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TUP - Q3 2014 Tupperware Brands Corp Earnings Call

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OVERVIEW:

Co. reported 3Q14 sales growth in local currency of 4% and diluted EPS without items of $0.90. Expects full-year 2014 sales in local currency growth to be 4-5% and diluted EPS without items to be $5.21-5.26. Expects 4Q14 sales in local currency growth to be 3-5% and diluted EPS excluding items to be $1.55-1.60.

CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Tupperware Brands Corporation third quarter 2014 earnings conference call.

(Operator Instructions)

I will now turn call over to Rick Goings, Chairman and Chief Executive Officer. Please go ahead, sir.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Thank you very much. I'm in Orlando with Mike Poteshman, our CFO, and Lien Nguyen, our new Head of Investor Relations. Lien's has been with the Company for eight years. She was in IR last year, and before that she was one of the key people in our strategy group.

Teresa Burchfield, our former head of IR, is now the Chief Financial Officer of our US and Canadian business. We tend to move people through our organization as they get more experience.

At any rate, let me move forward. As usual, some of our discussion will involve the future outlook of our business, so I refer you to the Company's position. You know the drill on that. I say slide 2, a reminder, I'm going to reference slides that you can follow along with this call that can be found in our IR site.

Let me go to slide 3, and let me acknowledge that it's been a tough external environment, more than usual. Russia and the Ukraine situation and sanctions, issues in the south border of our wonderful Turkish business, particularly the border to Syria, the situation in Venezuela.

There's been pressures in a lot of places of the world, but we look at it holistically, and the world is mostly stable. We're out there in most of these markets.

I must say that we're committed, and in these markets, not just for a year or two but for their potential now and in the decades ahead. We have many markets where we have long runways, and we've got a lot of experience navigating through whatever is going on in the world, be it political, be it economic. We generally find our way even through those distractions.

I am pleased that we were up in the quarter, sales came in 4%. I'm going to try not to be redundant with what's been printed. This is in the middle of our outlook range that we gave you.

Sequential improvement from our plus 3% in the second quarter, and as we highlighted in the release this was in spite of a much smaller contribution from countries like Venezuela, where there were significant changes in not only the exchange rate, and therefore their contribution, but also what we had to do with regard to the government there with regard to our margins. More on that later.

Our established markets were down 4%. That was better than what we did in the second quarter by 3 percentage points as expected. CIS and Germany, they both had nice deltas in the quarter, and we were pleased with that sequential improvement.

Our emerging markets came in up 8%. While it isn't a strong double-digit we are used to for almost the last decade, there are some elements that really caused that or that tend to be isolated and temporary. Actually, we think we can get back to double-digit trend lines in these units soon, maybe even in the fourth quarter.

We are not on the other hand pleased with our profitability in the third quarter or in our outlook in Q4. While we delivered third quarter EPS and our outlook range, our spending levels, specifically in South America and in Europe, they were elevated. Mike will explain more on this in a bit.

We continue to see some of this continuing into the fourth quarter. You see it reflected in our outlook. Some of this spending was promotional, and also some of it had to do with growing pains in our Brazilian business.

On slide number 4, our sales force you see now at 2.9 million, up 5%. You see also in that slide the active was down 2%. We can explain on that.

Our analysis shows us that 2.5% of this difference is from mix shift among our units. You don't get see all that stuff, but always, I'll leave it to Mike to explain that. The remainder is really driven mainly by inflation and price increases in South America.

Looking at slide number 5, I'm going to review some specific market performance. As we often do here I'm going to segment it by three categories; number one, the strong performers, two, those markets showing improvement, and third, the laggards. This is how we tend to always manage our portfolios.

Let me begin with the strong performers. Brazil out of the gate is our largest market in South America, and once again it's a star up at 21%. It's been at a very strong double-digit run rate for about seven years. Fortunately we've had normal service levels starting in September after big problems in Q2 and the beginning of Q3 including a record campaign we just finished in October.

Unfortunately, the elevated costs of our distribution impacted our margin. Frankly, this is a mea culpa.

Two years ago when our operations people pushed for additional warehousing and distribution location, we were too conservative, and shame on us. It has really caused some disruption.

Let me move to Mexico. One of our units over, $100 million in annual sales. It was up 9% in the quarter, our Tupperware business there. That was a sequential improvement of 7 percentage points.

As you recall last quarter, we had a 5-point drag comparison with less B2B than 2013. There was no meaningful impact from B2B in the third quarter although there may be some in the fourth quarter.

We do big business with Soriana which is a big chain that actually it's a bounce-back to get people to then get one Tupperware product, and come back and complete the set by going to a Tupperware party. Over the years, we only do a certain amount of those really stimulate our business and grow our customer base, but it is of value.

Let me turn to Asia-Pacific. There we saw strong growth in China, up 24% driven by a combination of increased outlets and also increased productivity. We now have 4,600 of them there which is up 15% from the end of September last year.

Indonesia too, our big business that's actually our largest in the world right now. It was up 14% in the quarter in July. We mentioned a large second quarter price increase by this unit.

We had some lower activity that followed. This continued to impact the first part of the third quarter, but we also had good growth late in the quarter. I must also remind you that it's the largest Muslim country in the world, and Ramadan started in late June there and continued through the end of July.

At any rate, in Indonesia we continue to work on activating our new consultants. I think we've made a lot of progress there. We're still on track for double-digit growth for the entire second half of the year.

By the way, it was also worth noting, as you saw in the Wall Street Journal Europe, and following very closely the elections. You had a populist former mayor of one of the major towns against actually one of the former general whose father was president, and this was really, a lot of people were watching and wondering, could the populist win? And they did.

We have been happy to see the level of how they have evolved to a real democracy from more than 20 years under Suharto. It's, again, amazing. It's the largest Muslim population in the world, but it is not an Arab attitude Muslim. You see really a gentle, engaged population there. I feel very good about Indonesia's future.

Let me turn to Europe. We're showing strong growth there in our Southern Africa Avroy Shlain business. Our Middle Eastern businesses, they are not very big, [but it's amazing how you get growth. Egypt is 64% of the Middle East, Lebanon is 36%] (corrected by company after the call). I guess the only reason I indicate that is because even in the midst of disruption of what's going on in the Middle East, our business navigates through that.

I used to be asked often why we did with the guerrilla activity in the Southern Philippines and Mindanao, how we continued to do business, and we used to add because I did the interviews. Her husband may be a radical, but she sells Tupperware during the day. We find a way to navigate through it because we're dealing with local people and providing them an earning opportunity.

Turkey was up 9% in the quarter. It would have been more, but this might look negative because we were up 28% in the second quarter, but again this is back to Ramadan. We start to shift some of the sales from June to July.

Our campaigns, it isn't a question, we shift when we send; it's how the distributors manage it. If you normalize both of those quarters you still see they're operating at a run rate of about 20%.

I was just there about a month ago. Business there looks wonderful. It is remarkable. Our president of our business there is a woman, and on the same days that we're holding wonderful chain of confidence meetings with rooms full of hundreds and hundreds of women, who are talking about empowerment and enlightenment, the government is talking about they don't think women should really laugh in public. I have never seen a country with so many conflicting views, but we have a great business there.

Let me move to our businesses where we're seeing some progress also. Second quarter, we saw sequential improvement in Germany.

Germany was down only 6% in the quarter, so a lot better than what we saw in Q2. As mentioned, we moved very quickly in Germany to add more stronger motivation to the business.

Frankly, with my appraisal of the situation is I believe that over time we allowed some of the sizzle in our German business, and direct selling is really a sizzle business, the sizzle in our products, in our promotions, and even our tone at the top can get a little bit too cerebral. I think we're getting back to the right thing again. We've got a good dynamic managing director, new head of sales, and their dynamic marketing director. These are 30-some year olds who have been with us in some cases a dozen years, and trained well there and in other markets.

We're not sitting on our hands in Germany, and we hope to see more progress moving forward. Italy did well in the quarter, up 4%, and that was on top of a 12% increase in last year's quarter.

France was up modestly in spite of the macroeconomic environment there, still stable after being even in the second quarter. South Africa though had a tough quarter in our Tupperware business. I've got to say the bulk of this had to do with the strike early on, and a strike that lasted almost a month, and a strike that actually at times turned violent.

We mentioned in our second quarter call that we were going to try to accelerate some shipments into June in anticipation of the strike, and we did that, so it took it away from the third quarter. Incrementally, this disruption in our supply chain impacted our promotional campaigns through August.

The good news is business performed well in September, and we expect to see sequential improvement in the fourth quarter. I think even above all of that peace and stability has really returned to the operation there.

Let me move on to Tupperware US and Canada. Business was up 3% in the quarter. This was a sequential improvement of 9 percentage points, when we lapped our overly aggressive promotion from 2013.

Back then actually in the second quarter, I believe we bought sales. This was the right direction.

Moving to Beauty North America, there is a distortion there. We closed our small Armand Dupree US business which accounts for most of the negative sales comparison for Beauty North America.

Simply stated, it was a small business. It was taking way too much of management time, and we just agreed strategically, get rid of distractions.

When I look at our businesses here, I am pleased to see that our Fuller Mexico business, it moved 1% in the quarter, showing signs of stability. Interesting, we're not playing this promotional discount game that we're seeing with the major competitor down there, and so we're making progress.

When we get sales in this level almost flat. Even though we've got a sales force size deficit, it shows qualitative improvement with regard to productivity. We feel good things are going to happen as we move there.

We continue to work on attracting the emerging middle class, and we're moving our brands up to this Armand Dupree which is our prestige brand down there, and in skin care and in fragrance. Those are the kind of consumers that we're really looking for, and they tend to have much more dedication to those kinds of brands.

BeautiControl, after a better second quarter, not a good third quarter. We did though finally launch the rebranding of their new color cosmetics which they call three looks, work, weekend, and wow, at their annual sales force event, so we'll keep you apprised on our progress there.

Turning to Venezuela, someone asked early on in the day, why are you guys still there? We have 75,000 women there who, while it may not be a good business environment for us or them, for many of them, it's how they feed their family.

We the management team have been very proud to come up with a method of how we can mothball our business there, still supply the business there, and try to keep down the levels of cash that we need to invest in the business, but keep that as a lifeline. Mike and the team have just done a fabulous job there, and I think even we've got Mike some more cash out of Venezuela than we even thought we would get.

Everybody must remember, largest oil reserves in the world, I thought things would get better at Chavez. His replacement is even worse then Chavez because he's not as charismatic, but he also does not have the same level of support. I don't think this is going to be a long problem in Venezuela.

Now let me go to our lagging markets. CIS is down, but sequential improvement in the quarter, still disappointed with our third quarter results there. After 10 incredible years of growth, it seems like we're given a lot back. We grow a little bit too fast, and it wasn't enough focus on fundamentals of the business.

We got a little too far stretched into the Urals, and then we depended too much on promotional actions to drive sales like pricing and discounting, and not enough on teaching people the fundamental value proposition of our products. It's going to take quarters to get this business back on track. The good news is, it's still profitable.

India, and I might add with regard to CIS before I even go to India, the actions of Putin not only in the Ukraine, he's never been more popular in Russia. There has been a lot of disruption there, and it has caused distraction in our business. If it was the way it used to be, I think we could get this thing moving faster, quicker up.

India, work in progress, we had seven years of double-digit growth there. Our momentum when we go back and do regression analysis, it seemed to have really shifted when the rupee was devalued, and started to have some compression of their middle class.

Simply stated, I think we've got great people running the country there. It's huge potential. Most recent studies show India has the world's youngest population, and they will outpace China as far as being the largest country in the world. We're only about 15% penetration level there.

Good news too on the political front there, the Prime Minister Modi, just had a visit to the US, but even in the country there, this is an individual who really is pro-business and wants to see more of their women become entrepreneurs. I think we're going to have a lot of government support there.

Malaysia, Singapore was down modestly in the quarter. We had some sales there pulled to the second quarter. Again, Malaysia is a Muslim country, and that was the effect of Ramadan.

It's a highly competitive market, but we've got a good business there. We have been there almost 50 years, so we continue to work on how to activate that sales force.

At any rate, enough from me on that global scan. I'll take it back from Mike in a moment, and then will do some questions. Mike, let me turn it over to you.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Thanks, Rick. On slide 6, and as Rick highlighted, our plus 4% did sales and local currency was in the middle of our external range for the third quarter, and better than our plus 3% in the second quarter. As we had expected on the year-over-year comparison, we did much better in the third quarter than the second quarter in CIS and Germany. It's worth noting as well, overall we were able to improve versus the second quarter after overcoming a much smaller contribution to growth from Venezuela.

From that unit in the second quarter, we got 1.7 points of our overall 3% growth, but in the third quarter just 0.4 points of growth from Venezuela. The decrease in Venezuela contribution was of course mostly of from the weaker exchange rate used, but also reflected the late second quarter selling price reductions mandated by the government there. Versus last year, the biggest contributor to our local currency growth in the quarter were Brazil and China, where we over 20%, and Indonesia, where we grew in the mid-teens.

As you can see on slide 7 now, our diluted EPS without items at $0.90 was in our range even though we took a $0.02 hit from foreign exchange versus what was included within our guidance from July. With our sales growth at the midpoint of our range, we would normally have been better on our earnings, but we had an incremental drag versus what we had expected from elevated costs in the supply chain in Brazil. This cost picture is expected to continue for the next couple of quarters before normalizing as we move through 2015.

As Rick mentioned, to the extent that there is good news here it is that beginning in September things have been running much more smoothly from the viewpoint of our interaction with our sales force. In addition to the situation in Brazil, we had some severance and underleveraged promotional spending in Europe in the quarter. We do expect to be able to get better leverage on our promotional spending in 2015 here, and expect to get back into local currency sales growth.

We should achieve a more normal relationship between incremental sales and profit in Europe than what we had in the third quarter and was built into our outlook for the fourth quarter. Offsetting these third quarter value chain hits in Brazil and Europe, we had lower unallocated corporate expenses, mainly for lower forecast achievement under our incentive plans and lower marketing costs. We also picked up $0.01 versus our outlook from a slightly lower tax rate without items although our rate was still up marginally in the quarter versus last year.

Turning to slide 8 reflecting the impact of the value chain items I mentioned in Brazil and Europe, along with translational FX, our pretax return on sales excluding items came in at 10.2% in this year's third quarter which compares with 11.3% last year. As you can see on this slide, 100 basis point of the decrease was from translation effects much of which is in the Venezuelan numbers.

There's also an impact from higher interest expense which we've been seeing is from a higher borrowing level than last year when we were still getting up to our new leverage target announced in January 2013, as well as from having more cash flow hedges in place. I'll comment on what we perceive for our fourth quarter profitability when I get to our outlook in a minute.

On slide 9 turning to cash flow, we were marginally below last year in the quarter on cash flow from operating activities net of investing activities. This reflected $8 million of negative translation effects on our net income.

As we look at the full-year, we now foresee cash flow in the range of $220 million to $230 million, which is a $15 million reduction from the range we gave in July, about in line with our reduction in our net income outlook. Our capital spending outlook for the year remains at $75 million and is reflected within the overall guidance I just gave.

On share repurchases in light of our updated outlooks for cash flow and earnings, and therefore EBITDA which are leverage target is keyed, we now perceive doing $105 million for the full year. This will mean $71 million of repurchases in the fourth quarter after having done $34 million year to date including the expected $10 million in the third quarter.

A word here as well on our dividend, we previously we said that we expect our Board to target declarations at 50% of prior, full year diluted earnings per share without items. This where our current annual run rate of $2.72 of dividends comes from, and that we made $5.43 in 2013.

While our 2014 EPS outlook is now below $5.43 we made last year, we expect that our Board will continue to declare quarterly dividends in 2015 of $0.06 to $0.08 per share, or the $2.72 on an annualized basis. The small amount by which this would exceed a 50% payout will be offset through the algorithm used to set our share repurchases. To refresh your memory on that, this used cash generated after investing in the business and paying our dividends along with putting our borrowing level at the 1.75 times EBITDA.

At 2.13, for the four quarters ended September, we're running above the 1.75 target both because the fourth quarter is our biggest cash generating quarter, and because of in setting our repurchases we're putting aside the amounts triggered by the Venezuelan exchange rate changes in the end of the first and second quarters. This Venezuelan element raised our turns by about 0.2 times as of September.

Turning now to our sales and earnings guidance of slide 10 for full year 2014, at plus 4% to 5%, there is no change in our local currency sales growth outlook versus where we were in July. This includes a 3% to 5% local currency increase in sales in the fourth quarter. At the high end of the range, the sequential improvement from our 4% growth in the third quarter is mostly in Asia and Beauty North America.

On a two-year stacked basis for the whole Company, the high end would put us at plus 10% in local currency in the fourth quarter after having been 11% and 10% on a two-year stacked basis in the second and third quarters. Our full year diluted earnings per share range without items is now $5.21 to $5.26 as shown on slide 11.

This is down from July by $0.24 at the high end and $0.19 at the low-end. The $0.24 reflects $0.12 of a hit from worse foreign exchange rates as we now stand at negative $0.60 from FX versus 2013 for the full year versus $0.48 in July.

Another $0.02 of the reduction is a flow-through of the amount by which we were below the high end of our third quarter range in local currency. Finally our fourth quarter local currency EPS outlook is down $0.10, mainly from our high end sales outlook being down 1 point versus July, along with the continuation of elevated promotional spending in Europe and the warehousing and distribution costs in Brazil.

On slide 12, within our guidance our outlook for unallocated corporate expenses is now about $56 million, down $4 million in July for expected lower incentive achievement and marketing expense, and that interest expense is now at about $44 million versus at about $46 million in July. Our tax rate assumption excluding items is to come in at 24.4% marginally below the 24.5% in our outlook in July. The full year rate compares with 23.7% last year.

On slide 13, our full year pretax profit return on sales without items is forecast at 13.6% which is down 30 basis points versus July and versus 14.1% last year. As you can see the pieces of the changes on the slide that along with the negative impact from translation effects, we've had an impact in our segments from the supply chain issues in Brazil, and less leverage from spending in Europe and Tupperware North America, with partial offsets from unallocated corporate expenses and interest expense.

Our diluted EPS outlook range for the fourth quarter excluding items is $1.55 to $1.60. At the high end, this would down $0.02 versus last year in local currency or 1%, and down 12% in dollars after $0.19 drag from foreign exchange of which $0.08 is from Venezuela.

Also on our outlook, we included in our release financial an initials sales outlook for 2015, where we've indicated we see local currency growth in the 4% to 6% range. This of course [bands] our high end of our fourth quarter and full year 2014 ranges for sales.

We've also highlighted in our release where we stand based on current rates as to foreign exchange impact on our comparisons with 2014. For sales, there is a hit of 4.4 percentage points and in earnings per share of $0.37. Of these impacts, 1.8 points on sales and $0.23 on earnings per share relates to Venezuela, in the first half until we lap the move to the Sicad II exchange rates starting in the third quarter.

Just to round things out now in resin, you've of course all seen the drop that has occurred recently in oil prices, and naturally the resin prices, particularly the less highly engineered resins, are somewhat correlated with oil and natural gas prices, but there's also separate supply and demand characteristics for these commodities. In any event our 2014 full year outlook for the cost of sales impact of resin purchases from price changes in local currency improved from July by $1 million to negative $13 million for the full year. Only about $1 million of this hit will be coming still in the fourth quarter, which is in our outlook.

Looking out to what we currently see for next year on resin, we're showing a full year $4 million benefit that is more heavily weighted toward the back half of the year. I will point out that in some geographies, resin prices do tend to be dollarized, so to the extent a currency depreciates versus the US dollar we get a benefit when the local currency appreciates and then take a hit if it depreciates. Anyway, with that, I'll pass the call back to Rick.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Thank you, Michael. We're going to open into the second to Q&A but just a couple of comments.

Over the last several earnings calls, I have been sharing with you that we created a group called 2020 which is actually 20 of our young, dynamic leaders from around the world. We did this two years ago, and what they're working on is really what are the next levers for us to have long-term growth?

We've had this wonderful 10-year run. We've now been working two years with this group. We meet about every three months, and there's adult supervision and to make sure that agreements that we make, we can fund them, and we can move them forward.

I will tell you a real focus has been taking into consideration, particularly the established markets of the US and Europe, but that the emerging markets which are 87% of the world population, and the forces under that. We're spending a lot of time, urbanization, the engagement of Millennials, new technology. We're making some real progress.

I will tell you, just outlining some of it, our dynamic model in China has provided us some insight on how to operate in dense urban markets through smaller local distributions centers, where you may not do as much per unit but you have them sprinkled all throughout the population. They become neighborhood-like, and we are now going to the point that we're going to be experimenting with a hybrid version of that in a direct selling model and a relationship group presentation model in Japan and Korea. We think there is going to be some great learning.

Also with Millennials, we've been shifting not only product line but what they want to do job-wise. It's interesting almost 60% of all Millennials say they don't want to traditional job. They really want to become entrepreneurs and us targeting the products and how they get started.

Actually, we're going to be doing some experimentation with Skype parties for Millennials, where a couple of people are present at the party at one place but then they Skype in their friends from other locations. We've got learning laboratories going on across the world on these kinds of things.

Working too with regard to better on-boarding and training, and that's coming out of this group, they're rethinking how they're going to do it. Our Brazilian team has created this incredible internal intranet site called Tupper City, where you go online as a new demonstrator, and all the sudden you see this city ahead that's Tupper City, and it's a simple and fun way to not only be brought into the business but to on-board yourself, but to feel a sense of membership in this community.

Anyway, we have another meeting in three weeks. I will be updating you on that.

We're even starting to do some wonderful things with regard to the product categories. I've put it together this way. We really offer to people an entrepreneurial opportunity, and the three key elements of that our product, what kind of products they're selling, and it's interesting in China, third of our product line is water related products.

The second piece of that is our demonstration of the features and benefits of the products. We generate only want to be in products where there are features and benefits that we can demonstrate, and we call our method there group presentation selling. The third thing we really leverage, and this is the core of this business since the beginning, is relationships, friends, neighbors, and relatives.

When you put those three together, products which is Tupperware Brand name, the presentation method which is demonstration, and third, it's sharing it with a relationship. This is the magic of our business. It works whether you're in Beijing or Boston. The key is, how do you contemporize it so it works well in each one of those markets?

Having said that, let's open it to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jason Gere, KeyBanc Capital Markets.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Thanks, good morning. A couple of questions, the first one, if we could meet talk maybe about the promotional spending that we saw that's going to continue. Rick, I appreciate you guys going to a 4% to 6% organic sales for next year. I know longer term you still talk about that 6% to 8%. Can you talk about the cost of doing business? Are you seeing that in many of these markets?

I can understand it's a portfolio that it's a new reality that there's going to be higher promotional spending on the way, and even so higher investments, what you've seen in Brazil to feed that growth but maybe other markets as well. I was wondering if you could just talk about the cost side of things in order to drive the sales that you guys think you should do longer-term?

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

I'm going to answer part one of that, and then which the overall strategically what's going to happen with this value chain. Then secondly, I will have Mike talk more about the short-term things that we needed to do here with regard to the kind of investment.

Firstly, overall, no, I don't think you're going to see a fundamental shift in our value chain. We had operating margins in 2005 of 5%. We've moved that up to midteens. Mike still believes very strongly that we can move it up 50 basis points per year. We've had some isolated incidents where we had to do some things. The important thing is if you don't do those things, Jason, you lose sales force on there. The important thing is do them quickly.

That's where some people talk about quality of life when somebody's on a respirator. It's not very good, but it beats what the other alternative is. You go in and shore up a business on that. As a look at our businesses overall, I think we're going to be able to maintain this in the high 60% gross margin level. I think our big opportunity for us is we can spend 14% to 18% on promotional costs, and I don't think we've done a good enough job this past decade at really teaching our young promotion managers in markets how to do this effectively. It's not only promotions to get customers to buy, but to get sales force to go out. We spend a fortune on incentives, and you're going to see us really get better at that.

I was saying at one of our meetings this last week, it isn't going to require new investment; it's going to require us learning better how to redeploy what we're doing, and stop doing some of the things right now that don't give us the payback. Fundamentally, I think this is a business that can deliver in these operating margins in the midteens. Mike, would you talk more on a short-term basis?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Sure, Jason. You asked about Europe, and it's one of the places that we highlighted in the near term. One of the places where we're spending more in Europe is in Germany where our current management team was looking at the situation with the top of our sales force organization, our distributors, and looking to rebalance a bit how much of the value chain we're keeping versus what they're getting also to drive the business. That's part of what's been going on in the third quarter and will continue.

There are several other markets where we're spending more than we were before as well. It's really to get a good base as we move into 2015 to be able to be there with the sales force and have everybody's heads in the right place. I do think that that will work out as we move through 2015. When we look at the situation more broadly, first I will comment on Brazil. Some of the costs we've incurred in Brazil are reflective of the volume growth we've got over time having to add another line to be able to pack and ship the products and things like that. In other cases, as Rick was talking about, it's not getting where we need to be as quickly as we should have and so there is some incremental costs there because of the labor situation, and how many people have to come in, their level of experiences, all those kinds of things. Of course those are things that we should be able to bring back.

As we look at the situation in 2015, some of these elevated costs will come back. Some will come back more. As we grow volume, there will be leveragable because we've gotten to this new plateau of infrastructure. As we look at the value chain overall and why will we get that 50 basis points, when you look at the range of the ROSs in our businesses, it's wide. There are some that are in a loss right now and some that are doing quite well, so the 50 basis points can be achieved by just, and I say just, but leveraging fixed assets or fixed costs that are in place, but that's not our only lever. These places where we're not getting acceptable profitability are clear redeployment opportunities where if we can spend better and get more out of our spending, we can grow sales without increment costs or greater leverage on even on the variable cost.

That's really how we look at it, and there is a lot of runway to go. Our highest ROS segment is Asia and the low 20s, where of course Beauti North America is now in the moderate single digits. There is a lot to do just there without having to get to some astronomical ROS in particular markets.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay. I guess just to clarify, you don't think that there is a longer-term need to spend to rebuild the active sales force? We've seen the declines there for a little bit. In many cases there's an investment and then over time you start to get those returns. I'm trying to think about, again it's a portfolio, trying to understand broadly speaking, how you think about turning that active sales force around, and what the drivers are to get there.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

It is fundamentally, we've got a sound value chain. We've got to make sure our distributors are always making money. We try to make sure in our traditional model they make 7% to 8%, and they net out of their retail sales of their business. In almost all markets that works quite nicely. When you have a market that added dramatic sales downturn there can be pressure on their breakevens and that's where we stepped in to help on those, but I don't think we've seen a fundamentals shift in that, no.

Jason Gere - *KeyBanc Capital Markets - Analyst*

Okay. Then just the second question and I will hop off, we're hearing initially about 2015. Obviously you've given us some pieces of the top line and a little bit on the cost side. We'll wait on the EPS. With the Venezuela headwinds, still some supply chain and promotional costs, Rick, can you talk about some of the things you are seeing that should swing positively for 2015, in terms of maybe new market opportunities or which markets do think will stabilize quicker? I know you broken the portfolio into strong, progressing, and lagging in terms of those markets. Which of the lagging markets do think are going to be progressing? Which of the progressing will become strong? If you could provide a little bit of the context in terms of how you're going to get that 4% to 6% sales next year that would give investors a little more color

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Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

On the top line, if I took it by areas of the world, Jason, I would start off with in our Europe-Africa-Middle East, and I would say this number we saw in the second quarter with Germany, it's been a very dependable business for us. You're not going to see dynamic deltas any quarter. It's a very solid business with a well-trained distributor organization. You're not going to see that drag this year. Even if only Germany was flat, look what kind of incremental impact would that be to the top line.

The disruptions we've seen in South Africa in our Tupperware business this year, all you've got to do is neutralized that disruption on that and you start to see big plus on the top line. CIS, and we've seen sequential progress in CIS, the management team there has done a good job of taking out expense of that business and getting it refocused. Obviously, it hasn't helped what the government is doing there. As I just looks to those businesses there in Europe, Africa, the Middle East, that starts to look better.

As I turned to the Americas here, we're not going to be able to do much about Venezuela. We're going to keep that business, and at some point it will kick in again. Under what you see, the business, they're just doing fine in that business. We're just trying to not to bleed cash there. Our Fuller business there, I want to see it get back to the same kind of 20% operating margins there. We had issues the last couple of years particularly with deep discounting on competitors down there. We weren't going to get in that game, and we knew we were going to lose some sales. We don't think that can continue. Mike, I think the rest of the thing in the Americas is fine.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Yes, there would be two things I would highlight, Jason, based on what you're asking. One is, and it's not a big deal of course, but because we shut down the Armand Dupree business in the US in April, we took a drag in the third quarter for instance. I think it was 0.6 points on the Company overall. Obviously, we'll lap that in the first half of next year. On Venezuela, it's not actually a drag in local currency comparisons because sales are up in Venezuela in local currency, but we're getting a big kick in the FX column, so just to be clear on those elements.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Jason, I go to Asia-Pacific and the weak businesses there, we had seven years of double-digit, dynamic double-digit, in India. There's no reason to believe that again we've got 15% penetration. We've got to get that back over there. That is job number one for our Asia-Pacific.

China is going great. Philippines, I think we've got the right people in place on the Philippines. We want to see something start to happen in Japan, but we're not sitting on our hands in Japan. We're going to take a hybrid from the Chinese model in a Japan because the Japanese love our products, and we will do similar things in Australia.

We believe we have a lot of opportunities out there, and that's why it is interesting going through some of the heavy weather we're going through right now, what makes me pleased and ready for this is that I've had these 2020 people working on this stuff two years ago. When you have these issues it isn't people scratching their head, what do we do? It's more reinforcement, isn't it good that we're working on these other kinds of things? Fundamentally, Jason, we are so well-positioned with our platform our value proposition, this platform to create entrepreneurs. We see these externals, large population, mostly in our markets, in these emerging markets. There is a primitive retail infrastructure, limited leveraging of women. Many of these markets only 30% of them work outside the home.

At the same time I think we can deliver as we have been delivering a lot of value to shareholders in dividends and buybacks. I think, Mike, over the last four years we've bought in almost 20% of the Company.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Yes.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

With a big global portfolio, we're always going to have some mush going on. The deal is somebody used to say to me, you don't drown when you fall in the water; you drown if you stay there. When we have these issues how do we fix them?

Jason Gere - *KeyBanc Capital Markets - Analyst*

Great. Thank you.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Good question Jason

Operator

Olivia Tong, Bank of America Merrill Lynch

Olivia Tong - *BofA Merrill Lynch - Analyst*

Great. Thank you. I appreciate it. First, one point of clarification for this year, you said plus 3% to 5% organic sales outlook for Q4, and then plus 4% to 5% for the full year. If my math is right, even at plus 3%, you would get to about 5% for the full year. Can you talk about why keeping the floor of that range, or what potentially get you to the 4% end of the outlook range? Thanks

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Sure, Olivia. We did see the math as being up 4% to 5% with 3% to 5% range. We will have to go back and maybe get with you on why you see that. Given where we were in the third quarter, the plus 4% we went with the 3% to 5% including because of some of these timing effects in the emerging markets that Rick and I talked, about where in a sense, the run rate was even a little better. That's what we're shooting for, the high end of the range.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Got it. I will follow up later on that one. Then the two factors you highlighted in why the FX effects EPS outlook from this year is coming down, the elevated promotional spend in Europe and the warehousing costs issues in Brazil. First, are there any other big components that are driving the FX guide down? Then on Europe, it sounded like you guys said that the incremental spend on promotions didn't really yield the benefits that you had hoped for. Why continue spending it in the fourth quarter?

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Hi, Olivia. Rick.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Hi, Rick.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Firstly, we were down 29% in Germany in the second quarter, and we were almost flat in the third quarter. I think it is yielding results there. That's why we're going to continue in the fourth quarter with those kinds of things.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Right. In terms of other local currency impacts, Olivia, the sales range embedded for the fourth quarter in our July guidance was 4% to 6%. We're one point lower than that. That's a few pennies of the difference.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Got it. On the FY15 outlook, could you talk a little bit about first half versus second half expected expectations? From a quarter-to-quarter basis, would you expect to at least hit the low end of that range each quarter? Or do you expect to start in the low side and then build as the progresses, especially given that Q1 comps that you have to go against?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

I wouldn't say we have got real specific insight to give right now, but given the sequential improvement in the third quarter from the second this year, including overcoming not having as much of the benefit from Venezuela, being optimistic that we can hit the high end of our range in the fourth quarter, we're always going for the high end, hopefully we will be able to say 4% to 6% starting in the first quarter. We'll have to see how close the year and where our sales force is, all those kinds of things.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Olivia, we philosophically internally here always try to create a plan that's the high end of the range because we start to measure what of those initiatives, what are those investments at it, and that's always our plan A. Our plan B, and plan B is always part of plan A, is at least be in the range, if you get surprises during the quarter. I want to get through this fourth quarter just because the day changes to January 1, the size of the sales organization, and where we end the year, how they felt motivationally, that sets the tone for January. As we know right now, we've got two more months of work to do.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Which is why we'd like to do better. It's why we like to be in our longer term 6% to 8% range, but given where we are, why we came out with 4% to 6% next year. That's a reasonably in line with where we're operating now

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Olivia Tong - *BofA Merrill Lynch - Analyst*

Got it, thank you.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Before the next question, I do want to mention one thing. On the Brazil situation, we have been working, Mike and I, for more than 10 years on shifting our whole product side of the business to more what I would call a Nike model. We're not building factories all over the world. We have the same number of factories. More of them are new than when I joined the Company, but about 50% of our production is from factories that we don't own. What that has enabled us is to free our cash to increase the dividend and do share repurchase.

When it's done right, I'll give you an example. Our biggest market is in Indonesia. Those are not our factories in Indonesia. They aren't our distribution facilities, but we have taught those, our partner there, how to do that our way. We said in our value chain we'll make it on the other pieces of the business, not on the backend of the business.

We're going to keep a presence in manufacturing and product sourcing and in distribution, so when we go there we can show them, here is what best practices are. Fundamentally, don't think this issue in Brazil is going to happen elsewhere around the world. All it would take you is visit that facility outside Jakarta, and you would say, this is a terrific business model. To this day, Nike doesn't have a single factory.

Operator

Dara Mohsenian, Morgan Stanley.

Dara Mohsenian - *Morgan Stanley - Analyst*

Hi. Good morning, guys.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Hi, Dara.

Dara Mohsenian - *Morgan Stanley - Analyst*

First, can you give us your volume versus pricing in the quarter? The real question is you highlighted the margin expansion outlook. It's not really changing longer term. Given the recent top line slowdown, and I would think at least less visibility around promotional levels in the market, are you looking more aggressively at any cost cutting options, or broader productivity plans to be able to give you some funds to offset some of this top line pressure from the bottom line standpoint, or reinvest behind the business to drive top line growth? I'm just wondering if there's any change in focus on your productivity here.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Sure, Dara. In the quarter, we had a 6% benefit overall from pricing. We were down 2% in volume and as were talking about the second quarter as well, we did have some fairly significant price increases including we had highlighted in Indonesia. That's rolling through our numbers obviously for the next four quarters. In that case, it was a bit above the consumer inflation, low double-digit sales price increase.

In terms of getting more productivity out of the business, yes, we are doing several things. I would not characterize what we're doing as being across the board restructuring actions. Starting with what I talked about and Rick talked about in Brazil, some of those elevated costs are things that do need to come out of the business and that should be a leverage point as we move forward.

One of the ones where we have struggled, one of the business we've struggled, clearly has been at BeautiControl as we've lost volume. We are working on ways to make that come out as you would expect, to come out much better. That is another example of somewhere where we should be getting a much better picture on sales versus what we're spending to get those sales. Those would be a couple to specific units.

The other thing that we've talked about, we've alluded to it a bit on this call, is while we spend about midteens of our sales on promotional costs, and we need to do that, we need to spend aggressively in that area. We talked about it more some of it more today, we do think that we can get more leverage out of that spending in various places and have a commitment from our three group presidents to go back to their units with a mindset of not spending less but getting more out of it. Clearly, over time we expect that to lead to not just sales increases but volume increases underneath those sales increases.

Dara Mohsenian - *Morgan Stanley - Analyst*

Okay. Then Rick, I wanted to delve a bit more into the promotional spending issues in Q3 and implied in the Q4 guidance. It sounds to me like conceptually, basically some of the areas you've spent the [high] weren't as effective as you would like, and the issue is more internal efficiency of that promotional spending than the external environment. Is that the right way to think about it? Or do think the higher promotional spending is more related to the competitive environment and macro pressure in general?

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

I think it is the previous, in the internal environment. I don't think it's the competitive environment. It relates almost, Dara, to Mike's last comment. We spend a hefty amount on promotions, and I will tell you case in point that I alluded to in my prepared comments on Germany, very bright people there, well-trained distributor organization. I truly believe when I say it did not have the right focus on the sizzle, we were going through motions on a lot of things. I think we got too intellectual with it.

A lot of people come into this business, they come into this business, yes, she wants to make money but she wants to have a pleasing activity. I think we got too serious about our business there. I will give you a case in point. In most of our countries of the world, we do a thing in the summer times called Jubilees. Thousands come, and it's almost where many of our people who become career-oriented, they have their epiphany moment. She looks around, and she says this is a serious business. I see people here who have been 10 or 12 years. I see a parking lot full of Mercedes. She says, wow. Then she goes home and convinces her husband that I'm going to jump into this.

Even our German business starting about five years ago rather than do big Jubilees they start doing a thing called Grand Prix, so rather than have 4,000 people, they start having 500 people. Let's just get the best of the best. A lot of people don't start out the best of the best. They start out wandering in as a neophyte about it.

Dara, there were so many things that we were face-to-face with, and go through the list, and I would say I understand intellectually why they did all of these. When you put them all together, you're taking the sizzle out of the business, and that's what makes this business cook. We redeployed where they were spending the money, not more money. Short-term, we're going to do it for two quarters because we can't redeployed so quickly, but you will see things different in Germany this next year.

Dara Mohsenian - *Morgan Stanley - Analyst*

Okay, thanks.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

What it is to us on that, that's where we hold these monthly progress reviews. It's a shame on area management for not staying, but it ultimately rests with me. I'm in Germany a lot. That's why we have a lot of oversight of our businesses, and these are the things that we look at.

I don't go into business unit there and just look at their numbers. That takes 10 minutes. The numbers are a result of what they are doing. We spend most of our time looking at, what are the elements that drive the numbers? I think our oversight with European leadership there was weak.

Operator

Sofya Tsinis, JPMorgan.

Sofya Tsinis - *JPMorgan - Analyst*

Hi, good morning. The one question I have is you said you expect emerging markets to pick up in Q4 by double-digit pace. Other than Indonesia, what other markets do you expect to accelerate sequentially, and why? Thanks

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Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

There is a litany of the markets. Yes, very clearly Brazil is up, if I understand your question correctly, Brazil is up dramatically. We're up nicely in Argentine business and our Uruguay business. Turkey, we've been averaging north of 20% up in those businesses there, Avroy Shlain up very strongly. We want see this return back to the double-digit in our big South African Tupperware business. It's a very profitable business.

China is up 24%, 21%, something like that. The Malaysia, Singapore business where we have been there a long time, that's generally a big double-digit, although we've had a couple of tough quarters. Mike, what would you add to that?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Yes, Sofya, we were up 8% in local currency in the third quarter. We're saying we should get back to a double-digit rate in the emerging markets, perhaps in the fourth quarter. What we mean by that is at the high end of our range that would assume a double-digit. We talked about with some of the units that were not doing as well some of those factors. Of course we should do better just in how we're running the businesses, but also the timing impact in South Africa with the shipments in June instead of July, and then the disruption in the promotional campaigns in July and August were a drag.

With Ramadan in Turkey and Malaysia and having a shift between the second and third quarters, we said we'd have a more normalized run rate 20% over both quarters in Turkey, but it was 9% in the third and 30% or 28% in the second. The same dynamic, it's not a big a number in Malaysia. Those are some of the things as well as what we're working on in places like India, where we did not have a good comparison. Sequentially we would expect to do somewhat better.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

A sidebar, Sofya, for those on the call who don't understand how Ramadan works, Muslims fast all day, and so it is a disruptive fact on our business. But it moves along when Ramadan occurs. We build that into our plans.

Operator

Linda Bolton Weiser, B. Riley and Company.

Linda Bolton Weiser - *B. Riley & Company - Analyst*

Hi, Mike, I was wondering if you could just explain the reduction in the share repurchase for the year. Is it that you just prefer to stick to your target rather than, your leverage target, let it creep up a little in the near term? Or is there something specific with regard to your debt covenants? Or are you afraid of the rating downgrade, or why not just let the leverage creep up a bit, and do a little more share repurchase, as we expect to generate good cash flow in 2015? Can you give the background behind exactly why your decision is what it is? Thanks

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Mike Poteshman - *Tupperware Brands Corporation - CFO*

Sure, Linda. In setting the target that we came our with in January of 2013, and working through it with Rick and our Board looking at it, and talking to rating agencies over time, that's how we came up with the 1.75 times leverage target, which fits in with being investment-grade and all those kinds of things. We're really just executing on that. We're investing what we should in the business in terms of operating expenses and capital of course. We're paying our dividend in line with the targets that we laid out. That's what we do next after we fund the business.

The swing factor becomes the share repurchase. The amount we're buying is based on our expected cash flow after funding the rest of those things and then going towards that leverage target. The one accommodation that I mentioned that we made on that is we did put in these elements of the Venezuela situation that will lap in a year, and that caused our leverage to be about 0.2 turns over what it otherwise would've been.

Linda Bolton Weiser - *B. Riley & Company - Analyst*

Could you remind us what are some of the requirements under some of your debt covenants? Is there any particular leverage ratio you have to achieve?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

We do have a leverage limitation and interest coverage limitation but we're not that close to those. It's more of having stepped back and decided with that leverage target, what we want our target, as opposed to what the requirement is. I think requirement maybe is 3.25.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Linda, on that too, when we made the decision to go to 1.75, we do not go to a rating agency and ask what's the limit of what we could do, and still be investment-grade because we don't go to rating agencies. They don't know how to run businesses. We do. We basically look at ourselves and said, what is the level of comfort that we have with regard to leverage? I tend to be fairly conservative about that.

I look at the one, two, three on this number. One we spun this Company off in 1996. No matter what kind of the year, we always kept this dividend sacred. We said, number one, we want to have always money to invest in our business. Number two, we want to be able to support the dividend, and in fact if we've got the ability to grow that dividend, and I think we'd have four years in a row where we had double-digit increases of it, and then thirdly, the swing factor as Mike would say is you've got more beyond that then we will do share repurchase. Our fundamental thinking hasn't changed on that.

Linda Bolton Weiser - *B. Riley & Company - Analyst*

Great. Thanks very much.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Thank you, Linda.

Operator

Connie Maneaty, BMO Capital.

Connie Maneaty - *BMO Capital Markets - Analyst*

Good morning. Could you talk about the hybrid model you are going to be testing in Korea and Japan, and how that would tie with the existing sales force in both of those markets?

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Yes. The differentiation first, Connie, is that because of laws in China, in the past there we really have not operated on a pure direct sales model. That's what we never went for a direct sales license. We have very good relationships with the Chinese government.

There was a second fundamental in China as well is that the typical apartment in China was 30 square meters. You had one-and-a-half families living there. You wouldn't have had enough room to do a Tupperware party there anyway. We said, is there an alternate kind of a physical place? Then we came up with this little storefront ideas. We don't pay the rent on any one of them. There are 4,600 of them.

A distributor, and I'll use that term, she start with one. She had to invest in the signage. By now, it's gotten like McDonald's. You've got to run it. It's got to look this way, and we are to version 3, so they all start to look the same. What we're doing there is moving them more to a direct sales model where store clerks hold sessions there where they do cooking classes, but they're now starting to sell out of those.

How the hybrid will work in vision of it is today, a traditional distributorship, let's take Germany. You have 135 distributorships all throughout Germany. They tend to be on the outskirts of town. Our distribution locations that have a meeting room, and she comes in on Monday. She turns her orders in, and she sits for a one hour sales meeting and either during the day or comes in the evening if she has another job. Then she gets her order at the end of that and drives away.

As you look at Millennials, imagine even that town, it's a Homburg for example, not just one location on the outskirts of town where you've got this density and the issues with regard to traffic. Imagine that in town there are six smaller locations. One distributor still owns it, but what they have is a front on that which is like a display area for the products. Now consumers can come in, look at the products. What is the coffee company you are seeing all around the world? You go in there. They look for memberships? It will come to be in a minute. It is a hybrid of that, and in the back it is a distributorship.

There is a place. You build up the brand name. There's a place to demonstrate products. There are training rooms in the back. We move away from distributors having big amounts of inventory, and we go to a non-stocking distributor model which is what we do in many of our countries around the world. What we don't do is bypass the distributor, and go to the customer. Our customer is our 3 million sales force. She has, and this is the same as in China, they have 5 million members that are connected to these 4,600 locations. We call it distributorship 2.0, and it is evolving.

Nespresso is the company I'm thinking. You'll see that if you just walk in and think it's a Starbucks, it's not.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Connie, you can also think about it as an extension of the team leader concept. We've got underneath distributors people holding sales meetings, sometimes as team leaders, in different location. This talking about how do we leverage some elements of the China model in terms of how does that face consumers, end consumers and the sales force, in a way that is going to be more engaging and more appealing, and perhaps in a better location? I wouldn't characterize it as a wholesale move. It's a leveraging of a lot of those elements in the China model.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Don't think that it's a retail play on our part because let me tell you what would happen. Year number one, if we had the Target experience where we never went around the sales organizations, we allowed her to set up an endcap in a Target. Consumers thought we had gone retail. A full week of a Target sale equaled one party. What would happen in this kind of a company went retail? Year number one everybody would love to have Tupperware. Then the companies would say, 60% gross margins? Rubbermaid gets 32%? You watch what would happen.

How our product is sold, we recruit a woman into this business. She has friends, neighbors, and relatives, and she shares the products. Two things that come out of our value chain that we don't have to spend. We don't have to do advertising, and we don't have to do retail rent. We redeployed that money so she can be an entrepreneur. We never forget that is our model. Our model is not even a hybrid retail.

Connie Maneaty - *BMO Capital Markets - Analyst*

Okay. Thank you.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Great question, Connie

Operator

Frank Camma, Sidoti and Company.

Frank Camma - *Sidoti & Company - Analyst*

Good morning, guys Just a clarification, the 2015 sales, just basically here you're saying 4% to 6% on local currency basis. After the FX, you're basically saying zero. Is that correct roughly? If you adjust for the Venezuelan and everything, zero growth next year?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Based on the rates right now.

Frank Camma - *Sidoti & Company - Analyst*

Today. Right.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

It's about 4.4 points.

Frank Camma - *Sidoti & Company - Analyst*

It's roughly nothing. The other thing is on --

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Frank, good morning. On this, I just had Nick Poucher, our Controller, pass me a note. This past year what we are dealing with right now is you match it to our markets, the markets where the dollar is really strengthened against the Turkish lira, and Indonesia rupiah, Brazilian real, rand in South Africa, the euro, and the peso. People could say, my god, but we tend to look at these over time, and most the time when we look at it over decade-long periods, it's pretty neutral which is why we don't hedge translation. Secondly, we don't know how to hedge translation. There's a lot of people who are in currency speculation who don't know how to do it.

Frank Camma - *Sidoti & Company - Analyst*

The other thing was the reengineering charges this quarter, did you say those were from Germany?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

No.

Frank Camma - *Sidoti & Company - Analyst*

Did you say what that was?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

There was a fairly small but a software write-off in BeautiControl

Frank Camma - *Sidoti & Company - Analyst*

Okay. I thought there was $2 million

Mike Poteshman - *Tupperware Brands Corporation - CFO*

We also highlighted earlier in the year cost related to the closing our Armand Dupree business in April, but not in the third quarter

Frank Camma - *Sidoti & Company - Analyst*

The last question was just on, what is the other income of almost $4 million, the $3.8 million?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

That's also primarily an item, quote, unquote, where we were able to exchange some bolivars at a better rate than the [50] rate. That's not in the $0.90 but it is other income.

Frank Camma - *Sidoti & Company - Analyst*

It's not in the $0.90?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Right.

Frank Camma - *Sidoti & Company - Analyst*

If you strip that out you still get the $0.90?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Right.

Frank Camma - *Sidoti & Company - Analyst*

Okay. That's what I would thought you have done. I must be adding something up wrong. I will go back to my model. Thanks.

Operator

Gregg Hillman, First Wilshire.

Gregg Hillman - *First Wilshire Securities Management - Analyst*

Good morning. I was wondering, number one, if you talk about China a little bit in terms of constraints to growth. I think it costs $4,000 to $5,000 for a distributor to open a store, and I was wondering about going to more a franchise thing. I think the number of outlets one distributor can control, you just reduced that from 15 to 10. I was wondering, aren't there some superstar distributors out there or people in China that could handle more than 15 outlets under their span of control? Number one, and also, why couldn't you experiment with advertising in individual market? I know you have to building inventory in the stores, but are you doing any experiments with advertising in individual city in China, let's say to get cleaner water, and to see how that would work?

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Hi, Gregg. Good morning. Rick. Firstly, with regard to China that's where it started was around $5,000, and now it has escalated. We've got a proven method, and so in some of the cities right now, you may have to invest as much as $50,000. That doesn't mean she's giving it to us as a franchise fee, but you get to a certain places like Shanghai. It's expensive, and we want her to have enough working capital. I think that's the highest we've had thus far.

Yes, to the second piece of that, is that we reduced the number. The key piece of that is what Vincent has learned a very quickly. We get higher productivity when she has fewer units. You can learn some lessons from McDonald's with their master franchise too. This started going to that direction too because they found their master franchisees were spread over too many units. They were going for productivity increase.

Third, with regard to advertising, advertising just isn't part of our value chain. It's in the neighborhood. They get people who are locals to that neighborhood. They get friends, neighbors, and relatives, who tend to all live in that neighborhood. That's who comes to the shop. Because we don't have to advertise, that's more money for the woman to fuel our business.

With growth rates, Gregg, in the mid-20s over a long period of time, and the expansion of the number of places, I think we're doing just fine. As a matter fact, one great litmus test is two years ago, we were named a power brand in China. Just imagine. You see 4,600 store fronts, all over the place in China. That's great advertising. Those are billboards.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Gregg, right, we don't do traditional advertising. One of the things we are doing very well in China is promotion through social media. That includes people who have their kitchen done, and they take a picture. They share that.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

They do WeChats.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Yes, WeChat. It's a great example of being able to use social media to directly drive our business. That's another thing that we look at from what China is doing so well, and trying to figure out how to translate that to our more traditional types of models for us. That has been a big effort there.

Gregg Hillman - *First Wilshire Securities Management - Analyst*

Also, Rick, on the water filters, you mentioned in past calls you sold $1,000 water filter. Have you segmented the water filter? Are you hitting lower price points also? How many different price points do have in water filters?

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

There is an entry water filter actually that has a water filtration system in the actual small bottle. It's not as technically proficient as the thousand dollar water filtration systems. I was speaking to Beijing Business School this last year, and I was talking about our water bottles and our water flasks. Interestingly, 75% of the students in that business school are women because you get accepted based on your grades, and they're worried about there will be any more men that get MBAs in China, but I asked has anyone ever seen one? They all reached in their purses and backpacks, and I thought every single one of them had one.

We have really become, and this is what's interesting about our China model, and we want to adapt to it, we've become a Millennial's the business. Very importantly, 50% of the world right now are Millennials in the workforce. In 2025, 75% will be Millennials. If we have adapted our products, this method of us demonstrate in products and their way of sharing products through friends, neighbors, and relatives, this is not my opinion, this is fact, Millennials more than 80% don't believe advertising. What they do is, they WeChat with their friends in China. They ask, what do you think?

That's why when we have a product that they love, it's part of their life, and more of our products are now are make your life easier. I was chatting with one of our people yesterday. One of the hottest selling products that we have in the world is a microwave rice maker, $20. You've got rice in four minutes. That's a Millennial product, whereas we get to this really high tech, space-age, like space shield, that's a 45-year-old woman in Provence.

Gregg Hillman - *First Wilshire Securities Management - Analyst*

Okay. Michael, do you pay for key words on Alibaba, to get higher in the search engines in China right now?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

We will have to look at that, Gregg. I don't know

Gregg Hillman - *First Wilshire Securities Management - Analyst*

Okay. If you get back to me on that one.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

I think not though. (inaudible) anybody asked that.

Gregg Hillman - *First Wilshire Securities Management - Analyst*

Finally, Michael could you comment on, you've been below the trend for the last two to three years, below the 6% to 8% trend. What are the big reasons for that, Michael? I know it's a lot of individual things happen in countries. Are there any other bigger trends that you could identify?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

I don't think so. We really end up being market by market. Our overriding bigger opportunity, because of the populations and where we are in penetration and rising middle classes in the emerging markets, and we'll continues to do things to look to do better in the established markets as well, but it really comes down to not hitting in some of those established markets. We haven't had as much growth in some of the emerging markets.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

Laggards.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Several, we've had, but a couple we haven't.

Gregg Hillman - *First Wilshire Securities Management - Analyst*

The established markets have been weaker, and there have been a few laggards in the emerging markets?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

The 6% to 8% is built upon an assumption of a 10% increase in the emerging markets, and just a low single in the established.

Gregg Hillman - *First Wilshire Securities Management - Analyst*

Right. Like Germany for example has been slower, and then in the emerging markets, what's been the laggard in the emerging markets?

Mike Poteshman - *Tupperware Brands Corporation - CFO*

The ones that have been down recently have been India and CIS in most of the quarter.

Gregg Hillman - *First Wilshire Securities Management - Analyst*

Okay. Got it. Thanks for your comments.

Mike Poteshman - *Tupperware Brands Corporation - CFO*

Thank you.

Operator

At this time, there are no further question. I'll now turn over the call to Rick Goings for any additional or closing remarks.

Rick Goings - *Tupperware Brands Corporation - Chairman & CEO*

All I would say is this was a tough quarter. We had a handful of markets that really were pulled down, but we're going to get through this year. I think fundamentally I'm pleased that we have a value proposition that is strong, well-positioned, and I have confidence that we're going to get back to this 6% to 8% in the years ahead. Thank you very much for your time.

Operator

Thank you for participating in the Tupperware Brands Corporation third quarter 2014 earnings conference call. You may now disconnect.