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# EDITED TRANSCRIPT

TUP - Q4 2018 Tupperware Brands Corp Earnings Call

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**OVERVIEW:**

Co. reported 4Q18 sales of \$506m, operating profit of \$101m and EPS (excluding items) of \$1.33. Expects 2019 sales growth in local currency to be even to down 2% and EPS without items to be \$4.06-4.21. Expects 1Q19 sales growth in local currency to be even to down 2% and EPS without items to be \$0.90-0.95.



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### CORPORATE PARTICIPANTS

**Michael S. Poteshman** *Tupperware Brands Corporation - Executive VP & CFO*

**Patricia A. Stitzel** *Tupperware Brands Corporation - CEO, President & Director*

### CONFERENCE CALL PARTICIPANTS

**Beth N Kite** *Citigroup Inc, Research Division - VP and Analyst*

**Douglas Matthai Lane** *Lane Research - Principal & Director of Research*

**Olivia Tong** *BofA Merrill Lynch, Research Division - Director*

### PRESENTATION

#### Operator

Good morning. My name is Mary, and I will be your conference operator for today. At this time, I would like to welcome everyone to the Tupperware Brands Corporation Fourth Quarter 2018 Earnings Conference Call. (Operator Instructions)

I will now turn the call over to Tricia Stitzel, President and CEO of Tupperware Brands. The floor is yours.

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**Patricia A. Stitzel** - *Tupperware Brands Corporation - CEO, President & Director*

Thank you, and good morning, everyone. I'm here today with Mike Poteshman, our CFO; and Jane Garrard, Vice President of Investor Relations, who's recently taken over IR as James Hunt has moved on to a new role within the company.

Along with our prepared remarks, we've uploaded the slides to our investor site, including the standard message on forward-looking statements.

In my comments today, I will provide a high-level overview of our financial performance, including our view on some of the key markets in our portfolio. I will discuss the progress we're making in executing on our global growth strategy and walk you through our decisions regarding capital allocation and enhanced investment into the business.

If we look at our global results on a full year basis, several units delivered solid local currency sales and profit improvements, including CIS and Tupperware South Africa in our Europe segment in Asia, Malaysia, Singapore, China and the Philippines also delivered local currency sales and profit improvements compared with last year.

In North America, both Tupperware and Fuller Mexico made progress. Tupperware Mexico was up solidly in local currency, and Fuller Mexico was up slightly, which was a trend change from recent years. We're pleased with this momentum and results for these markets.

Turning to the quarterly results. We finished the fourth quarter with an operating profit of \$101 million and sales of \$506 million. While we achieved our expected earnings per share, sales and profit were below expectations across several units as a result of both macroeconomic and Tupperware-specific issues.

In Asia-Pacific, we had sales of \$160 million and profit of \$46 million in the fourth quarter. 3 units showed worse-than-expected sales and profit trends during the quarter. Starting with China, where we had double-digit growth for the full year, and although we did have sales and profit growth in the fourth quarter, it was not in line with our expectations. And this is one of the places that negative macroeconomic issues showed through. Like many others, we are seeing increasingly problematic consumer spending trends in China as their economy slows down. We are taking actions to address these issues, including to work on diversifying our product offerings in China to reduce reliance on a few key big-ticket items, and we are implementing more tailored training programs to support the demonstration for these items.



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Additionally, in China, we continue to have an advantage in the number of outlets, and we are working to balance a higher number of outlets with productivity. We have 2 regions where we were experiencing high turnover due to rapid expansion of outlets, and we are working quickly to appropriately staff those regions as well as implement necessary compensation changes for both the employed staff and for the outlet owners such that the compensation alliance with the appropriate span of control. We believe that these improvements will help to reaccelerate the growth in this important market but do recognize that it may take some time to achieve the full benefit in these initiatives.

In India and Indonesia, we have a large opportunity for growth, although we continue to experience declines in both our sales and size of our sales force. Our initial assessment is that in these units, the sales force compensation plans and business models can be improved, and we are planning significant changes in these units and a few others in Asia in 2019. We will update you on this as we move through the year.

Turning now to Europe. Our new Group President, Stein Ove Fenne, has worked diligently to assemble his team and determine the changes needed to bring those markets back to sales and profit growth.

First, taking a look at the quarter, sales were \$137 million with profit of \$18 million. The emerging market showed promising growth, while France, Germany and Italy continue to be a drag. The main focus for 2019 is turning around these units by focusing on the fundamentals, including an aspirational earnings opportunity, consistent rhythm of activities and the right standard of rewards for the promotional and recruiting activities. We will also be making significant changes in our service models in Europe to contemporize how we interact with both consumers and our sales force, and this is part of the transformation initiatives that we've announced today. In a few minutes, I'll also address some of the specific activities regarding the deployment of technology in Europe, where we are making good progress.

Turning to North America, the quarter brought in \$120 million in sales and \$19 million in profits, although we were disappointed with the results in the U.S. and Canada business for the quarter. Jim Bellonzi, the new president, is focusing his management team on making sure the fundamentals of recruiting, training and building a productive sales force are in place and leveraged. At the same time, we are enhancing our use of technology and social media to help the sales force and consumers connect while maintaining an appropriate balance of technology with face-to-face contact. We've recently launched an application called Party Central and this allows the sales force to enter an order to accept payment and arrange direct shipment at any point in time, making the sales transaction easier for both the sales force and the consumer. Additionally, the U.S. and Canada unit deployed a new CRM tool and early results show higher sales force activations.

Both of our businesses in Mexico were steady in the fourth quarter in spite of some strong political and economic headwinds. Fuller Mexico experienced low single-digit sales growth for the full year for the first time in 8 years.

Tupperware Mexico was up 8% in sales for the fourth quarter. Both of our Mexican businesses, Fuller and Tupperware, showed improvement in their sales force size comparison since third quarter, and this is a good indicator for future results.

That said, we are watching closely the situation in Mexico related to a disruption in the gasoline supply by the government, and we are seeing some impact on our sales forces' mobility. So we are continuing to monitor this situation closely and may act as we can.

In South America, we had sales of \$89 million with a profit of \$19 million. Economic and political conditions continue to be a challenge in this area as well. The underlying key performance indicators are looking good, however, as the sales force size improved plus 4% at the end of the year.

Brazil led the charge with sales force size up 8%, which is 2 percentage points better than at the end of Q3. While Brazil sales and profit were still below last year in Q4, this market is strong and steady as we head into 2019.

I would now like to change -- turn to the change in our capital allocation we announced this morning. The management team and the board review the capital structure and the allocation at least annually, prioritizing returning capital to shareholders while also maintaining the flexibility to pursue our strategies. Given the importance of the transformation initiatives to execute our global growth strategy, we have made the decision to redeploy a portion of the dividend to those initiatives along with potentially repurchasing shares opportunistically to complete the \$200 million we talked about last year.



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To that end, we declared a \$0.27 per share dividend, which results an approximate 3% yield on a full year basis. And this places us in the 70th percentile of dividend payers in the S&P 400. This frees up \$80 million per year to fund the investment in share repurchases to -- and to manage our leverage. The investment in the business is expected to total approximately \$100 million through 2022, enabling sales growth and providing direct annualized cost savings of about \$50 million when fully implemented.

I would now like to walk you through some of the specific initiatives that we're undertaking to move our global growth strategy forward and position ourselves to achieve further future growth. As you may have seen in November, we approach -- we appointed Nick Poucher, formally our Controller, to the newly created role of Senior Vice President of Business Transformation. In this new role, Nick has been responsible, not only for shaping and overseeing existing projects but for working cross-functionally to identify new opportunities for growth and efficiency across the organization. Nick, myself and our fresh and invigorated senior team are deeply focused on accelerating the pace of change at Tupperware, improving our performance and executing on our strategy to deliver long-term value.

To that end, we are entering a new year with new initiatives aimed at structural change. When I spoke to you last quarter, I noted that many of our initiatives focused on the concepts of more engagement, more access and more relevance. More specifically within those, we will focus first on driving innovation across products and both sales force and consumer experiences. Also extending access to make it easier for our sales force and consumers to connect, deploying technology to drive sales force engagement and consumer connection, contemporizing our service model to allow our sales force to focus on driving revenue, and finally, simplifying and streamlining our structure to create a more aligned and integrated organization. These investments into the business will enable our independent sales force leaders to focus on recruiting, training and motivating sellers under aspirational earnings plans. This will include streamlining internal operations in several business units in Continental Europe, expanding the number of experienced studios, developing and implementing enhanced digital strategies and evolving sales force compensation plans in certain units to improve focus on key business drivers and assure aspirational and competitive earnings opportunities. We will update our progress on these initiatives throughout the year. It is important to acknowledge that these long-term projects with sales -- have sales force impact and they need to be approached thoughtfully.

As we implement these initiatives, we expect that the local currency sales growth to improve every year to at least mid-single digit by 2022. As we travel up this growth curve, you should expect to see a growing number of active sellers and expansion of experienced studios and outlets.

I will now take a few minutes to drill down on the progress that we're already making on these strategic drivers. One of the key components of our strategic roadmap is driving innovation and product innovation is an important part of that. We're taking bold steps to address sustainability and the impact of single-use plastic pollution on our environment. We're extending the huge success that we've had with reusable eco bottles for nearly a decade to reusable straws and multi-use coffee-to-go tumblers. The eco bottles, of which we sell millions of units around the world, address convenience and sustainability, and we're now cementing this movement with 2 new product launches in 2019. As always, with our product innovations, these products will distinguish themselves with unique functional elements, innovative features and elegant designs. We are also innovating in the health and wellness space by launching spiralizers, which is an on-trend and modern item that promotes simple, easy and healthy food preparation. Other areas of innovation include investigating the integration of smart technology into our products and testing the use of sustainable resins. We are excited about these new frontiers and believe they will keep our brand relevant and fresh as we move forward. We're also making great progress in deploying technology across our European business. Based on the successful launch of e-commerce in Germany, we are planning to continue our rollout of e-commerce in Western Europe. The management team is in the field, training the sales force to leverage social media through a variety of channels, including Facebook, Instagram and YouTube as well as making a weekly broadcast through TUP TV. Utilizing CRM tools, which we have currently deployed in 15 European countries, these units are empowering our sellers to strengthen their relationship with their consumers for repeat sales and improved service. We expect these actions to improve retention and activation of our sales force, which will play an important role in driving our sales growth.

Now regarding the contemporizing of the service model, we are also making significant changes in Europe, transitioning to a business model that reduces the burden of administrative duties and eliminates the sales force's responsibility for logistics, giving them more time to focus on driving revenue. We've already made some important progress in Germany, moving stocking distributors to nonstocking, and we will be transitioning several smaller units in Europe beginning in 2019.



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Now as I said, our entire management team is heavily focused on driving improved performance and enhancing shareholder value, we believe that we have the right plans in place and are taking the actions necessary to ensure our success. To align our management team even more closely with these aggressive targets, we've recently made an important change to our 2019 management incentive plan to include a revenue component in addition to the existing profit and cash flow components already in place. We see this as an important step to focus the management team's efforts on sales growth going forward.

Now before I turn the call over to Mike, as we announced in October, Mike is retiring as CFO effective March 1. Mike served as CFO for Tupperware for 15 years, and he's been integral member of our leadership team. We are working with Spencer Stuart, and we're well into the search for his replacement. We've identified a number of well-qualified candidates, and we expect to make an announcement soon. And we know that our process assures we will have a smooth transition as well.

And now I'll turn it over to Mike.

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### **Michael S. Poteshman** - *Tupperware Brands Corporation - Executive VP & CFO*

Thanks, Tricia. Regarding our fourth quarter results for 2018, sales were down 7% in local currency, including a 1-point drag on sales from the revenue recognition rule change that was effective at the beginning of the year. The results were 5 points below the low-end of the guidance range and the most significant misses were in China, Indonesia, U.S. and Canada, Italy and Tupperware South Africa.

Tricia spoke to these units other than Tupperware South Africa where we were about even with 2017 following on to the 22% positive we achieved in the third quarter. Here we continue to have a large sales force, but in the quarter saw a relatively slow take up on our offers with some impact from reduction of distributor inventory and some disruption in light of the general strike in our industry. We're already off to a better start in 2019.

B2B, we ended up having a 2-point contribution in 2018 in the quarter versus a relatively small amount in 2017 and about 1 point in the outlook provided in October. The largest piece in contribution to the upside was from France from a deal that had more shipments in 2018 than expected.

Looking at price and volume in the quarter, price contributed 1 point of growth, which is more than offset by a decrease from volume and mix of 8 points.

A comment on the total sales force size, which showed at minus 5% at the end of December.

As at the beginning of 2018, we began taking a more stringent approach in the South African units and in CIS for someone to be considered a sales force member. As of the December reporting, this change had a 5-point drag on the comparison. In other words, we were at up slightly in sales force without this factor. And as at the beginning of 2019, this measurement difference has been lapped.

On Slide 6, earnings per share, excluding items, was \$1.33 in our range even with the \$0.02 hit from foreign exchange versus our fourth quarter guidance. Versus our expectations communicated in Q3. Segment profit from operations, which included a \$4 million unexpected upside from a provincial Chinese government award was \$0.25 below our expectation, mainly due to the lower sales, offset by \$0.06 in lower unallocated corporate expenses from lower spending and lower achievement under the long-term equity plan and \$0.17 from the lower-than-forecast tax rate.

This was in part due to lower-than-expected expense under the GILTI tax and also from a benefit associated with withholding tax and dividends from international units. This latter item arose under the 2017 U.S. tax law change in connection with an IRS interpretation issued just a few weeks ago. We also recorded an adoption effect related to this topic of \$0.95 of expense in the quarter, and as an adoption impact, we've shown this in our release as an item.

On Slide 8, we've listed the 7 units that had over \$100 million in company sales in 2018, which are the same 7 from the 2017 list. That said, due to the weaker real, Brazil moved from having over \$300 million in sales in 2017 to between \$200 million and \$300 million in 2018.



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Also, from a currency point of view, we've added the South African rand and Malaysia ringgit to the list, given the meaningful sales and profit contributions in those geographies. I'll also note that due to the struggle with profitability in Europe, some units in Euro land contribute a smaller share of profit in those than the other currencies listed.

On Slide 9, 2018 pretax ROS excluding items for the fourth quarter was forecasted 16.3% and actual was 15.1%, with the shortfall coming most significantly from the lower-than-anticipated sales in Italy and Tupperware South Africa that have a high Drop through to profit and from Brazil, where there was some gross margin concession to stimulate sales and inventory obsolescence expense.

Going the other way, there was a benefit from the \$4 million provincial Chinese governmental award.

Gross margin in the quarter was 65.3%, which was not a big net difference from the 65.7% in the prior year quarter. That said, the elements that moved in this caption were hit from Venezuela last year. It was an item and it didn't recur and it hit this year from resin cost.

Distribution, selling and administrative expense came in at 48.5%, which was up 1.1 points from 47.4% last year. Of the increase, 0.6 points was from country mix associated with foreign exchange rates. Operationally, we took some hits from higher warehousing and distribution cost as a percentage of sales and more debt -- bad debt expense than last year. There was a partial offset from lower management incentive expense given performance.

Turning to cash flow for 2018, we came in at \$97 million from operating net of investing activities. This was disappointing and versus our previous guidance reflected misses on the major working capital line. Clearly, we have work to do on this move forward.

For 2019, we foresee a cash flow of \$125 million to \$150 million. This reflects the payout of \$40 million of reengineering and business transformation amount, which is about the same as in 2018 and assume \$70 million of capital spending.

Given the high level of working capital going into the year at the high-end of the cash flow range, we built in some reduction in the net position.

Based on the dividend that was declared in November and paid out early -- in January this year, and then the new level of the dividend is declared today, the 2019 payout would total \$72 million, while on a full year basis, the new dividend rate to payout is \$52 million. 2018 actually was \$137 million.

On share repurchase, we announced in April 2018 that we do \$200 million opportunistically and ended up doing \$100 million in 2018. Today, we indicated that in 2019, we would do up to the remaining \$100 million also opportunistically.

Turning now to the outlook on the sales and local currency, both the first quarter and full year outlooks are even to down 2%, including between 0.5 to 1 point of a drag associated with sales disruption expected from announcing transformation initiative. This compares with down 7% in the fourth quarter of 2018 and down 3% for the full year, excluding the Beauticontrol and Japan unit drag.

As you would imagine, in order to achieve this type of sequential improvement that we are forecasting, we foresee meaningful improvements in the units that have the large decreases in the fourth quarter. As well there are about 1.5 points worth of B2B sales in the first quarter outlook, whereas there was little in the first quarter of 2018.

In terms of earnings per share without items, for the first quarter, we're expecting a range of \$0.90 and \$0.95 compared with \$0.81 in 2018 in constant currency. This improvement reflects a few cents of reengineering benefit in Europe along with \$0.08 from a change in accounting rules for hedges and \$0.05 from a lower operating tax rate from moderation and how the late 2017 U.S. tax law changes coming through.

On Slide 10, for the full year, the earnings per share range outlook is \$4.06 to \$4.21 without items, compared with \$4.19 in 2018 in local currency. Together with some smaller ups and downs, the up \$0.02 at the high-end includes \$0.32 from the change in hedging and \$0.08 from 2018 share repurchases, offset by \$0.22 from higher unallocated corporate expenses other than hedging, mainly from a forecast of normal management incentive expense, but also more normalized spending in some areas and \$0.13 from the impact of more normalized tax rate for the full year from



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a consistent picture from GILTI and the expectation of not having a significant benefit from the withholding tax item. This comes through as a 2019 forecast tax rate without items at 27% versus 2018 actual of 24.7%.

The unallocated outlook for 2019 is in the low \$40 million, which reflects more normalized management incentive cost and the majority of the benefit of the change in hedge accounting.

The outlook for net interest expense is about \$40 million, which is a \$3 million less than 2018, reflecting a higher level of borrowings, more than offset by a portion of the hedge accounting change benefit. The 2019 outlook do not consider the impact of any potential future share repurchases.

Our update on resin impacts is that 2019 cost is expected to be about even with 2018. The actual impact for 2018 versus 2017 was negative \$10 million for the full year, compared with the \$9 million year-over-year hit included in the October guidance. This meant there was about \$3.5 million in higher cost in the fourth quarter.

Slide 11 reflects the new transformation plan and share repurchases that we've highlighted today. It also reflects the redeployment of a portion of the dividend we have been paying. Together with funding the transformation and share repurchases, this could also enable us to more quickly reach our debt-to-EBITDA leverage ratio objective of under 2x.

Regarding the dividend going forward, we expect to have a sustainable, healthy payout that is competitive in the market but will no longer aim at a specific payout ratio of earnings per share. While we continue to target over time the year-end EBITDA leverage of under 2x that I just mentioned, we wouldn't expect to get there in 2019.

Tricia indicated that the cost of implementing the business transformation initiatives laid out would be approximately \$100 million through 2022, others amount about 90% would be in cash.

In 2019, the expectation is that we'll incur about \$25 million of the cost and will payout about \$15 million. There's also about \$25 million to be paid out in 2019 related to the revitalization program announced in July 2017, which will then be completed. While a significant portion of the business transformation cost announced today are to enable sales growth, a portion of the actions will result in cost savings. The annualized benefit of these actions is estimated at about \$50 million, which will begin to build starting in 2020.

And now with that, we'll turn the call over for questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from the line of Olivia Tong from Bank of America Merrill Lynch.

### Olivia Tong - BofA Merrill Lynch, Research Division - Director

Congratulations, Mike. First I wanted to ask about the top line and, sort of, what your underlying expectations are for sales force additions from some of the things that you're planning to do to driving improved sales growth? And then also your expectations as far as price mix versus volume. Tricia, you talked a little bit about changes in the compensation model in a couple of countries, perhaps a little bit more detail on that. And also the underlying products, do you think that more -- is it more pricier items that are going to help to some extent or more volume of items, just a little bit more detail that would be great.



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**Patricia A. Stitzel** - *Tupperware Brands Corporation - CEO, President & Director*

Okay, thank you. Olivia, thanks for being with us today. So I'll address the first part of those, and then Mike can jump in as well. So with regard to the top line, underlying all the changes we need to make, we absolutely do see growing the sales as a result of all these changes. And in particular, what we feel will happen and what needs to be done is to take the administrative and the logistics responsibilities away from our sales force. We know that they spend at least 30% of their time with these, kind of, activities and by removing those activities will allow them to spend more time on generating revenue. So things like selling, recruiting, training, developing leaders and that's really where we want them to focus their time and to get them out of the admin business overall. I think also, it helps to make us more competitive when people are looking at these, kind of, opportunities because ours is pretty admin and logistics heavy. And so we do expect that also will help us to attract more sales force members as well because it's a business that's simple and easy to do. With regard to the product and the mix of that, really what we're looking for, you -- we made some comments on the innovation and really driving innovation. As we always have, but really where we want to focus our attention is towards products for the emerging markets that are mid-priced and demonstrable. So we do a great job in terms of those premium-priced innovative and demonstrable products, and then in our emerging markets what we've seen is selling the less demonstrable items, which of course are at a lower price point. By producing products that are at this mid-price points that's a bit more premium than we are today that helps us to drive productivity and will also help with the earnings opportunity for the sales force. And Mike, do you want to -- I don't know if you...

**Michael S. Poteshman** - *Tupperware Brands Corporation - Executive VP & CFO*

Sure. You had asked about pricing mix, Olivia, and of course today we announced that for the fourth quarter price was 1% of an advantage. What we've seen going back a number of years that it's been in the 1% or 2% range most of the time, every once in a while, 3%. And that really reflects that we looked at price in line with consumer inflation around the world. So while we don't have a specific forecast on that, you would think that as we continue to follow that approach that you continue to see something in the same range. Clearly, we expect to see volume improvements as we move forward, we didn't have the volume comparison we wanted in the fourth quarter as we move to the guidance for 2019 that even at the high-end both for the first quarter and the full year with the small price increases that we tend to see that implies a little bit less volume but an improvement from what we saw in 2018 in the quarter and for the full year.

**Olivia Tong** - *BofA Merrill Lynch, Research Division - Director*

Got it. And then in terms of the spending, the restructuring program you're embarking on, maybe help us better understand what's driving the savings expectations of \$50 million in annualized savings when first timing in terms of how long it will take to get there because it sounds like a lot of the things that you're talking about are investments back into the business and actually cost money. So how much of that is tied to your -- some leverage in terms of the acceleration back in mid-single-digit sales growth? And how does that -- if sales don't accelerate back to that mid-single digit sales growth, how does that impact your ability to achieve your fixed target?

**Michael S. Poteshman** - *Tupperware Brands Corporation - Executive VP & CFO*

Well, the cost that we're talking about come back to things that we're doing structurally. Obviously, internally as it relates to direct cost saving and that's what we were talking about was the \$50 million that we spoke to. So that's not from volume leverage, that's from streamlining management structures and things internally. We're also aimed at doing things structurally for the sales force for their benefit that would, in some of those cases, not have a direct cost, would have some cost in transition, but wouldn't have a cost savings element per se. So the \$50 million and what we said was it would start coming through in 2020 as we make some of these structural changes, are direct savings to the extent we're getting the sales growth and that also should have obviously a positive drop through and help raise the ROS as well.

**Operator**

Your next question comes from the line of Beth Kite from Citi.





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**Beth N Kite** - Citigroup Inc, Research Division - VP and Analyst

I was wondering if we could focus on Asia-Pacific a little bit more. I know you spoke in the press release or the press release includes as guidance range for that region of 2% to 4% in local currency in 2019. So can you help us just sort of parse out China specifically in that growth? What you're expecting for the full year in China? And then anymore around the India and Indonesia, the changes that you discussed would be great. Last one related to China too, as I don't think you spoke about the outlet count, so can you give us a growth rate on that for the year-over-year and 4Q?

**Patricia A. Stitzel** - Tupperware Brands Corporation - CEO, President & Director

Okay. So first of all, just to clarify, in Asia, we said it was down 2% to 4%. So just to clarify that. And so looking to China, overall in China, we continue growing in the quarter, and as I said, we're up double digit for the full year. And we also see expansion in China continuing to grow through the course of 2019. What we're really looking to do in China is to balance our expansion with productivity. We think that's important for the long-term sustainability of this business. And so we want to make sure that we're balancing those 2 things. We're also continuing in China to diversify the product offers -- offerings as we've talked about to make sure that during the time of the economic slowdown that we have price points that people really are able to be engaged with us and making sure that we also, at the same time, put in the training that we -- for these new items, for our stuff as well. So those are, I would say, the key things that we're focused doing in China in 2019. And that's -- sorry, what was the other country you wanted detail on.

**Beth N Kite** - Citigroup Inc, Research Division - VP and Analyst

Yes, for India and Indonesia. I know you said that you had some bigger changes coming that maybe we'd hear about later. Is there any way to just, sort of, frame with those all or sort of any high-level description you can give to those changes in those 2 markets?

**Patricia A. Stitzel** - Tupperware Brands Corporation - CEO, President & Director

Sure. Yes, we will keep it at a fairly high level. Beginning first with India, we're really taking a new approach to India. And although India continues to be a challenge, we have a lot of belief in the potential of this market. We've hired a new MD there, and this is an external hire that we believe is going to help us to evolve to a new model that better suits the market. And for the past several months, we've been piloting the studio concepts in India, and we really have some good early indications that this physical location is helping us to showcase the brand and drive the power of the demonstration to really help with productivity as well. So again, the numbers are small there with regard to the studio, but we're really believing that this is going to be an important part of our future in India for the future. Now in Indonesia, we're working on some different initiatives here. We mentioned last time that we changed the incentive and onboarding programs to provide more flexibility within the months for the sales force and how they can achieve their goals. We believe this was the right move to drive recruiting and it did result in a small sequential improvement versus Q3 in recruiting, and we improved the size of the sales force size by 1 point even though still down from last year. We've also launched an e-learning platform to enable the new recruits to be successful. And within this, we saw a double-digit improvement in the number of people staying in the onboarding program that we've launched there. And I mentioned last time that our focus is on the unit managers and we continue to do that. What we saw is a 35% improvement in promote ups over Q3, and we saw an improvement in our new manager activity rate as well. So we'll continue to focus on that. We're looking at the compensation plans, specifically as it relates to unit managers and making sure that it's competitive within the markets, and also looking to raise performance standards in Indonesia as well. Again, this is something that we did in Russia that's having good impact, and it really strengthens and enhances the earnings opportunity.

**Beth N Kite** - Citigroup Inc, Research Division - VP and Analyst

Great. If I could ask one final question on the B2B sales. I believe Mike, your reference that 1 quarter -- the first quarter of '19 includes some B2B activity. Is that correct?



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**Michael S. Poteshman** - *Tupperware Brands Corporation - Executive VP & CFO*

Yes.

**Beth N Kite** - *Citigroup Inc, Research Division - VP and Analyst*

Great. And then for the second and third quarters of this year, as you comped B2B sales in Germany from 2018, are you looking to, maybe more aggressively in the past, line up some B2B activity for the second and third quarter, just sort of how are you thinking, I guess, big picture about B2B this year?

**Michael S. Poteshman** - *Tupperware Brands Corporation - Executive VP & CFO*

Yes, we do have deals that run and that we're working on until later in the year. And the forecast does assume that we have not quite the same amount for the whole year but in the same kind of range.

**Operator**

Your next question comes from the line of Doug Lane with Lane research.

**Douglas Matthai Lane** - *Lane Research - Principal & Director of Research*

Mike, I'd like to focus on the cash generation here because if you look at the low-end of your GAAP EPS range, it's \$3.86, which seems pretty comfortable in covering the old dividend. So I wondered if there's some non -- what kind of factors are affecting the conversion of your GAAP EPS into free cash flow?

**Michael S. Poteshman** - *Tupperware Brands Corporation - Executive VP & CFO*

Well, Doug, we have seen in most years -- almost all years that our cash tax has been above our book rate and that continued in 2018, and we do assume that again in 2019. We do think over time under the new tax law that it should get closer together than it has been, so that's one element. I know you quoted the GAAP number that's got the \$40 million of business transformation and finishing the 2017 program as well. But a lot of that expense has been booked in prior years as it relates to the 2017 program. So there's a difference there from the income number you were speaking to. And then we have still assumed some growth in working capital, particularly at the low-end. So hopefully like we said at the high-end that we can avoid that and make up some ground and that would be positive of a bump.

**Douglas Matthai Lane** - *Lane Research - Principal & Director of Research*

Okay. But still, it seems like you had every shot at being able to pay the dividend. So -- even given borrowing capacity, given a lot of these are onetime, kind of, spend here, so it sounds like there's been a philosophy change here, going from paying the dividend through thick and thin towards a more diverse use of free cash flow. So I just, Tricia, like to get your thoughts on what drove the change of philosophy on the priorities for free cash flow here?

**Patricia A. Stitzel** - *Tupperware Brands Corporation - CEO, President & Director*

So Doug, I wouldn't say there's necessarily a change in the approach per se. I mean, what we've always looked at is prioritizing investment in the business, first and foremost. And that's always been important to us and also making sure that we return a -- certainly a fair and competitive deal to our shareholders as well. And so really as we look at what we're seeing in the business, the work that we need to do and investment that we need to make and as you know, we laid out this global growth strategy and we've been working our way through it. As we see the trends in some

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of these countries, the disruption factor that we're having with the bigger countries, we feel the need to move further faster with regard to this investment in making sure that we create an opportunity for our sales force that is the things that we've talked about offers access, engagement and relevance and making sure that we make it easy for them to do business. And so as we came through the year just looking at this and saying that other than taking this more on the slow and steady pace, that we wanted to accelerate this investment so that we could get there sooner because we're seeing the disruption in these markets in Continental Europe and the markets in Asia as well. So we've identified the need and work through the details of how we can more quickly move to get these changes in the place and get to a more consistent and scalable sustainable way to do business. At the same time, we still want to return capital to our shareholders and we were very thoughtful about this. We were at about a 7%, which you know is high certainly within our peer group, and we did look at the different peers and so forth. We're in -- the 3% leaves us in the 70th percentile and actually above most of our peers. So we really feel that this is still a fair yield, and we want to continue to do that.

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**Douglas Matthai Lane** - Lane Research - Principal & Director of Research

Okay, and just one last thing. It doesn't sound like the capital spending this year is going to be much different than it's been in the past. So how do we look at where the spending -- this accelerated spending is going to show up in the financials? Will it be more in SG&A? Or how should we think about where the additional spending is going to show up?

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**Michael S. Poteshman** - Tupperware Brands Corporation - Executive VP & CFO

Well, Doug, the portion of it certainly is in reengineering itself because we are making some structural changes and so that's where a lot of it will be. Yes, there'll also be some -- would be more in the DS&A line than on margin.

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**Douglas Matthai Lane** - Lane Research - Principal & Director of Research

And one last thing. Going past 2019, should we see the reengineering and the capital spending go up, remain the same, go down, what are we looking at beyond 2019 on these programs?

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**Michael S. Poteshman** - Tupperware Brands Corporation - Executive VP & CFO

Well, the \$100 million under this new program is mainly over the next 3 years, and so we haven't laid out the rollout after this year. The 2017 program is essentially done after this year, there's only a little bit of expense this year meaning 2019 and then the payout of \$25 million that I mentioned.

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**Operator**

There are no further questions. I would like to turn it back over to Tricia Stitzel for any final comments.

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**Patricia A. Stitzel** - Tupperware Brands Corporation - CEO, President & Director

Okay. So well, thank you, everyone, for joining us today, and let me just wrap up our discussion as I know we've covered a lot here today. We are making some bold structural changes to our business with this global growth strategy and the transformation initiatives, and we know that is the right thing to do. It's important that we create consumer and sales force-centric foundation for our business to move forward in a very consistent way in which we deliver sales and profit growth. We are initiating important steps that we have discussed today to enable our sales force to thrive and, in turn, generate good returns for our shareholders. We're investing in the right things to ensure this growth and sustainability of our business. Thank you, again, for being with us on the call today.



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**Operator**

This concludes today's conference call. Thank you all for joining. You may now disconnect.

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