

✓ Call Participants

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Presentation

Operator

Greetings. Welcome to Reynolds Consumer Products, Inc. Fourth Quarter and Full Year 2024 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Mark Swartzberg, Vice President, Investor Relations. Thank you, sir. You may begin.

Mark David Swartzberg

Vice President of Investor Relations

Thank you, operator, and good morning, and thank you for joining us for Reynolds Consumer Products' Fourth Quarter Earnings Conference Call. Please note that this call is being webcast on the Investor Relations section of our corporate site at reynoldsconsumerproducts.com. Our earnings press release and investor deck are also available.

With me today on the call are Scott Huckins, our President and Chief Executive Officer; and Nathan Lowe, our Chief Financial Officer. Following prepared remarks, we will open the call for a brief question-and-answer session.

Before we begin, I would like to remind you that this morning's discussion will contain forward-looking statements, which are subject to risks, uncertainties and changes in circumstances that could cause actual results and outcomes to differ materially from those described today. Please refer to the Risk Factors section

in our SEC filings. The company does not intend to update or alter these forward-looking statements to reflect events or circumstances arising after the call.

During today's call, we will refer to certain non-GAAP or adjusted financial measures. Reconciliations of certain of these GAAP to non-GAAP financial measures are available in our earnings press release, investor presentation deck and Form 10-K, which can be found on the Investor Relations section of our site.

Now I'd like to turn the call over to Scott.

Scott E. Huckins

President, CEO & Director

Thank you, Mark, and good morning, everyone. I am thrilled to be President and CEO of this great organization and have been looking forward to this call. In a few minutes, I will speak to what we are doing as a company and leadership team to make RCP even stronger. As at the stage, let's start with a review of our results. Nathan will provide more detail in a few minutes.

The Reynolds and Hefty brands continue to build on their leadership positions in household foil, waste bags, food bags, disposable tableware and many other categories. Consolidated retail volume accelerated quarter-by-quarter and increased to 1% in the fourth quarter. Each of our business units, Reynolds Cooking & Baking, Hefty Waste & Storage, Presto in Hefty Tableware contributed to the fourth quarter's accelerating retail performance. Profitability was in line with what we expected for the quarter and for the year. We expanded margins in 2024, delivered earnings ahead of our initial expectations, and drove cash flow, paying down more debt than targeted at the start of the year.

In fact, 2024 represented the strongest profitability in our history outside of the COVID fueled 2020 results. As a result, we enter 2025 in a strong competitive position, along with very strong cash flows, a deleveraged and very strong balance sheet and the opportunity to invest in a range of well-developed programs to improve growth, drive out costs and produce more stable earnings growth. This takes me to our plans for making RCP even stronger. Reynolds Consumer Products is a great company, rich in history, rich in brands, rich in capabilities and most importantly, rich in people. People committed to winning safely with grit, creativity, resilience, teamwork and leadership in everything we do.

I have great partners in Nathan Lowe and the entire leadership team and the transition we announced in October continues to go well and according to plan. When I joined RCP as Chief Financial Officer in the fall of 2023, I had completed a preliminary assessment of RCP's strengths and opportunities. Since then, my team and I have conducted a comprehensive analysis of our business and in turn, developed a fact-based, well-resourced program of action to invest in growth expand margins and drive shareholder value creation.

Our business assessment confirmed a powerful collection of strengths along with a couple of areas of opportunity. Our strengths are formidable. Our brand and store brand business model is at the heart of all we do, allowing us to lead our categories each and every day. Our national brands, Reynolds and Hefty, our billion-dollar brands with significant brand equity that transcends their categories. We have a significant opportunity to expand our brands into new categories. We are accomplished in and committed to building out our portfolio of affordable, sustainable solutions.

Our customer base is a who's who of major retailers, spanning all major channels of retail distribution. Our largest categories are stable, consistent and generate significant profits and cash flows. Our manufacturing footprint is cost competitive and U.S.-centric, facilitating great service, dialogue and partnership with our customers. Our cash flows and balance sheet are very strong, providing a position of strength from which to invest. Our culture is one of safety, collaboration, innovation and productivity, and our business is run by a veteran leadership team with over 300 years of combined industry experience.

Areas that present opportunities include a diversified but somewhat volatile set of raw materials, contributing to inconsistent earnings growth and secular headwinds in our small but cash generative phone plate business, which now represents less than 10% of our revenue. As a result of this assessment and the investments and work that are underway, my team and I are even more confident in the 2030 strategic vision and earnings algorithm we shared at our Investor Day in March of 2024.

We see an even stronger path to more consistent volume growth, more consistent earnings growth, including retail volume at or better than our categories and leveraging our pricing power and other tools to recover increases in raw materials in 2025 and beyond. The program of action we have begun implementing consists of work streams with [indiscernible] leaders, processes and resources going after a strong pipeline of opportunities from incremental growth, cost savings and ROI across our business. The growth pillar consists of programs to drive more attractive organic retail volume and revenue growth, including work streams to drive distribution wins, higher impact innovation, which is often a catalyst to new distribution entry into adjacent categories and increased returns for RCP and our retail partners on promotional spending.

The cost pillar increases our focus on what were previously called Revolution Cost Savings, unpacking our entire supply chain from commodities to finished goods to advance our cost position, improve margins and unlock additional growth opportunities from an even lower cost base. In raw materials, for example, we are seeking longer-term pricing architectures to reduce volatility while maintaining our cost focus. We have identified significant opportunities for reducing costs throughout our entire supply chain from raw materials to manufacturing through to distribution. Disciplined cost management, enhanced focus and increased investment will allow us to unlock these opportunities, and we are confident in our ability to expand margins over time. The ROI pillar promotes and encourages more of a returns-based mindset in all aspects of our business.

We'll be stepping up investment in RCP because we have the resources balance sheet strength and opportunities to invest more into the business, both for growth and for productivity. We have identified several attractive capital investment programs, including several that are already in flight. These investments, coupled with our productivity work represent a source of incremental cost savings this year. We have an opportunity to further increase automation in our plants in a macro environment characterized by higher employee wages and turnover compared with pre-pandemic levels.

We are also investing in opportunities to improve material processing. This further strengthens our production capabilities while helping us deliver against key sustainability metrics. And as we increase automation and material processing capabilities, we not only drive down our plant's production costs, but also increase production capacity. And as you would expect, we are flowing all capital investments through the returns-based capital allocation framework that we outlined at our Investor Day and in previous earnings calls.

Nathan will provide more context and color on this in his prepared remarks. Finally, we are also adding a few key roles, along with some outside experts to help us accelerate and drive these programs forward. A handful of examples illustrate why we expect these programs to deliver increased growth, earnings and returns over time. As I said, we expect a number of these programs to produce more distribution wins and increased benefits from product innovation. Hefty Presto close is a great example of how our leadership in one category segment, in this case, private label food bags can bring more value to an entire category, along with added growth for one of our brands.

Hefty Presto close rapidly expanded distribution with a major retailer in 2024 and is in the process of rolling out nationally across major retailers in 2025. We see similar opportunities to innovate in brands and store brands across the portfolio to drive new distribution and incremental value for our retail partners and consumers alike. Our dedicated growth programs should also benefit from improved prioritization and focused resourcing. An example is Hefty sensitive waste bags. Hefty was several years into gaining share of the waste bag category before introducing Hefty with Fabuloso sets. That trend continues. Hefty Fabuloso waste bag retail sales now surpass \$200 million.

This growth has been driven by consumer insights, our investments in our brands and our effectiveness in leveraging our category leadership position to scale the extension. Another example is Air Fryer Liners. They started gaining popularity shortly before the pandemic and have grown significantly since. We have spent the time and resources since our initial trials, adapting and sharpening our insights, product features and retail positioning.

Today, Reynolds Kitchen Air Fryer Liners are an example of premium innovation and growing strongly across the United States. I mentioned a returns-based approach and mindset and the application of ROI-based trade

spending as an area of increased focus for growth. There is an opportunity here because we believe we can generate stronger ROIs for RCP and our retail partners with improved analytics, tools and focus. In the area of costs and capital spending, I'm really encouraged by the breadth of productivity opportunities across our portfolio and equally pleased that we have the experience and skill set deploying many of these technologies within our network.

Of course, all of this will require not only financial resources but also discipline and hard work executing these programs to further improve RCP's growth, margins and returns. We expect incremental returns on our investments to start appearing late in the year and have set the following as our priorities for 2025. Continue treating employees in company safety is our top priority, and build further on our world-class safety performance, accelerate growth through distribution wins and product innovation and build a more sustainable level of low single-digit growth into the future, execute cost savings to set the stage for margin expansion, deliver a more stable earnings growth model and invest in people and develop our leaders to drive and support a growing business.

In closing, we are committing the resources to unlock even more of RCP's commercial and financial potential. We have a great team executing the growth, cost and ROI programs to deliver on this potential. We look forward to driving revenue growth and margin expansion, increased earnings consistency, strong cash flows and strong TSR as a result. Nathan, over to you.

Nathan D. Lowe

VP, CFO & Treasurer

Thank you, Scott, and good morning. It's truly an honor to be here with you today as I step into the role of Chief Financial Officer and mark my 6-year anniversary with RCP. I'm excited to be part of a company with such a strong financial foundation and market position, committed to delivering long-term value for our shareholders. We kicked off 2024 with several key objectives in mind. First, to protect and drive our volume by leveraging our competitively advantaged business model to lead our categories; second, to deliver earnings growth by investing in our product portfolio and innovation, driving productivity improvements, maintaining disciplined cost management and unlocking additional cost savings; and third, we set out with the objective to increase our financial flexibility by reducing leverage to within our 2 to 2.5x adjusted EBITDA target by year-end.

I'm pleased to report we overdelivered on all fronts. Net revenues of \$3.695 billion exceeded our initial guidance, reflecting sequentially improving retail volume as we drove our categories to better-than-expected performance. 2024 marked a year of strong earnings growth as we delivered \$678 million of adjusted EBITDA, representing a \$42 million or 7% increase over 2023 and margin expansion of 140 basis points. This was driven by lower operational costs, price pack architecture work on our tableware business and product portfolio optimization. Our full year free cash flow of \$369 million was also strong, benefiting from earnings growth and continued working capital discipline, resulting in further deleveraging to within our stated target leverage range, ending the year at 2.3x trailing 12 months adjusted EBITDA.

As a result of our successful focus on cash flow, we paid down \$150 million of debt throughout 2024 with an additional \$50 million paid in January of 2025, further increasing our financial flexibility. And adjusted earnings per share was \$1.67, up 18% from \$1.42 per share in 2023.

Now turning to the fourth quarter. Net revenues of \$1.21 billion were above net revenues of \$1.7 billion in the fourth quarter of 2023 and at the upper end of our guide, with retail volume growing 1%, consistent with overall category growth in spite of a 1-point headwind from product portfolio optimization. And all 4 business segments delivered accelerating volume in the quarter.

Our Hefty Waste & Storage and Reynolds Cooking & Baking segments each delivered 3 points of volume growth in the quarter. Our Tableware segment delivered sequentially, improving volume and share trends and our Presto business unit was flat on volumes after giving effect to product portfolio optimization. Adjusted EBITDA of \$213 million was as expected, returning to historical quarterly phasing and \$25 million below adjusted EBITDA in the year ago period, driven by anticipated higher operational costs and lower pricing, including investments in price pack architecture, contributing to retail volume growth.

Low-margin non-retail revenues were stronger than expected, increasing \$11 million, but having a dilutive impact on margin percentages worth roughly 75 basis points in the quarter and 50 basis points on the year compared with our initial outlook a year ago. And adjusted EPS were \$0.58 versus \$0.65 per share in the fourth quarter of 2023. Overall, we delivered a Q4 result in line with our expectations.

Looking forward, as Scott mentioned, our 2025 priorities include accelerating growth through distribution and innovation, implementing cost reductions and expanding margins and investing in productivity and growth opportunities with an emphasis on capital spending returns, discipline and process. By focusing on these key priorities, we plan to deliver on our 2025 guide, enhance the stability of our earnings growth model and invest to deliver against our strategy for the longer-term growth of RCP.

Before I get into our 2025 guide, it's important to note that our adjusted earnings expectations for the year exclude approximately \$25 million to \$35 million of pretax cash and noncash CEO transition costs and investments in strategic initiatives to drive future earnings growth. Targeted investments in strategic initiatives in 2025 are expected to accelerate delivery of the growth and cost-focused ROI programs that Scott reviewed.

As he mentioned, we expect annualized returns on these investments to start benefiting results late this year. We expect 2025 net revenues to be down low single digits driven by retail revenue at or above category performance. Unpacking our revenue guide further, we are taking pricing actions where appropriate to cover increases in aluminum costs. We are assuming a relatively stable environment with continued pressure on the consumer, including a 2% overall decline for our categories. Down 2% category expectation is driven exclusively by our expectation of a double-digit decline for home dishes, which represent a little less than 10% of our revenue and less than 5% of our earnings.

We expect the balance of our categories to be generally flat. That said, we are confident in our retail volume performing at or better than category expectations for several reasons. Our retail volume trends have been accelerating throughout 2024. We are increasing investment behind the growth programs that Scott reviewed, motivated by our extensive work identifying significant incremental innovation and distribution opportunities for our brand and store brand business. And some of our strongest performing products are in our non-firm tableware business, demonstrating the advantage of our diversified product portfolio.

We expect full year 2025 adjusted EBITDA in a range of \$670 million to \$690 million, and we expect adjusted earnings per share of \$1.61 to \$1.68 for the year, performing roughly in line with adjusted EBITDA, reflecting lower interest expense but comping last year's onetime tax benefit in the second quarter worth \$0.05 of EPS.

Some other considerations to keep in mind. We see the year as having some level of headwinds, especially in the area of raw materials. And we have a suite of proven tools, including pricing to reduce the impact of these higher costs and deliver stable earnings across cycles. As Scott mentioned, we are working with key suppliers to extend the duration of pricing windows to help reduce earnings volatility.

Finally, we have been following the tariff developments over the last several days, and we will all have a lot to learn as these developments unfold. As such, recently announced tariffs have not been factored into our guide. The first quarter, we expect net revenues to be down low single digits by comparison to first quarter 2024 net revenues of \$833 million, which anticipates the shift of Easter into April by comparison to March of last year. We expect adjusted EBITDA to be in a range of \$115 million to \$120 million by comparison to first quarter 2024 adjusted EBITDA of \$122 million and adjusted earnings per share of \$0.22 to \$0.24.

Turning to cash flow and capital allocation. We estimate free cash flow conversion of approximately 50% of EBITDA, consistent with what we said at our Investor Day and net debt at the end of 2025 of approximately \$1.4 billion. Disciplined capital allocation remains front of mind, and we will continue to flow all decisions through our returns-based capital allocation framework. Now that we are inside our target leverage range, we have the flexibility to assess a greater number of opportunities to expand margins and drive growth.

In the cost pillar, many programs are focused on automation in our facilities are even more attractive than they were previously given market wage rates and turnover compared with pre-pandemic levels. The cost of materials processing and sustainability-related technologies have advanced and are more affordable,

increasing our investment opportunities in this area as well. And of course, seeing a lot of success in driving retail volume growth across our categories, and we plan to continue investing to support that.

We currently have in-flight projects driving a \$20 million to \$40 million step up in capital spending by comparison to 2024 capital spending and expect to generate strong free cash flow again in 2025. We also plan to continue expanding our pipeline of opportunities for future investment, and we'll continue to look for the right M&A opportunities as well as organic entry into adjacent categories under the same capital allocation framework.

In closing, we are proud of the strong progress we made in 2024. Our balance sheet, cash flows and capital allocation discipline position us very well for strong investment in our categories, growth and profitability, and we look forward to unlocking even more of RCP's potential in 2025 and over the long term.

With that, let's turn to your questions. Operator?

Question And Answer

Operator

[Operator Instructions] Our first question is from Lauren Lieberman with Barclays.

Lauren Rae Lieberman

Barclays Bank PLC, Research Division

Great. This is a lot more than I expected this morning and excited to kind of dig in over time. I was curious maybe just starting very high level. If you could talk about what are the biggest changes that this new program in plant sort of requires, whether it's from a cultural standpoint, from an accountability, responsibility standpoint because a lot of these things, I think, the work streams part was pretty clear. But when you think about the change in innovation and pursuing distribution, what are the changes versus what you were doing before?

Scott E. Huckins

President, CEO & Director

Lauren, it's Scott. I'll start, Nathan will probably add on. I think what you're asking about is really what's the difference and approach. I think it's maybe a focus on the prioritization with which we're working on the top, and I'll start with that. We see an opportunity to have a more targeted approach across the retail landscape looking for that growth. Two, we are attempting to more force rank the innovation and build the resource model around that for strength innovation. When we talk about the cost pillar instead of a collection of projects, if you like, that are highly specific, you would be more holistic or thematic.

So for instance, instead of maybe looking at 1 line in a plant maybe that had, had inferior performance and driving against that one example. We're looking at the total performance of that plant and the total cost of manufacturing and driving against those opportunities. You might think of it as a bit more of a top-down than a bottoms-up approach in a holistic framework. Nathan can add on.

Nathan D. Lowe

VP, CFO & Treasurer

I'd also add on like maybe where we were 6 years ago, our balance sheet is just a lot stronger than it was. As I mentioned in my prepared remarks, we now have a lot more flexibility to assess a greater number of opportunities to invest and drive returns.

Lauren Rae Lieberman

Barclays Bank PLC, Research Division

Okay. Great. That's actually -- that's really very targeted question. That was a very helpful answer. I wanted to also just ask quickly about -- in a more microwave, the input cost expectations for this year? I know you

mentioned at the end of the remarks, Nathan, the ability to price and so on. But just how should we think about inflationary expectations that are kind of built into the outlook?

Nathan D. Lowe

VP, CFO & Treasurer

Yes. I mean you heard we didn't factor in any tariffs. We still have a lot to find out there but from just the general environment, you could expect commodities to be a fairly significant headwind. If you just look at where we entered the year from a commodity rate perspective, it's up on that time 12 months ago. But again, as I said, we've got the usual suite of tools that we're deploying to offset that through productivity for seeing a number of other things.

Lauren Rae Lieberman

Barclays Bank PLC, Research Division

Okay. And final thing would be competitive environment in trash earlier this week. Your major branded competitor kind of called out the category is highly promotional. So just curious about that we are seeing it in scanner as well. But it was interesting to see that your pricing in Waste & Stores was actually flat. So just curious if you could comment on the promotional environment, in particular to that category.

Nathan D. Lowe

VP, CFO & Treasurer

Yes. Thanks, Lauren. It's a good question. I think maybe take a step back, when we think about 2024 as a whole relative to 2023, we anticipated an increase in the promotional environment. And that was, in fact, what we saw. Importantly though, that level of promotion that's a lot like prepandemic levels going back to 2019. You actually took my answer the way you phrased your question. In terms of thinking about the reduced storage category look no further than the price volume table in most recent reporting in Q4, it was flat, which suggests that that's not change from the previous Q4. So I think take it as a whole, the environment broadly was about as we would have expected last year.

Operator

Our next question is from Mark Astrachan with Stifel.

Mark Stiefel Astrachan

Stifel, Nicolaus & Company, Incorporated, Research Division

Yes. I'll echo Lauren's comments. There's a lot to take in this morning. I guess maybe just to start relative to where we were in March at the Investor Day, I get new management, old management kind of doing with what they were doing for a long time. Was there something that you all were seeing as we headed into '25, whether it was category consumption household formation share that brought all of the change to the forefront, meaning that did you think that relative to where you were 10 months ago, was it possible the organization needed to change it to hit the 2% and 4% sales and in EBITDA algorithm? So that's the first question.

Scott E. Huckins

President, CEO & Director

I'll start, Mark, I think that the key as we look at this year is reground on process. So we start each year with [indiscernible] forecasts for the categories, just as we did a year ago. What's noteworthy is the [indiscernible] forecast, albeit a small part of the business or foam are projected to be down double digits. The balance of the categories are projected to be roughly flat. So I think with that backdrop, in the context of Investor Day, we spent a bunch of time thinking through as we phrased it strategic investments for 2025, really to play a bit of offense both in capital, which may have been covered around productivity and materials handling and the plans.

And on the P&L, if you like, across revenue growth management, cost pillars and an ROI focus. So I think that would be my attempt to give you current headset on a different headset at Investor Day, but I think a sharper

focus based on that backdrop. But Nathan, [indiscernible]

Mark Stiefel Astrachan

Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. And then I guess if we think about the output of all of these changes, you're guiding to down this year, does that imply an acceleration from '25 to '30, I guess that it's a long period of time, but the commentary that you talked about later this year is what we're all supposed to be looking for is more of a meaningful change or return to sales growth at or above algorithm, EBITDA, same thing with a lot of momentum heading into '26. Is that the best way to kind of kind of judge all the success or progress?

Scott E. Huckins

President, CEO & Director

I think it's a fair recap. I mean the way I think we're thinking about it just to give maybe a fuller picture. We see a challenged consumer unchanged really from what we saw in 2024. We talked about category outlook with really phone being the call out in the balance of the portfolio flat. We see it's Nathan commented on an escalating raw material environment, which we're neutralizing through both pricing mechanisms and productivity. Then turning more to the balance of the year in the longer term, we're attempting to deploy capital smartly to drive returns and targeted investments, if you like, in the P&L or those strategic investments to set the stage for growth in revenue and earnings in '26 and beyond.

I think that's the most distinct way I could try to describe what's going to the management team's mind and prioritization.

Mark Stiefel Astrachan

Stifel, Nicolaus & Company, Incorporated, Research Division

Got it. That's helpful. If I could squeeze just one last one in. '25 price volume within the sales algorithm and remind us how we should be thinking about elasticity with the pricing and the commodity outlook given what you talked about in terms of your outlook for households and growth in your categories?

Scott E. Huckins

President, CEO & Director

I'll give you a first start. I'm sure Nathan will add. But we talked about and all of us can see looking at the London Metals Exchange, the run-up in aluminum and there are pricing actions in flight. Those pricing actions were designed very purposely with recognition about thresholds that we know from historical experience, create [indiscernible]. It's not to suggest there's 0 elasticities, but we're very mindful of those key price points.

So to summarize, as pricing actions were designed to manage and stay within those key thresholds.

Nathan D. Lowe

VP, CFO & Treasurer

Yes. And as I said, it's a modest amount of pricing. We'll win on other tools like productivity to help offset some of those costs as well. And if you just unpack the revenue guide, I'll go back to we're assuming that the categories are down 2%, exclusively driven by a double-digit decline in the foam category. So in contrast, the rest of our categories are flat, and we're really seeing a return towards more normal type of category growth rates, and then we're anticipating delivering at or better than those category growth rates.

Operator

Our next question is from Rob Ottenstein with Evercore ISI.

Robert Edward Ottenstein

Evercore ISI Institutional Equities, Research Division

Great. A bunch of follow-ups. First, just to get it out of the way and clarify things. You mentioned the tariff word a couple of times. Can you just give us a sense? I think we probably understand a lot of the dynamics on the aluminum side, but if we have the 25% on Mexico and Canada, and there's the retaliation, likewise retaliation and then what's going on with China. How should we think about that? Is there a material impact if those go through, just to start things off.

Scott E. Huckins

President, CEO & Director

I'll start. Nathan will add. I think the best place to start is just an assessment in the current operating model to read around 97% of our revenue is U.S.-based. When we think about the production environment, 16 of our 17 manufacturing facilities are in the U.S. The facility that's not in the U.S. is in Canada, its primary role is to service the Canadian marketplace. I'll turn to Nathan for maybe some context around sizing the inputs across the stack.

Nathan D. Lowe

VP, CFO & Treasurer

Yes, sure. I mean the commodity markets, I think it's worth noting, are often indirectly impacted. So there's a lot to determine there and see how that settles out as for the more direct impacts to our business, purchases of raw materials and finished goods from the impacted geographies represent a single-digit percentage of our overall cost basket. So fairly de minimis in the scheme of things.

Conversely, as Scott said, we're a U.S.-centric manufacturer. So there are parts of our business that could benefit competitively from a sustained tariff environment. They impact our competitors disproportionately to us. But I mean, what we do know, we have a lot of [indiscernible] managing through these sorts of tariff environment, however, they shake out.

Robert Edward Ottenstein

Evercore ISI Institutional Equities, Research Division

Great. That's very helpful. Moving back to waste bags. Can you talk -- I mean, you touched on this a little bit in terms of promos going back to a little bit more normal level. Can you talk about what's going on with private label? And then also, in the context of, as you've noted, a tough consumer environment, how are you pivoting, using revenue growth management tools to perhaps eke out a little bit of extra gains there? And what has this all meant to -- how have your discussions if retailers gone? And what is the kind of the shelf space outlook in the upcoming resets?

Scott E. Huckins

President, CEO & Director

There's a lot there. I see if I can go in order. So I think the first one was just in the category. The comment that I think I offered to a previous question was that the change in called the promotional levels and waste bags looked a lot like the change in promotional levels across our portfolio. When we think about the brand and store brand mix, of course, as you know, and all of you know, we participate both in the brand and store brand portion of offerings, which we think is quite helpful. Interestingly enough, when we think about the private label branded mix in that particular category, brands took share from store brands versus a year against time. So hopefully, that gives you a bit of a feel across the compare and contrast and waste bags in the balance of the business.

Robert Edward Ottenstein

Evercore ISI Institutional Equities, Research Division

Great. And then just one last question. You mentioned early on actually one of your first comments was that you're looking at adjacencies. And so I'd love to get a sense on that in terms of is this more something that you can do on an organic basis, sort of fund internally? Or is this more M&A-driven? And what kind of order of magnitude are we talking about here? Is this kind of very small incremental bolt-on type stuff? Or could this be of a much larger magnitude?

Scott E. Huckins

President, CEO & Director

Thanks for the question. So again, maybe just to read around, when we think about the categories that we operate in, as we shared at Investor Day, represents approximately a \$40 billion TAM, offerings of the existing products penetrate about half of that TAM, again, just to reframe. The way in which we could enter categories adjacent to [indiscernible] would be both through organic growth, meaning would, for example, the rentals or Hefty brands naturally travel into those categories organically. In addition, we could also consider and would consider a bolt-on or tuck-in M&A. I think the aspiration would be to do it responsibly. So the first action we might take if inorganic would be increased. I think that would be the way we're thinking about it. But it remains clearly an opportunity given that the [indiscernible] are not participating in is roughly double the TAM.

Operator

Our next question is from Andrea Teixeira with JP Morgan.

Andrea Faria Teixeira

JPMorgan Chase & Co, Research Division

So I was hoping to to kind of double-click on the prioritization of innovation and distribution. And I was hoping to see if you are embedding more investments in A&P as a result of that. It seems like from your guide that you're still assuming some expansion in EBITDA at the midpoint in terms of EBITDA margin. Perhaps if you can give us some color on how much you're thinking of gross margin evolution into 2025? And Nathan, you also want to double-click on the aluminum cost. You -- I understand, I appreciate all the breakdown in terms of like the affected regions and no impact to the regions that you source the commodity. But given that it's in a global commodity, wouldn't it affect the costs here as well? I mean I was wondering if you can help us with hedges and -- or I mean basically thinking about how the tariff would impact you indirectly if any impact.

Scott E. Huckins

President, CEO & Director

Let me start with the 2 questions around innovation and ad spend. What we're attempting to relay is an approach of force ranking the innovation really to ensure that we're putting the resources against the best ideas as simple as that sounds. In terms of advertisement or promotion levels, we would generally expect the 2025 advertising investment to be roughly consistent with what we saw last year, meaning in 2024. We're certainly pleased with the returns we've seen on the ad investment, but we're always looking for opportunities to drive that further. An example of that would be in our rentals business, going about ad campaigns on a more halo basis, meaning inclusive of a variety of offerings, for example, in the Reynolds Kitchen portfolio rather than maybe a singular SKU or product focused. So I think that's how we're thinking about the ad environment in the context of innovation, but I'll defer to Nathan on the balance of your questions.

Nathan D. Lowe

VP, CFO & Treasurer

Yes. So I think there's 2 more to go here. One was around gross margins. So as you can see, Andrea, we haven't provided that level of detail in our guide. But as you cutely pointed out, our EBITDA guide would contemplate a modest increase in EBITDA margins. The next one was around aluminum, but I really think you're asking more broadly around commodities. I think the point here is that they've been moving around a lot in response to the tariffs, and we really need to see how they settle out. We've got a number of tools, which could include derivative instruments. As Scott also pointed out earlier, we're taking a view of taking longer-term pricing windows with many of our key suppliers across commodities and then the usual tours around pricing and productivity, which I noted factored into our guidance.

Andrea Faria Teixeira

JPMorgan Chase & Co, Research Division

That is helpful. And then if I can -- so I'm assuming, just to clarify, it does not include any of the shocks within guide because as you said, like you need to see how everything lands in guidance, right? So your EBITDA and all the margins like that you're bidding are built on an ongoing concern. Okay. The other question is more on the distribution, if I can squeeze, you talked about a -- over time, right, obviously, you gained a lot of distribution over the years. But I was wondering if you can talk to us about like what are the white spaces. Should we discuss back in March last year on the Analyst Day, but I want to just double-click on that as you go into this planograms for the retailers going to 2025, how we should be thinking of the distribution opportunities ahead.

Scott E. Huckins

President, CEO & Director

Thank you, Andrea. I'll start. From a distribution standpoint, some of the highlights would include, for example, have Heft Presto close. That's an offering that started setting a mass retailer in 2024. In 2025, we are rolling that out nationally to a series of retailers. In addition, if we pivot to our Reynolds Cooking & Baking business unit, we have some distribution wins in Air Fryer Liners in parchment but the point that there are distribution opportunities across the portfolio.

And I think the complement to that would be innovation-led distribution opportunities, we would anticipate Hefty Fabuloso extensions. Our first entree flowing through from the Atacama acquisition, sustainable [indiscernible] we will see in market in 2025. We'll also branding some seasonal offerings in our core foil business. And probably more a reminder we actually had a record number of innovation launches in our Presto business in 2024. We remain encouraged by that business opportunity as well.

Operator

[Operator Instructions] Our next question is from Peter Grom with UBS.

Peter K. Grom

UBS Investment Bank, Research Division

So I was just hoping to get some more color on category growth. And I guess specifically, I would be curious what category growth was in the fourth quarter because it seemed like you had a really strong exit rate, particularly after accounting for the optimization impact? And I guess what I'm really trying to understand in the context of what was a really strong quarter. Have you seen a slowdown in category growth over the past month, that's informing the 1Q outlook that's below the 4Q exit rate? Or is it -- is there something else that's really driving that?

Scott E. Huckins

President, CEO & Director

Good question. So I think if we look at the fourth quarter, in totality, we had a reward in the price volume tablets 1% growth. A couple of factors going on as we're thinking of 2025 as we started with when we look across the year, and again, the building blocks of our process start with forecast for the categories. And again, just to recap, you see double-digit declines in foam with the balance of the category is largely flat, just to restate that. In the first quarter, we also have a timing nuance, which is the Easter shift. So in all of the years from 2019 on, Easter has been in the first quarter. In this particular year, it will be in the second quarter. So there is some nuance in particular in the quarter, Q1 relative to the full year.

Peter K. Grom

UBS Investment Bank, Research Division

That's very helpful. And then just on the category growth. I mean, is your assumption that these kind of growth rates hold for the balance of the year? Or is there some sort of phasing that we need to consider, maybe specifically, would you anticipate maybe the foam decline to be more pronounced in the first half relative to the back half?

Scott E. Huckins

President, CEO & Director

No, the intent was that category forecast stood for the year as opposed to any unique base. And I think the phrasing would be more, as I mentioned a moment ago, more a function of the Easter shift as opposed to any other unique call out.

Operator

Our final question is from Brian McNamara with Canaccord Genuity.

Brian Christopher McNamara

Canaccord Genuity Corp., Research Division

I think this was covered a bit in prior questions, but I'll try it a different way. What key factors are driving kind of that delay to category growth returning to kind of that average annual low single-digit pace you kind of outlined last March. I believe at the time you started a more stable economic environment, increases in household formation and other long-term drivers of consumption.

Scott E. Huckins

President, CEO & Director

I think the 2 different factors are shaping that. I think we've talked about foam between regulatory developments, consumer preferences and frankly, retailer preferences and strategies. Those are all contributing to the downdraft in foam. In the balance of the categories, I would just say it's a big one, where it's consumer. We think about the state of the consumer a year ago versus today, not a terrible amount has changed. And specifically, we point that that consumer indebtedness, record levels of mortgage debt, record levels of credit card debt, record levels of auto debt. And so we don't see evidence as we sit here today for any catalysts that change consumer narrative. Obviously, that's not a permanent phenomenon. But as we sit here today, it's probably the simplest way to think about what might be muting an ordinary LSD type of category outlook away from foam.

Brian Christopher McNamara

Canaccord Genuity Corp., Research Division

Can you please remind investors how and when the company takes across its segment in light of potential tariff impact? We've gotten a lot of questions recently on the company's pricing power. I believe it's typically the last lever you like to pull after tax size adjustments, et cetera, but correct me if I'm wrong.

Scott E. Huckins

President, CEO & Director

Good, great question. I think what the key is, is we want to be thoughtful about pricing in the context of both price gaps, thinking brands versus store brands, but also absolute price thresholds. I think that's what you were probably getting at. And it's typical, as Nathan was talking about we kind of want to observe more sustained changes in the commodity input cost before taking pricing action. So it's customary in the CPG space to see, for example, a quarter lag in those actions. But I think those are the variables that go into the pricing decision itself. And then the second part of that is we also want to continue to drive productivity across the manufacturing footprint, make a contribution against those headwinds. And so it's a complement that pricing and productivity to try to neutralize those factors rather than just there's a single tool call price.

Brian Christopher McNamara

Canaccord Genuity Corp., Research Division

Great. And then if I could just squeeze one last one in quickly. The \$25 million to \$35 million in CEO transition costs and other investments, when I read the release, it seemed pretty high, and then went listening to the call, -- it doesn't I'm just -- can you give me a little more color on how that kind of \$30 million midpoint breaks down?

Scott E. Huckins

President, CEO & Director

You bet. So roughly half of that would be truly CEO transition costs. The other half of it would be targeted investments. And again, those would be outside resources to assist in the development and acceleration of 3 topics: revenue growth management on the top line, cost takeouts in particular, away from raw material sourcing and ROI-oriented investments like RGM and trade investment. That's I think a simple way to think about the distribution of those costs. And maybe finally, to be clear, we're anticipating these to be 2025. And so we're trying to be very purposeful and flagging as everybody understands, these are programs of investment, to drive 2025 forward, so that we're setting the stage for growth and margin expansion as we exit this year.

Operator

We have reached the end of our question-and-answer session. I would like to turn the conference back over to Scott for closing remarks.

Scott E. Huckins

President, CEO & Director

Thank you, operator, and thank you, everyone, for your time today and your interest in our business. Our team is excited about the next chapter for RCP, and we look forward to sharing our progress with you in the quarters and in the years ahead. Thank you.

Operator

Thank you. This will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.

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