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TUP - Q3 2017 Tupperware Brands Corp Earnings Call

EVENT DATE/TIME: OCTOBER 25, 2017 / 12:30PM GMT

OVERVIEW:

Co. reported 3Q17 diluted EPS, without items, of $1.03. Expects 2017 local currency sales growth to be plus 2% and EPS, without items, to be $4.79 at high-end. Expects 4Q17 local currency sales growth to be down 1% at high-end and EPS, without items, to be $1.48-1.53.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Tupperware Brands Corporation Third Quarter 2017 Earnings Call. I'll now turn the call over to Chairman and CEO, Rick Goings. Please go ahead.

E. V. Goings - *Tupperware Brands Corporation - Chairman & CEO*

Thank you and good morning, everyone. I'm speaking you from a Tupperware leadership Institute session we're having in Virginia, with about 20 of our leaders from around the world. Mike Poteshman and James Hunt are there in our headquarters in Orlando. Along with our prepared remarks, we have provided as usual, slides and included in the slides are the standard message with regard to -- and you know the drill on this, on forward-looking statements.

Let me turn to Slide #3. It was a challenging quarter, with our own internal business performance issues in a number of markets, simply exacerbated by earthquakes and hurricanes. I am pleased to say that in light of that we were actually moderately pleased to report that local currency sales grew in the quarter 2%. And that's really the midrange of our guidance. Adjusted EPS increased 18% to $1.03 and that is $0.07 above the high end of our range and, it includes $0.01 FX hit versus our July guidance.

I'm going to do my best with my comments here, not to be redundant with what's in the release. So let me highlight some things. Overall our emerging markets grew 3% in local currency, accounted for this quarter 71% of sales, while our established were down 1%. Although that was a 5-point sequential improvement from Q2.

Total sales force 3.2 million at the end of the quarter, and that's a 4% year-over-year advantage and it includes a 2 point hit as we removed the BeautiControl sales force during that quarter.

Active Sellers down 4%, 3% sequential improvement over Q2. And looking ahead, what it really means to us is that we're going to have a challenging Q4 because we have 1 less week than last year. However, we do see some strong traction in a number of key metrics, we'll talk about some of those later. It demonstrates not only the resiliency of the business model, but the strength of having a global portfolio as Tupperware Brands does.

In addition, we continue to execute on the restructuring programs that we talked about in July. We generally don't have many restructuring programs, we usually look for this to ongoing-ly improve our business and Mike usually talks about this 50 basis points improvement each year, but we did decide that we needed to do some different things particularly in Europe, and while the charges this quarter were more modest than they were in Q2, the efforts and the actions taken have been significant, particularly with regard to our supply chain and manufacturing networks in Europe, which were all aimed at improving profitability. Mike's going to take you down a little bit deeper with that.

In Europe, Africa and Middle East, portfolio was down 2% in the quarter, and really bifurcating this part of the world between established and emerging markets, we saw a minus 7% in the portfolio in the established markets with a really opposite strong 7% plus in the emerging markets. So established down 7%, emerging up 7%. Overall, recruiting in the quarter went well, little bit lower activity rate and too many sales force removals in the established markets, so overall, it hurt the sales force size. Retention of our sales force, it's always been an issue during the summer months in Europe, so it's not abnormal, and we continue -- we need to create a new normal oriented toward making this Q3 profitable, and keeping more sales force members engaged.

As mentioned, the more significant restructuring actions we're taking in Europe, and if I kind of put all that through the wine press, it's simply stated we have too many people and too much capacity for a business units that have not been growing. And so we've got to make these changes and they are overdue.

Now turning to Germany. We were down 8% in the quarter, mainly from lower recruitment in May and June. While the activity in the quarter was disappointing, the rate improved as we moved through the quarter. Germany, like many of our established markets, does best when our leaders, our distributors, focus on personal contact with the sales force. And they do that through sales meetings and training activities and recognition events. And we're working like mad to modify how they operate to free them from all of these administrative and warehouse activities, and really move them more into non-stocking locations, so they can really focus on the drivers of the business, recruiting, training, motivating and developing a leadership pipeline. So we see light ahead with regard to that. We still have many big distributorships, I must say though, and not only in Europe but around the world, that are very successful with our traditional models, so we're not going to dramatically move that. We're not going to make any changes, but we will use them now to service more streamlined non-stocking distributors and as such, we expect to grow in Germany in 2018.

By the way, that's pretty much one of the keys to the success we've had in the past in Brazil, big stocking distributors, and more leadership people, who are not stocking, who are involved in the high value-added recruiting, training, motivating activities.

France, let me turn there. Down in the quarter 24%, and though sequentially worse than in Q2, we gave all that up in July. While in August and September, net-net, we were pretty close to even year-over-year. We do have a sales force size deficit in France and we're working to close that, but it continues to believe that from being out there that confidence is growing with the distributor organization, ordering patterns are improving and the party lineup is strengthening towards the latter part of the quarter. And that bodes well for potential improvement in Q4.

We really need in France, more consistency in recruiting and the execution of core fundamentals. And I'm pleased to say they have a new simplified compensation plan already implemented, that really speaks more to a career path. And we've seen in other markets, that helped stabilize the business, where you have more people, who are in it for the career and not just hobbyists, which are unpredictable.

In Europe and Africa's emerging markets, we saw a number of units with positive growth, and that led the way as we see Tupperware South Africa up 7% in the quarter. Now, this is sequentially slower than we've seen, and I've got to say, we caused some of that. We really anticipated significant service disruptions, with regard to external labor actions that have happened in the past and this is about the time of the year, it happens. And so as a result, we built up stocks of some of our core products, that are some of the solid products but they are less glamorous, don't have the promotional power, but they would have kept our distributors selling and our sales force engaged through the quarter. Well, the labor action didn't come, we came through it. However, the bad news is now we've got some excess inventory and sales weren't at the level we wanted. We do have a very, very nice sales force size advantage. But we're coming up against some tough comps, a 53% up last year in South Africa. And now we've got 1 less week. But anyway, we've got a great business there, sales force advantage, 36% up, so it looks good as we move forward.

I do need to call out our Russian, our CIS business. They were up 13% in the quarter and while it's a midsized business, this is going to be an important market for our long-term growth plans.

Let me turn to Asia Pacific, down 1% in the quarter. Indonesia had a nice sequential improvement, but it was still down 17% in the quarter, and they've still got us at 8% sales force size deficit.

Now in the July call, I outlined several initiatives necessary to turn around the market. I'm not going to take you through all of those, letter and verse again. But we're on track there, as a matter of fact, I was in Indonesia in September meeting with the distributors, really kind of take a pulse of their attitudes, which are good, and they're very profitable. But I wanted to reinforce our vision, and what ought to be their vision for how we need to partner to really grow this incredibly important market to get the penetration we need on this country of 13,000 islands. And we really wanted to focus on what their role needs to be, we've talked about it in the past. But we've really not got the kind of support in the past, of them creating new leadership groups within their distributorships. And so we spent a lot of time using case histories, of what we've done in some other markets to show them that their best years are ahead, but they're going to need to create more leadership people. Increase network of business leaders with their own -- kind of their own skin in the game really provides all kinds of benefits, beginning with a smaller span of control and that usually impacts not only productivity, but activity goes up.

In addition, we have also installed a more streamlined commission program, which coupled with even the opportunity may not sound like much in many of the markets we live, but to earn a motorbike there, and for many people they have been traveling on buses, to not only sell Tupperware, but to deliver their products. So it was really enthusiastically received.

On top of that in Indonesia, I'm pleased to see that the marketing team has expanded their product offerings with much more demonstratable products and also, actually we brought -- expanded our ability to print on Tupperware products, and that has a lot of promotional sizzle. So I think we're going to see continued improvement going forward in Indonesia.

Turning to China. I was there also in September and wow, up 33%, their membership base there who were engaged was up 62% versus 2016, and this member base significantly drove our productivity up in our units. We now have just under 6,000, I think we're 5,900 right now, that's a 7% advantage over the second quarter. Now what's important too is that we're not only expanding the number of these studios that we have in China, but their productivity is what you would say in other businesses same store sales is also growing, and so that is a wonderful way to have these 2 fronts of growth. We continue to leverage the power in China of WeChat, which is a dynamic digital platform that really has overtaken China, with plans in place to really continue to evolve our digital capabilities to further grow. Not only penetration, but productivity.

Also preparing to ramp up more studio expansion, to better get coverage, to now Tier 2 and Tier 3 cities. I've got to say, we're so proud of the management team in China, how they are really executing this market's lush opportunity.

Now on the same side, there is -- I am talking another market that has more than 1 billion people, the news in India isn't so good. Progress has been slow, disappointing and frankly, frustrating. They were down 32% in the quarter and simply stated, we haven't been able to gain any significant momentum in recruiting as we navigate -- it seems like quarter after quarter, of new government initiatives, direct selling guidelines and other externals. It doesn't give us much comfort though, when we think about that no direct selling company has really been successful over time in cracking this market. But with 1.3 billion people, we've got to stay at it. We got to work on it. But I'll tell you, living and working over in Asia, I've got to tell you our experience in putting India versus China, speaks volumes regarding the benefits of having a centrally planned economy and a political system. It's hard to, with our business model, which we say is simple, consistent, scalable. Execution is really hard in India, and that's why you've seen very few, even franchised businesses in the food business have much success there. Very difficult operating environment.

Now let me turn to 1 final market in Asia Pacific, Malaysia, Singapore. They are a bit soft in the quarter down 2%, but they were up as much on the full year. This is a very profitable business for us. We've got a good management team in place and I still think we've got lots of potential ahead.

Let me turn to the Americas. Brazil up 8%, not as robust as we've been seeing. But on our July call we highlighted the headwinds we were seeing, particularly the new ones with regard to consumer spending environment, and we've been able to pretty much work around that, but it has impacted the size and the number of orders. While we were previously able to offset it by many more sellers out there, smaller average order but more selling, that has always seemed to work for us. And we need to continue down that direction. I will say that management team that doesn't sit on their hands. At first they have ramped up the contact platforms there in Q3, they have increased the frequency of high-volume recruiting campaigns from having them infrequently to now more on a regular basis, to allowing incentives, and incenting smaller orders. Just keep the sales force engaged, even if it is small, if we can keep them in the business, and avoid their removal, then it speaks to when things improve there in the consumer environment, we have a bigger sales force. And finally, we're actually focusing on products that carry more appropriate price points when there is a diminished spending levels by consumers.

As the quarter progressed, we did see increasing momentum come back in Brazil. As a matter of fact, in August, we had the whole Board of Directors visit our operating -- not only our plant there, but our operating headquarters there as well. And they saw what a powerful and motivated leadership team, and distributors that we have there. Now we've got to leverage this 15% sales force size advantage as we move forward. Plenty of opportunity ahead there.

Southern cone in the Americas, Argentina, it's been difficult, particularly, from the consumer environment and the economy. However, they were up 31% in the quarter. Now I've got to say complete disclosure, a lot of that is pricing, but as you know I always ask Mike the key question, well "Were units up?" And the good news is, they are. So we are growing volumes as well. And we're keeping that sales force engaged in the business.

Now turning to our business in Mexico. Let me say we saw single-digit impacts in the quarter from multiple earthquakes and hurricanes. At Fuller Mexico, we were down 9%, now we estimate a third of the sales force was directly impacted by these disasters because what it really did is it broke the chain of contact, and that meant, in our Fuller business, they simply don't have brochures to pass out. So therefore, we started to see receivables go up. And it hurt their engagement levels as we begin to enter the fourth quarter. So we've got a lot of lifting to do there, particularly, with the Fuller business.

In Tupperware Mexico, we were up 3%. Here recovery is much easier as local distributors in each city are really -- they are repeater stations and they're the glue that holds the sales organization together. They're committed to their business, and they have that physical location, where sales force can go to be not only motivated, trained, but reconnected with energy and that they get back to work sooner in this kind of a business model. We've got an 11% sales force size advantage, and we don't expect any significant drag in Q4 from these natural disasters. I think we have separated ourselves from it.

Lastly, let me turn to U.S. and Canada. We had 7% increase, we were pleased with that. And also, the hurricanes in the southern part of the country, they were problematic, but much less significant than what we saw in either Mexico business. Recruiting and activation initiatives, they were strong and they continue to focus on developing the leadership pipeline. We've really got the right kind of programs in place, the right kind of digital tools in place also to add to contact, to enhance sales force recruiting and engagement. And I've been so proud of how they use social media these days. We can have an event having in Orlando and 10,000 be connected to it, watching it at the same time. And that contact, boy that leads to increased productivity.

So overall, a challenging quarter. I must say, I'm particularly proud of our management teams and I've got to do a shout out to them in Mexico, what they went through in support of this entire sales organization, who were affected by the earthquakes, the hurricanes, the floods. And I think we've mentioned before that we were selected by Forbes as one of the 100 most just companies for citizenship.

I've got to say our Mexican management team lived truly up to that in the quarter and we're very proud of them.

Michael, over to you.

Michael S. Poteshman - *Tupperware Brands Corporation - Executive VP & CFO*

Thank you, Rick. Looking at the third quarter sales comparison, Rick has highlighted the units that had the most significant impact versus last year, versus the outlook where we came in at the midpoint of our local currency range of plus 2%. We had a positive impact from BeautiControl, where we had anticipated a decrease versus last year during the wind down period. But in the end had an increase as the sales force took the opportunity to stock up on products. This upside helped the total company comparison by 1 point versus the outlook. The impact of BeautiControl versus last year was more modest at about a 1/2 point on the total company comparison.

Going the other way, our assessment of the negative impact on overall sales in the quarter from the 2 earthquakes and 2 hurricanes that hit Mexico, was about 1/2 of a point.

On volume versus price impacts on the sales comparison in the quarter, we benefited by 2 points from higher prices, with volume and mix being even with last year. As Rick highlighted, the sales force size advantage at plus 4%, was 1 point better at the end of September than at the end of June. This was in spite of removing the BeautiControl sales force, which hurt the total company comparison with prior year by 2 points.

The most meaningful improvement versus the second quarter was in Indonesia, where slightly more additions and a better sequential comparison in the activity rate than last year led to better retention and a 12 point improvement in the total sales force size comparison from June to now minus 8%. We had smaller improvements in CIS, in India, although, we're still in a large deficit there. And in Egypt, where the previous difficult situation around currency controls has somewhat abated.

Average active sellers in the quarter came in at minus 4% after being down 7% in the second quarter, with the biggest pick up here also being in Indonesia. The total company's 6-point better local currency sales and active seller comparison for the quarter reflected a mix shift towards Brazil, China, and the United States and Canada businesses, that have higher-than-average order sizes, together with another quarter of meaningfully better productivity or sales per studio in China. There was also a benefit from the higher prices that I mentioned.

On Slide 6, diluted earnings per share without items at $1.03 was $0.07 above the high end of the range despite sales at the midpoint in local currency. And a $0.01 drag from foreign exchange rates versus the guidance. The most significant factors that enable us to do so well on profit were the good value chain we have in China, along with the strong sales growth there. Also in Asia Pacific structural changes at Nutrimetics Australia that have continued to give improved profitability.

Good gross margin management by Tupperware United States and Canada, together with some accrual adjustments and lower-than-foreseen unallocated corporate expenses, including for management incentives. Versus last year, the same factors led to the 17% increase in EPS in local currencies, together with awarding the $3.2 million loss of BeautiControl last year in the quarter, that was mostly reflected in the July guidance.

Putting this all together then on Slide 7, this meant our pretax return on sales without items improved over 2016 by 160 basis points, much better than the 70 basis point improvement included in our guidance, reflecting the factors I laid out a moment ago.

Gross margin in the quarter was 66.1%, that's 1.6 points lower than 2016. Although, the majority of the decreased 1.1 points was from items most significantly the impact of devaluation of the Venezuelan bolívar and inventory obsolescence associated with the BeautiControl wind down. The half-point decrease in the gross margin other than from items, net-net primarily reflected an impact from higher resin costs. DS&A was quite favorable versus 2016, coming in at 52.6% or 190 basis points lower.

Lower and better leverage promotional spending gave us the biggest benefit, although, there was some offset from higher bad debt expense.

On Slide 8, cash flow from operating activities, net of investing activities in the quarter came in at $53 million versus $77 million last year.

In 2016, there was a significant Orlando land transaction. Considering as well capital spending associated with the Orlando land development, the negative impact on the third quarter year-over-year comparison was about $25 million, meaning excluding this factor, cash flow was about even year-over-year, in line with our expectations.

Our full year expectation for capital spending, other than related to the land project remains at $70 million and our full year expectation for cash flow also hasn't changed and is $165 million to $175 million.

As a reminder, our full year payments for our dividend are about $140 million, so at the high end of the range, will generate $35 million more in cash flow than we pay in dividends and the cash flow outlook is given after the $25 million to be paid out for our reengineering program.

As noted on our July earnings call, taking all of the pieces together, cash flow, dividend payments and our 1.75x EBITDA leverage target, we foresee making modest open market share repurchases in 2018, while continuing to support the current dividend.

I do want to take a minute to update you on our reengineering program, which as Rick highlighted, is proceeding in line with our expectations. Connected with this, we announced last week, our intention to close our French manufacturing and distribution facility next year. We're taking the appropriate steps with the workforce there and the government. We continue to perceive full program costs of $100 million to $110 million, which includes the BeautiControl wind-down. There we are done selling product but have some other steps to take. If anything, it looks like the cost will be lower than the $20 million we had assumed in July for BeautiControl, so we'll see how that goes.

We've expensed $45 million related to the overall program in the second and third quarters and foresee $68 million in expense coming through for 2017 and the full year, or another $23 million in the fourth quarter. The full program cash cost expectation also has not changed, it is $90 million to $100 million, before up to $35 million in proceeds from the sale of excess assets associated with the reengineering actions.

Savings from the actions taken under the program, which was expected to be fully implemented in 2018 or 2019, continue to be seen in the $35 million plus range plus the benefit of not having the BeautiControl losses. About 2/3 of the annualized benefit is expected to be realized in 2018.

For BeautiControl, the Fourth Quarter 2016 loss was $900,000, and the loss in the first 7 months of 2016 was $2.6 million. So that will be the year-on-year benefit in 2018. In terms of reinvestment of savings to grow the business, we do expect some but at the same time, foresee the majority of the savings to come through to the bottom line.

Turning to the sales and profit outlook on Slide 9. In the fourth quarter, we're showing sales down 1% in local currency at the high end. Underneath this, it's important to understand that there are drags from not having the 14th week that we had in 2016, and from the BeautiControl wind-down. On the week last year in the fourth quarter, we had a 4% benefit that doesn't recur. In addition to this, we noted in the first quarter that while both 2017 and 2016 had 13 weeks, since fiscal 2017 started on January 1, and fiscal 2016 on December 27, we benefited this year from having the last calendar week in March instead of the week between Christmas and New Year. We assessed this impact at 1.5 points favorable on the first quarter comparison, and the give back is in the fourth quarter. So all in we see the drag from the week on the fourth quarter outlook at 5.5%.

BeautiControl had $11.5 million in sales last year in the fourth quarter, and so not having BeautiControl in our portfolio is having an additional 2 point drag on the overall comparison.

Looking through the comparison after taking into account these 2 impacts, we see the minus 1% in local currency sales in the fourth quarter as a 2-point improvement and the 2-year stack comparison from the third to fourth quarter.

This brings the full year sales outlook to plus 2% in local currency that includes a 1 point hit from having 1 less week than last year and about 3/4 of a point from the full year sales comparison for BeautiControl.

On earnings per share without items, the fourth quarter range in our release is $1.48 to $1.53, which is up 6% in dollars versus 2016 and 1% in local currency at the high end. Versus the July outlook, the full year high-end is up $0.03 to $4.79, which reflects the $0.08 by which we were over the high end of the range in the third quarter in local currency, a little bit softer fourth quarter sales comparison than we had within the July outlook and $0.02 of a hit from the full year foreign exchange benefit declined to $0.08 from $0.10 of a benefit in the July outlook. The better earnings per share versus local-currency sales comparison in the fourth quarter reflects more good sales growth in China, with its strong value chain and the absence of last year's $900,000 loss of BeautiControl.

We now perceive being a little better for the full year compared with our previous outlooks of unallocated expenses in the low $70 million to now in the high $60 million. And net interest expense of about $44 million versus $45 million, previously. At the high end, on the 2% higher local currency sales for the year, the EPS outlook puts us at up 9% over 2016 in dollars and 7% in local currency as the high end.

Slide 10 shows fourth quarter return on sales without items of 90 basis points in dollars and 70 basis points in local currency versus last year. This good result reflects the factors I just mentioned and would bring the full year to 14.4%, up from the 14.3% high end in our July outlook. And up 100 basis points versus last year in dollars and 90 basis points in local currency, close to double our expectations of 50 basis points for the year improvement in local currency if we get to mid-to high teens in the longer-term.

Our full year outlook continues to include a 25.5% income tax rate, excluding items.

Finally, on resin, there was a third quarter hit of $2 million in local currency and cost of goods sold from higher resin cost, and we expect to see a full year negative impact of $7 million, which is $1 million lower versus the July outlook, and includes $1 million of higher cost than last year in the fourth quarter.

And so with that, we'll turn the call over to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from the line of Jason Gere with KeyBanc Capital Markets.

Jason Matthew Gere - *KeyBanc Capital Markets Inc., Research Division - MD and Equity Research Analyst*

I guess I'll start with the easy housekeeping question, then I'll go into kind of the bigger picture question. Mike did you say what the breakdown was between volume and price in the quarter when you look at the 2%, the breakdown between?

Michael S. Poteshman - *Tupperware Brands Corporation - Executive VP & CFO*

Yes, price gave us 2% of a benefit than we were even on volume and mix.

Jason Matthew Gere - *KeyBanc Capital Markets Inc., Research Division - MD and Equity Research Analyst*

Okay, good. Then I guess the bigger question I have is and I guess, it really kind of starts with the fourth quarter organic sales guidance. I know it's negative 1 to negative 3, you've got 5.5 points from the last week and the negative 2 points from BeautiControl. So that kind of implies that the go forward, the proforma of this company should be more of a mid-single-digit organic sales growth, if my math is right? And so I guess, the way I'm looking at things is, can you talk -- a, is that math right? And then b, can you talk about maybe the macro versus the micro? And I know that the macro from some CBG company sounds like it's getting a little bit better, obviously, for you guys, it's a combination of the 2 because there's been some micro offsets. So maybe Rick, if you could talk maybe about the regions as you look maybe over the next 12 months, how your outlook on the macro, but then on the micro, which of the regions with some of the reinvestments that you're putting in, do you feel more comfortable that you could see the micro start to help out if the macro environment gets a little bit better? So I know it's a big question, but if you could kind of talk about those points, that would be great.

E. V. Goings - *Tupperware Brands Corporation - Chairman & CEO*

Yes, I think we need to book 2 hours for a phone call on that. That's one comprehensive questions, that would sound like one of our conversations. But let me touch on it first. Very clearly, we've got to get into our mind, that I was just showing this group here yesterday, the future of the world and where population shift is from the east -- excuse me, from the west to the east. And simply stated the big game in the future for most everybody, it's going to be in Asia, it's going to be in Latin America, and after those, it's going to be to some degree in the Sub Shara African continent. But let me go back to our Asia business again. What is -- I'm frustrated with India, the problem with India is too much democracy, you can make an agreement with a little city, and the province can have different rules and regulations. So it is hard to go to scale in India. And I'm not optimistic that things are going to change, even though we have a government there, that is allegedly pro-business. Turning to China. Now Xi has been in 5 years, great support, he gets at least another 5 years, unless they change the system as Putin did. The operating landscape there is absolutely fabulous for our kind of a business. We have 5,900 of our studios there. And our internal projections are a range between the opportunity for having

20,000 of these to even more in the future, the model is working and as I said, there are perks. What really helped on that with that, we've got not only increase in number of studios, but we've got an increase in their productivity as well. So India, it's 1.3 billion people, it is really going to be important in the future. I think we've got a great kind of a model for an emerging market, with lower per capita income, with regard to Indonesia, and we've simply there learned we have to get more of our big distributor leaders breaking out sub-distributorships there. And that's what's happened in Brazil. And I think they've got it now there. And again, we've got 13,000 islands. Now Jason, the reason I'm mentioning this with regard to population because when it's all said and done, this is where you've got emerging middle class, big numbers of people, brands matter, people are looking to become entrepreneurs, this is where our biggest advantage is over there really do lie. If I turn now to the Americas, continued progress in the U.S. and Canada when many direct sellers are in fact, really declining. Now to see this kind of an increase even through December quarter is good, we have a lot of penetration opportunities there. Latin America, I feel very good about the future of the Mexican businesses, both of those and what we're doing particularly in Brazil. So we've got expansion opportunities there. As I turn to the Europe, Africa, and the Middle East, I applaud that we finally, are taking some of these restructuring actions for Western Europe, because we've had too much capacity there. And we have good businesses there. I think we see the road ahead with regard to our studio concept, they're for direct selling. They have really embraced it, that looks good. I turn to Africa, and well, you know, look at what's happening there, in our South African business, both our beauty businesses and our Tupperware business, and the bulk of the population of Africa is north of our South African business and you're going to see that expand there. So macro, we have a great model that matches individuals wanting to become more a member of the gig economy, want to own their own businesses, want to move into middle-class and I think importantly, here there's not going to be enough jobs in these markets to go around. We're providing this opportunity. Michael, if you'd take this down to a micro level?

Michael S. Poteshman - *Tupperware Brands Corporation - Executive VP & CFO*

Sure. So for this year, 2017, our outlook is for 2% sales growth in local currency. And as we pointed out, looking through the impact from having 1 less week, and then BeautiControl, it was a 1 point, and a 3/4 of a point, so we're already up into the lower mid-single digits, if you look through those comparisons. Impacts, we'll still have some from BeautiControl next year, obviously not the week. And then when we take that to where we are with the units, clearly, there's a lot of places that we should be doing better and we expect our strategies and initiatives to pay off for us. Yes, there's a couple that are growing very quickly, and you might say are you going to grow 33% in China forever. And there's a huge opportunity there, probably not forever. But you would think that that off of that kind of 3% of 4% base, looking through those comparison things there with improvements in several of the places that should come going forward that that would help support us. So that's really how I think -- we think about it more near end.

Operator

Your next question comes from the line of Frank Camma with Sidoti & Company.

Frank Anthony Camma - *Sidoti & Company, LLC - Analyst*

Couple of questions. First, on China, can you just explain a little bit better, on the locations, obviously, didn't go up by much but the membership growth was really sharp. So what in particular is driving that, is there any way to quickly summarize that?

E. V. Goings - *Tupperware Brands Corporation - Chairman & CEO*

Yes, I'll comment and Mike, if you'd like to add on that. I spend a lot of time with Vincent over there as does Tricia. The key piece of this is that they -- it is not just a 1 focus strategy, it is clearly having an independent entrepreneur on the ground, that's a piece of it. And it is interesting, when you go ask one of our studio owners, where is your market, she will point out her window to high-rises and she said, "There they live, they live here". And the reason we use the studio concept there is because the typical apartment that people have there is -- you're talking 300, 400 square feet and often, 1.5 families live in it. So there isn't the room for a traditional Tupperware party. So what we've done is we've replicated that kind of environment in a neighborhood, and it has -- it's like a, you walk in there, it's like a training kitchen in there, there's the chairs all around and we hold cooking classes there. And it's a community, kind of an assembly point, a gathering point. Now what's driving this number of these, is that

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more and more young Chinese women want to have their own business, extremely entrepreneurial there. It's interesting, they do their own financing. And in almost every situation, they don't get money from banks, they get the money from family. And they invest in her having her own studio. Well, then the formulas from that is, what is her business? What is required for her to make money, they've had a wonderful focus, better than any of our markets in the world on fewer higher priced products, where the use shows results. And the #1 selling product is far as total dollar sales in the entire world is this water-filtration system, that is a thousand dollars and sold in China. Now that's where I now start to couplet how she makes this business work. She tries to sell, she sells 1 -- excuse me 2 water-filtration systems per month, and she's basically paid her rent and already, got a profit. And then she -- then the theme becomes, well I want members of this studio, so all these consumers and now she's getting more in there, and using this digital platform called WeChat and they just take every day they get offers, and ideas and reasons to come by the studios. So it's engagement of a community there, and I mean, that's really the key, I mean really, Frank, 2 cases, geographic expansion and then penetration growth by building local communities within each one of these. Mike, if you could add anything to that?

Michael S. Poteshman - *Tupperware Brands Corporation - Executive VP & CFO*

Sure. And as Rick is saying, with the relationship building side of our business, we've been shifting towards more share of the studio than these residentially sited areas and so that's helping build the membership count because being geographically closer to the studio allows that greater physical contact as well as opposed to the studios that would be within department stores and more commercially sited, so that's been helping. Also as part of this rotation that we have in the studio owners, there's been a big emphasis on bringing people that are more, and some of it's natural, but more digitally savvy. And with that, a lot of the number adds come through electronic games, digital games and so that's helped us also to add members. Our management team has also highlighted that with the roadshows, because with some of the water-filtration and other product sales happen outside of the outlets in what we call roadshows, where 3 or 4 of the studio owners would come to a spot where we were putting on the roadshow and sell product. But that's also helped them to add more members. So that's -- those are some of the things that help us to get to these more members and then also because they're more residentially located a higher share of the studios. That's helping to drive the engagement and also has been a productivity driver.

Frank Anthony Camma - *Sidoti & Company, LLC - Analyst*

Okay. My next question is on the, especially as you mentioned the credit issue in Brazil. It's a 2-part question. One, can you tell us where you have other issues like this where you do a credit check, that's #1. But #2 is, I typically think of credit checks as sort of a lagging indicator, it's usually after the fact that like credit scores go down? So is this -- do you think this impact is over or is this going to impact, I mean, this is going to be a sort of sustainable impact on your sales there?

Michael S. Poteshman - *Tupperware Brands Corporation - Executive VP & CFO*

So where we've seen an impact, is these credit checks as people are coming into the sales force, and if they don't meet the qualification, we've had some issues around that. So we are looking at some ways to address that, that could help enable it to come out better, when we look at the actual bad debts and payment and all that, we're worse than we were, but still quite a bit below the average that we perceive in the economy. So it's not like, it's -- I won't say a dire situation, but it's been a slowdown in the rhythm of the business versus what we were used to. So you do certainly have been hearing more recently, that the economy in Brazil has started to turn and started to improve. So I would think that over time would come through to consumer spending and debt capacity and just the household balance sheet kind of thing. But it's not something that I would think would change on a dime.

Frank Anthony Camma - *Sidoti & Company, LLC - Analyst*

Okay. And are there any other major markets where you offer that credit of similar to Brazil?

Michael S. Poteshman - *Tupperware Brands Corporation - Executive VP & CFO*

Well, we offer credit in many of our businesses. I think that the credit monitoring system or the check in this way is more sophisticated in Brazil and more direct. So I haven't heard our other businesses talk about that getting better or getting worse and therefore, impacting how we've added sales force numbers.

E. V. Goings - *Tupperware Brands Corporation - Chairman & CEO*

Frank, let me add 1 point comment back in China again. Because I used to live there and I'm there regularly, just as -- we know all of us, if we were to turn back the clock in 15 years -- I guess, it was one of my friends in Investor Relations at one of the money managers, I remember back then our BlackBerry's were just connected. We thought they would become part of our bodies. What if you'd have thought ahead. Now we've got, just interesting anecdotally, where you were going to think where China is going for the future? Again, I was there in September, I'm there regularly, so I'm down in Guangdong province, and I used to live in Hong Kong. When I lived in Hong Kong, all they made in Guangzhou and Guangdong province, was cut and sow operations right now. Now it is Silicon Valley, but it is Silicon Valley on steroids and let me give you a case and point. I had a whole group in that group in our plant there and I asked them, I held up my iPhone, and I said, how many of you have an iPhone? And these are college educated blah blah. One hand went up, our plant manager. And then I said, what have the rest of you got? And I just want to mention to you, what's happened is now in Guangzhou province, it's become the Silicon Valley, there's a company called Huawei. Huawei, okay, and look up the company after this call, VIVO. They're not selling iPhones over there, they're selling Huawei's and VIVO's and these are more attractive than an iPhone. They are 1/3 the price of them. And there's 1.3 billion in China right now. So Wall Street continues to support the Apple, like they don't even understand, there is a rest of the world out there. And the rest of the world is moving in this direction. It is absolutely amazing. And our guys are leveraging the same mindset with regard to turning the kinds of products that Tupperware can make, for not only water-filtration systems but complete cooking systems and then in everyone of these neighborhood communities as we get more penetration here, we're going to be able to have repeater stations to deliver it right to the consumer out there. But it's worth looking at both of these other cell phone companies because in the future, you'll have one.

Operator

Your next question comes from the line of Beth Kite with Citi.

Beth N Kite - *Citigroup Inc, Research Division - VP and Analyst*

Rick, you so wonderfully walked us through a ton of markets. From the outside looking in, could you help us understand, as you look kind of near-term fourth quarter this year and the first half of next year. Are there 1, 2 or even 3 markets, where you're putting a ton of emphasis to really turn it around or is it just really broad based and a lot of markets getting a lot of attention right now?

E. V. Goings - *Tupperware Brands Corporation - Chairman & CEO*

Well, I could tell you, I'm actually looking at a piece of paper that our President & COO, Tricia Stitzel, put together. And your classic BCG core box matrix that basically says invest for growth, sustain momentum, transform or realize untapped potential. So she and the management team are really looking at this thing strategically. And I've got to tell you, up in that box, where you're really going to invest for growth is China is #1. I mean, I happen to personally believe the China business alone is worth all the rest of the company because these are 1.3 billion people, we believe the government is going to be very stable going forward. And there is just -- the Chinese that come over here that go to Stanford and then go get an MBA. They used to stay here. They're going back there right now. Because there's a better opportunity, so China's in the box. Brazil's in it. Indonesia, Mexico, U.S. and Canad. Now we don't have India in that same box because we quite simply, Tricia and I've talked about this, we've got to figure out what the formula is for India, because then we can scale it up. And we're having a lot of trouble like everybody else in our industry is trying to figure that out. So if you kind of overlay and what I've just said, we've got South Africa is in there too. And Africa, you always put on top of that these big macro forces of population as the world moves to 7 billion plus. The driver of women coming into the workplace, in many of these markets only 30% of woman work outside the home. We'll leverage that, the need to really want to be an entrepreneur to own your own thing. All of these forces are behind us but it starts out with, that's where the people are. So that's where you're going to see us really spend a lot of focus and I've got to say, to this Beth, criticize some of my -- during my term as CEO, of what we've done that we shouldn't have done, we felt we needed to have a presence everywhere. And we don't. And so we have, we'll have Tupperware the brand there. But we don't necessarily have to own the sales organization there. We have worked with importers in the Middle East and get great margins in central America. So we're going to be looking at other operating models for our business, where we own and control the brand, but we don't have to have so much installed base. Last point I'll make on that, we learned in Indonesia, Indonesia is our second-biggest market out there, but and we have great manufacturing there, but we didn't have to invest in plant and equipment. We did a partnership there. And that's why, what you've been able to see is we have been able to grow, not only dividends and many years double-digit growth but to do share repurchase because our cap expenditures that pretty much stayed the same as they were when we were a much smaller company. So we're getting smarter, in certain of these areas and to myself, I wish I would have gotten smarter on some of these sooner.

Beth N Kite - *Citigroup Inc, Research Division - VP and Analyst*

Got it. And then one more -- and I apologize if I didn't have this perfectly correctly. I think in your prepared comments, you made -- sort of presented, as if you were working more towards more full time, reps interested in the full-time business opportunity. And maybe a little less for the part-time business opportunity. And I just wondered how -- if I understood that correctly, and if that was sort of a global-fy in that country specific, how that interacts with the brand ambassador program and where that is in evolving in the company?

E. V. Goings - *Tupperware Brands Corporation - Chairman & CEO*

Actually, if that's how it came across, I created the remarks or presented them wrong. Because the intention is not that. The intention is we're always going to have the largest number of sales force they are going to be casual, they're going to be sometimes hobbyists. They're just going to be brand loyalists. But what we have learned and why the focus is on more leaders in the businesses is we have had span of control issues, that in certain markets, like Indonesia, we've got a -- done a great job, of building big multimillion dollar distributorships with and many managers that there wasn't any sub distributors. So that you can have a distributorship that has 100 managers, well you can't manage 100 people. So that we've needed to create, those are career paths for people. Now often though, we will bring someone to the business and they come in a hobbyist, part-time, they take care of their friends, neighbors and relatives and then she sees the light that there is a career. So the thought is, the future is, both of these. And I'll give you on final example on that. Take a market like Germany, we have 65,000 sales force in a market like Germany. I learned in my former life at Avon, you start at the bottom and you say consumers want access. So you check the box and then what we learned is what provides a credible part-time opportunity, how many households which you have to have. What we learned through years, she can do it and this is good stuff, selling skincare and color cosmetics, that with 100 households, she could support a nice part-time income. Well, if you work off that same kind of model, and we're not selling $3 lipsticks but in some cases, we're selling $30 Tupperware food prep items or $100 MicroGourmet steamers, we know we can work off 100 home penetration level because of our large price points. And the second factor is that 25% of our sales every year are new products. Then I turn to Germany and say, 83 million people, 40 million households, we actually with that model, we ought to have a sales force of 400,000. Now the bulk of them, 375,000 are just a part time. But that top-tier, that's leadership. Those are the regionals, the big mega distributors and they're the studios under it. I hope that helped get across a little bit more effectively.

Beth N Kite - *Citigroup Inc, Research Division - VP and Analyst*

It does, very much. And Mike, if I could just ask you one quick question, with respect to sort of how gross margin trended this quarter? Could you help us think about the puts and takes for the fourth quarter of '17 for the gross margin?

Michael S. Poteshman - *Tupperware Brands Corporation - Executive VP & CFO*

Right. Well, we called out, that while we were down 160 basis points, 110 was from items. And when you look at what came through was really the resin. So the resin impact was a couple million dollars in the third quarter, and we said it would be around 1 in the fourth quarter based on what we were seeing. Looking at our guidance overall, we're looking for a 70 basis points improvement, I believe, in the fourth quarter versus last year.

So we're expecting good results notwithstanding unprofitability in relation of sales not withstanding at the high end of guidance on sales is down 1. So we don't give guidance line by line like that. It should be a favorable picture overall, putting GP and DS&A together in the fourth quarter.

E. V. Goings - *Tupperware Brands Corporation - Chairman & CEO*

Michael, I'm going to have to turn and all of you turn the call back to Michael. And you take over here, I've got to get with that leadership team who's coming out of a strategy breakout session. Thank you.

Michael S. Poteshman - *Tupperware Brands Corporation - Executive VP & CFO*

Okay.

Operator

Your next question comes from the line of Chris Carey with Bank of America.

Christopher Michael Carey - *BofA Merrill Lynch, Research Division - Research Analyst*

Just a quick one for you hopefully. So you noted that the stocking up in BeautiControl benefited -- well, hurt sales by about a point, relative to your prior expectations, which would imply local-currency sales are at the low end or maybe even below the outlook by our estimate. So I guess, can you talk about some of the markets that didn't shape up to expectations and I'm specifically interested in Brazil, because it's the lowest growth we have seen there in a while, at least for the past 8 years, according to our model. And it sounds like the consumer challenges and worse credit metrics will continue to impact the activity both on sales and recruiting going forward. So again, just thoughts on the market that remain a bit weaker and specifically, Brazil especially, as that business is going to come up against some difficult comps for at least the next few quarters here.

Michael S. Poteshman - *Tupperware Brands Corporation - Executive VP & CFO*

Right, well, so we highlighted that without the benefit of BeautiControl or taking that into account. We would have been up 1. So we would have been at the low end of our range. We did marginally worse in a couple of places like India and Malaysia, at the same time, we did better than we had assumed in China. So in terms of smaller ups and downs, those were the places that we saw it. In terms of Brazil, we're optimistic for the future. We do have this drag of the week in the fourth quarter, but we had a 15% sales force size advantage going into the fourth quarter. And we're optimistic that the things that we're looking at to be able to bring in these leads notwithstanding the credit issues will help us going forward. So we never thought that we would continue to grow in the 23% range that we had, say in the second quarter and that we've been quite high in several of the quarters and we've called out that we've been above our guidance for that particular unit in many of the cases. So we're going to look to drive the sales force size. Brazil is the fifth-largest population country in the world, so there's still, we think lot of opportunity there. And we'll continue to drive it, that's really how we see it.

Christopher Michael Carey - *BofA Merrill Lynch, Research Division - Research Analyst*

Okay, and just 1 additional follow-up on South America. Can you just talk about how long you anticipate being able to hold this level of pricing in Argentina?

Michael S. Poteshman - *Tupperware Brands Corporation - Executive VP & CFO*

Well, we've been success -- there is a lot of inflation in Argentina. What we've seen in marketplace is that not all companies have been able to price, even notwithstanding there is inflation. Fortunately, we've more or less been able to do that. So in an environment of high inflation, there's issues with consumer spending of course, but we're confident that given the way that our brand plays in Argentina, and we've had a big shift as you've seen over the last several years towards housewares and Tupperware in a more differentiated brand, from some of the housewares brands that we will be able to continue to succeed there. But we've had just modest volume growth and hopefully things will settle down in the economy and in the earning opportunity and the things that work for us well will come through and volume will accelerate.

Operator

There are no further questions, I will now turn it back over to Mike Poteshman for final comments.

Michael S. Poteshman - *Tupperware Brands Corporation - Executive VP & CFO*

Well, thank you very much. We appreciate you all being on the call today. And for your questions. And we'll look forward to speaking to you as we move forward. Thank you.

Operator

Ladies and gentlemen, this does conclude today's conference call. You may now disconnect.
