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TUP - Q4 2017 Tupperware Brands Corp Earnings Call

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OVERVIEW:

Co. reported 4Q17 adjusted diluted EPS of $1.59. Expects 2018 local currency sales growth to be 2% at high-end and 1Q18 local currency sales growth to be down 1% at high-end.

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PRESENTATION

Operator

Good morning. My name is Jane, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Tupperware Brands Corporation Fourth Quarter 2017 Earnings Conference Call. (Operator Instructions)

Thank you. Chairman and CEO, Rick Goings, you may begin your conference.

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

And thank you, and good morning, everybody. I'm just back this weekend from Davos, and a couple words before we get into the -- not only the quarter, but full year and looking forward. As all of you have heard us talk about our primary source of competitive advantage other than our brand name is this incredible opportunity we offer now 3.2 million women around the world in nearly 100 markets.

Just a quick report on Davos, because it relates to our business and our competitive advantage. When I started going there 15 years ago, and before I got involved in leadership aspects on gender parity, there wasn't a single subject on -- regarding women in the main Congress Hall, and I am pleased to report this year, there were more than a dozen and not only the power and potential of women in great panels on it, on how to create more entrepreneurs and more of an operating landscape where governments can enable them to do it. We talked about modern slavery, and there's still 40 million people involved and it's mostly in a value chains of many of the businesses, child labor, et cetera. Nick Kristof and I dealt with those kinds of subjects with some experts -- other experts on it. And as you would imagine, we dealt with the whole subject of abuse and sexual violence in kind of the whole #MeToo areas. So it was very much refreshing to see now the real power of this and the focus on it. And I mentioned it too, because there were -- there is more now focus on the double-bottom lines of companies of not only providing a good investment for the investment community, but also in serving the other stakeholders we have around the world. So we're hearing much part of the future of that and are very highly regarded across the world. I might even say this whole subject of gender parity actually trumped the American President in Davos this year. So it was good to see that.

I'm in Orlando, and I'm here with Mike Poteshman, our CFO; and James Hunt, who heads up IR. Also joining today is Tricia Stitzel, our President and COO. I've got Tricia here today, because all of the operating units in the company actually report in to Tricia, and they have since September about 1.5 year ago when we made her President and Chief Operating Officer. Just to remind some of you background wise, having leadership in a direct selling company that understands the business is critical. Tricia has been with me for my entire time as CEO since we spun this company off and most recently as Group President of the Americas, where we just had great results over the last number of years. And when she took that assignment, she was returning to the U.S. after multiple assignments over a decade outside the U.S. And all you have to do is kind of see what's happened with other direct selling companies when they have leadership people who they get from the outside, who really don't understand the industry. It's a different kind of a beast, our competitive advantage. This is how you recruit, train and motivate these sales organizations. And when you think about it, our 3.2 million people, they're independent contractors. They not -- so they've got to love what they do, and we've got to find ways to capture their hearts and just work them as they grow their businesses. So anyway, Tricia will be going through much of the script today.

So let me get -- with that out of the way, let me get into prepared remarks. Slide 2, we provide the usual slides, but you know the drill on with regard to forward-looking statements.

Let me turn to Slide 3. And you see in the quarter already despite challenges with the softening momentum in some of our markets and actually challenging externals in a number of others places, we were pleased that when you strip away the disadvantages and all the complexity of the extra week in 2016 and BeautiControl, we were actually up 3% in the fourth quarter on a comp basis, and that's a modest acceleration over Q3. Hardly the growth we want to see and are planning for, but it clearly is moving in the right direction.

As I get to Slide 4, our adjusted EPS in Q4 was $1.59. That was $0.06 above the high-end of the range, including $0.01 foreign exchange hit versus the October guidance. And Mike will get into all the ins and outs of that, and Mike, plus, you're going to do the seminar on tax. My goodness gracious complexity. Anyway, overall, emerging market is accounted for 67% of our sales, growing 7% on a comp basis, while our established markets were down mid-single-digit 5%. So for the full year, when you put it together, emerging markets were 69% of sales. Total sales force ended at 3.2 million as I said, and that's up 4% year-over-year, after adjusting for the negative 1-point impact of BeautiControl. Active sellers were even with prior year, also when you take out a 3-point sequential improvement. As we've talked through the years, the key driver of our business is the size of our sales force.

On Slide 5. This is a summary kind of a top line of the annual sales level of our biggest businesses. We're pleased to see that now Brazil has surpassed the $300 million threshold, and China has crossed the $200 million mark joining the U.S. and Canada. Four other units, Fuller Mexico, Germany, Indonesia, Tupperware Mexico are between $100 million and $200 million. So the more big units out there, the more predictability and stability, I think, we have in our business. In addition, we continue to move forward with our programs to revitalize operations. Tricia will cover some of that, most significantly in Europe, where we really had to take some courageous moves there, but the right moves for the future. Our management team there have been working through disruptions in service related to the closure of our French plant. But rather than me take you any deeper on it, Tricia let me turn this over to you to hear your views, and then you can kind of take us through the markets. Okay?

Patricia A. Stitzel - *Tupperware Brands Corporation - President & COO*

Great. Thank you, Rick, and good morning, everyone. So clearly, we've struggled for some time now to gain consistent traction in our markets in continental Europe, especially in our established markets. The sales force size and activity metrics have been a challenge for really years for us. However, since 2017, we have been aggressive in our pursuit of those initiatives that are going to contemporize these businesses and reverse those negative trends. Now having worked on similar revitalization efforts in our U.S. business, we know that we're on the right track with this. And it's going to take some time, as things in Europe don't move as fast culturally or politically, but our actions are the right thing to do. And we also know that our brand is absolutely loved there. So we are on the right track.

In the fourth quarter, we executed on one of the most challenging aspects of the European action and that was the announcement of the intent to close our French manufacturing and supply-chain facility. While it was necessary to the long-term health of our European business. This project had noticeable short-term ramifications. It impacted our distributors, our sales force members and our consumers. And this was the most significant impact we felt in France, Germany and Italy. And as a result of the disruptions and the different work stoppages, which (inaudible)was not totally unexpected to us, but this had a drag on our Q4 sales. And the drag continued into January, and we have included this in our first quarter guidance.

Now, the good news is that our people are back at work. We have an agreement with the union, and we are in the process of getting the approval by the appropriate authorities. Beyond this action, we're still working to enhance our fundamentals in Europe, growing our sales force size and engaging them in the earning opportunity more effectively. And essentially our efforts are focused on improving access and engagement for both our sales force and consumers. And we also want to focus on streamlining our business model to make it easier for her to do business and to be successful.

We also had a tough quarter in Tupperware South Africa, firstly with the comps. In Q4 2016, we were up 53%. And our distributors were destocking excess inventory, which followed the potential for national strikes in the externals in Q3. However, I have to say that 2017 was a very solid year for Tupperware South Africa. They were up 15%. And they had excellent performance, especially in the first half of the year. I was just there in December and really feel that they have a strong sales force size advantage and that we're back into a more normal rhythm, and we're set up well for 2018.

And finally, let me comment for the TEAM portfolio. I'm also looking forward to see what we can do in CIS this year. We grew in the high teens in Q4, and we carry a significant sales force size advantage that's been leading to a higher number of active sellers. So we have a lot of untapped opportunities in CIS.

So let's turn to Asia Pac. Overall, we were up 2% on a comparable basis, which is a 3-point sequential improvement over Q3. In Indonesia, it was still a difficult quarter as we continue to work with our distributors to develop a leadership pipeline to better manage the span of control of our large sales force. In Q4, we promoted our first business leaders into their own nonstocking contact points, which means that now these leaders are no longer under a distributor, so this is a new career level. And this provides a line of sight to an entrepreneurial opportunity that has pulled to the top, which frankly has really been missing in this model. So in the meantime, the unit sales force size deficit remains unchanged, and the number of sales force managers have softened a bit. The key to both these metrics will be to develop and promote a large pool of managers, which they had in training in Q4. So in addition, we want to continue to inject new and exciting products into the market as well. We have seen success in this market with decorated products. And we have had great success for a number of years, in both Brazil and Tupperware Mexico, with decorated products. So we're taking steps to leverage that same concept in Indonesia.

In India, we see 2018 as a year when we will lap the lingering impact from the changes in the direct selling guidelines. So you've heard about all these demonization, the GST, and frankly, we're just looking to stabilize this business and focus on building our manager pipeline there. The sales force size deficit was down to 5% at year-end, and our sales improved sequentially by 15 points on a comparable basis. So we don't declare the trend change, but it is progress.

Let me turn to China, where we had a fantastic 2017. On a comparable basis, they grew the top line by over 35% in 2017. And it became our third business exceeding $200 million in sales. So we now have over 6,100 entrepreneurial focused studio owners and an 11% advantage year-over-year. So since the beginning of 2017, we have seen the studio count advantage steadily move from just low-single-digit to now double-digit studio growth. And we are so proud of our management team there. They really continue to focus on accelerating our studio count and our penetration. We continue to better systematize the integrated online and off-line model, leveraging both social media and e-commerce platform reach out. Now, by the way, each studio customers are called members, and they represent a steady source of loyal brand fans. And the learnings that we're deriving from this unique model that we have in China has huge potential on how we are adapting and evolving our more traditional relationship-based business models around the globe.

And we'll now move on to North America. Let me start with Tupperware Mexico. I just can't say enough about our management team in Tupperware Mexico. The effective -- the effectiveness of this management team has been incredible. So if you look back at what they had to endure in 2017, they had horrific earthquakes, they had hurricanes, all of that in the third quarter, and then they had challenges really throughout the course of 2017. But despite all of that, Tupperware Mexico had an exceptional year, and they capped it off with a double-digit increase in Q4. So they continue to adapt their marketing plan, their product line up and their price points really to match to the market and the things that come at them. Additionally, they leveraged a strong contact platform with the sales force to build career-minded manager base that is really what we say is the engine to that business. And when we talk about other markets where we need to improve the career opportunity for managers, Tupperware Mexico is really our poster child for that. I'm happy to report that we see continued progress in our business in Fuller Mexico. On a comparable basis, they achieved modest sales growth in Q4, but after a history of declining trends. So they strengthened their product lines, their promotional execution and most importantly, they have restored confidence in the sales organization. So while it's not a turnaround story, positive momentum appears to have returned there, and now our job is to sustain it and to continue to grow the sales organization. So really both our Mexican businesses are in a good place heading into 2018. We know that direct selling is a huge and important channel in Mexico, and the power of our brands and the actions we are taking will continue to provide us an opportunity to take market share there.

In our U.S. and Canada business, we also had very solid 2017. We were up mid-single-digit, though we were about even in the fourth quarter on a comparable basis. Momentum slowed from lower recruiting and ultimate timing shift in the third quarter related to when our sales force turned in orders. And entering into 2018, of course, as you know, we had the headwinds from this freezing cold weather and snow in early January that kept our sales force and consumers indoors. However, we have a really solid pipeline of midsize business leaders that are motivated to grow and eventually move into more studio locations. And what we see from early data is that those leaders operating their business out of a studio location are outperforming the others. And again, the primary benefit of our studio model is that it gets Tupperware closer to the sales force and her consumer with better brand visibility. Now essentially, it's a contact point, where we train and motivate our sales force members, they hold parties and presentations closer to where our consumers live, work and socialize.

Moving on to South America, led by Brazil, our largest market, and for the first time exceeded $300 million in annual sales. So if you recall in the third quarter, we had seen a slowing of the momentum due to consumer issues in the externals. Heading into Q4, our dynamic management team made the tactical moves they needed to enhance engagement and contact with our sales force, and most significantly, in the product selection at a lower price point and activity drivers that provide recognition and rewards at lower levels to engage more people. So all these actions aimed at keeping our sales force engaged and active. Our current read on the externals are improving, and we should continue to recover in 2018, allowing us to execute on the next wave of growth. And we still see plenty of growth ahead in Brazil. We see the opportunity to get better coverage in the south, which means leveraging an urban model with studios that then we can use to enhance penetration in the north.

In Argentina, we continue to see growth driven by inflationary pricing. On a comparable basis, there was modest volume growth. So they have grown nicely into a profitable midsize business.

So overall, we are well positioned with regard to our long-term strategies in each of our key markets. We'll continue to deal with the bumps in the road, like the weather or the impacts from our revitalization efforts globally, but our business model is resilient and full of potential, particularly in emerging markets, where we see that is our sweet spot for many years to come.

So with that, let me turn it over to Mike.

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

Thanks, Tricia. On Slide 8, and as we've noted, it's important to interpret our fourth quarter sales comparison in the context of no longer having BeautiControl in the mix and also the one with shorter fiscal quarter this year and the related calendar shift into the first quarter of 2017 out of the fourth. Together, these were a 7.5 points worth of drag on the fourth quarter comparison. So at the high-end of our range, we were going for underlying 6.5% local currency sales growth, and we turned in plus 3%. Not what we wanted, but still up 1-point plus from how we did in the third quarter, also leaving out BeautiControl. Versus last year and adjusting for BeautiControl in the week, our biggest increases were in Brazil and China, which included some timing benefit with the larger drag in Indonesia. Tricia has spoken to each of these units. The bigger shortfalls versus the high-end external outlook were in Italy, Malaysia, Singapore and Tupperware South Africa.

On volume versus price impacts. Overall, volume was down 6% and price up 2%. On a comparable basis with respect to BeautiControl in the week, the volume comparison goes up to plus 1%. And as Rick highlighted, the overall advantage in total sellers went to 3% in the quarter from 4% at the end of September and was 4% excluding the BeautiControl impact. This was a 2-point decrease in the quarter, coming mainly in Tupperware Mexico and Tupperware South Africa, although both of these units still had good advantages entering 2018. Active sellers in the quarter were even with last year, excluding the impacts of BeautiControl, which was 3 points better than in the third quarter. This came most significantly from India, where things are still tough, but where we've started to normalize some on the sales force key performance indicators, following last year's currency demonetization and noise around regulatory-related model changes.

Slide 9 shows diluted earnings per share without items that at a $1.59 was $0.06 over the high-end of the range, even with $0.01 less of a benefit than forecast from foreign exchange and $0.14 better than last year in dollars and $0.09 in local currency. The better-than-forecast earnings on sales 1-point below the outlook range, reflected good sales growth in the highly profitable China business, together with value chain improvements in a few of the other Asia-Pacific business units, together with lower than foreseen unallocated corporate expenses, including from lower-than-expected cash flow generation performance versus incentive goals and a tax rate that was 1.1 points lower for the year without items than included in the outlook. The better-than-anticipated tax rate was worth $0.07.

As shown on Slide 10 then, this meant that at 17.8%, pretax return on sales, excluding items, was 150 basis points above last year's in dollars, including a 10 basis point contribution from translation FX. This was 50 basis points better than the high-end of the outlook range. Versus last year, the gross margin percentage[without items] (corrected by company after the call)decreased 80 basis points to 66.4%.[In addition] (corrected by company after the call), 60 basis points though related to the impact of exchange rate devaluation on the cost of product in Venezuela, which is one of our items. (corrected by company after the call) Operationally-related 20 basis points came net-net from higher resin cost than last year. The delivery sales and administrative expense line improved 240 basis points to 47.5%, most significantly from lower and more efficient promotional spending in Europe, Asia-Pacific and South America, together with a smaller contribution from lower operating expenses, including lower management incentive results.

On Slide 11, you can see the cash flow from operating activities, net of investing activities for the year came in at $160 million, which was somewhat disappointing as it was $5 million below the low-end of the range. This came from receivables and inventory where we should have done better on our inventory level and where we had a higher level of sales right at the end of the year impacting receivables, along with more initial loans for new distributors and somewhat higher past due amounts. Worth noting, we included cash flow -- cash outflow from reengineering actions in our guidance and the actual came in at $13 million from the program announced midyear. Together with this, we had $144 million of cash in the bank at the end of 2017, which took us to a debt-to-EBITDA ratio of 1.76x, just over our target. In light of this, we now don't expect to make open market share repurchases in 2018. Although as you have would, of course, expect, we foresee continuing to pay the $0.68 per share quarterly dividend we've been asked, and the board declared that quarterly dividend today. On a full-year basis, the cash cost of the dividend is about $140 million.

For 2018, we foresee $75 million of capital expenditures and to come in with cash flow from operating activities, net of investing activities, including that CapEx of $170 million to $180 million. This includes an assumption of $70 million of cash payments for reengineering. On the reengineering program, we continue to expect overall cost to be $100 million to $110 million, of which $65 million was recorded in 2017. We foresee incurring $30 million in 2018. The total cash cost of the program still is expected to be $90 million to $100 million, which includes the $13 million paid in 2017 and the $70 million foreseen for 2018. Not in the cash flow forecast are potential proceeds from sales of assets made excess in light of reengineering action. Over time, we now foresee generating up to $50 million to $60 million of proceeds from these sales, which is up from $35 million previously. And while timing is difficult to call, a good portion could be received this year. Also, not in the outlook are proceeds and capital spending in connection with Orlando land development, which on a net basis is not expected to be significant in 2018, but over time could be in the range of $100 million. Full program annualized reengineering benefits are still expected to be about $35 million. A couple of million dollars of this was realized in 2017 and 2/3 is still expected to have been realized in the 2018 numbers. We've assumed that net-net after reinvestment that we'll have a mid-teen-dollar benefit in 2018 earnings versus 2017 from the reengineering program. And on top of this, we don't -- won't have the $2.6 million of operating losses from BeautiControl that we had in the first half of 2017.

Before turning to the outlook, I'd like to give you some insight on what the U.S. tax reform means to us. From an adoption point of view, we recorded in the fourth quarter of 2017 as an item, a total of $375 million of expense, primarily for things, including the repatriation tax, the lower value of the net U.S. deferred tax asset due to the lower rates and valuation allowances against taxed assets. The good news is we don't foresee any cash payments associated with these adoption elements, including due to the use of existing foreign tax credits against the repatriation tax. In terms of future effect as you no doubt would appreciate there is some uncertainty as to how final regulations and interpretations will plan out, which will likely impact the adoption elements. But with that having been said, we've assumed a 2018 rate without items of 27%, which is up close to 3 points from 2017. Of course, given the uncertainties around that new tax law, it's particularly difficult to call 2018 tax rate, so we'll keep you updated on changes in either direction. There also could be heightened volatility quarter-to-quarter, but we have included the 27% in our first quarter outlook. Going to 2019 and beyond, once we're able to take some appropriate structuring actions in light of the new environment, we're hopeful that the rate will, without items, can go down back into the mid-20s. In the past, we've spoken about that longer-term rate being 27% or 28%, so there is some benefit there versus the old law.

Turning then to the outlook. Slide 12, again, shows things on a comparable basis relative to BeautiControl. For the first quarter, we foresee a local currency sales comparison of down 1% at the high-end of the range. There is a 1.7-point drag from the absence of BeautiControl. So at the high-end on a comparable basis, we'd up fractionally. The first quarter of 2017 was our best sales comparison of the year with a 6% increase in local currency. While this did benefit by about 1.5 points from the calendar shift associated with the 53rd-week in 2016, normalizing things, there was still good growth. On a 2-year stacked to comparable basis, meaning adjusting for the week and excluding BeautiControl in all of the applicable periods, the high-end of the range for the first quarter takes us to plus 5%, 2 points better than the comparable 2-year stack result in the fourth quarter of 3%.

As already mentioned, the first quarter outlook includes based on how things went in the fourth quarter and what we are continuing to experience now a drag from service issues associated with the pending shutdown of the French manufacturing and distribution facility. Also impacting the first quarter are difficult comparisons with 2017, particularly in Indonesia and India, they were down last year, but much less so in the first quarter than later in the year. Also, there were particularly good comparisons in last year's first quarter in Tupperware U.S. and Canada and South Africa. At $1.06, the high-end of the range without items, EPS would be down $0.01 in local currency and up $0.05 in dollars with a 60 basis point improvement in pretax return on sales in dollars to 13.1%, including 20 points of translation benefit. We'll be getting some reengineering benefit, but the bulk of that comes later in the year. Related to this, product cost in Europe remains high for now until we get through the process in France. There is also included in the numbers a drags from the 27% tax rate in 2018 versus 25.5% in 2017, that hits us by $0.02. Full year sales is up 2% in local currency at the high-end of the range, whereabout 3.5% without the BeautiControl impact. The $5.24 high-end of the EPS range without items would up 5% in local currency and 8% in dollars, including a $0.14 benefit from FX. Pretax profit without items is up 9% at the high-end, but the higher tax rate takes us down 4 points to the 5% increase in net income.

For the full year then, on Slide 13, pretax return on sales would be up 110 basis points over 2017. This reflects beyond the leverage on higher sales, the reengineering benefits and absence of the BeautiControl loss. The full year outlook includes unallocated corporate expenses of about $70 million, a few million dollars more than 2017, and interest expense of $44 million, about in line with 2017.

Finally, on resin. There was $1 million negative impact in the fourth quarter from higher prices in local currency, which was in line with what we had expected on our last update in October. This brought the full year 2017 hit to $7 million. Outlook at 2018 shows a $4 million impact of higher prices, coming through about evenly in the second through fourth quarters.

And with that, Jane, we'll open the call up to questions.

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

Thank you, Michael.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Jason Gere from KeyBanc Capital.

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

I guess, the first question I want to ask is, clearly, 2018 sounds like a bigger year focused on margin than on maybe sales acceleration. I know that the sales are going to be a little bit choppy with BeautiControl out, et cetera. But can you talk about some of the decisions about reinvesting some of the cost savings from the restructuring in Europe. Obviously, FX is a bit better as well, BeautiControl, I think, the $6 million that you gained back. So I definitely get it that the margins will be better this year. But I'm just -- first, I guess, kind of curious about how you're making decisions to reinvest to really kind of reinvigorate the top line growth of the business. So how you're managing margin versus sales, I guess, is the first question.

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

Let me answer Part A to that, which is part of the question embedded. We're taking a lot of these actions because we recognize that really for the real -- to really harvest the future potential in a number of our areas that are as specifically Europe, where it's not huge population there, but the per capita income is great, and as Tricia said, the brand is just loved, but our value chain, is out of wack over there, and we've got to take these decisions. And we also understand that we've got some sluggish momentum and even negative momentum in a number of our markets over there. So you're spot on when you say, this -- next year, this year is not going to be robust top line, but I think you're going to see us continue to manage very well the value chain, and that'll pay off. Mike, would you kind of delve a little bit more?

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

Sure. Yes, Jason, as we started saying when we announced the program -- the reengineering program in July last year, with this annualized benefit over time of $35 million, we said about 2/3 of that would be realized in 2018, and we continue to see that. In turn, the mid-teen dollar amount we talk about coming through dropping to the bottom line and helping the operating margin is about 2/3 of what we should realize in 2018. So there is $10 million-or-so that's being reinvested into the business out of those reengineering benefits that come through in 2018. And as Tricia and I and others work through what that should be, a lot of it is going towards these enabling the transformation elements with changes in the business model, and within that, in some cases, evolution of the sales force compensation plans for the manager overrides and building leadership. So Tricia, might add some other comments on that, but we are definitely reinvesting a good portion of what we think is a balanced amount given what we're up to.

Patricia A. Stitzel - *Tupperware Brands Corporation - President & COO*

Really, and we think all these things are really going to lead towards revitalizing this manager base and providing a better opportunity for this manager level that really gives us a nice opportunity to get people in for an earning opportunity with pull to the top.

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

Okay. I appreciate that. And then, I guess, the second question before I hop off. Maybe if you could just walk through the free cash flow. Obviously, a little bit softer in '17, $145 million, so that was down, and you're calling for $170 million to $180 million. I know you've got the outflow, the $70 million from the restructuring. You're still supporting the dividend. Where does the leverage, I guess, go up to, to do that? And then, I guess, the other question is, to get from that $145 million to that $170 million to $180 million, it seems like part of that obviously comes from the restructuring savings, but can you maybe walk through or bridge the gap between the two of what you think will be the better in cash flow this year that will help support some of the outflows that you anticipate?

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

Sure. So the cash flow from operating activities, net of investing activities in 2017 was $160 million and the range for 2018 is $170 million to $180 million. The differential is, we're doing better on earnings that includes some tailwinds from FX, so that all comes through in cash flow as well, obviously. We had some spots in working capital where we didn't do as well as we should have in 2017 like we highlighted. So as we grow, we need a little bit more working capital share. But with the result in 2017, we think on a comparable basis that we're going to do better with the receivable and inventory lines than we did in 2017, so that will come through. In terms of your question on leverage, we really don't see leverage rising. In fact, given our assumptions and what we have going on, we should see a lower EBITDA leverage ratio at the end of 2018 than we did at the end of 2017.

Operator

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

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

Can you talk a little bit more about specifically Indonesia. I know you had couple comments on that, but given I thought it was coming up against the sort of the second half of the year or at least easier comps than the prior year. What are the specifically sort of the macro or maybe the micro elements of that decline there?

Patricia A. Stitzel - *Tupperware Brands Corporation - President & COO*

Really, what we're focused on in Indonesia is building this new business leader level that I commented on, and we really feel that that's going to give us some leverage as we work our way through 2018. As I mentioned, it's a break away from the traditional distributor, which allows people to get into the sales force and allows for this pull from the top -- pull to the top that we talk about. One of the things that we specifically did in 2017 was to put in a new program that allowed people to earn scooters at the Vanguard unit manager level. And again, this attracts them to get them in. So that is we take them through the onboarding. It just strengthens that pipeline. And so these things are what we added into late 2017, and it will get traction as we move through 2018. But they do take time to take hold because you're building a manager pipeline, and you have to pull them through. So that's where we see in Q1 where we're saying, okay, we don't see a significant improvement happening there, but that we feel we have the things in place in order to build as we go throughout the year.

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

Frank, Rick, here. To add to what Tricia said there, the architecture of this structure isn't in question. Tricia, that's what you guys have done with Paola Kiwi in our Brazilian business, whereas you have these big distributors, but the big distributors then, when they become really wealthy and big, they've been so effective in Brazil at creating new ones. So they're coming along, and they keep creating more. So you've always got this dynamic group of fresh leaders who are building new businesses and new contact points. I think part of the difference there is, we've got that same kind of a structure that Tricia introduced in Indonesia. I think part of it is cultural. You have a bahasa subtropical kind of a culture. And the Brazilians are lean in kind of people. I mean, even if you get Manaus in the North, this is a Rio, Sao Paulo kind of a culture that I mean, they really move quickly to something and embrace it when they see it. You got 13,000 islands in Indonesia, and it has been really so has been disappointing. So our job right here is we got to recapture this momentum. We had incredible momentum for 7 years. So we're not scratching our heads on what the structure needs to be. We're trying to figure out how do we get this to happen faster without overpowering the culture.

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

But there hasn't been any significant, I guess, I assume before, like has there been any significant change in either the competitive environment there or the, I guess, environment specifically for direct selling. That was sort of my...

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

Not really. As you get into, this is another area where the cultures are little different. Brazil was quicker to embrace more of the demonstration kind of a product, which are the higher net per unit products, and those are not commodity you get into our really sharp products that are more expensive. Those are hard to knock off because nobody is going to pay that money. If they come into knock it off and they're a low cost supplier. And in Indonesia, we've had some of that on the lower commodity side on storage and serving. Then, again, the action is you move faster to these others, and they don't just move as fast in our business. And by the way, I'm not taking anything away from the culture there, but it is a different kind of culture, and we've got to manage this more effectively, but we got to get moving.

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

Okay. And that other question really relates to this sort of restructuring and the remodeling. Mike mentioned sort of later in the year for the 2/3 and that's obvious based on your first quarter's guidance. But can you talk about -- is it mostly flow through cost of goods sold? Or is it DSA, combination of both? Can you just give us a little help with sort of modeling aspect to that?

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

Yes, Frank, it is both. But related to the French facility assuming we continue to work well through the process, we'll sell through the inventory that we would have made under the current structure where that plant was still part of the picture in the supply chain in Europe, and then it would be more in the second half of the year, where we start to have the benefit of not having those costs in the systems. There are a number of actions we've taken in the marketing units to reduce layers of management and so on that it will come through in the DS&A line as well.

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

Okay. And just two other quick ones to Michael, I think. So 27% you said on the effective tax rate, is that correct?

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

Yes.

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

Because this sheet says 29%. Is that -- the difference is GAAP, I assume. Is that what that is on the press release?

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

The GAAP, as I recall, is 27.8% and the non-GAAP 27%.

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

Okay. I might have picked that up here, it's okay. So -- and this share count. I'm curious like it bounces around a little bit. For full year, it goes down, but you didn't buy any stock. Then it goes up in the first quarter. Why would that be? It's actually really...

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

So on the GAAP number there, since we were in a loss, you used the basic amount of shares. Said another way, that the same is diluted you don't count them...

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

Yes, I got rid of the options. Got it. Okay.

Operator

Your next question comes from the line of Olivia Tong from Bank of America Merrill Lynch.

Olivia Tong - *BofA Merrill Lynch, Research Division - Director*

As you look to improve local currency sales in 2018 first quarter of flat to plus 2%, can you break down your expectations between developed and emerging markets? Because emerging markets continue to perform pretty nicely, but developed markets has, obviously, struggled quite a bit more. And related to that how you think about price versus mix in 2018?

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

Yes. I mean, the way that came together and then if there is any other comments relate to particular markets, but the high-end of our range is in the plus 2%, and again, without the BeautiControl drag, which is netted in that plus 2%, it's around 3.5%. And we would expect just to continue to see better comparisons in the emerging markets as we have for now for a number of years. When we think about it, you look to continue the really fast growth in places like China and Brazil and to do better in places where you aren't. We tend to assume moderation on both of those wings, just as a going in, and then, we see how we can hopefully improve that and do better on the ones that need to prove and continue to grow quickly on others. Clearly, there is some in the established markets where we need to do better as well. And so there -- our assumptions are for improvement where those are bigger lags. But the basic contribution in that sense, I would say, probably hasn't changed. In terms of price versus volume, we've been in this 2%, 3% price impact range for quite a while, which really reflects the global inflation rates in our objective, our approach of pricing along with consumer inflation. So it was a 2% contribution from price in the fourth quarter, and I wouldn't expect any big difference there, but we'll see.

Patricia A. Stitzel - *Tupperware Brands Corporation - President & COO*

Right, Mike. I agree. Hi, Olivia. We really try to keep pricing in line with inflation to support the earning opportunity for our sales force, that's first and foremost for us.

Olivia Tong - *BofA Merrill Lynch, Research Division - Director*

Got it. And then on the margin similar to last quarter, gross margin was down quite a fair bit, but SG&A more than made up for it. But I'm just kind of impressed in considering comp got tougher. Sales came in shy of where you had anticipated. So can you talk through, particularly for 2018, how you expect both of those line items to trend?

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

Well, sure. So, again, in the fourth quarter, we were 80 basis points worse in gross margin [without items, with additional 60 basis points] (corrected by company after the call) related to Venezuela and the devaluation of the bolivar. So that was -- that's an item, it's not in our without items numbers. And then the other 20 basis points net-net was from higher resin cost. So as we go forward, we're looking for a big improvement in operating margin on top a good improvement in 2017. A lot of that comes from this mid-teen benefit from the reengineering actions after the significant reinvestment. And again, once we get to the second half of the year and we're through with the French process, we'll start to see benefit in gross margins from that. So it's a combination we tend to get more leverage DS&A as sales grow, because more of those cost are fixed and so we make decisions over time to add some fixed cost where we tend to get leverage on DS&A line.

Operator

Your next question comes from the line of Michael Swartz from SunTrust.

Michael Arlington Swartz - *SunTrust Robinson Humphrey, Inc., Research Division - Senior Analyst*

Just question on, I guess, Europe. You laid out a lot of puts and takes there. It sounds like there's still some negatives as we go into 2018. But as I look at your guidance, it looks like you are assuming some incremental improvement in that unit. I think you were down 4% local currency last year. You're looking for down in the range of 1% to 3% this year. So maybe help bridge the gap there with some of those statements? Maybe where we could see some improvement during the year?

Patricia A. Stitzel - *Tupperware Brands Corporation - President & COO*

So maybe I'll begin with that. Hi, Michael. It's -- as we mentioned, we continue to struggle to get traction here in TEAM with our -- especially with our established markets really in working to build our sales force size. And over the years, we've become too promotionally driven. So we need to focus really on driving this earning opportunity, which is what we're working on with our revitalization efforts and making it easier for her to do business. And so we believe that that's going to continue to be a bit choppy through 2018 as we work through some of the things that we need to do, especially on the established markets. But as we said, we see some highlights in markets like CIS. We want to see what they can contribute in 2018 and also seeing better trends come out of Turkey as well. So the emerging markets are doing a bit better over in TEAM. Mike, anything to add there?

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

No, I think that's right on the specifics like the overall comment to one of those previous questions. We have initiatives in place in our businesses, particularly we're not doing as well as we want to, and we expect those to pay off over time and so the comparison should be improving even if they're not where we want. So there were some bigger drags in those numbers in the fourth quarter and earlier in 2017 that we should be able to moderate moving forward.

Michael Arlington Swartz - *SunTrust Robinson Humphrey, Inc., Research Division - Senior Analyst*

Okay. That's helpful. And then just final question on cash flow and some of the savings that -- from the cost initiatives that you are undertaking. First, is potential -- are potential asset sales built into that $170 million to $180 million in cash flow that you expect?

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

No. So that's what we're saying that it could be up to $50 million or $60 million and very well could include some amounts in 2018, but they're not in the guidance.

Michael Arlington Swartz - *SunTrust Robinson Humphrey, Inc., Research Division - Senior Analyst*

Okay. And have you earmarked where any proceeds would be redirected?

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

Well, fortunately, we've been able to manage pretty well to our capital structure objective. So we're investing what we should in terms of capital spending at $75 million is the outlook for this year. And we'd continue to prioritize and support our dividend, which is $140 million a year. And even with putting that all together and being at $160 million of cash flow, in 2017, we were just $0.01 over our leverage target. So we've said in the past that the algorithm for the dividend is 50% of trailing EPS without items. So as we would get over that double the current dividend, which would be $5.40, then we would have an opportunity to improve on the dividend. Before that, to the extent we can be below our leverage target which these assumptions would make -- would get us to at the end of 2018 and then that would enable stock buyback. So if we do even better in cash flow because we sell excess assets, then the last thing we do is buy shares. So I guess we go to that because we think we're supporting the business operationally. Of course, we do that, but we that first already.

Operator

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

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

I wanted to start first with a question on China. I think in the four quarters of 2017, depending on quarter sequentially, you added 100 to 200 outlets per quarter. And just thinking about the growth you might want in China in 2018, is this type of outlet growth on an absolute basis something that you continue to envision or might that accelerate?

Patricia A. Stitzel - *Tupperware Brands Corporation - President & COO*

So what we've said is that we continue to see this growth continuing. We've said at some point, we would expect to get to 20,000 outlets that we would begin to build over time. But at this point, yes, we continue to see this pace of the growth continue.

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

Got it. And related to that, now you continue to add outlets and expand geographically in the country, is there any reason to think that the terrific profitability right now in China might be pressured in any way?

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

The value chain is pretty robust. So we're able to present the earning opportunity for the outlet owners that works quite well in terms of an individual outlet. And then going back now a few years ago, we revised the program for what we call in China, distributors, but people who have multiple outlets in their organization in order to motivate that kind of development, so they can have up to 10 outlets call in their organization and that's very rewarding from what they can earn point of view. And So -- and these are small outlets. We look at it in terms of the number of households per outlet and that's how we think about 20,000 outlets and how -- why we can get there. So it should continue to work. We've been able to get better and better leverage until we wouldn't forecast just to keep rising forever the ROS in China. But the elements behind it are good. We certainly have started to spend more and more time in thinking how to support that business from a supply chain point of view and a product development, because it is a little bit different there, and that's an important element there, and so we're focused on that as well.

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

Beth, Rick...

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

Got -- oh, sure.

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

Let me add to that too. Keep in mind, in China their core product is a $1,000 water filtration system that carries really most of these studios plus if you think of hub and spokes, plus all kinds of other products around that, but still a limited product line compared to what we'd sell in Europe or the U.S. And the only reason we use that kind of a footprint there is that the typical apartment isn't big enough to hold Tupperware demonstrations with multiple people. So she tends to be -- I'll use the examples like the neighborhoods sorority house, and she is typically anecdotally in her late-30, she is really an entrepreneur, she runs the place. There's cooking classes there. People get together late in the afternoons there. And you got nearly half of the business is really coming through Internet supported with members there. So there is -- these people that actually go there, supported by this technology member there. And when you sit there and think of 1.3 billion people, it's still early days. And as Tricia said, 20,000 is the number we're looking for.

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

Got it. One other geographic question and then a bigger picture. First, just South America, the 10% local currency sales growth for that region. Given that Brazil is so big and it was up 5%, I understand Argentina was stronger at the 16% growth. But what other markets helped pull that region's performance up to 10%?

Patricia A. Stitzel - *Tupperware Brands Corporation - President & COO*

It was really Argentina was -- Argentina and Brazil are the 2 big ones for us in South America. We have some of the smaller markets there. Colombia, for example, is a market that is relatively new for us and growing with the business model that is doing well and some importer markets as well, which have some good...

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

Yes, I was just in -- Rick, you had we go to Guatemala week before the last and an amazing business there that's growing very strong, double digit. So that whole Central American area is really coming on strong. Not a lot of people there, but, wow, it just matches our earning opportunity.

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

The other thing that's in there, Beth, is Venezuela. So it's not a big business for us and the currency just continues to devalue. So that had a reasonably big contribution in the fourth quarter, but it's going to -- it will decrease significantly with currency depreciation in a very significant way in 2018.

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

Got it. Okay. And if I could slip one more in. Just sort of a big picture. You know from the outside looking in, it feels like there are a lot of market, right, that you're focused on that you're trying to improve performance from a top line perspective. Has there been any consideration given to shrinking to grow, if you will, to potentially exiting some markets without a consideration given to the reorganization or the restructuring that's going on in Europe right now, for instance? Or is that pretty much an off the table topic at this point?

Patricia A. Stitzel - *Tupperware Brands Corporation - President & COO*

So really as we really think about this, we look at what we would call kind of the evolution of our markets and considering what kind of model should we have in each one of these. So it's not necessarily shrinking, but it's more evolving these markets and what really is the best approach.

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

Yes, and that's why I went -- Tricia and I were talking about it. I like the way she's been looking at this with regard to market segmentation. That part of one of these issues she has discovered here with our strategy group is that, we tend to resource every market kind of the same way that we need to have an installed management team in place. And now what you're going to see us really kind of differentiating is what kind of model. We want to -- our brand -- we want to protect our brands and markets and have access to consumers in those markets. But that doesn't necessarily mean we need to have the same structure in that market. I used Guatemala as an example is that we have Mexico supplies a lot of the products to Guatemala business, and they've got a few people up in the Mexico business that really feed support into Guatemala, so we don't have to have an installed base there. So you're spot on with this question, Beth. As a matter of fact, if I put it through the wine press, I'd say, so where do you focus? And I mean, I was sitting here right in pencil here, "Hey, China, India, Indonesia, Brazil, Mexico, Africa, that's the game." That's 4-plus billion people and what's interesting about those 6 markets I just mentioned, firstly, the externals matchup with our model. Earning opportunity matters, growth of the middle-class, weak retail infrastructure. And on the other side of that, our sources have competitive advantage matchup too. Number one, again, earning opportunity. Two, because of our demonstration, we can be a first mover with unique products because we can actually demonstrate the products and what I'm seeing and Tricia has really got them to do and I saw it in Mexico first and now in Latin America to be demo-ready all the time. She may be in a bus, but she's got an herb chopper there and an herb chopper is close to $50. So we never used to do that, and we can be first to market with that. And the third piece is and I think one of the things we went through with Davos was Edelman does a annual Trust Barometer and there has been a dramatic decline in people's trust in their institutions, in their leadership, et cetera. But who they still continue to trust is their friends, neighbors and relatives. We don't have to advertise. It is a friend sharing a product with another friend. So when I look at these markets of more than 4 billion, matchup the externals, matchup our sources of competitive advantage, that's the big runway in the future. And the first reason I would say is because that's where the people are.

Operator

There are no further questions at this time. I will turn the call back over to the presenters.

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

Thank you very much. As a matter of fact, I don't need to do anything as a closing because Beth of your question. I just gave you what I was thinking of saying at the end. But I mean, this is a lot of work in parts this last year. And I'll tell you what I've been proud of that the management team, particularly in our European business took the actions they needed to do. We're going to do this restructure. And I think what it really shows is even when we have a tough year top line with regard to revenue generation we can plow through it and have a interesting earnings story and support a very strong dividend. So thank you very much for your support.

Operator

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