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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Tupperware Brands Corporation Third Quarter 2021 Earnings Conference Call. (Operator Instructions) After the speaker's presentation, there will be a question-and-answer session. (Operator Instructions). I would now like to hand the conference over to your speaker today, Alexis Callahan. Please go ahead.

Alexis Callahan - *Tupperware Brands Corporation - VP of IR*

Thank you, operator. Good morning, and welcome to Tupperware Brands Third Quarter 2021 Earnings Conference Call. Joining me today are Miguel Fernandez, President and CEO; and Sandra Harris, CFO and COO. We will all be available for Q&A following our prepared remarks.

Earlier this morning, we issued a press release announcing our financial results for the third quarter of 2021, which is available on our Investor Relations website.

Let me remind you that the following discussion and our responses to your questions reflects management's views as of today, November 3, 2021, and may include forward-looking statements. Actual results may differ materially from such statements.

Additional information about factors that could potentially impact our financial results is included in our Form 10-Q for the second quarter of 2021, subsequent filings with the SEC and in our press release filed this morning. Please review the forward-looking statements disclosure on Page 3 of today's press release.

Please note that any reference to net sales today is being made on a constant currency basis, which reflects the application of the current period foreign exchange rates to any prior period results, enabling comparisons excluding the impact of foreign exchange rate fluctuations.

During this call, we'll discuss certain non-GAAP financial measures. Our press release issued this morning and our filings with the SEC, each posted on our Investor Relations website, contain additional disclosures regarding these non-GAAP measures, including reconciliations of these measures to the most comparable GAAP measures. Finally, a replay of this call will be available on our Investor Relations website later today.

And with that, let me turn the call over to you, Miguel.

Miguel Angel Fernandez - *Tupperware Brands Corporation - President, CEO & Director*

Thank you, Alexis, and good morning, everyone.

This is our sixth quarter of consistent successful execution against our 3-year turnaround plan. We're now at the midway point and are building a solid foundation for sustained growth and expansion.

Let me summarize our strategy for those of you who are new to the Tupperware turnaround story. Our strategy includes fixing our core direct selling business while building an omnichannel consumer products company. We're doing that by creating sub-brands that will enable us to strategically merchandise and price our products to minimize channel conflict. The idea is to increase consumer access to our iconic products wherever they choose to buy.

2020 was a year of stabilization. This year, 2021, is the foundation year where we continue to fix our core business and build the foundation to invest in the omnichannel opportunity. We'll talk more about this opportunity today. Next year, 2022, will be the year of expansion where we really begin to enter new channels and product categories. And in 2023 and beyond, we will accelerate those efforts for long-term sustained growth.

During the quarter, we executed on several high-priority strategic initiatives that will improve our capital structure and position us well for the future. We will get into more detail on each of these later in the call, but at a high level include: progressing on divesting our non-core assets, including our beauty businesses and excess property holdings, enabling us to focus more time and resources on growing our core Tupperware brands; and utilizing the recently authorized share repurchase facility to buy back one million shares during the third quarter, accelerating returns to shareholders. These actions support our turnaround plan and are important components that will enable us to grow, expand and ultimately achieve our long-term strategic goals.

As you can see in our press release, our results have been adjusted to reflect the discontinued operations of our beauty businesses. As a result, our net sales of $377 million reflects our core Tupperware business, which declined 13%, primarily reflecting difficult comparisons from 2020, along with COVID-related market closures in 2021 and disruption in our U.S. and Canada business due to the implementation of a new technology platform.

From an earnings standpoint, our adjusted EPS of $1.19 reflects our improved cost structure and new tax strategy that Sandra will describe later on the call.

Entering the quarter, we knew we were up against tough year-over-year comps. Remember, we grew 21% in Q3 of 2020, yet our team executed well. The prior year period benefited from an increase in demand from a shift in consumer behavior as most of us were under lockdown and adjusting to working, learning and eating from home.

Now that several markets have begun to open up, mostly the U.S. and Europe, we've seen a reversal of that trend as consumers are excited to get out and go places again and shop in more traditional retail channels. And we believe this trend will continue.

While some of the markets have begun to open up, others have gone into strict or mandatory lockdown in response to COVID resurgence in many regions, especially in Asia Pacific and Latin America. This has had a significant impact on recruiting efforts and overall productivity given the restrictions on personal gatherings and opportunities to directly connect with the brand.

That said, we believe these headwinds are transitory in nature and will begin to normalize in the near to medium term. As I will talk about later, we are working to reconnect with our sales force and give them the tools and support they need to be successful in any market environment. And because these headwinds had the most impact on our direct selling business in the third quarter, we believe that our strategy to diversify into multiple channels as we evolve our business is being directly validated.

We believe that our turnaround will not produce linear results as evidenced by the third quarter but that over time, both the top and bottom line will improve as we implement our growth plans.

Now that we are 6 quarters into our three year turnaround plan, this midway point feels like an appropriate time to summarize the progress we have made over the last eighteen months. In short, the company was in a very different place in April of 2020. Quite frankly, the business was not doing well, and we needed to make major changes to keep this iconic brand afloat. The solution was to execute a full turnaround of the entire business. We did this by rightsizing our cost structure, delivering $192 million in savings in 2020. We've created a global business services group to generate operational efficiencies, centralizing and optimizing many of our back-office functions with a mandate to improve service and reduce costs. Refinancing our debt and improving liquidity. In fact, our leverage ratio is a third of previous levels. On capital structure, we made significant progress. After selling our Avroy Shlain beauty business earlier this year, we're working diligently to sell our remaining beauty businesses and excess land holdings.

Lastly, we repurchased shares of our common stock. And I should mention that this was the first time we bought back shares since 2018, reflecting our belief in a positive outlook of our share appreciation as we execute our turnaround plan. And restructuring the company - from systems and processes to strategy and personnel.

We've made digital investments to improve sales force productivity. We implemented a new sales force system in the U.S. during the second quarter. Given that the legacy system was customized to the needs of our sales force for the last twenty years, the new technology solution caused disruption to our sales force in the past few months. We've begun working closely with our sales force over the past several weeks and believe, once fixed, the technology will be an enabler for our sales force to grow their business.

We've increased our use of data to make better and smarter business decisions. We've begun using a more data-driven approach designed to identify best practices, improve our marketing communications, upgrade our business intelligence to make better decisions, and ensure competitive service and costs.

We're also using a data-driven approach to segment how we look at our sales force and customers to personalize the experience they have with Tupperware. That means providing differentiated support, service and incentives to all of our sales force and customers, ensuring we are adding value and as a result, improving retention. To that end, we've introduced preferred customer loyalty programs in some of our biggest markets such as Mexico and plan to roll out additional markets including in the U.S. soon.

We've continued to innovate and expand product lines, soon with sub-brands and product categories beyond the kitchen. This strategy will enable us not only to compete on price more effectively, but also to segregate which products are sold through which channels, helping us minimize channel conflict. One of our first sub brands is called Tupperware Essentials. And we've recently begun testing consumers' response in Europe through selected retailers. We're also continuing the work of expanding our product line beyond the kitchen. Finally, we recently received recognition from Fast Company for our product innovation, and specifically for our Eco Plus to-go coffee cup, which is made of our revolutionary Eco Plus material, and our solution for eliminating single-use coffee cups.

We're also working to improve our service level. Service means serving both our sales force and the end consumer better, giving our sales force the tools they need to be successful and ensuring the end customer has a good experience. So service is much more than just delivery or customer service. It is the entire customer and sales force journey. This effort is a true cultural shift for our company, but one that is necessary to compete in an omnichannel business.

In hindsight, that's a lot. We're not even close to the same company that we were eighteen months ago, and we're proud of the progress we've made. We acknowledge we still have plenty of work to do, but our confidence in our strategy and in execution of that strategy has never been higher.

Lastly, we have recognized that the pandemic induced inability to gather people and connect in person has been less than ideal. For six quarters, the entire time the new leadership team has been in place, we have not been able to meet face-to-face with our sales leaders around the world. And we think that that has had a cumulative effect. Now with vaccination rates increasing in many regions, the executive team finally has the opportunity to get back to meeting sales leaders in person. We also intend to resume incentive trips and events that were put on hold in the past eighteen months due to travel restrictions. This was a portion of our total cost savings we said we anticipated coming back when we return to more normal activity.

Next on business expansion, which is essentially channel expansion, and includes B2B loyalty programs, selling to retailers and studios, and selling through an importer model: we continue to make good progress. For the year-to-date period through September, business expansion represented

21% of total sales, which is an increase compared to where we were in quarter two. Also, last quarter, we mentioned that we were looking to enter into the U.K. So I'm excited to announce that we just signed an agreement with a large U.K. distributor who distributes products of international brands into many of the major retailers in the U.K. The U.K. market is sizable and represents a large opportunity for us. And we think this approach will enable us to gain faster traction in this key market.

Expanding into new channels is a key component of our strategic plan that will enable us to meaningfully increase consumer access to Tupperware product. It also reduces the reliance on a single channel and therefore, is expected to minimize the volatility of our performance during any given period.

Next on our ESG efforts. During the fourth quarter, we launched a pilot project with TerraCycle's Loop in Canada where we will be providing sandwich keepers for five Tim Hortons locations. A customer can opt to pay a small premium - basically a deposit for the sandwich keeper - and if they return it to Tim Hortons when they're done, they will receive their deposit back. Loop then cleans and returns it to the restaurant for future use.

We were recognized in Fast Company's first annual list of brands that matter, which honors brands that do more than just sell products or provide services. Brands achieving relevance through cultural impact, social engagement and authentic communication of their mission and ideals. It is especially gratifying to be recognized for our purpose and it is indicative of the progress we're making to chart a new path for this iconic brand.

Lastly, we will soon be publishing our new sustainability report, which includes clear ESG goals and targets intended to further demonstrate and realize our commitment to our purpose.

Looking ahead, it is our goal to be a very different and even stronger company eighteen months from now. Our near-term priorities continue to be strengthening our direct selling business through structural and service improvements, digital and product investment, use of data to optimize practices, and expanding into new channels and product categories.

We are running a long-term strategic plan. Our path won't necessarily be linear. And therefore, investors should naturally expect near-term ebbs and flows. But longer term, we're confident we will achieve our goals given the power of our brand, coupled with our improved liquidity and capital structure. I am proud of the hard work and dedication of each and every one of our employees and sales force members and thank them for helping us to evolve and achieve long-term sustained growth.

I will now turn the time over to Sandra, our CFO and COO, to provide a full report on the quarter.

Cassandra E. Harris - *Tupperware Brands Corporation - CFO & COO*

Thanks, Miguel. It was indeed a significant quarter for the company in continuing to establish the foundation while investing in the business to prepare for the next six quarters of our turnaround plan.

Before I begin the detailed financial discussion for the quarter, I want to address a reporting change that will be evident in the release of our 10-Q.

Because we've either sold or are actively working to sell several of our beauty brands, the necessary criteria have been met to classify these businesses as held-for-sale assets and discontinued operations as of the third quarter of 2021 and have also been restated as such in the prior year period. Therefore, for purposes of this call, our comments will reflect results from continuing operations only. We believe this is also very aligned with our strategy to focus on the performance of our core business.

Details of the results from discontinued operations will be presented separately in our financial statement footnotes found in our Form 10-Q. I will note that we did record an approximate $148 million non-cash loss within discontinued operations, primarily driven by accumulated currency translations, which is standard GAAP accounting practice.

Now I will discuss the results of continuing operations in the quarter. Net sales of $377 million in the quarter represents a decrease of 13% compared to last year. The year-over-year decline was driven by lockdowns caused by the persisting pandemic, disruptions caused by the implementation of a new independent sales force solution in the U.S., and lower productivity caused by higher levels of vacationing, especially in Europe.

We believe many of these headwinds are transitory in nature. But nevertheless, we have reprioritized certain initiatives to ensure we're providing full support to our sales force across the globe. We previously acknowledged that the third quarter would have tougher comps as compared to Q3 of 2020, that was up 21%.

In the quarter, total business expansion, or non-direct selling business, which includes B2B, importers, studio markets and other business expansion efforts, represented 24% of total sales. For the year-to-date period, total business expansion was 21% of total sales, up 100 basis points compared to the same year-to-date period through June.

B2B partnership sales in the quarter were $16 million, or 4% of total sales. Historically, our annual B2B sales have been between $30 million and $35 million. And for this fiscal year, our goal is to reach $50 million. Year-to-date through September, we've already achieved $35 million.

Our B2B relationships support the loyalty programs of major retailers, while at the same time increasing our brand awareness. I'll reiterate that expanding into new channels represents a significant growth opportunity for Tupperware.

Turning now to sales performance by region. In Asia Pacific, sales decreased by 15%. The slowdown in China was driven by COVID lockdowns related to resurgence challenges, ineffective and low vaccination rates, as well as by studio closings and a slower pace of new openings. I should note that we recently made an important leadership change in this market. We believe China continues to hold significant potential for the Tupperware brand long-term.

Other areas within the region were down 12% in the quarter, severely impacted by COVID, including by mandatory or strict lockdowns in Malaysia, Indonesia and the Philippines, which significantly impacted sales efforts, particularly as digital adoption is low in many of these regions. We think there is a significant opportunity to improve performance within the region as we focus on increasing digital adoption.

In Europe, sales decreased by 20%. Excluding B2B, sales decreased by 17%, mainly due to the timing of a B2B deal in Italy in the prior year that was not repeated this year. European developed markets were significantly impacted by elevated levels of summer vacationing, which is customary in Europe and likely exacerbated this year, given a full year of travel restrictions. We also eliminated certain unprofitable promotions this year to continue to improve the profitability of the region. European emerging markets were impacted by COVID lockdowns and civil unrest, resulting in lower productivity and recruitment, which are a natural side effect of such challenging conditions.

In North America, sales decreased by 15% in the quarter, while U.S. and Canada decreased by 20%. The decrease in the U.S. and Canada were driven primarily by disruption caused by the implementation of our new sales force solution. We are taking actions to address change management challenges related to the sales force system, including talking with the vendor and working to migrate personal sales force ordering sites to a more consumer-friendly solution. As Miguel previously mentioned, we've also begun to take action to reconnect with our sales leaders face-to-face to understand how to serve them and our end customers better. Those efforts are yielding valuable insight that will help us to improve.

Sales in Mexico decreased by 6%, driven by a significant sales force reduction stemming from service issues during the second quarter as well as lower than expected recruitment due primarily to COVID restrictions. We already have a campaign underway to recruit and reengage the sales force in this region.

In South America, sales increased by 9%. Sales in Brazil were flat, which we view as positive given its cumulative recruitment issues due to COVID. We attribute the relative strength to significant recruiting efforts and the simplification of our onboarding and training processes.

Argentina was a bright spot this quarter, which we attribute to the rollout of digital training platforms and expansion of e-commerce on a national level. Overall, we are pleased with our sales performance despite challenging market conditions, and of our ability to continue executing against our strategic initiatives and delivering tangible results.

Moving now to profit. Gross profit in the third quarter was $248 million, or 65.8% of net sales, a decrease of approximately 300 basis points compared to last year. This was driven primarily by 240 basis points related to higher resin and manufacturing costs, and 60 basis points related to country mix. As we mentioned last quarter, we had anticipated higher resin costs, but were optimistic that the favorability in manufacturing would continue to help offset it. However, this was not the case in the third quarter due to lower volumes and higher inventory.

As we look forward to 2022, we will look for opportunities to reduce cost, increase efficiencies, and opportunistically raise prices where appropriate. I should also note that we intentionally built up inventory levels during the first half of 2021 in order to improve service and meet increasing demand. However, with the higher inventory levels and lower demand in the quarter, we will be focused on sell-through of inventory and taking downtime where needed in the future. We do believe that our ability to manufacture locally continues to be an advantage during the pandemic.

SG&A as a percentage of sales in the third quarter was 50.6% versus 48.5% last year, an increase of 210 basis points, primarily reflecting higher logistics costs and the investments we'd planned to make in the second half of the year. In regard to logistics costs, we have been working to minimize the impact through efforts to improve contract pricing and sourcing, optimize container utilization and strategically planned shipments.

I'll note that carrier costs remained elevated, FedEx surcharges are still in effect and we're seeing a shift in our business model in the U.S. where we're increasingly shipping direct to the end consumer, versus using the sales force for fulfillment and distribution. We do recoup a majority of this cost as we charge for shipping, which is reflected in revenue. As we continue to shift to a more omnichannel approach, we expect this trend to continue. Therefore, we're working to improve efficiencies in fulfillment, packaging and shipping.

Adjusted operating profit in the third quarter was $52 million, and as a percentage of sales, it was 14%. Despite softer-than-expected sales, our operating margin remained in the mid-teens, reflecting the renewed focus on tighter cost controls and a more disciplined approach to investments.

Now to adjusted EBITDA, which is an important metric and an indicator of progress toward right-sizing our cost structure and evolving our capital structure. Adjusted EBITDA for the third quarter was $69 million, versus $100 million in the prior year. Trailing 12-month adjusted EBITDA through September was $328 million.

Our operating tax rate was a negative 20.4% versus the same quarter in 2020 of 28.3%. This quarter's tax rate benefited from an election we made when filing the 2020 tax return in October to change our capitalization policy, which allows us to utilize previously valued tax credits in the third quarter that would have otherwise expired, and which resulted in the release of valuation allowances. While nonrecurring in nature, this valuation allowance release is part of our strategic tax initiative that we are executing as part of our turnaround plan to help us effectively utilize our existing tax assets and achieve our overall tax rate of below 30%.

Now to earnings per share. Adjusted earnings per share of $1.19 for Q3, versus $1.12 last year, is better by $0.07 per share. The favorable tax item just discussed contributed $0.52 of the variance and was offset by $0.41 due to lower volumes, higher resin costs and incremental investments, and $0.05 of higher inventory reserves. We also bought back shares in the quarter, which Miguel mentioned, and I will discuss more in a minute, that contributed $0.01 per share.

Year-to-date, operating cash flow net of investing was a negative $7 million compared to $108 million last year. As we've mentioned before, higher cash flow last year was driven by aggressive cost saving actions, including COVID-specific actions like furloughs and significantly lower spending on inventory and higher payables in order to preserve cash. This year, we've invested in inventory in order to improve service levels given the current landscape of global supply chain issues, while also reverting to a more normalized level of capital spending. As I mentioned earlier, the investment in inventory was to improve service while mitigating global supply chain conditions. I should note that our full year free cash flow target may be less than $200 million and is largely dependent on the timing of cash proceeds from the sale of our non-core assets.

Moving on to the balance sheet. We ended the quarter with a healthy cash balance of $124 million, which compares to $134 million last year. And we ended the quarter with a total debt balance of $678 million. Our debt to adjusted EBITDA ratio for debt covenant purposes was 2.28, versus 3.72 last year, and well below the required covenant of 3.75. We will look to favorable market conditions to present opportunities to further improve our capital structure.

As Miguel and I also mentioned, we utilized our newly approved share repurchase facility. Of the $250 million that was recently authorized by our Board, we repurchased one million shares of common stock during the third quarter at an acquisition cost of $25 million. This was the maximum we could do within our credit facility covenants. With each quarter of the turnaround behind us, our optimism increases regarding our future growth trajectory. And going forward, we'll continue to be opportunistic regarding repurchasing shares, seeking to deploy capital as effectively and efficiently as possible.

Although we focused on continuing operations for the third quarter, net sales from discontinued operations were $45 million, or 11% of total net sales. And adjusted earnings per share, excluding the cumulative translation adjustments from discontinued operations, was $0.03, or 3% of our total adjusted earnings per share. For the year-to-date period through September, net sales from discontinued operations were $140 million, or 10% of total net sales. And adjusted earnings per share, excluding the CTA, from discontinued operations was $0.11, or 4% of total adjusted earnings per share.

As we continue to make progress and get further along in our turnaround plan, we want to be sure to share some of our strategies and early successes that are driving our long-term plan. To that end, we are planning to host an investor day during the first half of 2022, during which we will provide a more comprehensive view into the business, strategy and tangible examples of the progress against our strategic initiatives and turnaround efforts, as well as provide a longer-term framework and outlook. Look for more details in the coming months.

We continue to make progress on stabilizing our core business while increasing investments in our business expansion efforts and executing on several strategic initiatives that strengthened our capital structure and have positioned us well for future growth. All components of our turnaround plan and indicative of progress.

Looking ahead to the remainder of 2021, we'll continue to build out our foundation and invest in initiatives that will improve the business and drive penetration into new channels. We believe our consistent execution will result in a stronger, more resilient, competitive and durable company, long-term.

With that, let's take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Wendy Nicholson from Citi.

Wendy Caroline Nicholson - *Citigroup Inc., Research Division - MD & Head of Global Consumer Staples Research*

My first question has to do with the disruption you saw in the U.S. in the third quarter and the new platform. Can you talk a little bit more about that? And specifically, I'm wondering how long you expect that disruption to last? Do we still think that your activity is going to be impacted in the fourth quarter, into 2022? And sort of what's the goal for when that is resolved? What's going to be the fundamental change for the distributors?

Miguel Angel Fernandez - *Tupperware Brands Corporation - President, CEO & Director*

Hi Wendy, this is Miguel. So basically, there's a number of little bugs here and there that prevent our sales force to get data really passed or to operate at the speed and the way they are used to it. So this system is making them less productive, and sometimes it just breaks down and so on.

But we're fixing every -- pretty much every day a little bugs here and there, but we expect that during this quarter, everything is going to be up and running. And actually, at the end of the quarter, as I said in my comments, we're going to end up with a much better system that is going to enable our sales force to grow and because there's a lot of positive sides of the system. It's just the implementation is causing us a little bit of a headache.

Cassandra E. Harris - *Tupperware Brands Corporation - CFO & COO*

Yes. And Wendy, I'll add just a little bit to it, well, we're -- stabilizing the system is our first priority. We will also be enhancing it though to a more consumer-friendly version for the personal websites as we go into 2022, but it would be an enhancement that continues help us to provide the digital tools that are more consumer-facing to our sales force as well. So the first step is stabilization, which we're actively doing and making progress every day, and then enhancement will come into 2022.

Wendy Caroline Nicholson - *Citigroup Inc., Research Division - MD & Head of Global Consumer Staples Research*

So I guess, bottom line, you're confident that the issue in North America is this system implementation. It's not that the sales force is upset about the business expansion initiatives or anything like that?

Miguel Angel Fernandez - *Tupperware Brands Corporation - President, CEO & Director*

Yes, because we haven't done much about the business expansion initiatives in the U.S. And when we analyze our numbers, we see a decline in productivity, not necessarily as much in activity. So that's why we know it's related to the system.

Wendy Caroline Nicholson - *Citigroup Inc., Research Division - MD & Head of Global Consumer Staples Research*

Perfect. Okay. My second question is just on the business expansion. I guess a couple of questions there. First of all, it sounds like you're on track to hit your $50 million target this year. Is there any preliminary glimpse at sort of a target for sales for 2022 from business expansion? And also, are you going to, at some point, disclose it? I know you're doing a great job of telling us the percentage of sales and all that kind of stuff, but are you going to disclose sort of quarter-to-quarter not only the revenues from business expansion sort of on a global basis, but maybe also some profit dynamics for that business.

Cassandra E. Harris - *Tupperware Brands Corporation - CFO & COO*

I'll start with the last part and then I'll let Miguel come back in on the business expansion. So yes, we have reported for quite some time the revenue impact in relation to our business expansion. And then just to remind everybody too. We have the B2B programs, which is the $50 million we're talking about, which is the loyalty programs.

But we also now have the importers -- we also are putting our studio markets, which are China, Vietnam, and India and Korea. And so as we get into next year and start to really formalize this process, we will be reporting more on the business and can talk more about profitability in those channels.

And I'll just reiterate that what we're looking at in regard to business expansion: on an overall return on sales basis, it's always accretive or at least equal to what we have today and that's our goal. So we'll continue to report the differential between our direct selling business and this new business expansion as we get further along next year.

Miguel Angel Fernandez - *Tupperware Brands Corporation - President, CEO & Director*

Yes. So coming back to the first part of your question around the $50 million that we're going to hit this year. You should know that most of that is in Europe, which is where we started a couple of years ago with these efforts. And right now, in the last quarter, the B2B business is representing 10% of the sales in Europe. And we didn't see any conflict with the direct selling channel, which is great news for us.

In terms of new markets, we started this year with opening up these efforts in ten new markets. So it might take a little bit of time to start getting into interesting numbers. But if you were to ask me, obviously, we don't offer any kind of guidance. But you should expect the same amount of total dollars of increase year-over-year at least. So if we grew $20 million, $25 million this year, I mean, it's safe to assume that another $20 million, $25 million for next year is pretty much in our plan.

Operator

Our next question comes from the line of Doug Lane from Lane Research.

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

Staying on the B2B business in Europe, I get that it's a channel you want to pursue because it's sales and profits. But historically, it's been such a lumpy effort that it really impacts year-over-year comparisons in any given quarter. So I'm wondering if you could give any thought to how you could possibly smooth the contribution to your business in the B2B efforts?

Miguel Angel Fernandez - *Tupperware Brands Corporation - President, CEO & Director*

This is Miguel. So the lumpiness that you saw in previous years is because we, as a company, consciously stopped that for one year. So we decided one year to have it, and the next year to stop it and so on in an effort to, I guess, minimize channel conflict, but we didn't see that our sales leaders around Europe understand that this is something that is going to keep on going. And let's face it. There's, I guess, market conditions in a few countries in Europe. This is sustainable, and this is going to continue to grow.

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

Okay. Fair enough. And then on the project with Loop, which is very interesting, how does that work? Is there going to be some sort of a one-time sell-in here that's going to impact any given quarter? And then how does that then translate into recurring sales with Tim Hortons for instance?

Cassandra E. Harris - *Tupperware Brands Corporation - CFO & COO*

Yes. So Doug, for Loop, what we do is we sell into them and then they have the relationships with various people like Tim Hortons, which actually is launched. And the way the program works is that if you -- or Tim Horton you put down a deposit for our sandwich keeper. And after you finish either eating it in the store, you can get your deposit back or once you come back to the store, you return it. They actually have some vending machines I've seen where you can also return it and get your deposit back.

And then what happens is that product goes back to Loop, who sterilizes it, cleans it and sends it back to the Tim Horton's stores. So that's how the process works. So there's a continual replenishment of our product into Loop by us and then they work with the different restaurants and other vendors of choice. And so that's how the process works. It's currently in the pilot stage in Canada, and we do have a few pilots going on in other parts of the world at this point, too.

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

Will there be sales ...

Miguel Angel Fernandez - *Tupperware Brands Corporation - President, CEO & Director*

Yes, go ahead.

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

No, I think you're about to answer my question.

Miguel Angel Fernandez - *Tupperware Brands Corporation - President, CEO & Director*

Yes. So in terms of sales, to us, this is very important because it's part of our brand and our brand activation and what is relevant for the world today. And we want to be obviously relevant and the consumers around the world are conscious about sustainability and so on.

So this is going to put us in the heart of the new generations and what they're looking for and what they are aspired to get and relate to a brand. So even if the sales are not as big there, it's going to bring a lot of halo effects into the other channels. And that's something that it's -- obviously, it's hard to quantify. But we're going to do, as Sandra said, we're going to do as many of these partnerships as possible around the world.

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

Oh, no, I get that. I think what I'm looking for is for a new account like Loop or Loop gets a new account on their end and Tim Hortons, is there going to be a one-time sell-in that will be meaningfully impactful to any particular quarter? Or how does that work?

Cassandra E. Harris - *Tupperware Brands Corporation - CFO & COO*

Yes. So Doug, again, that's part of our business expansion efforts to start to bring that more to light. I mean, at this point, it is a pilot. And so again, it's more around our purpose and our brand awareness with a different generation. It will be part of the business expansion numbers that we will produce going forward.

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

Okay. And then looking at the beauty businesses where they've moved into discontinued operations. And you mentioned that they added $0.11 to earnings so far this year. And then we know from today's release, they were -- they added $0.08 last year in the third quarter. So just couple of questions. One, what was the EPS contribution from the beauty businesses or the discontinued operations in 2020? And are you going to provide detailed pro formas for us to rebuild our models?

Cassandra E. Harris - *Tupperware Brands Corporation - CFO & COO*

Yes. So the discontinued operations is in our Form 10-Q, so you'll be able to see all the information related to the beauty businesses. It ultimately also had a loss that was generated by that. But to answer your question on EPS in the prior year, the total discontinued ops contribution was $0.09 on an overall basis.

And just to remind you, the actual EPS for this quarter was $2.77 negative. This acts as a loss that we have on a CTA that carried forward. I will emphasize, Doug, the intent here on the beauty businesses, we've been very purposeful that we're going to focus on our core business and our core business is Tupperware.

And we clearly have had that as part of our strategy, the non-core assets were part of our ability to turn our focus back to growing and improving our core business, and that's why we have moved forward with the divestitures of these assets.

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

No. It all sounds right on strategy. It's just trying to get access to the new numbers here from continuing operations. That's all. And just lastly, for perspective, again, I don't know how much -- I don't want to get too much in the weeds. But if you look at 2 years ago because a lot of our direct sellers are going up against very tough comparisons in the third quarter of 2020. So we like to look at where we are versus the third quarter of 2019, just to make sure we're still ahead of the game. So the continuing operations number of $376.9 million in sales higher than it would have been in the third quarter of 2019? I assume it is.

Cassandra E. Harris - *Tupperware Brands Corporation - CFO & COO*

Yes. And Doug, we looked at the 2-year stack on a 2-year stack basis in the third quarter. Now this may have beauty in it, but beauty is not going to move the meter very much. We're actually up 1% on a 2-year stack.

Operator

(Operator Instructions) Our next question comes from the line of Linda Bolton-Weiser from DA Davidson.

Linda Ann Bolton-Weiser - *D.A. Davidson & Co., Research Division - Senior Research Analyst*

Sandra, you had talked about kind of hoping that EBITDA could grow on an adjusted basis in 2021. So I haven't done all the math with the fourth quarter and everything. But are you still thinking that EBITDA could be up slightly in 2021 or not really?

Cassandra E. Harris - *Tupperware Brands Corporation - CFO & COO*

Well, our current 12-month EBITDA is at $301 million. So we're making a lot of progress. Our EBITDA for this quarter was at $69 million. So we're still confident with what we've been saying in regards to EBITDA.

Linda Ann Bolton-Weiser - *D.A. Davidson & Co., Research Division - Senior Research Analyst*

Okay. And then ...

Cassandra E. Harris - *Tupperware Brands Corporation - CFO & COO*

And I'm sorry, I can give you that number compared to -- sorry, last year to on the full year basis in 2020, the 12-month EBITDA was $234 million, the $301 million we're already ahead of that.

Linda Ann Bolton-Weiser - *D.A. Davidson & Co., Research Division - Senior Research Analyst*

Okay. And you had mentioned something about cash flow being less than $200 million, but I think you were including the proceeds from sales and things like that. Can you give some commentary about your expectations for free cash flow, meaning operating cash flow minus capex for 2021?

Cassandra E. Harris - *Tupperware Brands Corporation - CFO & COO*

Yes. So our operating net of investing -- is that we originally came out with $200 million. Q3 did prove to be a challenge. It was $100 million less, and largely that is related to inventory and timing of payables and accruals. We intentionally built up our inventory as we saw the higher demand and also knowing the supply chain challenges that existed across the world even though we were able to fare a little bit better with our own internal production, we purposely built up the inventory for service as well. We really needed to improve our service.

So at this juncture, it looks like we may not make the $200 million unless we can make a significant impact on the inventory reductions. We're doing that in two ways. One, the commercial teams are actively focused on inventory opportunities in the fourth quarter to sell through some of that, which would improve cash flow.

And then we also are taking selective downtime in our factories to try to also mitigate the inventory. That's where the challenge comes in on helping to offset the resin cost because, obviously, if I take downtime, there's a cost of doing that, but it's a good trade-off in relation to where we are on inventory.

So with that, if the sale of the non-core assets come in, we do feel we'll be more in the range of what we originally said with the proceeds from the sale of the non-core assets, which includes both the land and the beauty businesses. However, the timing of the beauty businesses is more that they will slip into the first quarter just due to timing related to regulatory clearances.

Linda Ann Bolton-Weiser - *D.A. Davidson & Co., Research Division - Senior Research Analyst*

Okay. And then -- You have -- you mentioned something about Mexico, something -- I didn't quite catch something that impacted the business in Mexico. Can you give a little bit more color on that and when you think things will be more normalized there?

Miguel Angel Fernandez - *Tupperware Brands Corporation - President, CEO & Director*

So basically, Mexico and Brazil have similar stories, and it's COVID, COVID-related. It's impacting our recruiting efforts. Obviously, it's temporary. And when we see our sales coming from different tenures of distributors, we see that the softness is coming from the newer ones. So the recruits - the people that just joined the business.

But we feel confident about the future because the people that have been with us for over 6, 8 months, they're still the same number or better numbers and with the same productivity. So it's COVID-related on recruiting.

Linda Ann Bolton-Weiser - *D.A. Davidson & Co., Research Division - Senior Research Analyst*

So you think it will be a little bit better in the fourth quarter? Or is it still going to be impacted?

Miguel Angel Fernandez - *Tupperware Brands Corporation - President, CEO & Director*

So that's guidance. And we're not giving guidance. But you can -- I mean, you can, I guess, draw the picture because obviously, you suffer a little bit in one quarter in recruiting. And then it takes a few weeks or a few months to recover. But overall, it's a small percentage of the overall business.

Linda Ann Bolton-Weiser - *D.A. Davidson & Co., Research Division - Senior Research Analyst*

Okay. And then Sandra, you had talked about these incremental costs in 2021. And some of that had to do with supporting the business and the growth. But now that you've had these COVID shutdowns, I would think that some of that spending has not come back. So can you talk about -- for 2022, are we looking at more costs coming back and these trip costs that are going to resume, is that starting in the fourth quarter? Or is that going to impact mostly 2022 in terms of the incentive trip return.

Cassandra E. Harris - *Tupperware Brands Corporation - CFO & COO*

Yes. So Linda, let me clarify 2 different types of costs, right? We said that we had roughly 25% of the turnaround savings, which was about $48 million. That number is absolutely not effectuating this year because of the continued COVID restrictions, especially in places like APAC and the Americas, where continued travel is restricted. So we've seen a lot lower numbers on that. We are seeing now more and more requests. There's a huge desire to start to assemble in person and have physical connection again in our business.

And so we're seeing a lot of our businesses ask for that support going into 2022. So that number will shift more into 2022. There's been a small percentage of that, that we have done in locations that we can have some travel or meetings. And so some of that's come in to the third quarter and a little into the fourth quarter, but most will shift into next year.

I'd also mentioned that we were adding an incremental $35 million to $40 million of investments. This is largely around our tax initiative, infrastructure costs and then some of the investments we're making in product and business expansion. And we are on target, and we all talked about that being back half loaded. We are on target and have been spending to those levels. And so we do anticipate that, that $40 million will flow through this year.

But just to remind you on the tax piece of it, that's largely a one-time cost that was there to help us to achieve that 28% tax rate that we're looking to be able to accomplish by the end of next year.

Linda Ann Bolton-Weiser - *D.A. Davidson & Co., Research Division - Senior Research Analyst*

Okay. And then in terms of your gross margin being impacted by inflationary costs, et cetera, are you considering price increases? I've always thought that direct sellers have maximum flexibility on implementing price because you control your channel. So how about taking some price to be able to offset some of these pressures?

Cassandra E. Harris - *Tupperware Brands Corporation - CFO & COO*

Yes, absolutely. So we will be looking to take price, and that is part of our plan. We have taken some pricing. We talk about it in our Q. So we've had some opportunistic pricing this year, especially in the inflationary markets, but with the higher cost of resin and now with less of an ability to help offset that manufacturing, we will be looking to take further price increases as we go into next year.

Linda Ann Bolton-Weiser - *D.A. Davidson & Co., Research Division - Senior Research Analyst*

Okay. And then just a quick question about the U.K. I mean you did mention that these alternative channels are probably equal or even higher in operating margin. But the U.K. using a distributor, you're giving away some margin there. So is that going to be kind of lower margin than the rest of your European business?

Cassandra E. Harris - *Tupperware Brands Corporation - CFO & COO*

I can start with that, Miguel. Yes, again, it's geography, right? So on the gross margin, it could be different, but we don't have all of the commissions and promotions and things that we do in a direct selling business. So once again, I keep pointing everybody to the overall profitability of the business expansion in the cases we're looking at and what we're looking to do, it should always be accretive for us to move forward.

And so right now, on the operating income, we talked about being in the teens. It's a really great place to be even on the lower revenue. We are confident of the ROS remaining in that mid-teen area and the initiatives that we talk about with the U.K. or any other business expansion is either equal to that or accretive at an overall basis.

Linda Ann Bolton-Weiser - *D.A. Davidson & Co., Research Division - Senior Research Analyst*

Okay. And then my final one has to do with your share repurchase. So when does that reload? Like when can you spend another $25 million? Can you do some repurchases in the fourth quarter? Or like how does that work with the timing of being able to do more?

Cassandra E. Harris - *Tupperware Brands Corporation - CFO & COO*

Yes. So under our current lending agreements, we were able to do the $25 million, and then the next tranche comes in once we paid down an additional $50 million, which would be available with the non-core asset sales, a part of it we've already paid down based upon the prior paydowns related to the non-core assets. And so the way that it works is it's a combination of; one, how much we pay down and two, our leverage ratio. So where we sit right now is at our current leverage ratio with the potential pay-down that could come from the sale of the Orlando land. We would have up to an additional roughly $30 million that we could do under the current agreement at the current leverage ratio.

Operator

There are no further questions at this time. Now I'll turn the call back over to Miguel Fernandez for closing remarks.

Miguel Angel Fernandez - *Tupperware Brands Corporation - President, CEO & Director*

Thank you. I'm proud of our ability to post solid results in the quarter while we continue to invest in our ongoing 3-year turnaround plan. We executed a number of high-priority strategic initiatives, including progress towards divesting non-core assets and implementing new tax strategies, as well as in many other areas of the business. We're now at the midway point of our turnaround plan, building a strong foundation that we believe will strengthen our business and make us more efficient and resilient for the long-term.

In summary, we acknowledge we still have plenty of work to do, but our confidence in our business outlook, our strategy and our ability to execute on that strategy has never been higher.

Thank you for your interest in Tupperware today. See you next time.

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