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TUP - Q3 2016 Tupperware Brands Corp Earnings Call

EVENT DATE/TIME: OCTOBER 19, 2016 / 12:30PM GMT

OVERVIEW:

TUP reported 3Q16 diluted EPS without items of \$0.87. Co. expects 2016 local currency sales growth to be 3% and 4Q16 local currency sales growth to be 4-6%.



CORPORATE PARTICIPANTS

Rick Goings Tupperware Brands Corporation - Chairman & CEO

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CONFERENCE CALL PARTICIPANTS

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Jason Gere KeyBanc Capital Markets - Analyst

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Gregg Hillman First Wilshire Securities Management - Analyst

PRESENTATION

Operator

Welcome to the Tupperware Brands Corporation third-quarter 2016 earnings conference call.

(Operator Instructions)

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

Rick Goings - Tupperware Brands Corporation - Chairman & CEO

Thank you very much, Rachel. Good morning, everybody. Last time I was in the jungles of Indonesia; I am now in Singapore. Mike and James Hunt are back in Orlando.

A heads up, it's 12 hours later here. I'm going to need to jump off the call at 9 o'clock East Coast time. I have meetings in Washington DC on Thursday morning and it's a 20-hour flight over there. I am confident that Mike can handle all the Q&A.

Not only is Mike our CFO, he has had multiple assignments around the world. I've got to tell you, early on, even while a headquarters officer, Mike signed up as a Tupperware consultant and actually became a part-time manager and earned a car just because he wanted to learn the business. So, Mike is part of every strategic thing we do.

Now, about the call. We talked to many of you over the last number of [ER] calls and we are sensitive to how many earnings release calls you have every quarter. So, we're going to do our best to be a little less granular and focus on the most significant items in the quarter and those things that will be our significant growth opportunities.

We're going to have the Q&A session at the end of it. However, I want to ask a favor there, I would encourage that in the future, specific one-off questions that aren't of general interest to others that you call James for that. Again, I want to respect how many earnings release calls you guys have got to do every single quarter compressed in weeks.



Let me move to slide 2. The usual drill with regard to forward-looking statements; I don't have to comment more than that.

You will notice on slide 3, the promotion of Patricia Stitzel, to President and Chief Operating Officer. I think that should be an indication that we have a solid planning process at Tupperware and actually deeply engaged with the Board throughout that process. Her leadership experience and additionally, the performance of her business units gives us a lot of comfort that this was the right decision.

Simon Hemus, still with us. Now, he's Vice Chairman. He's going to be focused on two areas. First, we really want Simon to lead what we call the new Horizons process -- or project and really involves the contemporization of our demonstration-based selling and distribution model.

It is somewhat of a hybrid between what we do in Brazil and China. We can talk about that more in future days. In addition, I have asked Simon to oversee our European business units working with our area Vice Presidents and our big market managers there.

So, he's going to be spending two, three weeks a month in that European business. We want to get our cost basis in line, but job number one in Europe is, we've got to get that top line moving.

Now, let me turn to the quarter. No doubt about it 2016 -- this has been a tough year. Yet, in spite of the -- all of the headwinds and the different crises going on all over the world, with a 2% local currency sales increase, which we think of as sluggish, it is important to remember that we were up against a 7% Q3 growth a year ago.

We are holding our sales force size at 3.1 million, that is really no change from the second quarter. However, our advantage versus last year is 2%. Our active sellers were down 4 points in the quarter versus last year, after having been down 2% in the second quarter. Mike will get more granular where that came from.

Emerging markets were up 5% in the quarter; they were 71% of our total. Established markets were down 5%. Again, Mike will drill down on the KPIs.

Let me briefly though comment on the pluses and minuses in the quarter. Brazil continues to be the standout contributor, increasing 36% in the quarter. Other strong Tupperware business performers in the quarter included Argentina, China, Mexico, South Africa, the US and Canada.

The notable drags that really affected the quarter were Egypt, Fuller Mexico, Indonesia and Turkey. Worth mentioning though, even with this modest movement on the top line, I am pleased with how management, Mike and the rest of the guys really managed EPS without items.

We came in \$0.87, \$0.05 above the high end of our guidance. This was above last year by 10% in dollars and 13% in local currency. Again, it speaks to the strength of our business model in a rather uncertain world.

Turning to slide 4. Let me comment briefly on Europe, a difficult quarter there. Turkey continues to be experiencing declines.

We are dealing with a multitude of external and internal issues. As you probably have read in the last 10 days, emergency powers that were only supposed to be 90 days that were implemented after the coup, they've now been extended. I've got a very solid management team in Turkey.

Yes, it's being affected by externals, but we have some internal things we're working on and we've needed to work on. So, we still feel very good. We had a decade-long double-digit growth there. We still have got low penetration.

Egypt, government actions. It has constrained our ability to really source product as well as access cash to pay for it. We are hoping that modulates in the year ahead.

Overall for our European businesses, this is where Simon and I have really -- had conversations with Tricia. We agree that we have three things we've got to focus on in Europe. We've got to heighten our focus on new and better ways to get the size of this sales force up.



There isn't anything new here, but the better actions that are new are the recruiting onboarding and activation things that have come out of our 2020 meetings and have been so effectively implemented in Mexico, where you see we are up double-digit. I was there with them this last weekend, you wouldn't think that the peso is almost at MXN20 to the \$1. When you do this stuff right, the sales force grows.

So, number one, that is what we're going to do in Europe. Secondly, we're going to continue to strengthen the manager earning opportunity. We've got some well-structured and motivational earnings plans there. We're going to draw on what we're learning from Brazil and also from our Mexican business. Thirdly, we are going to continue to contemporize and adapt our sales and distribution model so it includes distributorships that are closer to where our sales force and consumers live.

There will be more demonstration studios than warehouses. We're still working and launching in learning laboratory mode, our brand ambassador program. If you'll remember, I said it several quarters ago, we did research in Germany and found that half of those sales force members who left Tupperware still wanted a relationship with us. So we want a way to keep that alive and get some kind of fractional monetization through that relationship.

Anyway, those are the key elements to getting the top line moving in Europe, particularly in markets like Germany. It's our biggest market in Europe. Sales were even in the third quarter; however, that's still disappointing because we had an 8% sales force size advantage [at the end of Q2].

The good news is, as we get into this fourth quarter, maybe we'll be able to leverage some of that sales force size advantage. But it does make it more difficult having lost some of that advantage and not being able to capitalize on it in Q3.

France may seem negative, they're down 3% in the quarter. But consider the things that are going on in France and that we were down 10% in the second quarter. We think it is a pretty solid results.

We did get some benefit in comps in that the first quarter drew some of the sales from the second quarter, so it wasn't exactly normalized. Job one in France is getting the sales force size to increase. If they can get recruiting momentum going before the end of the year, it sets it up for a great 2017.

By the way, the whites of their eyes -- I was at the French Jubilee in Lyon two months ago. It's been years since I've seen the energy level and the morale as high in the sales organization. They love the programs that are coming out and the support they are getting from the headquarters. So, again, a good management team in place, I think it will be stronger businesses.

They have done a remarkable job of making it past the terrorist incidents in both Paris, Normandy and Nice. The standout performer in the quarter in Europe was Tupperware South Africa, up 21%. Really strong fundamentals.

They are doing the iROAR programs the right way and solid, exciting merchandising. They've got a 22% sales force size advantage. So, I think you going to see more steady growth there.

A couple of final comments on Europe, Africa, Middle East. Avroy Shlain in South Africa, up a couple points on the quarter. Might not seem impressive, but we've had 25 straight quarters of growth in that business.

We believe they'll do much better in Q4. Also worth commenting on is Russia and the CIS was up 18%. Clearly, if you still look down, you find that a lot of that was pricing.

But we've got now a 13% sales force size advantage. That's a good signal because we had 10 years of really uninterrupted growth there. I want to get back on that kind of a growth trend.

Let me turn to Asia Pacific. I have been here for four days with all the managing directors.



This is a routinely -- we do it twice a year with all of our management and sit around in a boardroom and dissect the businesses, learn from what's happening right. Big focus here is growing the sales organization.

Let me comment on some of the markets. Indonesia, firstly, as we enter Q3, we were somewhat optimistic that we would be able to leverage the sales force size advantage, a mid single-digit sales force size advantage and turn it into a positive third quarter. It didn't happen.

Even though we had a tough comp; we had 12% up last year. The problem was as we've moved into the quarter, the sales force additions were soft, plus it was exacerbated by low activity rates. Anyway, that led to sales force removal toward the end of the quarter.

Yes, the consumer spending environment is a little soft in Indonesia. Yes, I think our merchandising -- it just didn't deliver. We simply have got to come up with bolder and differentiated products and more motivational merchandising.

We have so much runway ahead in Indonesia. Remember, it's the fourth largest population in the world. We have some of our biggest distributorships there.

Speaking of big distributorships, we've started to really benchmark Indonesia against Brazil with these big distributorships. A lot of the comps are similar between these two kinds of markets. There are a few big cities but many people live in the rural areas.

But it really appears that Brazil has been doing a solid job managing span of control issues with the real big distributors. They've been doing a better job really than Indonesia has and so we've got some learning to do there. They created sub distributorships under these mega distributorships. With these sub distributorships they handled front-end functions only.

They recruit, train and motivate and thereby, it really does expand our footprint. These newer sites, they're small, gazelle-like and they show fast growth.

Indonesia implemented this at the beginning of the year. They already have a nice number of those in the early stages, so I think we are going to see some improvement there. Most important about Indonesia, though, is the quality of our management team is solid.

I mean, a typical management person has been there double-digit years and they're still young and their distributors are still young but double-digit years of experience in the business and a lot of growth opportunity. So I still see great future ahead for Indonesia. It's going to probably take a couple quarters here to modulate some of this span of control issues, but I feel good about it.

Let me turn to India. I spent three hours with our managing director there at the beginning of this week. We were really building on some momentum as we ended the second quarter.

Unfortunately, in Q3, the federal government introduced some dramatic new requirements for our business model and all in direct to consumer selling. Yes, we've foreshadowed some of these and made some changes early on, but they were a little bit more complex and draconian by the time they came out with your new regulations. So it's caused some disruption.

We've always complied to local regulations. But boy, sometimes it involves navigating around the rocks.

So, we're adjusting our model. We are still working to leverage the earning opportunity. Let's not forget there is 1.3 billion people there. We have a business just under \$100 million in annual sales, so we're going to figure this thing out.

China, been sitting next to for three days, Vincent, our managing director there. Wow, 1.4 billion people, up 23% in the quarter. We've got more of our studios there.



Now up 6% in studios, but the real good news too is that double-digit increase in productivity per studio. As a matter of fact, what Vincent and the team are working on is the next generation of studios are going to be larger in size to handle the increased number of sellers who will work out of the studios.

Additionally, he shared with me today the strategies for sellers outside the studios. I've never seen a better market for us utilizing digital technologies to drive sales and foot traffic into our studios.

By the way, the water filtration unit continues to be a big, big attraction, but we're also getting into some other, very high-priced products. Malaysia Singapore, it was good to see, up 5% after an even stronger Q2. There was a little activity, the higher R&D -- the calendar -- religious calendar didn't work in our favor but good recruiting.

A solid merchandising program there. I reviewed their Q4 plans and liked what I saw. The last comment on Asia Pacific. The Philippines, Q3 is our last quarter lapping our exit from the fashion category.

So they showed a 9% decrease but we should see growth in Q4. There was a conscious decision to get out of the fashion category.

It's low-margin. It requires so many SKUs and it's a drain on cash. It's hard to differentiate, we do much better with our Tupperware business there.

Let me turn to the Americas. Brazil up 36% in the quarter. Great execution of fundamentals on recruiting and building the sales force, also really effective marketing and merchandising.

The team just continues to do a terrific job capturing the hearts and minds of the sales force and connecting to the local culture. The Guardian, the Brit newspaper did an interview with us recently. They were trying to figure out, why are you doing so well there?

I really do think it's the power of entrepreneurial women that they've lost a lot of faith in their government. You all know what's been going on the last year, but beyond that, the government's ability to manage the economy and she basically says, I'm going to do this myself. So, she starts with a kit, becomes a manager, becomes a team leader and then she becomes a distributor.

They are passing that on. So, it really shows the real grit of Brazilian women. They are doing much more demonstration selling, as well.

What that plays out for them is selling higher-priced products and therefore, for every hour they commit to the Tupperware business, they make more money. Argentina, up 45% in the quarter. Truth be told though, a lot of that is inflation pricing related. But there was some real growth, as well. So it's nice to see some volume growth.

Tupperware North America, Fuller Mexico was down 7%. They did have some increase in productivity but that didn't overcome the decrease in the sales force size and activity in the third quarter. I've got a comment, for being in beauty-related businesses over 25 years, beauty in North America is as competitive as I've ever seen it.

It's not a question just so much harder to differentiate products between cosmetics, fragrance and toiletry but now really the differentiation in channels of retailers online and direct selling, as well. At any rate, tough business but we see opportunity ahead particularly, still consumers in Mexico enjoy buying beauty via direct sales as much as they do in retail. It's about 50% for all of Latin America of all beauty products are bought via a direct selling Company.

I think they've done a good job with Fuller rebrand in several of the product lines. Based on a sneak preview, we saw with the sales force, we expect to see this rebranding launch.

It got a lot of excitement. Now they're going to pass it on to the consumer. So I feel good about what's ahead there.

I don't feel good about what we're seeing in BeautiControl. This continues to be such a drag on our business. It was lower productivity.



The strategy has been to focus on skincare, which is the right thing to do because consumers are more dedicated to their skincare brand than they are to cosmetics particularly color, but it can hurt short-term productivity. That's what really caused it. So it was intentional as a category shift, but it still -- it hurt worse than we thought, productivity.

It's much easier to get trial in fragrance and in color cosmetics, but with color cosmetics margins are low. So you really want to build it off skincare and fragrance.

In the third quarter, we named Rick Heath, who really knows the business, as managing director of BeautiControl. It is in his blood. He has been at BeautiControl before we sent him off on assignments around the world. So he has the credibility with the sales organizations to engage our career leaders.

Tupperware US and Canada, up 6% in the quarter. So, 5 points sequential improvement. It demonstrates the strength of the management team. I think they are doing a heck of a job, one, tooling -- retooling the earning opportunity with some commission changes, so that it becomes more that we attracting career people, yet we still have room for improvement.

Lastly, Mexico. I was with our Tupperware Mexico team last week and they had their Jubilee, so I was amongst 1,500 of them. It's terrific to see what's going on there.

They have been the most effective, along with Brazil, at implementing these iROAR, the inspirational leadership and recruiting, onboarding, activation and then retention programs. They got on it sooner. They passed it on.

They created the programs. It is a major reason why they are up double-digit in a market where the peso continues to weaken, where the government -- this is the lowest level of approval rating in the low [20%s], any President has had since they started doing it. So we're really against the trends there, but I've never seen the distributors so enthusiastic.

They are making a lot of money. Their businesses are growing. One thing I really like to see there is they are demonstrating more product.

In the past, it used to be a lot of brochure selling and you'd have to merchandise through price. That isn't what they are doing now. The lead approach there is to be demo ready always.

So she's always got a kit or a product in her purse, so that she can be on a bus, at work -- where she works, lives or socializes and she can make the sale. So they're really -- they learned this on these onboarding programs during the 2020 team.

Like Brazil, the core of the business is really what drives it is the earning opportunity. It really matters. Mike, I will turn it over to you and also turn over the Q&A to you. I will go get on my 20-hour flight.

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Thank you, Rick. In line with our streamlined approach to our comments, I won't repeat things outlined in our release or by Rick.

Looking at our third-quarter sales results versus the high of our guidance range we gave in July, we outperformed at Tupperware South Africa and underperformed in Germany, Indonesia and Malaysia. Rick commented on the puts and calls in these units and what were doing to improve where we need to. On the volume versus price impacts on the sales comparison, we benefited by 3 points from higher prices in the quarter, with a 1 point offset from lower volume and mix.

The price benefit was up 1 point from the second quarter and the volume comparison was down 2 points. The total sales force size advantage at the end of the third quarter was at plus 2%. That was 3 points worse than the end of the second quarter. This came mainly from three places.



First, given the import restrictions in Egypt, we lost a relatively large number of sellers there. Second, in India, the changes in approach made in light of the new direct selling guidelines have impacted the number of new sellers coming in.

Finally, we had low sales force growth -- low sales force additions in Indonesia, which along with the relatively strict rule we use there as to when someone gets removed from the sales force count, led to a lower number of total sellers. Average active sellers in the quarter were down 4% versus last year. The bigger drags were from: India, also in light of the changes made in response to the statutory environment; in the Philippines, where the exit of the fashion category last year has led to a lower activity among those sellers who had focused on that category; and in Fuller Mexico in line with the smaller sales force in that unit, given the deficit of the field managers, who do the sales force recruiting.

Going the other way, we had a 30% increase in active sellers in Brazil, which reflected good additions in onboarding that led to a 23% total sales force size advantage at the end of the quarter. We know that including due to the outsized impact of the active seller comparison of beauty North America relative to the sales impact that many of you looked at our active seller comparison excluding that segment. On that basis, we were down 1% in active sellers in the quarter.

Looking at the issue of the unit mix impact on active seller comparison more broadly for the whole Company, there was also a 3 point drag in the quarter. Turning to slide 6, our diluted earnings per share [without] items at \$0.87 was above the high end of our range by \$0.05 in both dollars and local currency.

This reflected higher profit in Asia Pacific, even though sales were down, from a number of relatively small contributions from leverage and promotional spending in India, lower B2B sales in Korea that have a low margin and lapping unusually high costs last year at Tupperware Australia/New Zealand, along with the good sales growth in China, where we had a good gross margin and captured volume leverage as well.

We also did a good job capturing volume leverage in both the Tupperware North and South America segments. Unallocated corporate costs were also down -- were also lower than we had forecast due to lower global marketing costs, lower management incentive costs and a higher amount allocated to the segment.

Turning to slide 7, given the types of questions that we tend to get on our gross profit and distribution, selling and administrative expenses, a few comments here on what drove our favorable comparisons in the quarter. Gross margin at 67.7% in the quarter was 80 basis points better than last year. The main elements that gave us the benefit were: higher than average margins on existing and new items in China; more sales from higher-margin products in Tupperware Mexico; lower resin costs in Asia; less B2B sales in Korea, which are low margin, as I mentioned; and a favorable comparison at Tupperware US and Canada, largely due to the weak Mexican peso.

In South America, we were able to improve our gross margin in Brazil on the higher volume, but this was offset by the impact of weaker exchange rates and higher resin costs in that segment. On the DS&A, we improved 100 basis points from last year to 54.5%, which largely reflected lower group costs in Europe and beauty North America, along with lower promotional spending in Asia, in Tupperware Australia and in India. All of this means that we did quite a bit better in the quarter than had been in our outlook for pre-tax return on sales without items at 11.5% with 120 basis points better than last year in dollars and 130 basis points better than last year in local currency, putting aside a 10 point drag from translation foreign exchange.

As you can see on the slide, our outlook for this measure, it was 10.5% going into the quarter. We indicated on our January call that in light of the difficult external environment, we had identified a number of actions and approaches to bring us \$20 million to \$25 million of reduced spending or better leverage on spending, such that even if we were challenged with our sales, we could continue to meet our profit objectives.

This has continued to work, with an estimated \$6 million benefit in the third quarter and \$16 million year to date. We continue to expect full-year savings and leverage on spending in the low \$20 million range.

On slide 8, cash flow from operating activities, net of investing activities was \$77 million in the quarter. This was \$41 million better than 2015 most significantly from \$30 million of proceeds from land sales in this year's quarter. The full-year outlook for cash flow before financing activities remains at \$195 million to \$205 million, which continues to include estimated full-year capital spending of \$65 million.



On slide 9, a few comments on our outlook beyond what is in our earnings release. The 4% to 6% local currency increase in sales in the fourth quarter includes the assumption of a 4 point benefit from the 14th week we'll have this year under our fiscal calendar. Therefore, without this benefit at the high end equals to 2% local currency sales growth that we had in the third quarter.

This brings our full year expected local currency sales growth to 3%, which includes 1 point of a benefit from the extra week this year and as versus the 3% to 4% local currency range we gave in July. The removal of the previous high end reflects the third-quarter actual results being at the low end of our range. In the fourth quarter, most significantly, the difficult trend we faced in our Indonesia business.

On diluted earnings per share without items, at the \$1.42 high end of the range. This would produce an increase versus 2015 of [5%] in dollars and [3%] in local currency (corrected by company after the call). There is some drag on profitability from the fact that the extra week in sales is a small weak as it falls between Christmas and New Year. Since on the low volume, we still carry a normal level of fixed costs.

On slide 10, a few other elements in our outlook that aren't covered on our release, include our expectations for full-year net interest expense of \$45 million, unallocated corporate expenses of about \$70 million, an effective tax rate of about 27% on a GAAP basis and 25.5% excluding items. There is no change versus July and the outlook on interest or the tax rate, while the outlook for unallocated corporate expenses is marginally lower.

This result puts the high end of our range for the full year at \$4.35, the same as in July. As we beat our third-quarter high-end guidance without items by \$0.05 but have a lower sales growth expectation for the fourth quarter than in July.

On slide 11, with all of this, our pre-tax return on sales without items would be 13.2% up versus last year in local currency by 80 basis point above our longer-term objective of 50 basis points per year. Finally, on resin, we ended up having a third-quarter hit in cost of sales of about \$700,000 and now foresee a fourth-quarter hit of about \$2 million from higher costs. Along with the first half benefit of about \$4.5 million, this would put us at the full-year benefit of around \$1.5 million.

So with that, Rachel, we will turn it over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Stephanie Wissink, Piper Jaffray.

Stephanie Wissink - Piper Jaffray - Analyst

Mike, just a question for you on the iROAR program. Can you remind us which markets have that fully deployed? If you are seeing any specific deviation in your sales force KPIs tied to that program?

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Sure, Stephanie. Good morning. Yes, we really piloted the -- build the core elements in a few different places. In Tupperware Mexico it was demonstration selling. In terms of onboarding, it was in Germany, as a mature market economy and in Brazil. Then we piloted Party Plus, which is one of the extended reach initiatives in Tupperware US and Canada. So I would say -- we continue to go from there in terms of then implementing the best practices we see in the initiatives as they are meant to work around the world. So, we're engaged in that, I would say really everywhere. As we looked at those initiatives, as I think you've heard us say this, really it's not a matter of having onboarding now and not having it before. It's having the right kind of communication and training tools so that we are executing on these things in the way that we were meant to.



So I would say that we're furthest along in the places that we piloted but are engaged now really across-the-board. One thing that we did do in terms of a little bit of a shift in our thinking was, in Europe, we had mainly been going after success formulas as our main initiative to really focus on this year with limited share in mine. We've made the decision that really we need to focus first and foremost on onboarding. So we've made that shift. But again, it's not a matter of abandoning one for the other, it's more, which do you spend more time emphasizing first.

The last thing I would highlight is in a few of the Asia-Pacific markets, starting there really. We've said, we really need to do the next step in onboarding, which is think about people as they become sales force managers. How are we going to get better results -- help them get better results more at a higher hit rate. So we really embarked upon that first in Malaysia Singapore and we've seen good development of the KPIs there in terms of leadership numbers and how they are doing, so sales force managers and directors. We've gone in that direction in Indonesia. We probably started about six months later, so earlier in the year. So we think that's also going to pay off for us.

Stephanie Wissink - Piper Jaffray - Analyst

Mike, just one follow-up. You talked about some cost initiatives at the beginning of this year. I'm curious as you look around the corner into 2017, if your approach around costs and really reconciling the costs within each region is similar? If we should think about some of the savings opportunities going into 2017 as well?

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

What we talked about at the beginning of this year, both -- it's both cost-saving initiatives and focusing how we're spending some of the money to get better leverage on it, I think has worked quite well. They weren't necessarily aimed at being things that would be on going on long term. Of course, you look at some of these elements, you say, well that worked very well how we did it, so let's institutionalize that.

As we look into 2017, clearly in a couple of our segments, we're not doing as well as we should be on profitability, Beauty North America and Europe. As we have over time, we've tended to run around \$10 million per year in reengineering type exit costs and things. So we will certainly look to continue to refine our value chains unit by unit to have more of a longer-term impact. But we'll have to see from a tactical point of view as we enter 2017 if we've got the similar kinds of capabilities as we had in 2016 to protect the bottom line.

Stephanie Wissink - Piper Jaffray - Analyst

Thank you very much. Good luck, you guys.

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Thank you.

Operator

Beth Kite, Citi.

Beth Kite - Citigroup - Analyst

Two sort of big picture questions on countries, if you could just help us to understand kind of where we go from here with Indonesia and India, given some of the issues you talked about in the prepared remarks? Then kind of tied into that, kind of given the weak -- or weaker potentially end to the year, can you help us at all in light of not offering local currency sales growth guidance yet for next year, sort of how we can think about that even from a big picture perspective? Then lastly, can you tell us the drag that the Middle East had on Europe this quarter? Thanks.



Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Yes, hi Beth. I guess taking those in order, looking at Indonesia first. As Rick outlined, we have a great management team there and the fundamentals of our business are really in place. From a nuance point of view, we are looking to do a couple of things as we look at another big emerging market in Brazil that we think some of the specifics can help us. So, things like the span of control and sub distributorships to help build the geographic footprint and get in front of more people from a sales force point of view and in an end consumer point of view.

So we did say and we expect that we'll have a better comparison in the fourth quarter than the third. In Indonesia, we were down 14% in local currency sales. We did enter the fourth quarter with a sales force size deficit after the softer recruiting. Again, given our removal policy being pretty stringent in Indonesia when you have soft recruiting, within a quarter you also tend to lose sales force advantage maybe faster than we would in other places. So we're working from there.

As Rick talked about from a little bit more intermediate term, looking at the product assortment as well to look for some more differentiation and ways to capture consumer's attention with products that we have in our portfolio really around the world. So, we'll look to get better sales force size comparisons as we move forward. Clearly, that will be the base for our business. I guess I also just mentioned on the last question about the leadership side and I do believe that leveraging that better onboarding and more systematic onboarding approach for sales force managers will help us as well.

In India, the situation is a little tougher to read because these regulations are having their effect. So to give that a little bit more insight, you probably recall that last year we stopped offering — we stopped charging for the starter kit of products. That was based on these direct selling guidelines that are now in the federal guidelines that came out this September but have been in some of the states of India earlier, so we'd already taken that step.

So we saw an uptick in sales force size numbers but then less activity and so on. So we're working through that. We also -- the other step that we've taken already is to change the compensation for the sales force managers, which used to be aimed in part based on the activity of their groups, so how many people in the unit manager groups were turning in orders. Now it's based on the sales volume. So that impacted some of the KPI, not necessarily as much of the business underneath because of the way orders are grouped and so on and things like that.

So as we have these now federal guidelines that are significantly different than what we were seeing from the states, we're also getting more clarity as we discuss with the government all the direct sellers need to come forward with a plan of how they're going to operate under these guidelines. That actually might give us a little bit more flexibility than we thought we had previously. So, that's really an evolving kind of a situation. So I would expect that it's going to take a little bit longer for things to settle down in India with the KPIs and so on, so we're going to have to see how that goes.

Clearly it's a huge opportunity when you look at the size of the business, less than \$100 million sales last year with 1.3 billion people. So like China, over the next several years is going to be clearly one of our biggest opportunities. In terms of guidance, we really look to how our sales force KPIs are doing. We ended the third quarter with a 2% advantage in total sellers with some strange comparison individually in particular countries that I had mentioned like India, like Egypt that distort things to some extent.

So when we give our guidance for next year in January, that's what we'll be looking at, the trends in our business particularly the year end trends and then where we stand with the sales force size and the various initiatives that we're going after and see how we can do. In terms of the impact of MENA on the Europe comparison, we were down 9% overall in local currency and sales in Europe. We had meaningful impact from both MENA, mainly being Egypt and Turkey, but we haven't been more granular than that.

Beth Kite - Citigroup - Analyst

Perfect. Thanks so much across the board. It was really helpful.



Operator

Jason Gere, KeyBanc Capital Markets.

Jason Gere - KeyBanc Capital Markets - Analyst

I guess a couple of questions. First, I mean if you look at the two-year stack rate on your organic sales and even your sales force advantage, it improved in this quarter. When you look the guidance for fourth quarter, the outlook calls for this kind of deceleration when you exclude the 14th week. I understand your comments on Indonesia. Maybe that Christmas week is not as big of a contributor, but can you just talk a little bit about what other things out there would put you in a situation that the stack rate — the two-year stack rate would look a bit lighter with that? When do you think that you would see a reacceleration, if that's the case?

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Sure. We were up the 2% in local currency in the third quarter this year. That was on top of 7% last year, so 9% on the two-year stack. In the fourth quarter, with our up 6% on top of 1 or 2 -- I guess 2, it was -- it's an 8% two-year stack, but 4 points of that is from the extra week, so we're about 5 points or are 5 points lighter. It comes from several places and factors. I would say on the positive side in Brazil and China, we are expecting good growth and have that in our outlook. But not necessarily the same level in the outlook as we've achieved the last couple of years. So that's a factor.

In South Africa, last year in the third quarter, we had a very large increase because we were lapping some strike affects from the year before, which moved some sales into the second quarter in 2014. Then we did have some disruption in some of the campaigns in 2014. So that's an element that is rolling through. There is the factor of Egypt, where we've had still on a two-year stack basis very high numbers because sales continue to be very good through the third quarter of last year. So that's also rolling out in the fourth quarter. Then the ones that are arguably the weaker spots are really in Indonesia and India, where we don't have the KPIs from the sales force side in both cases. That's where some of the underlying hit is coming from as well.

In terms of reacceleration, obviously without the extra week at 2% growth in the fourth quarter, that's not great. It's where we were in the third quarter as well. Rick also pointed out that's not where we want to be. So we need to see improvement on the sales force KPIs certainly in the underlying businesses, if there's some of these one-off sort of anomalies in particular units, that can be okay. But overall through the build the core initiatives and the things we do with our business models, we need to improve our sales force KPIs. That will be what leads us to better growth.

Jason Gere - KeyBanc Capital Markets - Analyst

Okay. Is there anything in the fourth quarter just with -- I mean, you've been getting some positive pricing from Argentina. Does that start to lap now? Then -- so, it's really more of a reliance on the volume side? So, I was just wondering when do you start to see some of that pricing that you've been getting? Then I assume that you're not going to be able to get the magnitude again. How does that factor in to kind of you're thinking on organic sales in the fourth quarter and maybe even into the first half of 2017?

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

When we look at the pricing in South America, which clearly, where it's been the most important factor, I don't think things are going to change a lot -- and haven't. So, yes, inflation is very high in Argentina, with some of the steps that the government made particularly early in the year with removing subsidies for fuel and some food items. We took the step and have taken the step of not pricing completely in line with inflation there, so we've got a lot of pricing but it's not necessarily in line with inflation.

We were up to 45% in the third quarter there in local currency and about 0.25 of that was volume. So we are getting volume improvement. While we're going to be thoughtful on the pricing there, we will still continue to price. That's part of what goes on in that economy. I mean, nobody can



operate in 50% or whatever inflation without pricing. In Brazil, our pricing -- a, inflation is not nearly as high. Our pricing has been positive there but it hasn't been dramatic. Most of our 33% sales growth in the third quarter was certainly from volume. So I think we'll continue to be able to get some pricing in Brazil, but it's been modest. So it's not a real difficult comparison in that respect in Brazil.

Jason Gere - KeyBanc Capital Markets - Analyst

Okay. Then the second question -- thanks for the clarity of what that extra week contributes to in organic sales. What does it contribute to on an EPS standpoint for the fourth quarter? Have you calculated that?

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Well, we've looked at it. In my comments in the prepared remarks was meaning to get it down in a way by saying, it's the 4 points on the quarter -- it's not, if you just do the math of one week more on 13 weeks that you normally have, it's not a full week because it's the week between Christmas and New Year's and the shipments in that week are not average. In light of that, we will have more sales but then we also have another week of fixed cost, salaries and everything else in terms of fixed costs. So, I can tell you that when we did the analysis last time after actually having the extra week, we concluded that there wasn't much of an impact on EPS because fixed costs were going against the small sales week.

Jason Gere - KeyBanc Capital Markets - Analyst

Okay. Because currency now is turning positive in the fourth quarter and the flow-through -- I was just wondering, is there still any type of transactional impact from currency in the fourth quarter? Just -- I would think that the EPS will be little bit better. You had -- I think your operating margins were down over 100 basis points last year in the fourth quarter. So you do have this extra week in currency working. So I was just wondering -- with the sales guidance, what's kind of that missing point why EPS couldn't be better on a year-over-year basis? Is it gross margin? Is there something SG&A? I'm just trying to figure the in between.

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Yes, when we look at -- so the FX that we're normally quoting and is impacting ROS is -- directly is translation. We still do show about a 20 basis point hit based on the various factors in the fourth quarter. That has to do with the mix, the dollar-denominated costs versus where the sales comparisons are. The little bit of a softer versus the third quarter comparison on ROS improvement, it does go to the extra week. So we're getting 6% sales growth at our high end, of which 4 points is the sales from the extra week. So if you assume that doesn't have much profitability connected to it then that impacts the percentage.

Jason Gere - KeyBanc Capital Markets - Analyst

Okay. Great. Thanks a lot, Mike, for answering the questions.

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Absolutely.

Operator

Dara Mohsenian, Morgan Stanley.



Dara Mohsenian - Morgan Stanley - Analyst

We've seen sales growth slow for a few years now from an overall standpoint. It looks like the back half the year will even be a bit worse than the 2% guidance for the full-year, of course the extra week. So, I was just hoping you could give us a bit of a state of the union on where the business stand from an overall standpoint and in emerging markets? How much of the top line weakness you think or the deceleration is just from macros? How much visibility do you have on this point on if macros have bottomed? Or is there some further risk there? Then as you look forward to next year, are there any kind of corporate initiatives that could offset these macros maybe to a greater extent than what you've seen in 2016? Thanks.

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Sure. Well, if you look at how we've trended over the last couple years, we've continued to see a greater share of our sales coming from the emerging market economy businesses. I would expect that as we move forward, just given the growth dynamics in those markets, the macros, and then what we're able to do with building out penetration, just because that opportunity -- those opportunities are there. Then on top of that, the things that we can leverage from the build the core, the better execution strategies on our fundamentals, along with the extend the reach things, brand ambassadors, party plus.

The other element is the studios, the things that should help us do better than we're already doing, leveraging digital tools even more broadly like we've been able to in China. That will allow us to capture a lot of growth in the emerging market economies. When we used to give guidance longer term, we said we thought we could grow double-digits, 10%, in the emerging markets in local currency. The kind of backdrop that we have on what our business is and how our channel operates are still there. So we're going to continue to go after those.

Clearly if you compare where we were several years ago, we were getting a lot of fast growth out of Indonesia, out of India. That's what we didn't have, for example, in the third quarter and accounts for a lot of the difference in what we see. At the same time, Tupperware Mexico is reaccelerated versus where we were going four or five years ago. Brazil is doing even better probably and on a bigger base of business. So it has been a portfolio, there have been puts and calls in that timeframe. South Africa was doing extremely well, had a softer spot and then did well — is doing well now again. So I would expect that over time that we will doing better than this 2%. We certainly ought to be able to when we capitalize on opportunities we have.

We need to grow our sales force through these fundamentals, which I think as we continue to work them and work on them to get a greater pickup of people executing the way that we want to do it, that will pay off for us. There's a vision 20/20 group meeting next week. They will be continuing to drill down on both sides of the house there, the execution strategies and the extend the reach, in order to make sure that we're communicating things and setting up our training programs to get to our 3.1 million sellers in a way that is going to work for us. That's really the key for us.

Dara Mohsenian - Morgan Stanley - Analyst

Okay. One of the things you mentioned in your answer was the strength in Brazil and South America. Obviously, you guys convey phenomenal results there. As you look out over the next few years, how sustainable do you think that is? It seems like you're sort of defying gravity in Brazil and the region with very high growth despite the size and scale of the business rapidly increasing over time? So any thoughts on if there's some point where that scale and larger size really starts to limit growth more than what we've seen so far would be helpful. Thanks.

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Sure. When we look at our facts in Brazil, our degree of penetration, some of the other businesses in the channel, albeit in beauty are somewhere in the \$1 billion range in terms of Company sales, given the population and the consumer spending. We see huge potential in the market still. That said, I wouldn't sit here and say that we would think that we're going to grow 33% a year for the next five years in what's now or was already one of our two largest businesses. When you look at the comparisons you can think about who is biggest now. So I think we'll continue to get good growth. I wouldn't -- again, if I was making long-range projections, it would be difficult to think a business this size would grow at 33% a year for an extended period of time. So, we'll have to see where we're able to go from there.



Dara Mohsenian - Morgan Stanley - Analyst

Okay. That's helpful. Thanks.

Operator

Olivia Tong, Bank of America Merrill Lynch.

Olivia Tong - BofA Merrill Lynch - Analyst

Mike, when you reviewed the puts and takes in gross margin and operating expense, you did mention that lower promotional spending in a number of markets -- you did mention that there was lower promotional spending in a number markets in Asia and that's where your sales missed expectations pretty dramatically. So do you think you pull back a little too far in terms of the promotions? Going forward, what's the plan to sort of turnaround some of those markets in terms of some of the promotions? Do you think you turn some of that back on? Or are there other areas that you're going to work on in order to try and revitalize Asia? Thank you.

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Yes, Olivia. Some of our promotional costs are fixed, so we have sales force meetings that we consider to be promotional costs, at least some of the cost and those tend to be fixed, in other words, they don't vary directly with sales. A lot of what we do though is based on, if you're successful to this degree in your level of sales or people you bring into the business, that there is awards and things that are therefore tied to the sales. So when we have lower promotional spending, a lot of times and in this case some of it is that we had less sales results so they didn't earn under those promotions. So your question is a good one.

So is that good or is that bad? Well it's bad because we want our promotions to work well and therefore generate sales. Yes, we would pay for the promotional spending. So when that sort of thing goes on, of course we need to evaluate what we did, what our levers are and look to design our programs so that people succeed. So we want them to perform at a level that they should be performing at in order to get an award, but then we want as many people as possible to do it. So that's a bit of what we see going on in some of these cases. Then in some cases, it's also the comparison where spending might have been high last year relative to what we were getting for it.

Olivia Tong - BofA Merrill Lynch - Analyst

Thanks, Mike. So, would you characterize the difference in terms of the promotional spending more a reflection of and not being able to read certain bogeys in terms of getting those promotions? Or that you pulled back in terms of some of the promotions? So basically, is it the chicken -- which came first, the chicken or the egg, in terms of this? Is it you guys pulling back on promotions and that impacting sales? Or an inability to get the promotions because the sales just weren't there?

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Of course, there's a lot of things going on business by business, but globally in Asia-Pacific in the quarter, no, I wouldn't say that we pull back on promotions in terms of what we were trying to get done. But the result was not favorable as you saw in the sales line, right, in the sense of what it was able to drive.



Olivia Tong - BofA Merrill Lynch - Analyst

Got it. Okay. Then intra-quarter, you mention -- you guys put out a press release that Tricia Stitzel moved to the COO role. What is she -- now that she's got a much bigger role, has she talked about her plans? What she's bringing to the table in terms of her key plans in the COO spot?

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

I mean she hasn't issued an overall statement, but Tricia has been intricately involved in the vision 20/20 team, for one thing. Along with our head of strategy has really led the effort to crystallize the thoughts of the team in order to guide the process of getting the right kind of training and communication plan. So not that other people aren't committed to it but given her involvement and crafting how that's gone and where it's going, she's very committed to those elements and looking to even further drive that around the world.

When you look at the success that we've had in the Americas the last couple years, it's been on the back of both good execution and then the willingness and belief to go after these kinds of initiatives. So what do I mean by that? Things like a more differentiated product line in both Tupperware Mexico and Brazil that leads to more demonstration as well starting from a fairly low base in those businesses. So we found ways to be able to get more productivity out of large and growing sales forces. So that's really a key for our business. It's particularly in emerging market economies because a lot of times, we enter a market with a fairly basic product line in terms of differentiation.

We tend to do a lot of selling through one-on-one, brochure pass out and that kind of selling. As we get into businesses for more time, we're able to do more brand building, more training of the sales force and get to that scale in terms of the sales force size. Then we need to pivot to more productivity in order to win over time. So being able to demonstrate the ability to do that, not saying it's by yourself, but with the teams in Brazil and Mexico, for me is a very good indicator and listening to what she thinks about how she wants to run things and does run things, I think there will be benefits in other businesses as well.

Olivia Tong - BofA Merrill Lynch - Analyst

Got it. Thanks so much. Appreciate it.

Operator

Frank Camma, Sidoti.

Frank Camma - Sidoti & Company - Analyst

Just one quick question and I'm sorry if you answered this already. But could you just explain -- because this is the first time I saw your segment profit adjusted in Europe to be negative. Is that just merely the decline in sales really going below your breakeven point there?

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Well, the third quarter is our smallest quarter.

Frank Camma - Sidoti & Company - Analyst

Yes, right.



Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

That comes in Europe a lot from the established market economy businesses. So, to a degree, yes, I won't say that there aren't any puts and calls in those numbers, but clearly as we look at the picture and as Rick talked about it, our first job is to get sales growth. We have a nice contribution margin in Europe that will lend to better profitability. But at the same time, we do need to look at cost structures and how we run. We're in a lot of markets there, so how exactly do we want to run? Are there things that we should do differently? So that's always part of what we're looking at, but also needs to be part of the picture right now.

Frank Camma - Sidoti & Company - Analyst

Okay. No, my point was just, I think this is the first time at least in the last five years that I've seen it negative, so which was a little surprising.

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Right.

Frank Camma - Sidoti & Company - Analyst

A quick clarification on the capital policy. Obviously, not buying any shares this year, but now that you'll be at the target at the end of the year, does that mean next year assuming cash flow stays up, you'll kind of return to market on repurchases?

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Well, you're right that based on the guidance and everything we've said, we should be around our target leverage at the end of the year. We do generate most of our cash flow in the fourth quarter, dividend all through the year. So we don't tend to be positive in net cash until the fourth quarter, so that's where the decision point would come. Do you aim at being at the target at the end of the year? Or do you wait until the end of the year to see if you're below and then buy the stock back in the subsequent year? So we'll have to have a look at that.

Frank Camma - Sidoti & Company - Analyst

Okay. Thank you.

Operator

Mike Swartz, SunTrust.

Mike Swartz - SunTrust Robinson Humphrey - Analyst

I wanted to dig into some of the commentary, I think Rick was mentioning some efforts in both Europe and Asia. I think the real focus there is building out sales force and then also improving the earnings opportunity for the distributors in several markets. But, I guess, my main question there, one, how long of a process is this until you can get where you need to be in terms of size advantage then productivity? Then two, how do you balance those efforts with profitability in those markets? Is this something that will limit you getting back to that 14% to 15% return on sales over the next couple years?



Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Well, our business is built on bringing in a lot of people and then really training for quality, so to help people succeed. Our value chain is due to things that we do in order to help that to happen. So when we sell a demonstration kit or product, it's at a lower margin normally than regular sales. When we have promotional incentives that include sales and meeting recruiting sales force addition targets and promoting of managers, those kinds of things are built into our model as well.

So, our evolution is really on a market by market basis. It's not like it's some overall behemoth that everything [fits] together. As you can see, our total sales force size advantage can move pretty significantly even from quarter to quarter. So I don't think there's anything holding us back by definition from seeing an improvement, more in the near term, but it depends on how successful we are on a business unit by business unit basis. So we invest, if you want to say, versus a full margin product sales and what promotional spending would need to be if our sales force was at a 10% advantage all by itself.

I mean, all that's already happened. So I don't see that as an impediment to continuing to look to try and grow our pre-tax ROS 50 basis points a year. This year the guidance, in a tough sales year, is for up 80 basis points in local currency, so above the 50 basis point target. That's with certainly spending or having things get under leveraged in some of our business units and still getting that result. So that's what we need to drive going forward. We should be able to do everything at the same time.

Mike Swartz - SunTrust Robinson Humphrey - Analyst

Okay, great. Thanks.

Operator

Linda Bolton Weiser, B Riley & Co.

Linda Bolton Weiser - B. Riley & Co. - Analyst

I was just curious about your current thoughts on the beauty North America business. I mean, it's slipped into a loss now for a few quarters, I think, on an operating profit basis. Can you share -- how are you thinking about how big do the losses need to get before you would consider exiting BeautiControl? Can you just confirm that Fuller Mexico is still profitable at the segment operating profit line? Thanks.

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Sure. Yes, it is important to look at the two businesses separately because they do run separately. We do make profit in Fuller Mexico. There, we are in a sales force size deficit as we have been. That's really the key as to be able to turn that. It comes down to the field manager group, who are the ones that do the recruiting. We have been working to improve things there. You've heard us talk before on a variety of initiatives including to be able to promote up people from the sales force to become sales force managers, where traditionally in Fuller they've been recruited from the outside.

We've seen good results with the people we've been able to promote, call it internally, but it's still not in large enough numbers. So we continue to do that. We've made changes to how we compensate and so on to help enable that to happen. We've begun the process to put some of our best district managers, who are the group that manage the field managers into some of our weaker performing districts, with some incentives to be able to really leverage their strength and get a better result there. We focused on -- through mapping efforts and so on to make sure that we've actually -- that we're sure that we've got zones that have the right potential to be profitable for the field managers.

So all these things are underway. What we've seen is reasonably good numbers in terms of field manager additions, but still too many deletions. So we're hopeful with these initiatives in place that we can get a better result there on them going out the back door and that in turn should -- we



would expect lead to a larger sales force. More intermediate-term and strategically, we've just launched a rebranding of the Armand Dupree product line. That goes through our catalogs and all of our materials as well.

That was launched at our Jubilee in August and becomes effective in the coming months. So we're hopeful from a positioning point of view that kind of differentiation will also help us in the channel because if we have more direct channel competition in a business like Fuller Mexico than we do in our housewares businesses, for example. So, we think all those things can help us. We're looking to leverage those opportunities and others that we have. BeautiControl also has been tough, as you point out clearly. We're not happy with where we are with the sales force size there or how we've been unable to execute on the P&L.

As you would expect, we're working on both from a cost and a loss point of view. Clearly, although the business is a lot smaller than it's been, it's not dramatically smaller than it was when we first bought it. It has the potential at that size to have a much better profitability profile than it does have. So we'll look to take further action there in order to straighten that out going forward. But clearly, we need to do better on the front end as well. So that's about building career sellers. One of the things that we've done there and I think Rick mentioned this, is to refocus. We also launched this at our August Jubilee.

The proposition of the initial kit of products to be aimed at our three skincare lines to look to bring in people that want to use those skincare lines, so to engage them. Then have them have the capability to offer that opportunity with those differentiated skincare lines to their friends, neighbors and relatives in order to build more sellers and more of the selling and demonstration culture. We've seen some results from that, not an immediate taking this up to the sales force additions levels that we'd like. So we'll continue to look to lever that. So I mean from a top line point of view, those are some of the key things that we're working on. Clearly, we are looking to get better results out of these businesses with the direct selling fundamentals that we are able to lever.

Linda Bolton Weiser - B. Riley & Co. - Analyst

Okay. Thanks.

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Thank you.

Operator

Gregg Hillman, First Wilshire.

Gregg Hillman - First Wilshire Securities Management - Analyst

I had some questions kind of surrounding the model of China and trying to understand it. Number one, does Vincent in China have the authority to do experiments with a hybrid model? Michael, what I mean by that is, you have these stores -- I was wondering how much inventory you carry at the stores? Whether somebody can just walk in off the street and buy something in the store? I guess you've increase your signage in the store. I take it that's to get more people in the stores.

If you're doing that to get more people in the stores, why couldn't you buy more words on the Internet to get more people in the stores? Then why couldn't you advertise water filters, for example? Or are the stores just to do demonstrations? Would you do fulfillments from remote warehouses? It's all kind of a mouthful but anyways, do you get the gist of my question?



Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Yes. The studios that we have in China, the 5,500 studios are places where people can walk in off the street and buy. That's actually the idea. We work through a membership system where the outlet owners and their employees are really looking to have a large base of members. Our management, Vincent and the others in China have told us in the past that about 80% of our sales come from this membership group. So people can sign up for free and that obviously then is a leverage point for our digital marketing initiates. They can also become a VIP member for a small fee and they get a Tupperware product and enhanced offers through our digital platform.

One of the things that we've been doing in China to a greater degree than in the past is been taking pre-orders for products -- for new product launches through the web. That has been very successful for us. It's part of why we see, with 6% more studios at the end of the third quarter, that sales were up 23% in the quarter. So, digital marketing is very important for China. In a way, obviously, it's easy to do when you're not running a direct selling sales force at the same time, because there's not that kind of conflict there. But that said, we look to leverage elements and the thought processes behind this digital marketing effort back into our more core model businesses in a way that does work with the sales force.

In terms of signage and inventory, I'm actually not sure I didn't recognize the reference to increased signage. I'm not sure about that in the stores, but certainly we've continued to build ways that we get presence through digital technology. A lot of it runs towards building this member base and in turn everything we may be able to do to leverage it so successfully. So I think we'll continue to go in new ways there.

Gregg Hillman - First Wilshire Securities Management - Analyst

Are you currently promoting individual products over the Internet? Let's say, your most expensive water filter, is that being promoted over the Internet? The product itself?

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

We do promote individual products. That's how we get to the preorders.

Gregg Hillman - First Wilshire Securities Management - Analyst

Okay. Do you think it's correct that the model in China is a hybrid model between retail and direct selling? Is that a true statement?

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

It's actually not considered a direct selling business. In China, we're not a direct seller, we have an outlet model.

Gregg Hillman - First Wilshire Securities Management - Analyst

Okay. So you're a retailer?

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Right. Now, we do leverage elements of what we know about direct selling. We look to aspirationally have the outlet owners have three shop assistants, so they're employees, who demonstrate products and sell products in the stores. They'll also go to somebody's home and help them design how they want to fit out their home with Tupperware products. So that's an example of one of the things that we do. When we think about how the outlet owners make their money, we leverage the span of control type things that we do in our direct selling businesses, meaning there can be a distributor like type person like in other of our businesses that would have brought in several individual outlet owners and would be rewarded for doing that. So that's something that goes more to our core model heritage.



Gregg Hillman - First Wilshire Securities Management - Analyst

Okay. That's real interesting. Do sell storage stuff like for storage container-- like the container store in the United States, in China?

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Well, our emphasis around the world is on differentiated product that benefits from being demonstrated, things like our steamer that's got the metal underneath the resin that you wouldn't recognize if you bought it at retail. We don't tend to emphasize real large bulk storage. We certainly have products for conserving food, so dry storage, relatively small types of containers. So I'm not sure if I understood your question --

Gregg Hillman - First Wilshire Securities Management - Analyst

I'm talking more about kitchen organizers, organizes for your house. Organizing your cupboard, all that kind of stuff. I don't know. If you go into the container store, you will see all sorts of stuff like that.

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

I don't think our assortment is not as wide as that kind of a Company. But yes, certainly we have storage and organization products for the kitchen.

Gregg Hillman - First Wilshire Securities Management - Analyst

Okay. Thanks, Mike.

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Thank you.

Operator

This concludes the Q&A session for today. I will now turn the call over to Mike Poteshman for any closing remarks.

Mike Poteshman - Tupperware Brands Corporation - EVP & CFO

Thank you, Rachel. Thanks, everybody, for being on today. We appreciate your interest and your questions. We are available for any further conversation, if anybody has anything they want to follow-up on. So, thank you very much.

Operator

Thank you, ladies and gentlemen. This concludes the Tupperware Brands Corporation third-quarter 2016 earnings conference call. You may now disconnect.



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