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Tupperware Brands Corp. (TUP)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Tupperware Brands Corporation Third Quarter 2022 Earnings Conference Call. Please note today's conference is being recorded. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer. [Operator Instructions] Thank you.

At this time, I will turn the conference over to Doug Lane, Vice President, Investor Relations and Strategy. Mr. Lane, you may begin.

Douglas Matthai Lane
Vice President - Investor Relations & Strategy, Tupperware Brands Corp.

Thank you, operator. Good morning and welcome to Tupperware Brands Third Quarter 2022 Earnings Conference Call. Joining me today are Miguel Fernandez, President and CEO; and Mariela Matute, CFO. We will 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 2022, which can be found on our Investor Relations website.

Let me remind you that the following discussion in our responses to your questions, reflect management's views as of today, November 2, 2022, 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 third quarter of 2022 subsequent filings with the SEC and our press release filed this morning. Please review the forward-looking statements disclosure on page 3 of today's press release. Please note that all references are being made on a constant currency basis, which reflects the application of the current period foreign exchange rate to any prior-period results enabling comparisons, excluding the impact of foreign exchange rate fluctuations.

Additionally, in the third quarter of 2021, the company made an accounting change to classify our sold and held-for-sale beauty and personal care businesses as discontinued operations consistent with our strategy to fix our core. Please also note that all references, unless otherwise noted, are being made on a continuing operations basis. During this call, we'll discuss certain non-GAAP measures, including those we refer to as normalized measures. Additional disclosures regarding these non-GAAP measures, including explanations and reconciliations of these measures to the most comparable GAAP measures, can be found in today's press release. Finally, a replay of this call will be available on our Investor Relations website later today.

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

Miguel Angel Fernandez Calero

President, Chief Executive Officer & Director, Tupperware Brands Corp.

Thank you, Doug. Good morning to everyone and welcome to our third quarter call. We released our third quarter results this morning, which were below our expectations. The global macro environment continues to be challenging and we're not executing internally at a level or consistency that we believe we should be. While the sales declines in the third quarter was consistent with the trends in the first half of 2022, we had expected improvement under much easier comparisons, persistent COVID quarantines in China are impacting consumer behavior in that important market, and geopolitical tensions, along with inflationary concerns in Europe, continued to impact consumer sentiment there.

Additionally, actions we have taken internally as part of our turnaround plan have also impacted sales. For example, we have taken pricing decisions to protect our margins, [ph] in North America comp plan changes and IT upgrades have (00:03:36) created service issues adversely impacting sales. Fortunately, an improving South American region help offset some of that decline. Currency headwinds increased in the third quarter and created a 600 basis point hit in our dollar-reported sales and a $0.13 hit to EPS, as the dollar continues to strengthen against most major currencies. Our operating margins suffer as a result of continued inflationary pressures, coupled with the lower-than-expected sales, partially offset by price increases that we continue to implement to mitigate the higher input cost. We ended the third quarter with price increases averaging 11% globally, or from an average 7% price increase coming out of the second quarter. Please remember that many of our larger markets, such as US and Germany have an implemented price increases of this magnitude in decades. The good news is that our gross margin held in the mid-60% range, only 90 basis points below that from the year ago, much better than the 400 basis points year-over-year decline that we had in the second quarter and we expect year-over-year improvement in gross margins in 2022, fourth quarter due to many initiatives underway. However, to improve our operating margins, we believe we need to take further action to reduce our SG&A, which has a large fixed cost component. We plan to address this over the next two quarters, but rest assured that we remain keenly focused to rightsize our business and find the necessary investment dollars to support future growth.

At the beginning of the fourth quarter, we began to have our products sold in 1,900 Target stores in the US. This is an important step in re-engaging with today's shoppers, particularly Gen Zs and millennials, our more affluent consumers, who probably have never been to a Tupperware party. We think it's critical to reach out to a younger and more affluent consumers and bring them into our ecosystem. We believe that once they have the opportunity to more easily access our brand and experience the quality and design of our products, they will be left wanting more. Also, it's important for us to let consumer know that there is only one authentic Tupperware brand. Once consumers are in our ecosystem, they can engage with tupperware.com or any member of our independent sales force to have access to our full line of products. It is important for us to leverage what is unique to Tupperware, as we open up new channels: first, our branding; second, our quality; third, the ease of use and functionality of our products; and last but definitely not least, our independent sales force, who have the ability to demonstrate the products and offer the complete line of Tupperware products. We have over 8,500 functional design and utility patents for kitchen and home products from our traditional food storage container to pressure cookers [indiscernible] (00:06:40) to work in the microwave. In two or three years, we want to be in many more categories where consumers give us permission to operate. Our goal is simple, we want to be in every room of the house.

After two and a half years of no meetings, we returned to call the in-person sales events in many markets around the world, in the third quarter for the first time since 2019. While this impacted our SG&A spending comparison versus previous year, we believe that the return to in-person meetings is critical to the health of our direct selling business. While technology allowed us to survive during the pandemic, there's really no substitute for in-person training and recognition. These in-person meetings, events, and promotional vacations should improve our sales force lead activity, recruiting and retention efforts going forward. [ph] But as I've said (00:07:29) since I arrived in 2020, the Tupperware brand goes beyond direct selling. Our goal is to leverage this great brand recognition and expand our product reach outside the direct selling channel of distribution. Let's face it. According to the WFDSA, direct selling did $186 billion in retail sales last year, which is tiny compared to the $96 trillion global economy. [ph] For perspective, Walmart (00:07:53) did $568 billion in sales in the most recent fiscal year, and Amazon did $407 billion this last year.

Direct selling built the brand to millions of micro-entrepreneurs around the world over the past seven decades, and we believe it will continue to be an important part of creating a competitive product ecosystem. But future growth in most of the global markets will come from increasing Tupperware access to broader consumer base through omni-channel distribution and moving [ph] its social selling the mode from analog to digital (00:08:23).

Now let's review our third quarter results, starting with our top four markets. In the US and Canada, sales were down 15% in the quarter. [ph] Comp plan changes coupled with a second round (00:08:36) of price increases in September, resulted in a 34% decline in active sales force. Despite the price increases, segment profitability was impacted by lower than expected unit volumes, increased discounts and promotions, and adverse product mix as we focus on selling excess prop inventory and added costs associated to return to the in-person meetings during the quarter.

Mexico was down 19% due primarily to service challenges that began earlier in the year and were exacerbated by the failed software upgrade in the third quarter. These ongoing service issues continue to cause reduction in the number of active sales force members. We believe it will take some time to build ourselves this back in Mexico over the next two quarters. Additionally, we have lower B2B sales which accounted for 600 basis points of the decline. Price increases [ph] taken in August (00:09:30) also dampened sales force activity but helped protect profits with segment margins improving over 300 basis points in the quarter, driven by increased gross margin. Mexico is an important source of cash for us, so protecting the profits there is a priority.

In Brazil, sales declined 5% in the quarter due to a lower activity rate, which we believe reflects the weak economics of this market and high inflation and macroeconomic and political uncertainty especially in consumer spending. While this is a deceleration from the second quarter trends, we believe we outpace our non-cosmetic, direct selling peers, reflecting the strength of our brand and the desire for our products to help reduce food costs. Gross margin improved due to favorable pricing of nearly 9% comparable product mix. However, higher SG&A spending slightly reduced the segment margin versus last year. However, like Mexico, Brazil carries segment margins and free cash flow conversion rates that are above our company average. As we look forward, we're cautious with the outlook for this market, as the national elections and World Cup this quarter may add volatility to a normal consumer behavior and therefore our results in the near term.

Turning to Asia, China was down 28% versus last year. A rapid rise in COVID cases during the summer resulted in continuous, strict quarantines and made for logistical challenges in many parts of the country. Economic activity overall remains weak by historical Chinese standards, and consumer spending remained soft. Despite the lockdowns, we continue to make investments to upgrade the look and feel of our virtual studios, which were approximately the same number of last year, upgrade our outlets, opened up our first experience center in Guangzhou in December and begin to pursue e-commerce opportunity. We also have several new product offerings in the quarter that we believe could add excitement to our sales force and attract new customers.

Excluding China, our Asia-Pacific business was down 20%, with Australia, Indonesia and Malaysia each declining 30% or more, considering the softness we have been seeing in those markets, driven primarily by external factors and a compensation plan adjustment. The bright spot in this region continues to be Korea, where sales increased 16% in the quarter, with 9% growth in core direct selling sales, augmented by an additional 700 basis points in B2B sales, including direct-response TV spots. We will implement in Australia, Indonesia, and Malaysia when we know has been working in Korea. Another early read of our success of our omni-channel approach is in Belgium, where we roll out nationally in the second largest retailer, Delhaize over the summer. This fall during the two of the busiest weeks, the direct selling business reported 4% growth despite the widespread availability of our product on the retail. While it is early days, we are encouraged to see that our omni-channel approach is truly expanded the Tupperware ecosystem to reach more consumers, we otherwise – we wouldn't have. While, we are also increasing the potential of our sales force to create a relationship with new customers, who sell or purchase our products at retail.

We also just published our latest ESG report. We believe we're making good progress towards achieving our 2025 and 2030 commitments. We know ESG is important for our shareholders to assess the investment rates, for lenders to provide capital, for retailers concerned about responsible sourcing, and for consumers particularly Gen Z in assessing, who they want to do business with and work for. We believe we are on track to significantly reduce waste generation and water usage in our manufacturing facilities, reduce greenhouse emissions in our manufacturing facilities, and single use plastic packaging, increase on our use of [ph] non-fossil fuel based resins (00:13:26) and exploring opportunity to use returned Tupperware products.

In fact, our sponsorship of the National Park Foundation is to replace single use plastic bottles with our reusable products. Lastly, since we set out this company's turnaround plan two and a half years ago, the strategy has remained the same to build a business as big as the Tupperware brand. That meant shifting our mindset to one that places the consumer in the middle, making sure that we have the right commercial strategies in each of our respective markets to speak to the respective market consumer. Our 2020 organizational structure was set up to stabilize the layer and simplify our traditional direct selling markets and to get them to a place where they are ready to grow. Additionally, our investments having focused on expanding the Tupperware brand to new channels, while energizing our current ones in the markets, where consumer give us permission to do so. As we soon embark 2023, we will enter a new chapter in our turnaround plan, creating a unique product ecosystem in the marketplace by channel with a right product mix and consistent pricing strategy will be key, and we need to organize accordingly.

I am pleased to share that Hector Lezama has been promoted to Chief Commercial Officer to holistically oversee our efforts to achieve sustainable growth and improve profitability. He will be responsible for guiding all of our commercial activities around the world. Our omni-channel strategy is an inclusive strategy. The more our brand is easily accessible, the more opportunities we have to bring new consumer to us, whether as customers or sales force members. We are seeing this be successful in many markets around the world, where when our sales force adopts the change, we see the tide lifting for all. If you haven't already, please read and consider sharing my LinkedIn post, where I share more about the strategy and what it means for this company and for all of our channels, where we do business. As you may know, Doug Lane recently joined our team as our Vice President of Investor Relations and Strategy. Doug has covered Tupperware for many years as sell-side analyst [ph] and was writing on us (00:15:39), when the company went into Target some 20 years ago. Unfortunately, our presence in Target was short lived there due to decisions made by prior management.

I'm going to now pass the call on to Doug, who wants to provide investors with some perspective on why our approach today so much different. Doug?

Douglas Matthai Lane

Vice President - Investor Relations & Strategy, Tupperware Brands Corp.

Thanks, Miguel, and good morning, everybody. Investors have a long memory and are never more skeptical of any explanation than when starting with it's different this time. Yes, back in the fourth quarter of 2001, Tupperware expanded into 62 Super Target stores as part of its integrated direct access initiatives or IDA, which included channels outside of direct selling, mostly more kiosks at the time. These IDA initiatives were about a $15 million business in 2001 in North America. After moving into the 62 Super Target stores in the end of 2001, the IDA initiatives increased nearly 60% in 2002 to be approximately $25 million business. The North American segment overall had $268 million in sales and $30 million in segment profits in 2002. Then in the fourth quarter of 2002, the company decided to expand into all 1,100 Target stores nationwide at the time. Party cancellations mounted as 2003 progressed and sales force numbers started to decline. The 2003 annual sales in North America had dropped 18%, and segment profit slumped to a $22 million loss from the $30 million in profits the year before. Active sales force by the 2003 fourth quarter declined 24% as a result of this impact on its direct selling business, the company exited all Target stores in the second half of 2003, and the North America segment didn't return to profitability until 2006.

Back then, I strongly believe the problem was that when the stores were open, an independent sales rep was expected to be in the store to do demonstrations and to solicit Target customers to be their personal clients. There are two things I can think of that are suspect with this approach. First, shoppers probably they are not interested in being engaged in a product discussion, while walking around the Target and secondly, the independent sales reps, especially those working part time, probably weren't interested in camping at Target stores, cold calling on their shoppers. Part of the reason one becomes a direct seller is the ability to conduct business on your own schedule. As a result, many started to leave the system. This time, the sales force behavior in our omni-channel approach is expected to be unaffected. The ecosystem we are creating will focus on the following: one, brand building and positioning; two, incremental sales taking market share from our competitors; and lastly, lead generation for our sales force. When the customer buys a product at retail, they will be encouraged to scan a QR code to register their products for the lifetime guarantee. And in that process, we will get to know, who is buying our products and offer them a consult to follow up to experience with our sales force. Our expansion into omni-channel will truly leverage the uniqueness of the Tupperware brand and incorporates the learning from the Target test over 20 years ago.

I will now turn the call over to Mariela, who will cover our third quarter performance in more detail.

Mariela Matute

Chief Financial Officer & Executive Vice President, Tupperware Brands Corp.

Thank you, Doug. As Miguel mentioned, sales were below expectation. Net sales for the quarter were $303 million, representing a decrease of 20% compared to last year, driven by continued lockdowns in China, along with macroeconomic pressures in Europe, a slowing in North America partially offset by ongoing strength in South America. Excluding currency, sales declined 14%, which was in line with first half trends. Net sales in Asia Pacific declined 19%. Net sales in China declined by 28% in the quarter severely impacted by strict lockdowns as well as declining consumer sentiment. While third quarter GDP of 3.9% rebound from 0.4% in the second quarter, consumer spending remained subdued, particularly in the premium segment. Excluding China, net sales in the remainder of Asia Pacific declined by 20%, driven by significantly lower sales force activity in Indonesia, Malaysia and Australia. One bright spot in this region is Korea, which, while still small, is becoming increasingly important. The market was up 16% in the quarter, with both direct selling channel and B2B channel contributing to growth. In Q3, Korea surpassed Indonesia in sales contribution and is now getting close to Malaysia in being the second largest market in the Asia-Pacific region.

In Europe, net sales declined by 24%, driven primarily by low consumer sentiment, rising inflation and energy cost. Additionally, a timing shift in one of our B2B programs in Germany from the third quarter to the fourth quarter accounted for 400 basis points of the decline. We have new management in Germany and are looking to consolidate it with other markets to rightsize the business and rationalize the product offering. We're reviewing the sales force incentive programs and promotional plans in order to revitalize and re-engage the sales force. Consumer confidence is very low given rising inflation, particularly energy prices as well as concerns over possible energy shortages and the conflict in Ukraine. Like other regions, Europe resumed holding in-person gatherings with Jubilee running in Germany and Iberia in the first quarter for the first time in over two years.

Moving to the Americas. Net sales in North America declined by 16% in the quarter, driven primarily by lower sales force engagement and productivity, lower unit volumes due to price increases and service delays in Mexico, due to an upgrade in IT that moved the last two weeks of orders into Q4. In the US and Canada net sales declined by 15%, driven by lower sales force engagements, partially offset by improving service levels. Compensation plan changes earlier in the year along with [ph] a second time price increase in September (00:22:34), adversely impacted sales force activity. Profitability suffered during the quarter, despite the price increases due to higher promotional and discount items, higher B2B sales and one-time costs associated with the closing of a third-party logistics provider.

Net sales in Mexico declined 19% as service issues, price increases and inflation caused meaningful lower sales force engagements. We increased promotions and events in the third quarter in order to re-engage the sales force and already seen sales force activity increasing. [ph] We do not expect (00:23:17) the service issues we have had in Mexico in 2022 will recur in future years. Despite these issues, Mexico remains among our most profitable market, with a strong free cash flow conversion rates. In South America, net sales increased by 7% in the third quarter driven by strength in Argentina, which continues to leverage social media in its success recruiting efforts, as well as price increases. Brazil, one of our largest markets, had a 5% sales decline in the quarter. Order activity in the direct selling industry is slowed in the quarter, decreasing 14% but it performed better than the rest of the non-cosmetics direct selling market. Average 9% price increases in Brazil and a strong top line growth in Argentina boost segment profitability in South America by 90 basis points.

Next moving down to P&L to gross profit, in the third quarter, gross profit was $197 million, which represents a decrease of 21% compared to last year. Gross margin in the third quarter was 64.9%, approximately 90 basis points lower than last year, much better than the gross margin degradation that we experienced earlier in the year. As our price increases are beginning to have an impact. The decrease was driven by manufacturing inefficiencies due to lower volume, higher resin transportation costs, country and product mix, partially offset by the price increases. As pricing actions continued to be taken throughout the third quarter, we anticipate full variable impact to be seen across the balance of the year. For the full year, we anticipate increasing prices by an average of 15% after coming out of the third quarter at 11%.

Continue down the P&L, SG&A expense was $176 million in the third quarter or 58% as a percentage of sales. This compares to 50.6% on a reported basis for the prior year. The increase of 740 basis points was driven by lower sales volume, over a relatively stable fixed cost base, higher selling expense and investments in technology and in our omni-channel expansion strategy. Adjusted EBITDA for the third quarter was $29 million or 10% of net sales. This represents a sharp decrease compared to the $78 million reported last year, driven by lower volumes and margins. Adjustments in the quarter include approximately $4 million in re-engineering charges, related to manufacturing footprint and rationalization to reduce fixed costs and improve distribution. Our adjusted operating tax rate in the third quarter was 64% as compared to a tax benefit of $12 million in the same quarter last year and 46% in the second quarter of this year. The operating tax rate was driven by unfavorable mix of earnings by country, including receiving no tax benefit for substantial entity losses in countries like the US. Concurrent with the recent organizational changes and market volatility, we continued to refine our supply chain and tax planning strategies to achieve a lower overall tax rate. I should also note that for the full year we expect cash taxes to be lower than in the prior year. And finally, adjusted earnings per share were $0.14 in the third quarter, compared to a $1.19 last year, driven by all factors previously discussed, including approximately $0.13 of unfavorable foreign currency translation adjustments.

Turning now to cash flow. On a reported basis, year-to-date operating cash, net of invested activities was an outflow of [ph] $88 million (00:27:47) compared to negative $7.4 million last year, driven by lower earnings, together with an increase in working capital in preparation for our omni-channel expansion and excess inventories due to lower than expected sales volume. We are increasing our focus on cash management, particularly with regards to our manufacturing footprint and working capital management. We also recently amended our credit facility to provide for greater flexibility in anticipation of continued market volatility and the timing of our turnaround plan. We ended the quarter with a consolidated net leverage ratio of 4.17 with our debt covenant for the third quarter of 4.5 as a maximum.

Cash balances at the end of the quarter were $103 million, compared to $267 million as of the end of 2021. Total debt was $704 million, compared to $685 million a year ago. The company's recent credit agreement amendment [ph] helped for a maximum leverage (00:28:58) ratio to decrease from 4.5 in the third quarter to 4.25 in the following two quarters. While the company is currently in compliance with covenants, we're taking a proactive approach and started discussions with the banks to create additional flexibility as we continue to rightsize the business due to our current revenue trends and accelerate our re-engineering actions. Given global economic outlook in which we operate and current consumer sentiment, we have to actively manage cash flow and liquidity. As you know, we have been here before as a reminder in 2020 we took more than $150 million of costs out. And currently, we have plans to take more than $100 million of fixed costs out over the next three years and expect a re-investable return.

In summary, third quarter net sales declined year-over-year and operating margins were below expectations. We acknowledge the potential for continued near-term volatility, as we continued to address internal challenges and navigate external headwinds. We're also aware that these external headwinds are impacting our ability to execute our turnaround plan and promptly as we will like. You can be sure that we will continue to look at additional way to rightsize the business and to increase our cash generating capabilities in order to further strengthen our promotional foundation. We will be doubling down our re-engineering efforts in Q4, and we further rationalize our global manufacturing footprint.

And now with this, let's take some questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Anthony Lebiedzinski with Sidoti.

Anthony C. Lebiedzinski
Analyst, Sidoti & Co. LLC

Q

Yes. Good morning and thank you for taking the questions. So first – yeah, as far as the conversation that you had with your lenders about your debt covenants, can you just share more details as to when those conversations started and then, I know, perhaps two-part question here, so, I guess then you talked about the rationalizing inventories, what were inventories because that was not disclosed in the balance sheet because you only had a consolidated balance sheet. So, if you could just talk about where your inventories now and plans going forward to reduce the inventories?

Mariela Matute
Chief Financial Officer & Executive Vice President, Tupperware Brands Corp.

A

Hi, Anthony. Mariela here. Thank you for the question. And yes, we continuously talk to our banks partners as we have a series of re-engineering actions to take, to make Tupperware sustainable for the next 50 years. So, the discussions for the next round of the agreements have started back in September and we are proactively doing a five-year plan to ensure that we will have the flexibility to continue our turnaround plan. You will see the levels of inventories in our 10-Q that will be published. And we also have started a series of programs across the world to improve our days of inventory turns. And that program includes the manufacturing rationalization, includes fast sales and promotions across the world, across different channels, as well as on the scheduled rationalization.

Anthony C. Lebiedzinski
Analyst, Sidoti & Co. LLC

Q

Got it and thanks for that. And then, in terms of the new programs with Target and Amazon, can you give us any early read on those? And what's been the response from your direct sellers? And how are you managing channel conflicts?

Miguel Angel Fernandez Calero
President, Chief Executive Officer & Director, Tupperware Brands Corp.

A

So Anthony, good morning. This is Miguel. So let me talk to you about Target in one sentence. Target is only four months, four weeks into the business, and it's ahead of our expectations. So we're performing better. We just have to remember that we're going with a very limited number of SKUs into our Target stores and our direct selling workforce they have access to many, many hundreds of different SKUs. So obviously there you have pockets of people that are a little bit concerned, but for the most part, our great sales leaders around, in this case the US, they understand the strategy and some of them have been reporting already more activity in their own business just because this is a brand activation effort that we also do. So obviously consumers go and see our branding in Target and they're looking for some other products and they contact their sales rep.

So it's been great. And as I mentioned in my previous remarks, we have a – we have – in Belgium, like the perfect ecosystem, where we already are in – operating in one of the biggest retail stores around the country. And we have a big penetration in direct selling and both of them are growing. So those are good indicators for us, obviously early in the game, lot to do. The softness that we saw in the US was related to some compensation model adjustments that we do, but completely unrelated to our Target initiative. The good thing about Target is that now we're going to go to stage two, which includes end caps in all the holiday season. So in three months from now, we're going to be reporting our first full quarter of results in Target.

Anthony C. Lebiedzinski
Analyst, Sidoti & Co. LLC

Q

Okay. Yeah, got it. Thanks for that. And in terms of just my last question here, in terms of just the price elasticity or inelasticity I mean, just – in response to your price increases, it sounded like that had a bigger adverse impact on volumes and just, with the slowing of the economy seems like everywhere, should we be concerned about additional discounting pressuring of gross margins?

Mariela Matute
Chief Financial Officer & Executive Vice President, Tupperware Brands Corp.

A

Anthony, Mariela we have been doing a series of price increases throughout the year and we have played with two models, a small incremental increases, a month-over-month or double-digit increases on a quarterly basis. And we are learning as a company, as in many countries, this is the first time we have had to do price increases over a decade. So we are applauding the data to understand the elasticity of the program. Anecdotally, we have seen the demand where we do double-digit price increases. We see a sharp volume decline that comes back over time. So we still believe that the price increase program is the right action to protect the economics of the business as we are not alone in this inflation. Most of the direct sellers, competitors as well as CPG have done price increases this year across most of the markets.

Anthony C. Lebiedzinski
Analyst, Sidoti & Co. LLC

Q

All right. Thank you and best of luck.

Mariela Matute
Chief Financial Officer & Executive Vice President, Tupperware Brands Corp.

A

Thank you.

Miguel Angel Fernandez Calero
President, Chief Executive Officer & Director, Tupperware Brands Corp.

A

Thank you, Anthony.

Operator: Your next question comes from the line of Chasen Bender with Citigroup.

Chasen Bender
Analyst, Citigroup Global Markets, Inc.

Q

Great. Good morning. Thanks for taking the question. Just to come back to the leverage covenant, I get that, it's still very early and have only been in discussion for whatever it is two months at this point, but can you just speak to your confidence in your ability to get your terms amended? And just kind of assuming you do breach, what should we kind of expect in terms of, next steps in your ability to then work out from there? Thanks.

Mariela Matute
Chief Financial Officer & Executive Vice President, Tupperware Brands Corp.

A

Hi, its Mariela thank you for the question. And we have a group of very supporting banks and this is [ph] capital allocation (00:38:03). Our priority as a company is to generate cash and improve our working capital and we have signs that Q4 will be better than Q3 with the actions that we started in Q2 for inventory management and for cost containment. So we have put into the [ph] forecast a series of scenarios (00:38:26) and risk given the volatility of the macroeconomic environment and consumer sentiment. And we have flexibility in both in debt management as well as EBITDA production. So we're working with the banks, and we expect to have by Q4 a new agreement that will be long-lasting and will facilitate the turnaround plans that we have for the next two years.

Miguel Angel Fernandez Calero
President, Chief Executive Officer & Director, Tupperware Brands Corp.

A

So let me add just a quick comment, Chasen. So as you know, in our recent history, we've been there before. So we know, I mean, it's not something that we're proud of, but we have the skill and we already know how to rightsize the company, how to focus on cash. And obviously we provide confidence to the banks and everyone and that we're going to be in compliance with all of our obligations. So it's a route that we already took and we know how to ride the company with limited risk.

Chasen Bender
Analyst, Citigroup Global Markets, Inc.

Q

Great. And just relative to, all the investment you've been making to grow capabilities to drive the omni-channel side of the business, just given where you guys are from the leverage ratio in the macro environment, just the overall trends in the business, is your expectation that you might have to pull back on some of those investments in at least the short term to kind of manage cash?

Miguel Angel Fernandez Calero
President, Chief Executive Officer & Director, Tupperware Brands Corp.

A

Yes. The short, the short answer is yes. We might pull back some. We might delay some more. The strategy continues to be the same one, we believe is the right one. Obviously, we face some executional issues and a very weak consumer sentiment around the world and we're managing this company actively, right. And if we see that there's a market that is reacting favorably, we are going to be investing in that market, but the short answer of your question is yes. Yes, we are doing that.

Mariela Matute
Chief Financial Officer & Executive Vice President, Tupperware Brands Corp.

A

And in parallel, if I may add, we are taking costs out sequentially. So we already have a plan to take out another $10 million in Q4 that will help to continue rightsizing this business and making Tupperware a very sustainable, profitable for the future. It's important to rightsize the company and prepare for growth and in some cases, we will do the tradeoff that we invest ahead of growth.

Chasen Bender
Analyst, Citigroup Global Markets, Inc.

Q

Got you. Thank you for that. And then just switching gears, one of the things you've mentioned in terms of kind of catalyzing promotion in the direct selling side of the business has been the return of live person events. Since you've had these events, have you seen any sort of change in activity for those members of the sales force who have participated in them versus those who haven't, can you just offer some commentary there in terms of what you're seeing and expectations? Thanks.

Miguel Angel Fernandez Calero
President, Chief Executive Officer & Director, Tupperware Brands Corp.

A

Yeah so let me share with you a little bit of the – I'm going to call it a sales force analytics. So basically what we've seen is that the people that have been with us for a longer period of time, I'm going to call it two years or three years, they still remain with us, sometimes not as productive, because obviously the consumer sentiment is low and they don't have as many customers, but they're still engaged with us, where we've been strongly is to bring and keep the newer people, right. And I'm talking people with less than two years of experience with us. And that has to relate correlation with never been on an in-person meeting. So they haven't really understood what our DNA was as a company. So they missed out on that, and that's why we struggle retaining them and training them and so on. So now with these new generations of people, we expect obviously our retention or engagement and recurring efforts to start increasing, we have some good news in some of our major markets, but it's too early to tell that that is gaining ground – because we just had those events very recently.

Chasen Bender
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thanks for that color. I'll pause there and pass it on for now. Thanks.

Operator: Your next question comes from the line of Linda Bolton Weiser with D.A. Davidson.

Linda Bolton Weiser
Analyst, D.A. Davidson & Co.

Q

Yes, hi. So I'm just wondering if the cost cutting initiative, I guess the new actions you're undertaking, if there's cash charges associated with any of those actions, like for severance and things like that can you quantify that?

Mariela Matute
Chief Financial Officer & Executive Vice President, Tupperware Brands Corp.

A

Yes, Linda and that is exactly why we're in discussions with the banks. As you probably know, exiting some of the regions that we play today and rightsizing our distribution, supply chain and manufacturing footprint could be costly in terms of severance. Absolutely the right thing to do for the next 20 years and we are evaluating every scenario with proper return analysis on NPV and then discussion with the bank is to help us pace those restructuring plans to transform this company at a capacity that our EBITDA production can't – can accept, and then has a good liquidity ratio in terms of both debt-to-EBITDA and interest coverage. So we are working with the banks and many of our financial advisors to pace this reengineering actions over the next three years. And as of today, we have an estimate that the charges will be in the magnitude of $100 million.

Linda Bolton Weiser
Analyst, D.A. Davidson & Co.

Q

I'm sorry, could you repeat that number in terms of the charges of the amount?

Mariela Matute
Chief Financial Officer & Executive Vice President, Tupperware Brands Corp.

A

Sure. Yeah, so we will expect that we are going to have a $100 million of additional restructuring over the next three years with an investable return of course.

Linda Bolton Weiser
Analyst, D.A. Davidson & Co.

Q

And what percentage of the $100 million is cash, roughly?

Mariela Matute
Chief Financial Officer & Executive Vice President, Tupperware Brands Corp.

A

Yeah, so the $100 million will be cash. Yes.

Linda Bolton Weiser
Analyst, D.A. Davidson & Co.

Q

Okay. That's a pre-tax or after-tax number?

Mariela Matute
Chief Financial Officer & Executive Vice President, Tupperware Brands Corp.

A

That will be a pre-tax number.

Linda Bolton Weiser
Analyst, D.A. Davidson & Co.

Q

Okay. And then can you just talk about, well, I mean, so the Target stores, even such a small number of SKUs is quite a large number of stores. Was there some channel sales shipments in the third quarter or in the – in the third quarter and can you quantify the channel sales shipments?

Miguel Angel Fernandez Calero
President, Chief Executive Officer & Director, Tupperware Brands Corp.

A

Yes. Yes, it was – there were some and it was less than $1 million. But what we're seeing right now is that [ph] the reordering pattern (00:45:43) and there's some SKUs that have exceeded – greatly exceeded our expectations.

Mariela Matute
Chief Financial Officer & Executive Vice President, Tupperware Brands Corp.

A

And Linda, if I may ask on the SKU selection, it's like again, not enough data to validate this with data, but they – some of the sets that we have placed in Target that are at premium price points, and sometimes double the competition, are the best sellers. So because this is the first time in many years that consumers are able to test, right their quality of the Tupperware container products, and then that validates there the pricing and consumers are seeing the quality for the pricing.

Linda Bolton Weiser
Analyst, D.A. Davidson & Co.

Q

Okay. And then just in terms of this retail initiative, I know you had talked about having to build up some infrastructure to be able to ship to retailers and things. I mean, is that work already done or do you still have like more investment to make along those lines?

Miguel Angel Fernandez Calero
President, Chief Executive Officer & Director, Tupperware Brands Corp.

A

So depends on the country, but the bigger ones. Most of the investment is already there. In the US it's already there. So we're good to go, at least for the first big customers. Obviously, we may require more as we expand our presence in more, our partnership with more retailers.

Linda Bolton Weiser
Analyst, D.A. Davidson & Co.

Q

And just finally, I mean, obviously, your objective would be to expand into more retailers, I guess. Do you think that just the general stability of the company and your financial condition is going to inhibit perhaps other partnerships with other retailers?

Miguel Angel Fernandez Calero
President, Chief Executive Officer & Director, Tupperware Brands Corp.

A

No, I don't think so. I think, obviously it takes these partnerships take a long time, right, for to set up a line up and it's a year worth of preparing. So, we are preparing for that. So I don't see any risk on that and besides any cash that we generate in excess, of our obligations are going to be dedicated to product and omni-channel because as you know, this is the strategy of the company and we see it highly beneficial, not only for the future of the company, but also for the direct selling workforce because this is how we're going to be attracting a lot more customers to all the Tupperware products, not only the ones that we are offering in retail.

Linda Bolton Weiser
Analyst, D.A. Davidson & Co.

Q

Okay. Thank you very much.

Miguel Angel Fernandez Calero
President, Chief Executive Officer & Director, Tupperware Brands Corp.

A

Thank you, Linda.

Operator: [Operator Instructions] There are no further questions at this time. I'll now turn the call over to Miguel Fernandez for any closing remarks.

Miguel Angel Fernandez Calero
President, Chief Executive Officer & Director, Tupperware Brands Corp.

Thank you. In closing, while we're not pleased with our third quarter results, our omni-channel expansion plan remains on track, and we look forward to future penetration into retail channel later this year. We acknowledge that there is plenty of work still remains ahead of us to transform this business, but this quarter mark an incremental progress towards our goal of making the business as big as our iconic brand. And we will continue to build from here one step at a time. Thank you for your time today and we look forward to talking to you again soon.

Operator: Thank you for participating. This concludes today's call. You may disconnect at this time.