Tupperware Brands Corporation

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FQ4 2022 Earnings Call Transcripts

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Sidoti & Company, LLC

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Presentation

Operator

Greetings, and welcome to the Tupperware Brands Corporation Fourth Quarter 2022 Earnings Conference Call. Please note, today's conference is being recorded. [Operator Instructions] 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 of Investor Relations & Strategy

Thank you, operator. Good morning, and welcome to Tupperware Brands Fourth 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 preliminary financial results for the fourth quarter of 2022, which can be found on our Investor Relations website. Today's release is preliminary as management completes the year-end procedures and external audit with open items mainly related to tax matters.

Before we get started, please note that beginning with the 2023 1st quarter earnings release, we will be changing our reporting schedule. We will continue to hold our conference call on Wednesday morning at 8:30 a.m. Eastern Time, and the 2023 1st quarter is tentatively scheduled for May 10 However, we will issue our earnings release tonight before after the market close. We will simultaneously publish our management commentary on our website. That way, everyone will have plenty of time to digest the news and update models before the call. It would also allow us to jump right into Q&A on the call after brief introductory remarks.

Now, back to this quarter just reported. Let me remind you that the following discussion and our responses to your questions reflect management's views as of today, March 1, 2023, 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 will be included in our Form 10-K for the 2022 fiscal year subsequent filings with the SEC and in our press release filed this morning. Please review the forward-looking statement disclosure on Page 5 of today's press release.

Please note that some references are being made on a constant currency basis which reflects the application of current period foreign exchange rate to any prior period results, enabling comparisons, excluding the impact of foreign currency exchange rate fluctuations. 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. And with that, let me turn the call over to you, Miguel.

Miguel Angel Fernandez
President, CEO & Director

Thank you Doug. Good morning, everyone, and welcome to our fourth quarter call. 2022 proved to be a much more challenging year than we could ever expected. We started that year bullish on our turnaround efforts in our direct selling business. Exact to spend into new channels of distribution and cautiously optimistic that the search of inflation in 2021 was behind us. That confidence in our early outlook of the year led us to authorize a $75 million stock buyback in February.

Well, as we turned out our initial positive outlook for 2022 change quickly. Our excitement in general was dampened by the February contract in Europe in the COVID lockdown in China in March. These events, coupled with ongoing inflationary pressures, strengthening dollar and rising interest rates had a major impact on consumers globally and also in our financial performance throughout 2022. But as in

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the past, we reacted quickly to accept the challenges. We made meaningful leadership changes midyear. In the second half of the year, we took further rightsizing efforts, implementing further improvements in our direct selling compensation plans and took additional pricing actions, all while staying focused on executing our channel expansion cans.

2022 as a turnout was a real test of our results to turn around this account company and expanding to new channels and make the company as big as a brand. In a moment, we will summarize 2022 but let me first highlight our recent accomplishments that we'll continue to build the foundation for a more successful future. First, increased financial flexibility. Due to our operating performance last year, our financial leverage is much higher than we would like. Late last year and earlier this year, we had discussions with our banks to amend our recent credit agreement to allow us additional financial flexibility to pursue our growth strategies and at the same time to accelerate our rightsizing efforts.

The tax recently came to a successful completion, and we appreciate the support our lenders continue to provide us even as market conditions became more difficult. Second, channel expansion. Despite the difficult external environment we faced throughout 2022, we did not allow those unexpected challenges to derail us from our most important growth initiatives. We successfully launched national distribution in 1,900 Target stores in the U.S. in early October. The results exceeded our expectations as we exited the quarter with a 10% category market share.

So we are carrying good momentum into 2023. While still small, B2B sales grew strongly in the double digits in China last year despite difficult conditions out there, and we look for another strong year in 2023. In fact, the number of our markets reporting B2B activity in 2022 was 22 markets. In total, we added 50 retail chain customers around the world. As you may imagine, selling products into retail chain is a very different proposition from operating a direct selling distribution model.

As such, we're building a new consumer-facing company within our legacy direct selling consumer push company. Perhaps no better showcase for our growth strategy was the success we had in Korea last year. Korea is among the most advanced markets in the process of building an omnichannel ecosystem. In 2022, Korea surpassed Indonesia, our third largest market in the Asia Pacific region behind China and Malaysia. In total, Korea grew 16% last year in constant currency. As core sales increase in middle single digits and B2B expansion, particularly in TV shopping, added over 10 percentage points to growth.

We're learning from this success and are sharing best practices in many markets around the world throughout this 2023. While it's still early days, these initiatives sell validate that our growth strategy to expand the consumer access to our products beyond the direction distribution channel. Third, the new product introductions. We have many successful introductions over the past couple of years that really gained traction last year. It's our goal to continue to move into new product categories where we believe iconic Tupperware brand may resonate with consumers.

Our entry to small appliances was highlighted with air fryer. We launched air fryer late 2021 in China. Due to its success, we expanded its launch to Philippines, India, Japan, EMEA, showing similar success. Our most successful product reduction last year was a supersonic chopper compound, which uses a full course quickly and conveniently to chop up herbs and vegetables. New products accounted for 14% of sales last year. This year, we're moving into new product categories. First will be the cast iron cookware such as Dutch Ovens. Second, we will introduce a unique reusable silicon bag that are decided to replace the single-use plastic bags.

Our system has an innovative seal system that we have filed patents for. Every year, over 500 billion single-use plastic bags are used worldwide, which is over 1 million bags every minute. At Tupperware, we're looking to reduce single-use plastic anywhere we can. Fourth, rightsizing. As we said in our last call, we look to spend an additional $100 million in rendering cost over the next 3 years. In fact, we're running slightly ahead of scale. By the end of the program, we expect to realize more than $60 million in annual cost savings.

We remain committed to rightsizing the business in further manufacturing and supply chain optimization. And fifth, new leadership. Last spring, we hired a new CFO to help us better navigate our turnaround plans. In the summer, we hired a new Executive Vice President of Supply Chain to help us optimize our

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supply chain network and improve service levels. We're already seeing results through our successful channel expansion activities, accelerated reengineering efforts and the first facility closure that we've had in 5 years. And finally, last quarter, we established a new position of Chief Commercial Officer, who provides holistics oversight of our commercial growth of lands while delayering and simplifying our go-to-market infrastructure.

Now let's turn to where we plan to focus our 2023 efforts as we pivot towards the next post pandemic phase of our plan. First, in our direct selling business, we're facing out the virtual storage kit that we introduced in the early stages of a pandemic. At that time, it was a way to keep the recurring engine running during the time of limited in-person activities. However, given this relative inexpensive price point, we found that we were attracting more discount buyers with lower retention to the brand.

With the elimination of the virtual kit, we expect the pendulum to readily send back to business builders, who should also benefit from the recent return in-person events since that's where recognition and training is most effective. Well, it is early days. We have already seen some favorable movement in those selling markets where we eliminated the virtual kits. We also expect the post-pandemic phase to benefit from increased consumer mobility. Many markets in Asia, particularly China, operated studio models where -- are reliant on consumer foot traffic.

In these locations, consumer into our location is run by a member of our sales force to purchase our products. China had a very difficult 2022. Sales were down 27% on the year as Zero COVID policy impacted consumer access to our products. Now that the government has reversed course, we expect the business in China to improve as the year progresses, but market conditions there remain uncertain. One bright spot has been the adoption of our digital tools eTup, during the lockdowns, making China among the most advanced markets with regards to the utilization. Our initiatives for 2023 in China include accelerating the digitilization trend to improve retention and productivity, new products launches such as casserole and cookware coder on-the-move drinking bottles and small appliances.

B2B channel expansion, including e-commerce, and optimizing our cost structure and working capital to improve cash flow. Elsewhere among our big 4, the U.S. and Mexico were impacted by nonrecurring and overall sales force productivity as well as lower volumes due to price increases. The U.S. was further impacted by a longer than anticipated adoption of our compensation plan chains. Sales in the U.S. were down 19% in 2022 and Mexico was down 7%.

Our focus for 2023 in the U.S. will be twofold. First, improved service, both in product delivery and systems reliability. While we're entering the year with a smaller sales force, we have created a space for new members to make money from day 1. So we think retention and productivity will improve. Additionally, we believe that a greater number of in-person events, coupled with the promotional activity that increases the income to the lower level sales force members should help drive top line growth this year.

Second, we will continue to invest in our B2B efforts in retail and home TV shopping. In Mexico, we will introduce new products in our core food storage categories, such as packable freezer mates and cold savers as well as one touch fresh food storage containers with easy to close and open it, which is one of our newest global products.

This, along with an improved service should drive growth towards the second half of the year. Brazil ended a year with a good momentum, as sales were up 15% in the fourth quarter, which we're currently expecting to carry into 2023 for the direct selling business. Added to that, Brazil is pursuing opportunities in e-commerce loyalty programs, Tupperware stores, premium brand partnerships and retail B2B. Finally, it's worth noting that Brazil and Mexico together account for over eight quarter of sales and even more of our operating cash flow and they remain very healthy and profitable direct selling business. Now over to you, Mariela.

Mariela Irene Matute
Executive VP & CFO

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Thank you, Miguel. And good morning, everybody. Before I get started, please note that our results announced today are preliminary as we complete our year-end procedures and external audit with open items related to tax. We plan to file our 10-K before the deadline of March 16. For the full year 2022, dollar reported sales declined 18%, to $1.3 billion.

Excluding unfavorable currency exchange, sales declined 14%. Pricing accounted for an 8% benefit which was more than offset by a decline in unit volume of approximately 22%. 2022 also had an extra week, which provided for about 1% of growth. By region, Asia Pacific declined 19% in local currency, mainly related to lower recruiting and overall sales force activity. COVID lockdowns in China, logistics delays that impact our product availability, higher prices and lower consumer spending in Malaysia caused in part by removal of government subsidy in Food essentials.

These were partially offset by strong performance in Korea, as Miguel highlighted earlier. Sales in Europe decreased 23% in local currency, driven by lower sales force activity and lower consumer spending. Because of the continued deterioration of consumer sentiment, higher inflation, higher gas prices and price increases. In addition, the segment was negatively impacted by timing of our B2B business transactions, mainly in Germany.

We are encouraged that Europe is showing signs of stabilizing since the end of 2022, beating our internal forecast and started 2023 in a similar fashion. North America sales decreased 16%, primarily mid to lower recruiting and overall sales for productivity. Longer-than-anticipated adoption of compensation plan changes in the United States and Canada and negative impact from price increases. We expect that the improving economic profile we began to see in Q4 will sustain in 2023.

Thus America self-increased 10% in local currency driven primarily by Argentina, from a larger total and active sales force. Including from higher retention, higher productivity as well as higher prices due to inflation. With the plant in Argentina and the momentum in Brazil coming out of the fourth quarter, we are optimistic about this region in 2023. Company-wide, we closed 2022 with a max 18% lower active sales force than we did in 2021, which will continue to pressure the top line for our direct selling business.

While this should be somewhat offset by expansion elsewhere those B2B channels are still relatively small as a percent of our overall business. Gross margin in 2022 was 54%. A decrease of 200 basis points from 2021. The decrease is primarily due to higher manufacturing variances and inefficiencies due to the lower sales volume, higher rising costs and other inflationary pressures as well as adverse product mix, partially offset by the benefit from price increases.

Gross margins were up year-on-year in the fourth quarter for the first time in 6 quarters as the benefits from our pricing actions throughout the year began to be realized. Selling, general and administrative expenses, SG&A, as a percentage of sales was 57% in 2022 compared with 52% in 2021. And contributing about 500 basis points increase at incremental investments in our growth initiatives, such as B2B expansion in the U.S. on the assumption of fixed cost on the lower sales and higher selling costs with a return to in personal events and meetings for the sales force.

Interest expense decreased by $3.5 million in 2022 to $31.7 million. The change in interest expense is related to a slight decrease in the company borrowing as well as a decrease of 6 percentage points in the interest rate of the term loans as a result of the debt refinancing in late 2021. We note that the interest rates have risen in the second half of 2022. And the basis point spread on the debt has also increased as a result of the pricing from our recently amended credit agreement.

Therefore, we will expect meaningfully higher interest expenses in 2023 than what we reported in 2022. The effective tax rate was unusually high in 2022, primarily due to the write-down of deferred tax assets that represented over 70% of our pretax income as well as jurisdictional mix of -- mix of earnings. We expect the tax rate to remain elevated for the near future.

In our 10-K to be published by March 16 or earlier, we will also include disclosures of material weakness in the income tax process. As the company did not design and maintain effective internal controls related to the accounting for the completeness, occurrence, accuracy and presentation of the income tax provision and related income tax assets and liabilities.

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Adjusted EPS was lower due to lower sales volumes and margins mentioned above, coupled with a higher adjusted tax rate than in 2021. Additional foreign currency was at $0.81 per share hit to EPS for the year. Our trailing 12-month bank covenant leverage ratio was 4.9, within our recently amended maximum leverage ratio for the fourth quarter of 5.25. In our new amendment credit agreement announced this week, our maximum leverage ratios increased. They are now 6.25 for the first second and third quarters of 2023, a stepping down to 5.75 in the fourth quarter, and first quarter and second quarters of 2024, then stepping down to 450 for the third quarter and beyond of 2024.

There is also change in the [numerator] since we will no longer offset our debt balance as with net cash. For example, our 4.9% leverage ratio in the 2022 4th quarter will have been 5.6% under the new formula.

As we close the book on 2022, our financial goals for 2023 are simple. Shore up our financial foundation and continue to invest in our growth initiatives. We will protect gross margins with additional price increases as necessary. We will have a laser focus on reducing our inventory levels and resizing our fixed cost base and optimizing our manufacturing and supply chain footprint. Meanwhile, we are investing in new products, new categories and most importantly, new ways to reach consumers.
As our successful entry to target stores in the U.S. and our creation of a healthy omnichannel ecosystem in Korea have shown us. When consumers have access to Tupperware products, they choose them. With that, we will open the line for questions.

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Question and Answer

Operator

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

Anthony Chester Lebiedzinski
Sidoti & Company, LLC

So first, wanted to see if you guys can talk about China. What have you seen since they stopped the zero COVID policies? Have you seen any incremental improvement? How should we think about that?

Miguel Angel Fernandez
President, CEO & Director

So Anthony, this is Miguel. So actually, it was last week in China. The way we saw it is that when it opened up, obviously, a lot of people got sick, right? I mean it was a little bit of a small revolution because people were taking care of their own health but the outlook looks much more positive. Obviously, people are coming back to a new normality. And as I said in my previous remarks, we see that China is only going to get better. But obviously, we need to wait for the consumer reaction in this next 3, 4 months.

Anthony Chester Lebiedzinski
Sidoti & Company, LLC

Got it. Miguel. And then in terms of the sales to Target and some of the other sales channel expansion activities, can you guys talk about -- can you -- is there any way you guys can quantify sales to -- to Target -- some of these other expansion channels?

Miguel Angel Fernandez
President, CEO & Director

So we obviously, let me just start with the most important thing. We're ahead of our expectation and also target expectations in our initial offers with them. So it's one of the bright spots of 2022. Still, overall company, we're just initiating obviously, our relationship with all these retailers around the world. So it's not material yet, but it's going to -- obviously, we expect high growth in that area. So that's what we can share right now.

Anthony Chester Lebiedzinski
Sidoti & Company, LLC

Got it. Okay. And then just switching over as far as the new credit agreement, Mariela, what's the interest rate that we should think about as far as we update our models with this new credit agreement ? And also just as a quick other question as far as the tax rate, obviously, was elevated. What's kind of the right way to think about the tax rate for 2023.

Mariela Irene Matute
Executive VP & CFO

Anthony. So before I start answering your questions, let me point out that our press release had an error in the gross profit of the fourth quarter and clarify that the gross profit for the fourth quarter, the appendix is correct, and it was $196.5 million for this quarter, and it was $240 million for the year ago. So let me now answer your question about interest rates.

As you have seen, the market trends, our interest rate is going to increase as a result of -- our bank agreement as well as the macro trends. And we expect that the trend will continue as you would -- as you saw it in the Q4 results.

Anthony Chester Lebiedzinski
Sidoti & Company, LLC

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Okay. Got you. Okay. And then just in terms of the tax rate also, if you could just -- obviously, this was unusually high tax expense that you had in the fourth quarter, if you could just help us think about the tax rate here going forward?

Mariela Irene Matute
Executive VP & CFO

Yes. So for our tax rate, we expect the tax rate to continue to be elevated. In this year, we have a series of onetime items related to the valuation of our deferred tax assets. When we exclude those write-downs, the write-down with over 70% of our pretax income. So we are still -- have plans to normalize the tax rate in the coming years. For the next year, I will -- expect the tax rate to be higher, excluding these deferred tax assets write down.

Anthony Chester Lebiedzinski
Sidoti & Company, LLC

Understood. Okay. Well, that's all I have here. I'll pass it.

Mariela Irene Matute
Executive VP & CFO

And -- also to complement our tax strategy. We are in the process of finalizing our strategic plan of growing several countries and then expanding the retail channels. And as we do that, it would take some time to match our tax structure to our countries where we are rapidly growing.

Operator

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

Chasen Louis Bender
Citigroup Inc., Research Division

Great. I'd like to start on the inventory side. Obviously, you've talked about the inventory management efforts. Can you tell us what inventories were at the end of the quarter? And just given how much cost inflation there's been this year, is there any way to dimensionalize how much of that inventory is kind of up on a volume basis? And so what sort of opportunity there is for you to reduce that in '23, given that's probably going to be one of the levers you pull in staying within compliance of those financial covenants.

Miguel Angel Fernandez
President, CEO & Director

So I'm going to start with the -- Jason -- So I'm going to start with the ways we're going to lower the inventory. And then I'm going to pass it over to Mariela so she can give you an exact number. So basically, what we're doing differently this year and we started over in Q4, is that all of our promotions and all the promotional activity that we're doing, the prices that we're giving and the incentives that we're giving to our sales force are also product that we have in inventory. So that's basic -- that has basically been proving very, very successful for us because they get a -- they get a gift and they can resell the gift and they actually earn even more money -- more money than what they were expecting. And again, this is one of our top priorities to lower the inventory so we can untrap that cash.

Mariela Irene Matute
Executive VP & CFO

And if I can complement with the numbers, we ended the quarter with $215 million of inventory, which was down for about $230 million a year ago and the trend continues to repeat. We have plans to repeat that reduction in the coming quarters.

Chasen Louis Bender
Citigroup Inc., Research Division

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Got it. And just kind of staying in the vein of inventory and cash management and as it relates to the updated credit agreement. Obviously, you've said that you expect to remain compliant and clearly, with the amendment you've got a little bit more breathing room over the coming years. Can you just speak to your confidence in remaining in compliance with that and perhaps touch on some of the assumptions you have for business -- for the business that kind of underpins that confidence?

Mariela Irene Matute
Executive VP & CFO

Yes. So we have a very supportive bank group with our -- across our negotiation process. We have a plan to continue to produce EBITDA in this company on better EBITDA than the past year of 2022 plus cash generation from our working capital management as well as our engineering plans that will produce an year benefits in the years to come as we continue to rightsize this company and place Tupperware products in all the channels where consumers look for them.

So we expect to continue to generate cash as a company, and then the bank agreement will -- will now allow to continue the turnaround plan for the year 2023. So as of today, we're confident that we will be able to operate without substantial doubt in 2023.

Chasen Louis Bender
Citigroup Inc., Research Division

Got it. And then just switching gears. I believe on the pricing side, you've mentioned further price increases expected in '23. Just wanted to confirm if that's still the case? And if so, can you kind of wrap some color around what the magnitude of those increases might be? And then clearly, we're seeing the impact of the prices you've taken in '22 -- flow through on the last 2 season markets like North America. But perhaps you can dimensionalize how less of these have shaped up compared to your expectations? And how do you think about managing the trade-off between the 2?

Miguel Angel Fernandez
President, CEO & Director

So Jason, again, Miguel here. So basically, 2022 was a really tough year from the pricing point of view. As you know, we had inflations everywhere in the world. Really high. We took even a double-digit price increase in countries that we've never -- we haven't taken a price increase in 10 years. So obviously, that had an impact in consumer and consumer sentiment. And that was one of the big headwinds that we had last year. This year, which is very different, we're going back to our normality of price increases, which in the countries that they have higher inflation, this is what we've been doing for years.

So we don't expect anything different. And the ones that we haven't taken or we traditionally take less than 5%, we're going to take less than 5%. We feel that we already protecting our margin. We're in a good space. The variations that you see are perhaps either a country mix or product mix, but we're in the range that we want to be in. So that is one of the big headwinds that we're going to have in 2023.

Chasen Louis Bender
Citigroup Inc., Research Division

Got it. Appreciate the color. And sorry, just one last one, and I apologize for being a hog. I get that the expansion to Target and some of these omnichannel efforts are still relatively small. And I get that they were structured originally in such a way that they would be augmentative to the additional effort from the sales force. But now that the product has been on shelf for effectively a quarter, has there been any change in sort of behavior or attitude from the sales force members now that they are in a sense, competing with Target? And I get that's competing is not exactly the word, but now that the 2 are effectively live and product is available at the same time.

Miguel Angel Fernandez
President, CEO & Director

So you're right. Competing is not the right word. I think it's -- it's for us -- is a learning and it's balancing. But I think as we gave us an example, Korea in the previous remarks, if and when we create a perfect

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omnichannel ecosystem, it works really well. I mean some of them obviously grow more than other ones. In terms of the U.S., the products that we've chosen are just a couple of them are very similar -- for other ones are products that we never sell in the U.S. And some of them are Heritage lines, which are the top sellers that we used to sell them in the U.S. for long time ago.

And this is the way we want to operate because it brings brand relevance. And it's like -- I'm going to call it data advertising because we obviously, we made a -- we want to make money on these retailers but also brings the top of our brand and that iconic brand that we have brings it to the mind of consumers that we're not accessing right now. So it's a matter of time to get there. But you got to remember that our sales force, they normally on any given month, they sell over 200 different SKUs, whereas we have a very limited amount in target. Right now, target is, I'm going to call it, probably 1% to 2% of our sales and 98% is coming from direct selling.

So it's -- obviously, it's a journey, and we're going to continue to learn. But right now, Target has such low penetration that is -- we haven't seen any change in the behavior of our sales force.

Chasen Louis Bender
Citigroup Inc., Research Division

Got it.

Operator

The next question comes from the line of Linda Bolton-Weiser. Linda?

Miguel Angel Fernandez
President, CEO & Director

I am sorry. We cannot hear. Operator, can you hear us?

Operator

Yes. I do apologize. I just had technical difficulties.

Miguel Angel Fernandez
President, CEO & Director

So we cannot hear Linda.

Operator

Her line is open.

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

Can you hear me? Nice to hear you. So can you just comment on the cost environment because -- actually, A lot of the cost elements are starting to come down. I don't know if you're seeing plastic resin actually coming down or not and things like freight and shipping. Can you just kind of comment on kind of what you're seeing on that side of things?

Mariela Irene Matute
Executive VP & CFO

Yes, Linda we had -- in average in the Q4, we still saw an increase in input costs and I think you would remember some logistics disruptions we have when China opened up as well as our plans to improve service levels across the Tupperware ecosystem for 2023, we are expecting some of our resin costs to go down as well as our supply chain logistics costs in line with what you're seeing in other industries.

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

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Okay. And then I think in the past, Mariela, maybe you had mentioned or talked about a little bit like some IT investments in things like that -- that needed to be done in the company. What are your thoughts on that? And are there -- do you have a thought on what capital spending might be in 2023?

Mariela Irene Matute
Executive VP & CFO

Yes. So we continue to prioritize our investments and balancing our decisions with our desire to delever this company and reduce debt over time. We put some CapEx plan that is similar to what we executed in 2022. And some of those investments are dedicated to upgrading our digital infrastructure to allow our sales force to transact online as well as upgrading our network internally to be global and standard and those investments continue. From time to time, we may slow down the pace to balance our obligations with our debt holders as well as other commercial investments with the -- the plan continuously then.

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

Okay. And then are there any thoughts -- I did see your product at Target and it looks very nice, and it was a nice array of SKUs and then the next time I went to see it was all gone off the shelf and then I didn't see it replenished very quickly. So have you done so well at targets that you're having trouble actually keeping the supply replenished? Or like how is that going?

Miguel Angel Fernandez
President, CEO & Director

So it's going really well. It's going better than their expectations and our expectations. We know that we've been fulfilling target the way we agree with. So every time the POs come in, we're being -- obviously, it's a big prior it's a high priority for us. So I think it might have been in that sort of a little bit of a logistic issue within Target. It might have been probably a bad luck but -- but yes, I mean, things are going well, really well -- for us in Target.

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

Okay. And then -- can you just maybe give a little more color on the North American decline because you did make some comp plan changes, and I know it was like a matter of time before those kind of got settled out and stuff. So is that still in place, the comp plan changed? And like can you just give some color on why that was so disruptive? And then is it going to get better? Or kind of what's the situation there?

Miguel Angel Fernandez
President, CEO & Director

So obviously, we believe it's going to get better, and it's going to be better from many points of view, but this is what I call sustainable growth from profitable growth. So the way -- it was designed before was that every time we grew, our variable costs grew just as much. So we couldn't -- we couldn't capitalize on the growth in terms of bottom line. So we made a few changes on the compensation of the top leaders, which obviously has an impact on their under morale and their attitude. We believe we're still compensating firmly and competitively compared to other companies.

And the other big change came from the -- from the little guys, so the stores -- they are -- the guys that are just beginning when we were in COVID, we implemented a visual kit, which was -- almost afraid to get into the business and immediately would get 25% -- of discount. Which is the maximum discount. So basically, that is a friendly proposition for our consumer, but not a friendly proposition for a person that is starting a business because, obviously, everyone has access to that 25% discount, so I don't have the space to make money.

So that was the other change we made. We -- Were -- eliminated that virtual key. Obviously, our recurring numbers are going to go down, but the recruits that we're going to have are business-oriented people where they're actually going to -- make money. And we believe that is the new people start making

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money, then eventually is going to benefit the top guys are going to have higher volume on their venture going to go back to the absolute dollars that we're making before.

Obviously, the return on sales and the profit and the margins in the U.S. look much better right now than they used to look 6 months ago. We took a hit on sales, but now we have a solid foundation to build a profitable, sustainable business.

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

Okay. That's helpful. I guess that's all for me.

Operator

There are no further questions at this time. I will now turn the call over to Miguel Fernandez for closing remarks.

Miguel Angel Fernandez
President, CEO & Director

Well, thank you very much for being with us. This morning. Looking forward to seeing you in 3 months, we are going to continue to build this company to where it belongs and make the business as big as our brand. Thank you very much.

Operator
This concludes today's call. You may now disconnect.

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