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TUP.N - Q1 2021 Tupperware Brands Corp Earnings Call

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Tupperware Brands Corporation First Quarter 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

If I would now like to hand the conference over to your speaker today, Jane Garrard, Vice President of Investor Relations. Please go ahead.

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

Thank you. Welcome to Tupperware Brands First Quarter 2021 Earnings Conference Call.

With me on today's call are Miguel Fernandez, our President and CEO; and Sandra Harris, our Chief Financial and Operations Officer.

Earlier this morning, we issued a press release announcing our financial results for the first quarter ended March 27, 2021. 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 non-GAAP measures can also be found in our press release. Any reference to sales in the discussion today is referring to local currency sales, which compares results between periods as if current period foreign exchange rates had been the exchange rates in the prior period.

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 Miguel for his remarks.

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

Thank you, Jane, and good morning, everyone. Just 13 months ago, along with a new leadership team, we began the process of turning around this iconic company. We've committed to right size the cost structure, to fix the core business, increase the use of digital tools and strengthen the balance sheet. And as you saw in the press release this morning, both our top and bottom line performance, along with our liquidity and capital structure improved significantly from a year ago.

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But more about a quarter on our performance in just a minute. Let me first reiterate key elements of our strategic growth plan that are well underway. We want to pivot from a distributor push to consumer pull and distributor push model. Update a brand architecture to allow us to segment branding, products, channels and pricing to appeal to a broader consumer base; expand into new product categories and push consumer permission of our iconic brand; align product development efforts to address needs of all consumer socio sub-segments; expand distribution and access points to meet consumers where they shop. And most importantly, fix the core direct selling business with proven methods.

Today, in our 75th year, the brand is very strong, widely known and accepted. And we intend to leverage this important asset. We also believe we're on trend with a worldwide focus on ESG by producing and selling environmentally friendly reusable products. You've seen our increased efforts in this area with the sponsorship of the National Parks and our use of new, more environmentally friendly materials.

Due to the strength and awareness of our brand, we made the strategic decisions to be a branded house, not a house of brands, as we develop our new brand architecture. As such, we expect to divest all the non-Tupperware businesses this year and use the proceeds to continue to pay down our debt and continue to invest in the business. We believe the execution of this new brand architecture will enable us to penetrate new channels of distribution, new product categories and new pricing structures, all of which have the potential to accelerate our growth, while minimizing any potential conflict with our current direct selling channel.

In the first quarter, we reorganized our leadership team around channels, with Patricio Cuesta leading our direct selling business. Hector Lezama now leads our nondirect selling businesses, which include key markets, like China and Korea, along with all the important markets, and most importantly, our efforts to penetrate new channels of distribution.

Improving our abilities and expanding our capabilities in product innovation will be a key objective for our executive team over the next 2 years. We believe there are highly innovative manufacturers around the world that we can strategically partner with to accelerate our efforts to broaden our current product offerings, extend our brand into new categories and appeal to consumer in different socio sub-segments.

Also, we believe there is an exciting R&D journey ahead to use novel raw materials to accelerate our efforts to continually improve the planet. Our Eco+ line is an example of this. This product line is a revolutionary product portfolio made with sustainable materials. We are adding 2 new products, Lunch-It Containers and Sandwich Keepers with a new material partner Tritan Renew from Eastman. Tritan Renew uniquely offers Tupperware's ability to design clear or transparent products with 50% certified recycled content, without compromising on quality or clarity. These products with this new material will be launched in Europe in the second half of this year.

Our efforts to fix the core business are evident in our recent financial results. In each of the past 3 quarters, we have reported 20-plus percent year-over-year growth. While we are up against easy comps, this growth reflects increases activity, higher engagement and rapid adoption of detailed tools and techniques by our sales force.

As we mentioned on our last earnings call, a key strategic shift for us in 2020 was that our sales force realized that geography was no longer a hindering factor to growing their business.

By utilizing social media platforms and digital tools, they have been able to reach beyond their physical neighborhood and leverage the expansive reach of their online social network. While it is still early in their transition to embracing digital selling tools and methods, we're confident we can build upon the successes gained in 2020 and accelerate widespread adoption in 2021.

We believe a more digitally equipped sales force will enable ongoing engagement and increase productivity as we move forward with all our other growth initiatives.

Our overall digital strategy is making great progress, with the expansion of sales force enablement tools, social commerce and web sources. Our top-ten markets now have these important tools in order to create a more seamless interaction between consumers and our sales force and increase the options for consumers to access our products.

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Speaking of more ways to access consumers, let me take a few minutes to discuss some new business opportunities. Historically, we have done $30 million to $35 million per year in business-to-business partnerships. In these partnerships, we sell products to well-known retailers, who then use the product in their loyalty programs. Tupperware products are then exchange for points based on consumer buying activity with a major retailer. We believe there are opportunities to expand these partnerships.

Currently, we're working with major brands in Mexico, Brazil and Europe and are evaluating more opportunities for the remainder of the year to accelerate our growth in this channel.

Additionally, here in the U.S., we will be testing new channels of distribution. This past weekend, Tupperware ran a future segment using limited products with a major home shopping channel, who has access to more than 92 million homes across the U.S. through various media channels. This new product and brand exposure allow us to deepen engagement around our brand and provides potential leads for our sales force. Additionally, this is an opportunity to reach an expanded audience through the power of storytelling and discovery driven shopping experience.

Just a few months ago, Tupperware became the first reusable plastic container brand to partner with TerraCycle's circular reuse platform, Loop. Loop works with leading brands to create zero-waste, durable and returnable packaging. As part of this agreement, Tupperware has recently partnered with one of Loop's prominent brand partners, and we're currently designing a one of a kind reusable package option for this brand, and it will be available later this year.

Another example of our efforts to reduce the use of single-use plastic is our partnership with the National Park Foundation. This summer, Tupperware will be releasing a limited edition, especially designed national theme park line of sandwich keepers and onthego cups, which will be sold through a national park service retail partner, available at select parks around the country, as well as through Tupperware's direct selling and e-commerce channels. Also, our donations will help expand access to clean drinking water through new re-filling stations.

Turning to first quarter results, let me highlight a few of our large markets before Sandra discusses our overall financials.

In the U.S. and Canada market, sales increased 83%, and sales force activity was up 92%. It is important to note that this level of growth is not sustainable going forward. As the first quarter of 2021 had the easiest year-over-year comparisons.

Additionally, we're shifting to more profitable sales in this market, and we will reduce some of the highly promotional programs and improved distribution costs. As we become more consumer-centric in the U.S. and Canada, our customer profile is changing virtual selling, leads to more people purchasing smaller units, reflecting our consumer pull strategy. This changing order profile has increased our distribution costs and while we accept the higher costs in the near term, we're evaluating ways to embrace the shift into more efficient ways. This is an important market to Tupperware, and we will be working intensely internally and with our sales force to continue to increase the profitability in this market.

Tupperware Mexico had an 18% sales growth in the first quarter on a 6% growth in average active sales force. This market also had an easy comparison in the first quarter of 2021 that need to be considered going forward. While we're experiencing sales growth in Mexico, we're not meeting what we believe to be our potential in this market.

As a result, we recently made a leadership change to make sure that we leverage the opportunity of our products, brand and sales force going forward. The new leader of this market worked with me over the past 10 years, and I'm confident he will be able to work with the local sales force to increase sales and profitability.

In Brazil, sales increased 46% on an easy first quarter comparison and was achieved through an increase in sales force activity of 40%. As you know, the second wave of COVID has hit Brazil very hard. While this second wave has not yet significantly impacted sales, our recruiting efforts have been affected. So we will remain cautious in this market until the trend stabilizes and COVID rates subside.

And lastly, a key market in our loan-term growth plan in China, which declined 14% as active studios were down 7% versus last year. Our new leader in China is focused on improving product innovation, exploring bigger opportunities in e-commerce and fixing the core entrepreneur led retail business. The turnaround in this market will take time, but we're confident that our brand is accepted and recognized by Chinese consumers.

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Looking forward, our key priorities in 2021 to strengthen our direct selling business are the following: digital and product investment, segmentation of our sales force, introducing preferred customer loyalty programs around the world, use of data to identify best practices, use of data to upsell and cross-sell to our preferred customers and ensure competitive service and costs.

And our key priorities in the business expansion are: to explore new channels of distribution, avoiding a potential conflict with our current direct omnichannel, introducing Tupperware sub-brands and penetrating into different product categories where we know the consumers give us permission to enter. We believe the execution of these priorities is creating competitively strong foundation that will create meaningful value for our shareholders for years to come.

Now let me turn the call over to Sandra Harris, our CFO and COO, for a review of our financial statements.

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

Thanks, Miguel. The strong revenue momentum from the second half of 2020 carried over to the first quarter of 2021, reaffirming the firm financial foundation we are establishing as part of our turnaround plan. Our first quarter sales were $460 million, which was an increase of 20% compared with last year in local currency and up 22% on a reported basis. Three of our top 4 markets, U.S. and Canada, Mexico and Brazil contributed 74% of the dollar increase.

Additionally, reflecting the breadth of our efforts to fix our core business, the majority of our markets posted improved sales in the quarter as well.

On a regional basis, North America increased 43%, South America increased 53%, Europe increased 12% and Asia was up 6%, excluding the negative impact from China's decline that you heard Miguel say.

These higher sales, coupled with our turnaround plan cost savings led to a gross margin of 70.3%, 480 basis points higher than a year ago. Of the improvement, 330 basis points was attributable to lower manufacturing costs. The balance of the improvement reflects favorable changes in country and product mix.

Like other companies you may follow, we are experiencing higher resin costs, but so far, we've been able to offset this negative impact through additional cost savings throughout our operations.

Moving on to SG&A. We also experienced tremendous year-over-year improvement. Adjusted SG&A as a percentage of sales was 53.9% and reflected an 820 basis point improvement from last year. Rightsizing efforts contributed 560 basis points and 310 basis points improvements are from lower promotional costs. These improvements were partially offset by 50 basis points of higher distribution costs.

Looking forward over the next few quarters. To support our strategy to grow in new channels, we are accelerating investments in IT infrastructure to increase our capabilities and enhance our cybersecurity, data privacy and strengthen our controls. We plan to also make incremental investments in the supply chain to improve the service levels required by consumers in these new channels. We estimate this incremental investment to be in the range of $30 million to $35 million for the balance of 2021.

Additionally, through approximately $10 million of additional investments in our tax strategy, we believe we have the ability and opportunity to more quickly achieve a tax rate in the low 30's for the full year of 2021.

We expect these 2021 additional investments will result in SG&A in the mid-50% range in the near term.

Longer term, we will continue to pursue SG&A at sub-50% of sales through ongoing centralization efforts, creating centers of excellence to leverage our size, simplifying our compensation plans, and through sales growth in our omnichannel initiatives.

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For the first quarter, the improvements in gross margin and SG&A that I just discussed, combined with our contribution margin on the 20% sales growth resulted in an adjusted operating income of $75.3 million or 16.4% of sales, which reflects a significant improvement of 1,290 basis points versus prior year.

We made a huge commitment towards cost savings in 2020, and it's gratifying to see it now reflected in our P&L.

Now let me turn to a non-GAAP metric, EBITDA. As you see on the schedule contained in our press release, for the quarter, it is $88.6 million, reflecting an improvement of $75 million from last year.

In addition to the higher operating income I just mentioned, Q1 EBITDA was favorably impacted by a one-time gain on sale of assets of $9 million, a $3 million benefit related to a grant from the China government normally received in the fourth quarter and a bad debt reversal in Germany of $2 million.

Adjusted for these items, and the incremental investments that I just discussed, future quarter EBITDA will be slightly lower than the first quarter, but still above 2020.

The improvements in the operations, higher sales and higher margins led to a GAAP diluted EPS in the first quarter of $0.85. This is a dramatic turnaround from the loss of $0.16 in the first quarter of 2020. And adjusted EPS of $0.82 also improved significantly compared to just $0.09 last year.

The $0.73 of improvement in adjusted EPS includes $0.69 of turnaround plan savings profits associated with the growth in sales and less COVID-19 impact. $0.07 related to the China grant and the reversal of the bad debt reserves. Offset by $0.03 of acceleration of interest related to the debt repayment, which I'll discuss in a minute.

In the first quarter, our total balance of debt was $695 million, reflecting a reduction of nearly $300 million from the $991 million in the first quarter of last year. In addition to the proactive actions we took in 2020 to reduce and restructure our debt, in the first quarter, we used the proceeds of approximately $34 million from the sale of noncore assets to pay down our term loan debt.

The debt reduction, together with strong improvement in EBITDA, resulted in a debt to adjusted EBITDA ratio for debt covenant purposes of 2.36 versus 5.36 last year and well below our required covenant of 4. The debt reduction also triggers a favorable 50 basis point reduction in our new term loan interest rate effective during the second quarter. We expect the rate to decline from 9.75% to 9.25% on $240 million of term loan debt.

Achieving double-digit growth for the third consecutive quarter, delivering profits that continue to reflect our rightsizing efforts and lowering our debt through the proceeds of non-core asset sales, resulting in a leverage ratio of 2.36 are continued evidence that our turnaround plan is working. As we discuss today, and as we look forward to the rest of the year, we are shifting our focus to support efforts contained in our growth strategy. And therefore, we plan to make incremental investments that we believe will drive penetration and growth into new channels.

We are also committed to finalizing the divestiture of non-core asset sales to focus our resources on growing our branded health. As a result, we believe these actions and our strategic plans will create a stronger, more competitive company for the future.

I will now turn the call over for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Linda Bolton-Weiser with D.A. Davidson.

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

Can you, Sandra, just repeat the statement you made about EBITDA guidance going forward. I think you said that excluding the additional investment, the EBITDA would be lower, but yet up year-over-year. Can you clarify that I just understood that correctly?

And then can you just kind of comment on the cadence of the additional investment and what the EBITDA would kind of flow, including the additional investment?

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

Yes. So EBITDA in the quarter was 88.6%, and the adjustments that we would make against EBITDA would be the onetime items that I discussed. So one was the $9 million gain on sales of the French manufacturing facility in Avroy Shlain. There was a $3 million timing difference on when we recognize the China government grant. It typically comes in fourth quarter. So that would lower forward-looking EBITDA. And then the bad debt reversal, a one-time of $2 million.

And then to your point, I discussed between $30 million and $40 million of additional investments that we need to make. And roughly, those are going to be a little heavier in Q2, but then more ratable throughout Q3 and Q4. We're accelerating some of the work around IT, specifically to ensure that we're more prepared for the business expansion opportunities that we have with consumers. So enhancing our IT infrastructure around cybersecurity, data privacy and all the things that are necessary as we approach more consumers and provide more access.

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

And can you clarify too, Sandra, if the $30 million to $40 million of investment is is on top of the amount of cost-cutting that you expected to come back, which I think that was about 25% of the original cost savings. So this is like incremental to that, that will come back?

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

Yes, Linda. So we had said that 25% or roughly $45 million. Those were largely either onetime COVID-19 actions like furloughs. But I would also say that the $45 million, even though we had some in Q1, it's also more back-end loaded as we add back in more of the commercial programs, incentive trips and commercial opportunities. So -- and for the most part, the $45 million is really hoping -- generating and driving more of our turnaround plan sales, whereas the additional $30 million to $40 million we're talking about is getting the infrastructure prepared for those sales. And so it is incremental to that $45 million.

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

Okay. And then as you think about kind of the long-term and the turnaround and the longer that the management team has been there, in thinking about further investment beyond 2020 are you kind of thinking that there will be some more like incremental type investment? Or do you think you can work in the required investment in terms of normal operations in kind of past 2021?

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

Yes. So we did choose to use some of the profit that we achieved above based on the higher 20% growth to fund these additional investments of $30 million to $40 million. So we are always looking to balance that, Linda. What I would say is that as we look to really expand into more channels. We have a lot of work what we need to do in our supply chain to be prepared for that. We're going from a distributor model where we had a different packing cadence, the different shipping cadence, to both a consumer model, which has smaller units per carton. But then also, we have potentially partnerships that ship they create.

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So we're having to really look at our supply chain and choose to make investments. The other piece is as we continue to expand, we need more product for those channels. And as we innovate and have more product availability, we realize that most of that will be coming from a third-party sourcing situation.

So part of the investment that we're talking about this year is to start to build out a robust sourcing organization that really partners with suppliers on obtaining those products, finding new innovations that are in the market. And so we do feel like we potentially will augment that as we go forward, depending upon how our sales respond to these new product categories.

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

And then in terms of the strategic initiatives to get into other channels, Miguel, could you just talk about kind of -- will we see that as an effect on sales performance in terms of incremental sales in 2021? Or is it more a 2022 where we would see the actual sales results of your actions?

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

Linda, I think you're going to start seeing it a little in Q3, but mostly in Q4 and definitely next year.

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

Okay. And then, Miguel, at this stage of the game, now that you've been at the company, I guess, about a year, what are you seeing as kind of the biggest challenges to the turnaround? Is there anything that your thoughts have changed versus when you first came to the company in terms of strategy or ability to execute on any parts of your strategy?

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

So basically, the short answer is no. I mean, the same strategy is in place. We're very confident in our ability to execute. The big challenge that we have, which we knew all along, is that, as you know, we are primarily a direct selling company. And by expanding to other channels, we need to build higher, however, you want to call it, these new skills to get into other channels. And this skill set that many other companies have, and that's how they were founded and grew up.

We need to build them and build them fast. And we're -- obviously, we're going to start with the bigger markets. But at the same time, I think our P&L is going to be able to sustain those investments because the whole P&L of these other channels is completely different than the one in direct selling.

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

Yes. And Linda, I'll just add one more comment to that as well. As Miguel said, these other channels will support incremental margins, and we also are continuing to improve our margins as we can through centralization and leveraging. And so from that respect, back to your question, will these additional investments be funded? We will continue to look for ways to optimize across the enterprise to keep our margins very healthy.

Operator

Your next question comes from the line of Steve O'Hara with Sidoti.

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Stephen Michael O'Hara - *Sidoti & Company, LLC - Research Analyst*

Can you just -- I know you guys had made, I think, some leadership changes in, I don't know, China or in Asia, generally. Can you just talk about -- I mean it sounds like China is still not performing up to where you'd like it to be. Just wondering if you're starting to get traction with the new management team? And maybe how that might take shape over the next few quarters to years and et cetera?

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

Steve, this is Miguel here. So obviously, Ken, who's -- Ken Yeung joined us in early February. So he literally has been 90 days with us. And a few of the key things that he's already been working on is to really change the incentive plan for the field. So we can motivate the top sellers to continue -- the top of business owners to continue to build new outlets in China because there was a limitation to 10 per each of these leaders. So now we increased that limitation. So the successful people can be even more successful.

Another of the quick things that he's doing, including the market is basic retail practices. I mean such as merchandising, category management, store locations and so on. And then finally, he comes with a very strong e-commerce background. So he's bringing his people that he worked with in the past are only e-commerce experts, and that's something that is a big, big opportunity for us.

And we -- as I said in the script, it's going to take time. But we're very confident that we're setting the right ingredients into the market. We have the right management. As Sandra mentioned, we're going to be investing in third-party sourcing. So we're going to get a lot more product into China for the Chinese consumer. So we're very excited about our future in China.

Stephen Michael O'Hara - *Sidoti & Company, LLC - Research Analyst*

Okay. And then maybe just big picture, you had a very strong 2020 as the turnaround started to take shape. And you have -- I think this is kind of the last quarter of what was a fairly easy comp, I guess, although the turnaround continues to work.

Can you just talk about maybe longer term, kind of where you see -- I think in the past, you guys have talked about kind of a certain level of sales and earnings. And I'm just wondering, is that thinking still the case either in the near term or longer term? And then maybe what's -- what are the long-term goals around sales, profitability, things like that?

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

Yes. So Steve, we continue to not provide guidance just because of the uncertainty still around COVID-19 as well as our turnaround plan. We're doing a lot of interesting and new things. I mean it's led to the decision to make these incremental investments. What we will reiterate is that we have a growth strategy. And the growth strategy is not only around growing our direct selling business, which we've said we would grow in the competitive range of what other direct sellers are doing.

And so longer term, what we said is that's usually in the low single digits on our direct selling side. But as we add these business expansion opportunities, we know that those can grow much faster in the double-digit range that helps us to grow together both businesses and add more to revenue.

So it is a growth story. On the profit side, we've proven that we were able to aggressively take out costs. We are memorializing that. And that growth will help to fund these investments that we're talking about in the future, and that's why we've chosen to accelerate them.

And so all in all, what we're looking at is a very balanced strategy of growth, on the top line with continued efforts around ensuring that we have very healthy profitability. And this quarter, we delivered the 20% return on sales on our operating margins. And we will continue to look for ways to return to investors on both metrics as we look forward to the future.

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Stephen Michael O'Hara - *Sidoti & Company, LLC - Research Analyst*

Okay. And then just -- I know you noted continued effort to shed noncore assets. Can you just remind me where the land sales processes and what the timing might be on that?

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

Yes. So we do still have one more parcel here in Orlando. What we still do estimate is the proceeds somewhere in the $40 million range. We're continuing to have conversations with the partner that we did the deal with last year at O'Connor. Recently, there was a press release that they actually have sold the loan that they had done for this piece of property, which hopefully gives them the ability to work faster on executing on the second piece. But we also are in a nonexclusive with them. And so we are continuing to look at any options available, and we're committed to the sale of the noncore assets.

Operator

Your next question comes from the line of Wendy Nicholson with Citibank.

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

First question, you sell some of the non-Tupperware branded businesses, do you think you can maintain any of those salespeople and just ship them to selling Tupperware instead of the brands that you're going to discontinue or divest? Or are they really just going to leave the system entirely? And I'm just wondering sort of impact on the P&L as we go through the course of the year and into 2022? I know its revenues are relatively small, but I'm wondering about the number of bodies.

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

Yes. So basically, once a sales force member joins a brand, they work with the brand and they represent the brand, and they're separate, right? So for example, the people that we have in Tupperware Mexico versus the people that we have in Fuller in Mexico, they are completely different sets of people, and they're loyal to their respective brands.

Once in a while, we might do cross-brand promotion, but generally speaking, they stay with their own brand, I mean, at least at the top levels. At the bottom, at the little level, let's just brand-new people, I mean as you know, they represent many times 4, 5, 6 different brands. So -- but that wouldn't change by changing the ownership.

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

Got it. Okay. Fair enough. And then second question on some of the sustainability stuff that you talked about and using the new, whatever, ingredients or products, raw materials for the products, is there any impact, notably on gross margin? Are those harder or more expensive to source? Or will you price up for those? Or is it neutral to pricing in margin?

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

Yes. So Wendy, what I would say is, I mentioned earlier, the incremental investment to build out a third-party sourcing organization. Today, the answer to that would be, we're largely 60% manufacturing. And so we've been opportunistic on sourcing. But as we build out this organization and start to form the partnerships with the right suppliers and start to leverage them, then our expectation is that we can obviously maintain margin and maybe even improve some of our pricing through the third-party sourcing.

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Obviously, we'll continue to look for margin accretive products to add to our portfolio. And as with all of our incremental investments, it's ROI driven, right? So we'll make the choices that continue to grow both profit and sales.

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

Yes. Let me just add a thought. We're going to be developing sub-brands. And let's say, if a brand speaks to the consumer around sustainability, and the product cost is higher, then we would price it up because that's just the nature of that sub-brand that we're going to be offering to the consumers. So we're going to be very disciplined.

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

Fair enough. And then my last question just has to do with sort of the concept of increasing consumer pull. And it sounds like a lot of the investment you're making this year are kind of internally focused on the IT side, the supply chain, which is awesome. But in terms of sort of building the brand with consumers, I'm wondering kind of what's your thinking on that? What's your timing on that? And is that going to be primarily digital and social media? Why not have a Tupperware ad in my people magazine or on Mrs. Network, just to get more people familiar with, oh, gosh, look at those new products. Didn't realize Tupperware was doing that stuff. How do you think about that as a component of the consumer-pull strategy?

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

So Wendy, all things are going to come eventually. The first thing is that we need to put our house in order. Once we get the right products, the right channel and we get everything, again, the house in order, then we're going to be able to start investing in different media outlets and channels and start doing AB pilots and see which one works better for us and what our brands and so on. So it's in the horizon. We just need to finish up, I guess, getting us ready with the whole strategy.

Operator

That concludes the question-and-answer session. I hand the call back over to Miguel Fernandez.

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

Thank You. We believe we are well on our way to successfully execution of our 3-year turnaround plan. During 2021, with our rightsizing organizational changes behind us, we're now able to shift our time and resources to implement our growth strategies and become a more consumer-centric company. Thank you for your time today.

Operator

Thank you, and that concludes Tupperware Brands Corporation...

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