do, but there's been -- pricing has been a component there. So I guess I was wondering if you could talk about when some of the pricing starts to lap, what gets you confident that the volume end of it will remain strong in those key markets as you think out over the next few quarters, and then obviously into 2016. And then I have a follow-on question.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Jason, let me handle part A of that question. That's something you didn't ask, but our general strategy is to price to inflation. And the reason for that in markets is to keep the value chain of profitability. Starting with our sales force, that if she is going to do a party and it's a $400 party, we want to make sure for the 1.5 hours to 2 hours she spends, she doesn't have a devaluation in her income. So that's what drives that. And we're able to do that because we own the show. Mike, if you'll handle the other part.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Sure, Jason. On the specifics, we were up 1% in volume and 3% in price in the second quarter. So that was a sequential improvement. And the volume comparison. I'm sure you recall in the first quarter we were up 4% pricing but down 1% in volume. So that does reflect on the price side starting to lap some of these bigger increases last year. Of course there's some markets, like Rick mentioned Argentina, where there's a lot of inflation and that's continued.

In terms of how things will look with volume going forward, of course we expect as we get better and better sales force size comparisons, that that will generate and lead to volume improvements and we had the sequential improvements we talked about, both on the total sales force overall this quarter and the active sales force. And even with the plus 3% in the total sellers, I mentioned the lag or the drag from the standard change in CIS and the situation in Venezuela which is clipping us for about 2 points on that total sales force size comparison that we'll lap as we get to next year's first quarter.

So another indicator, you mentioned Indonesia. We were up in the sales there by the sales force and consumers that I had noted, even though we were down in Company sales. So that we would hope and think that that's a leading indicator that the comparisons should get better on the Company sales as well.

So we're definitely being more thoughtful about price increases this year. We're always thoughtful, but even more thoughtful because we certainly don't want to be disruptive when economies are not doing as well. But on the other hand, as Rick talks about all the time, it clearly is a big element for our sales force that we're pricing in line with consumer inflation because their earnings are all keyed up and down the line by our retail sales. And so that's important, too.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Let me add one thing to that as well, Jason. Mike mentioned -- Mike and I were just talking about it yesterday. Argentina, there's a mix thing that you guys don't see. We've shifted our business in Argentina, which was largely Beauty. Bettina and the management team has done a great job that we're pushing almost 80% of it now, we just looked at the last quarter, is now in Tupperware products. The average net per unit in the past when you're selling lipstick it was $4. I didn't make that up, that's the chart we looked at yesterday. Whereas when we moved now to more Tupperware products, the average net per unit is almost double.

So then we track over there, the units have gone down in Argentina but there's a great sales increase. And the sales increase, even when you net out what's happening with inflation approaching double digits. So we're sitting there, Mike and I looking at, is that business doing -- is it getting better or not, and it's clearly getting better. Company's making more money, distributors are making more money, sales force is making more money. But you don't see it on the surface because of these distorting mix factors.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay. And then -- no, I appreciate that. And then just following up on Indonesia. And I know last quarter you gave how you thought the next quarter would play out. And as we think about the guidance, how we think about the organic sales kind of reacceleration, whether you look at it on a two-year stack rate or just year over year. How should we be thinking about the progressive improvement in Indonesia? Where do you expect that to end the year? I know you're not giving the 2016 sales outlook until October, but I'm just try to think about how we should think about that momentum ending the year so we can start thinking about 2016. Obviously this is a key driver -- a key market for you. Thank you.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

First thing we would look at with Indonesia, and Mike you might add to this, is what kind of penetration do we have and what kind of an opportunity do we have ahead. It's a 0.25 billion people. I think we're getting through this transition of this new populist mayor of Jakarta is now the president of the country. He's making the right kinds of decisions. And we've got a penetration level there with a sales force under 250,000, that is, we think, somewhere around 20%. So there's a lot of runway left for us.

And the second big thing that we often talk about is, the first thing you talk about is penetration of the boots on the ground, do we have sales force? The next big opportunity we have, and what are we selling to them? And as I alluded to in my comments -- not alluded, said -- we've spent too much time on really storage and serving, and haven't gotten enough into this hub-and-spokes of these other exotic products that really have been the key to success in markets like France.

And they're really demonstratable, and we've learned even markets like that, you'll go up into Borneo, we sell a Quick Chef. She doesn't even have electricity. So it really does change her life. That's a big opportunity for us. So Mike, I'll leave you to give the numbers so then I can be a critic later.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

So Jason, with the sales force we were at a minus 1% at the end of the second quarter in Indonesia. So close to flat. With several of the things we're working on, which Rick has touched on some of them, we should see a slow improvement on the comparison. So why do I say that? Well, with the product line changes that Rick has talked about, that leads us to higher price points, more differentiated products, more variety that can go to end consumers. And so that should help from a productivity point of view.

We've also started to work to have, while it's not largely a party plan market, more demonstration where it might be demonstrating one of these more differentiating products, more one-on-one which can also lead to more productivity of the sales force, including better earnings for their time. So that's another element.

So I mentioned that for the third quarter in our high-end guidance that we do have Indonesia in there in plus. So we'll look to improve as we go forward. Certainly one of the things that we've mentioned in the past is the high turnover rate on the sales force in Indonesia. We know that the next act in a business when we have a very large sales force if we've got a high turnover is that we have to have ways to get more longevity and more productivity out of the sales force because you can't keep recruiting two times your total sales force when it gets to be a very large total sales force size. That's not where we are in Indonesia, but just as a comment on the kind of math problem you could run into.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay, great. Thank you very much.

Operator

Sofya Tsinis, JPMorgan.

Sofya Tsinis - *JPMorgan - Analyst*

My question is surrounding your commentary on the 6% to 8% long-term algorithm. It seems that as this last quarter you saw you'd be able to guide to that for next year, for 2016, now you're no longer really talking about it for 2016 and more as a long-term target. So is that a fair assessment, and what gives you confidence that that is in fact the right algorithm for you guys longer term, given some of the challenge that you've been dealing with in recent years? Thanks.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

First I would add when we talk about our LRS, long-range forecast, that it's usually a -- business schools usually teach us three to five years. So at no time did I say it was 2016 it was going to be 6% to 8%. But we do know, and I'm throwing the hook over the bar, with particularly the [penchant] we have and our 87% of the word is emerging markets, that's where we're going to get it. And the biggest drag we have right now are some of our laggards that are taking away from that growth. Mike, you want to add to that?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Yes. Sofya, it's absolutely the penetration opportunities that we have in the emerging markets. We highlighted at our Analyst Day in February where we were in China and India where we have good businesses. Yes, China was down this quarter but it's been improving -- sorry, India has been improving sequentially, China continues to be up very good double digits. We said today that we had about 5000 outlets at the end of the second quarter, and February had pointed out that the opportunity perhaps could be as many as 20,000.

And then on India it was not even over $100 million in sales last year where China was. And obviously it's a very large population and one where we've had a proof of concept because we've got a good business there that we think will return to growth going forward. So huge penetration opportunities there. And still opportunities in places like Indonesia and Brazil, which are in the top five in population in the world, where yes, we're more penetrated than India and China clearly, but still white space to go. And these elements that I talked about for Indonesia will play in Brazil as well in terms of more demonstration and a broader product line and things like that.

And then on the established market side, better execution from the kinds of things we talk about in iROAR. So it should certainly allow us to be in the positive overall, even though we were down still, although improved sequentially in the established markets as a group in the second quarter.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Sofya, I think you bring up something really important here too, and that we talk about a lot inside here on expectations going forward. We continue, and what has been our biggest barrier to getting sooner back to this 6% to 8% top line is execution, as Mike discussed. One of the things I've been really pressing with our management teams out there is this is very much a momentum business, and we have to be better at diagnostics.

And it generally, it's an industry that doesn't spend a lot of time on diagnostics. And it's interesting, I've been using the example that it's considered -- it's more than 35% of all doctors' diagnosis are wrong, and one-third of those are life-threatening mistakes. And it hasn't gotten any better in the last 50 years.

We really have been spending a lot of time on training and development of leadership to start to look at these KPIs and other kinds of things so that you can see some of these things around the corner, so -- because what's hurting us isn't that our great markets of opportunity don't grow, it is we get so -- we keep having bumps in the road. Here, a bad quarter here in France. Another difficult quarter, or this difficult quarter in Australia. Malaysia, which is just an incredible market, all of a sudden it has a bad quarter.

Those are what wipe away the top line out there. We've got to get better at it, and I -- we spend so much time on leadership development. That's where this business is somewhere between an art and a science. And we're good, but we're not perfect on this, and we have to get better.

Sofya Tsinis - *JPMorgan - Analyst*

Thanks. And just a separate question on Indonesia. It seems like some of the changes you're implementing there are in terms of improving the product lineup, but it also seems like you're looking to improve the mix. Is there a risk that the strategy has given challenges that you've seen in terms of consumers responding to higher pricing and trying to encourage them to buy higher end products now? Thanks.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Well, you do it gradually. And I think we're good at that. And what you'll start to see, too, is if you move more toward the urban markets, and there's a number of those in an Indonesia, you're going to see, firstly you see a different higher percentage of working women, higher per capita income, more single, okay? And so we have to alter not only the product line we sell but the demonstration of the product because if you're going to get $50 for a product, you got to show people how that product works. So the two things that mitigate that, or the opportunities for us, is go to that better product, but you've got a go along with the demonstration as well.

Very interesting. We were having a discussion yesterday about one of our products that we ought to make it in a single size. We were checking later in the day on this, that in Europe we are starting to see more than 50% of the key urban markets in Europe are single-person environments. Well, that speaks to a different urban strategy for us with regard to the size of the products. If we're making products for families and it's just her. And we teach her how to use that microwave because she's a very busy working woman, that's a huge opportunity for us, and that -- that we haven't really gone forward with in the past. But you'll see more of it. And I think the 12 million units that we sold of the Herb Chopper speaks to that.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Sofya, the other thing to realize is that it is -- we're very close to the consumer through our sales force and it is iterative. While we're going for some higher price point products in our line, and emphasizing doing some more demonstration, if the pick-up isn't there, then we're going to be constantly seeing what's going on and adjusting. So it's not a shock approach that we just put in this different product line and are expecting it to do well and not paying attention to how it's going.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Interesting on that. We're drilling down here on how we operate. When we're coming out with a new exotic product, we will first of all run it as a promotional item with the sales force. They get it and they use it and they embrace it. Next, it will be a product that we use in dating parties as a consumer incentive. And then when all of a sudden people love it, that's when we roll it out. So it isn't just the shock, as Mike would talk about, from room temperature to cold water.

Operator

Olivia Tong, Bank of America Merrill Lynch.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Two questions on organic sales. The first one is just to get a better understanding on what's going to change in some of the markets you expect to accelerate to drive the improvement in organic sales that you're calling for next quarter. You mentioned France and Italy. So just trying to understand what's actually changing there to sort of result in less deceleration.

And then secondly, while Germany was able to recover from the Q1 challenges, Indonesia obviously continues to have some trouble. You just reiterated that there's still a lot of runway left. You think that you have the right initiatives in place. But is it simply taking longer to play out, or at one point do you decide whether you have to course correct in order to get that improvement? Thank you.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Well, let me comment on the second part of that question. We have a basic -- at some point do you decide you have to course correct? We operate with a philosophy here that every successful model works until it doesn't, and that you have to be course correcting all the time. So we ask ourselves, so what every quarter, particularly when things are going right in a market. We look at the key levers of our business, primarily what is the product? How are we demonstrating the product? What is the earning opportunity changes out there, and what are the sales force fundamentals? So all of those are -- while we have a formula, they're always in a state of evolving. And what we try to do is when you learn something in one market through communication, drop it into another market so you don't have to wait until that happens in that market.

Now for France, it's clearly a couple of things there. We need to get that sales force size back up with the kind of sales force advantage. Back to the doctors' diagnosis. Hey, we have separate situation in France. All of a sudden, we really set the tone for a year in France by the first quarter. The second week of the first quarter those horrific attacks, we lost 50% of all the party datings. Those party datings lead to sales, A, but 50% of all recruits we get, we get at parties. So it absolutely started negative momentum there, and it's been hard to get it back again. What's playing out right now in France is, get more sales force, but improve our productivity of the sales force. And I think I alluded to some of the things that we're doing. It's not the same everywhere.

Olivia Tong - *BofA Merrill Lynch - Analyst*

I guess I'm still having a little bit of trouble understanding the confidence around why organic sales should accelerate up to 2 points on a tougher comp for Q3 because while I understand the initiatives about getting the sales -- the bogeys in terms of getting the sales force size back up and improving productivity -- if you've already started at the beginning of the year in a hole, what's going to change to get that -- what initiatives are going to be put in place in order to get that? And I'm just trying to understand what's going to be different that's going to result in this improvement.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Olivia, you named the three units that I mentioned as being the biggest sequential improvements in the third versus the second quarter to get us to the plus 6% versus plus 4%. And in Indonesia I mentioned that our sales by the sales force to end consumers was actually in plus in the second quarter. So obviously that was favorable.

And when we look at the ordering patterns of our distributors, what we saw was last year in the first half when things were running better they were more confident in ordering at a higher percentage of those retail sales to end consumers. That then flipped around in the second half last year because they had the product to sell. And so it was a lower ratio. So when you rolled all that through our situation with higher sales to end consumers, we would expect those reordering -- that reordering to come through as we get to the third quarter.

In France we have seen better things in the comparisons as we've gone into July. So we are operating with a small sales force size disadvantage going into the third quarter. And admittedly the summer period in the established markets in Europe tends to be slow. So a lot hinges on the end of the quarter. And that's why we've taken the position that we've had. We've said we think will improve versus that comparison in the second quarter but not into plus necessarily.

And then in Italy we pointed out that the comparison in the second quarter was very difficult, we're up 32%, I think it was in the second quarter last year. So while that doesn't mean that everything is fine, because it's not, it does mean that the comparison should be significant -- well, it is significantly easier in the third quarter. So we're looking to make progress in that respect. So as it relates to the three specific ones that you called out and we called out, those are some of the drivers underneath.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Understood. And then if I can ask one quick question on cash flow. I guess what drove the decision on the land sale? And perhaps maybe you could give us a sense of exactly how much land you have to sell, if you chose to do more in that department. Thank you.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Olivia, this is -- it's probably good you asked this question because it's been a long time since anybody ever asked about the land sales. When we spun the Company off in 1996 there were what, Tom, 1200 acres here?

Tom Roehlk - *Tupperware Brands Corporation - EVP, Chief Legal Officer & Secretary*

500 developable.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

500 developable, but 700 that was wetlands here. And it was on Premark's books. And part of the condition to me staying I said, got a put it on our books. We took a little bit more debt, hardly any debt for it. And we said, we're going to keep it and we're going to develop it. And so our Tom Roehlk, our legal counsel, has been over this period of time, been working on this as a way of returning to the shareholders. And I think we're -- we thought there was up to $150 million potential that we could make on it. We're already at about $75 million, aren't we, Tom?

Tom Roehlk - *Tupperware Brands Corporation - EVP, Chief Legal Officer & Secretary*

Yes, a little over that.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

A little over $75 million, and we're going to keep doing this. So we'll probably keep, what, 50 acres here at the headquarters campus.

Tom Roehlk - *Tupperware Brands Corporation - EVP, Chief Legal Officer & Secretary*

We have 100 right now for the headquarters.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

100, okay. (Multiple speakers). So this is just -- we said this was the best way to send it to shareholders. So we've gotten different zoning. And we haven't been the primary developer. We've developed it with partners on pieces. But we sat on the sidelines since 2009 when everything kind of collapsed there, didn't sell it. And we said, now the machine is going again. So it's a value.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Got it. Thanks, guys. Appreciate it.

Operator

Frank Camma, Sidoti.

Frank Camma - *Sidoti & Company - Analyst*

Good morning, guys. Can you -- Rick, can you expand on your comments on China, specifically as it relates to -- obviously you haven't seen any pressures in the quarter. But with the stock market going down there's been a lot of commentary that that would spill over into consumers. I don't think it's a long-term issue, but how does that affect your typical consumer in the shorter term?

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

I think what's helpful about our business model there is we have 5000 of these units, but there entrepreneurs. And we're very much of a push business. She doesn't have a big enough apartment to hold Tupperware parties. So what we've come in to in this environment, Vincent and the management team have dropped into the business there more of the kind of things we would do outside of China that are more proactive, real cooking classes there, going out to do custom kitchen organization.

So I think we've got some mitigating factors. I agree with you that I don't think this is a long-term issue. But the entrepreneurial spirit there is I think going to be the key piece. We don't spend anything on advertising. We have no rent. This is her's. So she manages it locally. She can own up to 15 of these. And we've got a group there between late 20s and early 30s that are just a dynamic group of women that I think are changing this.

And the brand name is so powerful. Where they've navigated this to is now one-third of our business there is water, because they've learned how to demonstrate product. I still can't believe how many of these -- how much are those units selling for, Mike?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Around $1000.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

$1000, these water filtration units. And it's incredible demonstration. You basically see muddy water go in one side of this thing and you see Evian come out the other side. So it's a wonderful -- I think steady as she goes in China.

I've got to tell you the good news on, and this goes back to a question, really Olivia and Sofya had earlier. We use our learning from one market to what can we adapt and adopt and redeploy into another market. Japan and Korea now report into Vincent, who's our Head of our China business, and we're learning -- we've always -- I mean, since I've been here we've had a weak Japanese business. But it's a great direct selling environment, but it's a demonstration environment market and they'll buy quality. How do we adapt what we've learned in China to Korea and Japan and start that cross-pollinization? It's probably going to take us a couple years, but I'm expecting you to hear more about Japan in the future from what we learned in China.

Frank Camma - *Sidoti & Company - Analyst*

Good. Okay. And the second question actually relates to South Korea. MERS actually did have an impact on retail sales there during the quarter but doesn't seem to have impacted you. Is it the same dynamic there? Is that how you were able to kind of overcome that? I was wondering if that impacted your business?

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Frank, I've got to admit what's interesting about you asking this question is when Lien was putting this presentation together she had a line about MERS and I said, Lien, nobody's ever asked me about MERS. And she said, watch. So you just made me wrong. So actually our guys have just -- we felt no effect of it. It's usually people are -- they're doing this and it is friends, neighbors and relatives. So I won't even say it's had marginal impact on our business.

Frank Camma - *Sidoti & Company - Analyst*

Only reason I ask is their retail sales actually were down pretty sharply year over year. And they claim it's because of that.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Yes.

Frank Camma - *Sidoti & Company - Analyst*

Okay. Thank you.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

And again, that really does speak to -- back to the China situation. We're not sitting in a showroom waiting for people to come in and buy a car. Our people are -- they're taught to go out. It is a push business. It's not a pull business. That's a great question.

Frank Camma - *Sidoti & Company - Analyst*

Thank you.

Operator

At this time, there are no further questions. I'd like to turn it back over to Mr. Rick Goings for any additional or closing remarks.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Guys, thank you very much for the time today. I'll tell you what we've thought about doing, is coming up with very much like what we learned from doing this webinar. We want to give you kind of a look in the future on the things we're talking about and that we've shared with our people out there. What we have to do is measure it with -- we certainly don't want to share all the things with competition, but we've got so many things. This 20/20 work team that we've had now for 2.5 years. Great ideas that they come out with. They've been working through these. And I really think you're going to see the adjustments to our business model that will get us to this $5 billion in sales. So thank you very much.

Operator

Thank you. This concludes today's second-quarter 2015 earnings conference call. You may now disconnect, and have a wonderful day.
