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TUP - Q1 2020 Tupperware Brands Corp Earnings Call

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OVERVIEW:

Co. reported 1Q20 diluted loss per share of $0.16.

CORPORATE PARTICIPANTS

Cassandra Harris *Tupperware Brands Corporation - CFO & Executive VP*

Jane Garrard *Tupperware Brands Corporation - VP of IR*

Richard P. Goudis *Tupperware Brands Corporation - Executive Vice Chairman*

PRESENTATION

Operator

Welcome to Tupperware Brands Corporation First Quarter 2019 -- 2020 Earnings Call. The speakers on today's call will be Rich Goudis, Executive Vice Chairman; Sandra Harris, Executive Vice President and CFO; Jane Garrard, Vice President, Investor Relations.

There will not be a Q&A today. Please call Jane Garrard at 407-826-4475 for any follow-up questions.

I will now turn the call over to Jane Garrard. Please go ahead.

Jane Garrard - *Tupperware Brands Corporation - VP of IR*

Welcome to Tupperware Brands First Quarter 2020 Earnings Conference Call. With me on today's call are Rich Goudis, our Executive Vice Chairman; and Sandra Harris, our Executive Vice President and Chief Financial Officer.

Earlier this morning, we issued a press release announcing our financial results for the first quarter ended March 28, 2020. The press release is available on our company website on our Investor Relations page. We will begin with our safe harbor statement.

During the course of today's call, we will make forward-looking statements that are subject to risks and uncertainties as described in our press release and in our SEC filings. You should listen to today's call in the context of that information.

We will also discuss some of our results for the quarter on a non-GAAP basis. Reconciliations between GAAP and adjusted measures can also be found in our press release. You can access the release and our forward-looking statement language through the Investor Relations section of the company website, where you can also access a webcast replay of this call later today.

I will now turn the call over to Rich for his remarks.

Richard P. Goudis - *Tupperware Brands Corporation - Executive Vice Chairman*

Thank you, Jane, and good morning, everybody. Let me begin by extending my gratitude to our employees and our independent sales force around the world. We are operating in unprecedented times, filled with many unknowns, and I am continuously impressed by the sense of community, work ethic and entrepreneurial resolve among our Tupperware family. Due to the weak business trends in 2019, coupled with the impact from COVID-19 pandemic, this is truly a pivotal time for our organization.

Beginning last November, the Board of Directors conducted a search for new company leadership. And given the state of and trends in the business, the Board decided a team approach was necessary to turn around the company: Miguel Fernandez, as CEO, focusing on fixing the core business and motivating the sales force; and me as Executive Vice Chairman, addressing the capital structure in markets and developing a growth strategy.

Now, along with the entire Board, I have the utmost confidence in this new leadership team's ability to guide us through this period, developing realistic growth plans and executing on the necessary actions to turn around the company, repositioning and strengthening the company for the future.

Before I turn the call over to Sandra for an update on our financial performance, I'd like to cover 3 important topics with you. First, our operating response to COVID 19; second, what we are doing to fix the core business; and third, a few highlights of our growth strategy.

We continue to take swift actions to manage the uncertainties that COVID-19 poses to our global business. Our top priorities have been to protect our employees and their families, while we continue to run our ongoing operations so we can provide the necessary support to our sales force. Prior to the disruption caused by the pandemic, which began to broadly affect our performance in March, the consolidated business was performing in line with our expectations.

I know we are not alone in dealing with the uncertainties related to COVID-19, yet I am confident we are doing everything we can to weather this period, while making the necessary structural changes to build a stronger, more nimble and consumer-facing company for the future. Around the world, we've quickly modified our marketing message to become "Part of the solution" to real consumer issues they are facing in the current environment. We recently launched a marketing campaign called problem solved, that highlights the problems facing our customers today in the wake of COVID-19 and the solutions we offer, from helping food last longer, helping store food safely and helping to reduce waste and save money, to helping prepare healthy foods and creating enjoyable family experiences around meal prep and family meals, all from the comfort and safety of their homes.

While it's not possible for us at this time to estimate the full impact COVID-19 could have on our business, and that's the reason we withdrew our full year financial guidance, we believe we've taken swift action to weather this unprecedented time period while positioning ourselves for life after the pandemic.

Later in the call, Sandra will be reviewing the specific adverse impacts from COVID-19. As you may have read, our world will likely not return to normal, but rather a new normal. We believe our company is well positioned to succeed in the new normal, with products that help consumers keep their food safer and longer lasting, products that make cooking at home more enjoyable and products that provide a reusable solution at a time when more and more people realize the devastating impact single-use plastics cause to our environment, along with a fantastic entrepreneurial economic opportunity people can operate from home.

The second topic, what are we doing to fix the core business? Let me take a few minutes to share with you what the company has been doing to rightsize the business and position itself for a turnaround. The company had a head start in late 2019 by identifying areas that needed improvement and developing plans to rightsize the company. On the cost structure and liquidity front, we engaged a leading advisory firm. And to redesign our org structure and develop realistic growth plans, we engaged with Boston Consulting Group. Together, these advisory companies, along with our leadership team, contributed a critical role in introducing rigorous improvement initiatives in advance of the impact from COVID-19. To rightsize our business, given the business trends we experienced in 2019, the company initially developed a 2020 cost savings plan of $50 million.

Now due to the COVID impact on our revenue, we've taken a more aggressive position, increasing our cost savings planned in 2020 by 50% to $75 million, and taking quick actions to improve our liquidity position in the midst of the evolving realities. We believe that the changes the company has made in just the past few weeks will help us weather the COVID-19 effect and will help to rightsize our core business.

In early April, we made changes to our leadership team, bringing in proven executives, whose experience we know and trust. Additionally, we realigned our organization structure, splitting the front end from the back end of the business to allow the commercial leadership team the time to acutely focus on growth, while creating service excellence groups to improve financial rigor and increase efficiency and effectiveness of the company.

Additionally, led by Miguel, we are assessing the key drivers of the business and working country-by-country to develop growth initiatives that can create both quick wins and usher in long-term sustainable growth. Over the remainder of 2020, we will begin to use a more data-driven approach to segment our sales force and improve our marketing communications, embrace a more analytical approach to making business decisions, introduce new digital tools and training to help our sales force be more productive and efficient and reach more customers than ever before, and along with our sales force, increase the number of access points where our products can be demonstrated and purchased.

We believe in the unique competitive advantages of an entrepreneurial sales force and are committed to making the right decisions and investments to grow our core business, while also looking ahead to explore new opportunities for consumers to access our products and accelerate our long-term growth rates.

Let me conclude with sharing some initial insights into our future growth strategy. Back in November, the Board and management recognized its transformation plan needed to be modified in order to be successful. While Tupperware's recent challenges had been executional in nature, the increasingly high fixed costs, in a business that should have low fixed costs, further hindered financial returns.

When Miguel and I joined the company, we agreed we need to quickly become a leaner and more centrally organized company. We also recognize the need to develop a realistic growth plan, incorporating the unique opportunity to increase consumer access to the iconic Tupperware brand, along with proven growth initiatives from our past experiences. Together, we are calling this the turnaround plan.

Additionally, we fully support the company's recent change in its capital allocation policy to focus on making long-term investments in our core business with proven initiatives versus returning capital in the forms of dividends or share repurchases.

Miguel and I bring with us a very disciplined and proven approach to capital allocation that we believe will provide sustainable long-term returns to all stakeholders. The decision by the Board to create 2 strong leadership positions, a CEO and Exec Vice Chairman, is proving itself to be just what the company needed to respond to this current challenge. While we expect to reveal our strategic thinking more completely later this year, let me share some highlights with you now.

We're developing a growth strategy that will result in a significant strategic shift in the company from looking backwards, exclusively through the eyes of our sales force with a consumer push model, to now pivot and look through the eyes of the consumer and create a consumer pull model that can coexist with the strength and uniqueness of our independent sales force. This is a dramatic change from the old Tupperware. What gives us confidence in its success is the underlying consumer permission of our iconic brand that consumers have trusted in their homes for over 7 decades.

As we develop this new strategy, we must remember, it has always been consumer trends and consumer demand that creates success for our sales force. As you know, this is a new management team in just the past few weeks, and therefore, our thinking continues to evolve as we learn more about the business. To share some of our excitement around our growth strategy view, let me highlight a few key elements that you'll hear us build upon in the coming quarters.

First, we will enter more product categories where the Tupperware brand has consumer permission. We will create a good, better, best product and pricing strategy to reach and address the needs of all consumer socioeconomic levels, A, B, C and D. Together with our independent sales force, we will create more access points for customers in person and online. We will explore alternative revenue streams of B2B and licensing. And most importantly, we will align our brand more closely with meaningful megatrends such as reusable products that are environmentally friendly, products that help you save time with food prep, products that help you save money by keeping food safer and fresher longer, and of course, the growing gig economy and people working from home.

The Board and management team are keenly focused on our near-term priorities to rightsize the business, manage our liquidity position and meet our debt obligations, while strengthening our balance sheet. We are committed to making prudent investment decisions that support a turnaround and unleash an aggressive growth strategy, while also strictly adhering to balance sheet discipline and our long-term capital allocation strategy.

Let me now turn the call over to our Chief Financial Officer, Sandra Harris, to provide more details on the first quarter. Sandra?

Cassandra Harris - *Tupperware Brands Corporation - CFO & Executive VP*

Thanks, Rich. I will talk today about the first quarter financial results, the actions we're taking relative to the turnaround plan and COVID-19 and our response to address the impact it is having on our business.

As Rich stated, the underlying performance and trends in our business during the early part of the first quarter were in line with our expectations. For example, China opened 176 new outlets in January, exceeding plan and higher than the entire fourth quarter of 2019. However, as the quarter progressed, COVID-19 did negatively impact our global businesses, and this impact has been most pronounced in Europe and Asia Pacific, where we experienced partial or country-wide lockdowns of operations in various markets, including, but not limited to, China, France, Italy and the Philippines our top priority is protecting our employees, their families, the sales force and consumers and our operations.

Looking at the first quarter, sales were down 23% versus last year and 17% in local currency. $15 million of B2B sales in 2019's first quarter contributed 200 basis points of the decline, while we estimate the COVID-19 impact to be approximately 500 basis points. Active sales force was down 15%, and sales declines were across all segments.

Asia was down 20% in net sales on a local currency basis for Q1. We began to see the impact of COVID-19 in China beginning in late January, while India, Malaysia and the Philippines were under lockdown beginning in March. In China, we took quick actions to support our retail studio owners by offering rent subsidies for February and March and launching a Tupperware Eco health marketing and product campaigns, targeting eating healthy by using Tupperware products to cook at home and to store food to last longer. Our sales force also quickly shifted to the use of our online platform and WeChat, performing product demonstrations and holding cooking classes that help stem the sales decline during the lockdown.

As the quarter progressed and China began to emerge from COVID-19, we continued to open new studios, 299 new studios in the quarter. But we did experience closures and lower productivity due to lower foot traffic and consumer spending. Q1 ended with approximately 6,300 studios, essentially flat with the fourth quarter.

Turning now to Europe, while net sales were down 19% on a local currency basis, the core was only down 9%. A $15 million B2B program in 2019 accounted for 10 percentage points of the decline. And as the impact from COVID-19 increased, numerous countries were in lockdown beginning in March and were unable to ship.

Now let me turn to North America, which was down 11% in net sales on a local currency basis. In response to multiple states' stay-at-home orders in the U.S. and Canada in March, digital and social media training was launched by our sales force leaders in the field to train other sales force members on how to use tools, such as Zoom, Facebook Live and TupSocial to continue to connect with our consumers and demonstrate and sell products. We also continued to use our e-commerce platform, recently updated in October, to continue to enable online sales. These actions, combined with a responsive sales promotion using excess inventory are showing favorable trends in April.

In Mexico, under new leadership, our Fuller Mexico business was improved sequentially but was still down low single digits as lower reps and rep activity were partially offset by increased productivity and a new merchandising strategy that is showing initial signs of success. Fuller also increased production of hand sanitizers to offer to our sales force in response to COVID-19 and is currently evaluating B2B opportunities for growth.

As I've discussed, the COVID-19 pandemic largely affected March results during the first quarter. While the duration and severity of this pandemic is uncertain, we expect that the second quarter of 2020 will have the most severe impact, while subsequent periods may also be negatively affected.

As I move to discussing earnings, I'll talk about the actions we're taking in response to rightsizing the fixed cost structure of our business, plus the expected effects from the pandemic. Diluted earnings per share was a $0.16 loss compared to earnings of $0.76 in the first quarter of last year. Current year earnings per share includes a $0.25 impact due to reengineering, consulting and leadership transition costs associated with the turnaround plan. We also estimate the COVID-19 impact to be approximately $0.24. The remaining decline was primarily driven by lower sales on a high fixed cost base, including DS&A expenses at 64.6% of sales versus 53.9% in the prior year.

The high fixed cost, combined with COVID-19 impact, has led us to accelerate and increase our turnaround plan cost savings program by 50% to $75 million for 2020.

I will talk about specific actions after I update you on taxes and cash flow. The first quarter tax rate is reflective of losses in the quarter, the majority of which are from countries that have a full valuation allowance, and therefore, no benefit is recorded. The tax rate is also impacted by lower profitability year-over-year from lower sales and B2B profit, onetime costs associated with the turnaround plan and the negative COVID-19 impact.

The associated tax rate is not indicative of the remainder of the year, which is expected to be similar to 2019 with some improvement. Cash flow from operations, net of investing activity, was an outflow of approximately $55 million, which was consistent with last year and in line with the traditional seasonality of our business. We continue to identify opportunities to improve our working capital. And for inventory, we're now utilizing excess inventory globally versus regionally to provide fresh products to each market to increase sales and lower our inventory balances.

We are also accelerating opportunities to sell real estate in Orlando and across the globe to focus our attention on our core business and improve our liquidity position.

In February, we received the support of our bank group to amend our credit agreement to modify the consolidated leverage ratio in exchange for additional guarantees and collateral. The new consolidated leverage ratios are less than or equal to 5.75x in the first and second quarter of 2020, less than or equal to 5.25x in the third quarter and less than or equal to 4.5x in the fourth quarter.

We ended the first quarter within our revised covenants, with the debt-to-EBITDA at 5.36. Further, to enhance our liquidity and provide additional financial flexibility, at the beginning of the second quarter, on March 30, we drew down $225 million under the credit agreement, $175 million of which was drawn as a proactive measure given the uncertain environment resulting from the COVID-19 pandemic. The remaining amount of $50 million was drawn for customary working capital needs during the second quarter of 2020.

Now more detail on the turnaround plan, specifically, cost reductions and organizational design. In our 2019 10-K, we communicated that we had reassessed our transformation program and would now spend $50 million to drive $100 million in savings by 2022. About half of the savings would come from streamlining the organization, with the other half from globally leveraging sourcing, procurement and manufacturing.

We anticipated that $50 million of the gross savings of $100 million would be in 2020. We took our first organizational actions in January, reducing headcount, contributing $15 million toward the target. As the direction of our new leadership team and due in part to the impact of COVID-19, we have further enhanced the program and now are referring to it as the turnaround plan and have accelerated and increased the expected savings in 2020 by 50% to $75 million.

We are committed to executing the necessary cost reductions and organizational realignment in order to stabilize our core business and reduce fixed cost. On April 9, we announced the execution of the first steps of planned realignment of the company, separating the commercial functions from the back office function, allowing our commercial organization to focus exclusively on driving sales. The top 4 markets, Brazil, China, Mexico and the U.S. and Canada market now report directly to our CEO, Miguel Fernandez, while the remaining markets will be led by our new Worldwide Commercial President, Patricio Cuesta, who will also oversee the sales and marketing activities for all of our countries.

In addition, operation functions, including manufacturing, distribution, procurement, research and development and customer care have been aligned under our new COO, Bill Wright, to improve operational efficiency and customer service experience. And lastly, the departments of finance, human resources and legal are now centrally reporting versus reporting to individual markets to ensure standardization, improved controls and improved efficiencies. We expect the full impact of these changes to be implemented in the second half of 2020.

Now to COVID-19. As I just mentioned, we've increased our 2020 savings plan by 50%, partially attributable to the impact of our sales from COVID-19. The incremental actions we've taken in response are the elimination of nonessential operating expenses and capital expenditures, including the continuation of a discretionary spending and travel freeze that began in Q4 2019. We've also suspended the corporate and unit merit increases globally; a salary reduction of 20% for the company's CEO, Executive Vice Chairman, Commercial President and COO for the second quarter; additionally, a 20% reduction in our Board of Directors cash retainers for the second quarter and waivers of certain other board fees. And we've taken temporary furloughs, leave without pay, a reduction in wages across corporate, factory and market level associates globally.

Turning now to our upcoming debt maturity. We have approximately $600 million of senior notes outstanding with the maturity date of June 2021. We are proactively working with various financial sources and advisers to evaluate our options to address our liquidity and cash flow needs relative to this maturity.

I'll now turn the call back to Rich to close out the call. Rich?

Richard P. Goudis - *Tupperware Brands Corporation - Executive Vice Chairman*

Thank you, Sandra. This is a pivotal time for Tupperware Brands, and together with our Board and our CEO, we believe we are quickly addressing the company's most pressing needs, improving the cost structure, improving liquidity and implementing initiatives that will result in growth. This company is special. It has an iconic brand, loved by consumers around the world, and we believe it's poised for a dramatic turnaround. Our goal is to reposition the company with a realistic growth strategy that will enable a beautifully designed, easy-to-use and environmentally responsible products to be in more consumers' hands than ever before. We're excited that we are already underway in this needed turnaround.

Thank you.

Operator

Thank you. And that concludes the conference. Thank you all for joining. You may now disconnect.