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Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Reynolds Consumer Products First Quarter 2022 Earnings Call. At this time, all participants are in listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please note today's call is being recorded.

I will now hand the conference over to your speaker today, Mark Swartzberg. Thank you. Please go ahead.

Mark David Swartzberg
Vice President-Investor Relations, Reynolds Consumer Products, Inc.

Good morning and thank you for joining us for Reynolds Consumer Products First Quarter 2022 Earnings Conference Call. On the call today are Lance Mitchell, President and Chief Executive Officer; and Michael Graham, Chief Financial Officer. For our agenda today, Lance will focus on market conditions and our fundamentals, and Michael will review our quarter and outlook. Together, our remarks will be approximately 15 minutes. Then we will open it up for your questions.

During the course of this call, management may make forward-looking statements within the meaning of the Federal Securities laws. These statements are based on management's current expectations and involve risks and uncertainties that could cause actual results and outcomes differ materially from those described in these forward-looking statements. Please refer to Reynolds Consumer Products Annual Report on Form 10-K and other reports filed from time to time with the Securities and Exchange Commission and its press release issued this morning for a detailed discussion of the risk that could cause actual results to differ materially from those expressed or implied in any forward-looking statements made today.

Please note management's remarks today will focus on non-GAAP or adjusted financial measures. A reconciliation of GAAP measures to non-GAAP financial measures is available in the earnings release posted under the Investor Relations heading on our website at, reynoldsconsumerproducts.com. The company has also prepared a few presentation slides and additional supplemental financial information, which are posted on Reynolds website under the Investor Relations heading. This call is being webcast and an archive of it will also be available on the site. While we would like to answer all your questions during the Q&A session, in the interest of time, we ask that you ask one question and a follow-up, and rejoin the queue if you have additional questions.

And now, I'd like to turn the call over to Lance Mitchell.

V. Lance Mitchell

President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.

Thanks, Mark. We started the year with another solid quarter in a very dynamic environment, marked by inflation on top of the levels anticipated in our guide of early-February. We delivered another quarter in line with our expectations. Some of the highlights are a record first quarter of net revenues, strong volume growth in our Hefty Waste & Storage and Hefty Tableware businesses. Additional share gains in multiple cooking and baking categories, waste bags, disposable tableware, and private label food bags, additional pricing and cost savings in our plan to restore pre-pandemic profitability, and improve staffing, service and retailer in stocks.

Turning to our main drivers of growth, pricing, consumer demand, innovation and manufacturing supply chain capabilities, it's worth remembering that our portfolio is well-positioned not only for shifts in household mix of brands and store brands, but also for increasing activity outside of the home. In the area of pricing, inflation has increased since our last earnings call. Our response has been disciplined and quick, with additional pricing implemented across our categories.

Hand in hand with those increases, we've seen an increase in elasticity in some of our categories, particularly for foil, but the degree varies and remains below pre-pandemic levels. Mike will review our guide, and our guide builds in this increase in our elasticity assumptions.

Turning to our consumer demand, in foil, the combination of elasticity and reopening is a headwind, and one we are addressing through a series of measures, including higher trade and advertising. It's important also to note that we estimate that more than half of the Reynolds Cooking & Baking volume decline in the quarter was due to timing of retailer inventory replenishment.

In many of our other categories, including Parchment paper, waste bags, and plastic party cups, consumption continues growing at faster than average annual rates than it did prior to the pandemic. Those are trends that you'll see in a syndicated data and it's evident in our research.

According to a late April report from Kantar, consumers are eating out less often to compensate for inflation. And, in our latest Harris Survey, which was also completed in late April, we found what we expected for foil and that the usage of many of our categories remains well above pre-pandemic rates.

As for our performance, in track channels, RCP branded dollar share and volume share in waste bags, disposable tableware, slow cooker liners, oven bags, plastic wrap, and bake ware is up versus the year-ago levels, and we're seeing RCP's share increase in multiple e-commerce categories, too.

The third driver of our growth is innovation. Reynolds Wrap Everyday Non-Stick Foil, Hefty Fabuloso waste bags, and Hefty ECOSAVE disposable tableware remain standouts, recruiting new users and gaining distribution. Reynolds Kitchen's air fryer liners, a new Hefty Fabuloso scent in waste bags and private label standard fill press to close food bags are off to strong starts.

And our new product pipeline is robust with upcoming introductions, including Reynolds Kitchens compostable wax paper and a number of new branded products from Hefty Waste & Storage and Hefty Tableware. And finally, Hefty EnergyBag is growing strongly in existing geographies and we plan expansion of the program to additional municipalities later this year.

Our fourth growth driver is manufacturing and supply chain capabilities. As I said in my opening remarks, retailer in stocks of our products have improved across our categories, demonstrating our commitment to restoring service to our customers' pre-pandemic standards.

Before I pass the call over to Michael, I'd like to leave you with the following. We began the year with stabilizing commodity costs but also knew the environment would be dynamic. Inflation has accelerated since early February, and navigating through these times remains challenging. We're leading our categories and executing with excellence and our mission of simplifying daily life, so consumers can enjoy what matters most. I have enormous confidence in our people and see tremendous potential for Reynolds Consumer Products.

With that, over to you, Michael.

Michael Graham

Chief Financial Officer, Reynolds Consumer Products, Inc.

Thanks, Lance, and good morning, everyone. I will briefly review our first quarter results and then turn to our outlook. Net revenues in the first quarter were $845 million, an increase of 12% on top of the record first quarter net revenues of $757 million in 2021, primarily driven by price increases. Adjusted EBITDA for the first quarter was $112 million, down 20% versus last year's first quarter adjusted EBITDA of $140 million, driven by higher material manufacturing, logistics, and advertising costs, as well as lower volume which was significantly offset by price increases. Adjusted earnings per share for the quarter was $0.26.

The details of our segment performance are in the press release and our 10-Q. However, I do want to cover a few highlights here. Volume grew 6% in Hefty Waste & Storage, driven by strong demand and easing of staffing and logistics related challenges. Volume grew 10% in Hefty Tableware driven by strength across our Hefty and store brand portfolio.

Volume declined 14% in Reynolds Cooking & Baking, with more than half of the decline attributable to timing of retailer inventory replenishment and the rest related to a combination of lower consumption and lower reroll sales.

Presto products volume declined 3%. And in terms of liquidity, working capital was a use of a cash in the quarter and capital expending was $28 million. This is a business that generates strong cash flows and particularly strong cash flows when commodity costs are stable or declining. A number of initiatives targeting working capital improvements are also underway.

Turning to our outlook, for the second quarter of fiscal 2022, we expect net revenues to grow 6% to 8% on $873 million in the prior year. Adjusted EBITDA to be in the range of $110 million to $120 million. Adjusted EPS to be in the range of $0.23 to $0.27 per share. For the fiscal year 2022, while we're not changing our previously disclosed guidance range, we're updating our expected performance within previously stated ranges as follows.

Net revenues to be in the high end of the range of 9% to 12% on $3.556 billion in 2021. Adjusted EBITDA to be near the low end of the range of $615 million to $655 million. Adjusted EPS to be near the low end of the range of $1.56 to $1.70 per share. Net debt to be approximately $1.9 billion to $2.0 billion at December 31, 2022.

As Lance said, we do expect a pickup in elasticity, particularly in foil, but that elasticities remain below pre-pandemic levels. Reopenings were also a factor in the first quarter, which we are monitoring closely. We expect pricing to drive revenue growth and volume to be down low-single-digits for the year, including the first quarter impact from timing of retailer inventory replenishment. We believe retailer inventories are better aligned to consumer demand over the remainder of the year.

We assume rates for key commodities remain stable by comparison to the end of April levels, and estimate total additional cost pressures of approximately $450 million for the year, up $50 million versus nearly $400 million in early-February. We estimate depreciation and amortization of approximately $120 million for the year, interest expense of approximately $60 million for the year, and an effective tax rate of approximately 25% for the year.

We expect capital spending of $150 million to $170 million for the year, including continuing investments in automation and other Reyvolution programs. As it relates to phasing, you will recall that when we reported results in early-February, we expect the previous implemented price increases in prior year price comparisons to drive sequentially slower year-on-year top line growth as the year progressed.

But as you know, we have experienced additional cost increases since early-February and implemented another round of price increases for the purposes of offsetting these costs. These changes result in a shift in our expectations to higher revenue growth in the second half than in the first half of the year, while also moving the expected year-over-year earnings growth into the second half of the year.

Now, before I turn the call back over to Mark and your questions, I'd like to leave you with the following. Our competitive position is strong. Our share is growing in most of our categories, and we're unwavering in our commitment to restoring pre-pandemic profitability.

We are investing in 2022 and the long term. We are working on multiple working capital initiatives to help mitigate the cash flow pressures we have seen from steep increases in commodity costs and our capital allocation priorities are unchanged: invest to strengthen and extend our competitive advantage and earnings potential; deleverage with a target ratio of 2 times to 2.5 times EBITDA, return excess cash to shareholders via dividends, and opportunistically pursue strategic bolt-on acquisitions.

With that, I will hand the call back over to you, Mark. Thanks.

Mark David Swartzberg

Vice President-Investor Relations, Reynolds Consumer Products, Inc.

Thanks, Michael. As I turn it over to the operator for the questions, I'd like to remind you that we ask that you ask one question and a follow-up, and then rejoin the queue if you have additional questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] One moment, please, while we assemble the queue. Thank you. And our first question comes from the line of Kaumil Gajrawala with Credit Suisse. Please proceed with your questions.

Kaumil Gajrawala
Analyst, Credit Suisse Securities (USA) LLC Q

All right. Can you talk maybe a little bit about Cooking & Baking and maybe some of the components of what's behind some of that decline?

V. Lance Mitchell
President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc. A

Hi, Kaumil, this is Lance. First quarter ...

Kaumil Gajrawala
Analyst, Credit Suisse Securities (USA) LLC Q

Hi, Lance.

V. Lance Mitchell
President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc. A

...yeah. The first quarter of household foil category consumption was down 8%. The remaining shortfall of our Q1 volume was driven by an inventory adjustment at retailers. So, approximately half was event driven and half due to consumption consumer trends. The consumer trends in the household foil category decline was driven by a lot of numerous factors, including changes to use occasions, shifts to smaller footages, shifts from heavy duty to everyday gauge foil and some trade down from branded private label.

So, people aren't leaving the category but changing item purchases and our guide contemplates declines in Q2 and then similar consumer consumptions in the second half. We are increasing our investments in higher trade promotions and advertising to encourage new use occasions and adjust price points to drive growth. And we're also accelerating our Reyvolution initiatives that contribute to earnings growth.

Kaumil Gajrawala
Analyst, Credit Suisse Securities (USA) LLC Q

Got it. Can I just follow-up on maybe one of those comments on inventory – retailer inventory? Is it that retailers are now starting to bring it in, perhaps maybe more than planned or something else going on? Just to make sure I understand.

Mark David Swartzberg
Vice President-Investor Relations, Reynolds Consumer Products, Inc. A

Good Morning, Kaumil. This is Mark, and good morning, everyone. So retailer inventory adjustments were, as you heard Lance say, what I'll call a thing that we worked through in the quarter and, of course, we've built that into our guide. I think when you look forward, you should think that our guide anticipates better match between shipments and consumer takeaway and that that headwind won't be the kind of headwind as it was in the first quarter.

Kaumil Gajrawala
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. Perfect. Thank you.

Operator: Our next question is from the line of Nik Modi with RBC Capital Markets. Please proceed with your questions.

Nik Modi
Analyst, RBC Capital Markets LLC

Q

Yeah. Thank you. Good morning, everyone. Lance, I was hoping maybe you can give a little bit more detail on category growth across the portfolio and then just kind of within that context, how your shares are progressing. And then I'm more interested in just trying to understand price gap situations right now and how you feel about them at this moment given all the pricing? Thanks.

V. Lance Mitchell
President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.

A

Yeah. Two-part question. So, let me handle the share first. We're doing extremely well across the vast majority of our product lines and categories. Across our portfolio, our brands have gained dollar and EQ share in 70% of the categories in which we operate. So, the vast majority of the products in a number of categories, we continue to see category volumes continue to grow faster than the average annual rates than we saw prior to the pandemic.

In Cooking & Baking, we're seeing three-year CAGR's ranging from mid-single digits to 10% to 11%, for example, in Parchment paper. So, in the Cooking & Baking segment and household foil, it's been a challenge from a growth standpoint in the quarter. Waste & Storage, we're seeing three-year volume CAGRs in the 2% to 3% for waste bags. In Tableware, we're seeing CAGRs in 5% and 6% for plastic party cups. So, our Hefty business units continue to benefit from a combination of category demand and our continued share growth and have continued significant potential for continued growth.

On the price gap standpoint, across the portfolio, and each is represented by those share gains, we're pleased with the price gaps with the exception of household foil. And, as I mentioned a moment ago in the first question, we're changing our trade strategy to adjust price points and price gaps to – across the portfolio.

Nik Modi
Analyst, RBC Capital Markets LLC

Q

Thank you.

Operator: Our next question is from the line of Rob Ottenstein with Evercore. Please proceed with your questions.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Great. Thank you and a couple of questions. One, I want to follow up on the share question in a little bit more detail. Obviously, you're doing very well. Is there any way to kind of dissect, your market share gains between, how much is driven by innovation and how much is driven by, a greater availability, displays, anything along those lines? And then, is it getting reflected in more shelf space or anything that we can point to, to suggest that these share gains can be sustainable, any competitive reactions? So, that's kind of the first question.

And then, it leads into the second question a little bit, which is kind of what are your second quarter volume assumptions and does that – those assumptions assume continued share gains or losses? How do you see that developing? Thank you.

V. Lance Mitchell
President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.
A

Well, I'll answer the first part, and we'll let MG, with the second part as it relates to the second quarter outlook. As it relates to the share gains across the portfolio, first of all, 2 points of our revenue growth in the quarter came from innovations and those occurred across all four segments. So, it was driven pretty balanced across all four of our business segments to get to that 2 point gain. And I – in my opening remarks talked about several of those products that were driving those gains.

The balance of the gains has come from distribution as well as just consumer habits, continuing post-pandemic. So, the consumer habits of continuing to stay home more frequently, people are going back to the office but not five days a week. People are not going out to eat as often because of the high cost of eating out and sometimes service related issues. So, our research tells us that while people are still spending time at home and that drives use occasions for our products.

So, with that, Mike, on Q2?

Michael Graham
Chief Financial Officer, Reynolds Consumer Products, Inc.
A

Yeah. So, on the Q2 question, we've taken a pretty prudent approach to our guide. We expect RCP volume to be down mid to high single digits in the quarter driven by Reynolds Consumer – Reynolds Cooking & Baking.

Looking forward, we expect better alignment between shipments and household consumptions, now that retailer end choice has been adjusted. Mark just spoke to that a bit. And in foil, we expect declines in household consumption to continue down at similar rates to the estimated 7% decline that we saw in the first quarter. We are also increasing trade promotions and advertising to drive growth in our foil business.

Robert Ottenstein
Analyst, Evercore Group LLC
Q

Thank you.

Operator: Thank you. Our next question is from the line of Bill Chappell with Truist Securities. Please proceed with your question.

Stephen J. Lengel
Analyst, Truist Securities
Q

Hey. Good morning, guys. This is Stephen Lengel on for Bill Chappell. Would you guys be able to kind of breakdown the $50 million increase in costs? Can you guys kind of put it into like buckets of which is impacting you the most of what you're seeing? Thank you.

Mark David Swartzberg
Vice President-Investor Relations, Reynolds Consumer Products, Inc.
A

The $400 million becomes $450 million, what's the driver of that incremental $50 million.

Michael Graham
Chief Financial Officer, Reynolds Consumer Products, Inc.
A

Yeah. So, when I think about that cost materials are approximately two-thirds of the COGS. And then – so that's approximately about 45 points of those are from commodities. Aluminum and polyethylene are clearly our largest and followed by polystyrene and other resins. So, on an annualized basis, about $0.05 increase in commodities has had the following impacts. Aluminum has about $20 million, polyethylene about $25 million to $30 million and polystyrene about $15 million.

Stephen J. Lengel
Analyst, Truist Securities
Q

Great. Thank you very much.

Operator: Thank you. The next question is from the line of Andrea Teixeira with JPMorgan. Please proceed with your questions.

Andrea Teixeira
Analyst, JPMorgan Chase & Co.
Q

Good morning. So, my question is on the cost savings to mitigate that $450 million, I think the Reyvolution is probably part of that, and if you can update us on that. And my second one is just a clarification on the shipments against retail inventory. Is that mostly on the Cooking & Baking segment? Or are you seeing across the board? And just to clarify also, if the timing you expect, what's embedded in your second quarter is just in the second quarter? And then we should be seeing that clear in the second half of the year. Thank you.

V. Lance Mitchell
President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.
A

Yeah. I'll answer the second part of that question first, Andrea. The retailer inventory was exclusively in household foil. We didn't see that in any of our other products or categories and it was specific to that product line within the Cooking & Baking segment.

There, we are expecting there to be some additional adjustments to retailer inventory in the second quarter, and then it'll be cleared out by the time that we get to the second half of the year. And there was a lot of inventory that they had taken in and it's a high dollar amount than before. So, they're carefully managing the dollars of the inventory that they're carrying with retailers as well because of the working capital concerns. So, I'll turn the first part of the question over to Mike.

Michael Graham
Chief Financial Officer, Reynolds Consumer Products, Inc.
A

Yeah. So as it relates to Reyvolution and, you guys, you'd probably recall this, we talked about this a bit in the last quarter. So, we've set out to deliver a little more than 2 points of margin improvement through Reyvolution cost savings in 2021. So, that's a little more than about $70 million, and we beat that target, and we're planning to deliver incremental savings in that range again this year. So, that's, I guess, what you could expect to see from a Reyvolution standpoint.

Andrea Teixeira
Analyst, JPMorgan Chase & Co. Q

Thanks, Mike.

V. Lance Mitchell
President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc. A

And I would just add to that...

Andrea Teixeira
Analyst, JPMorgan Chase & Co. Q

And is that, sorry, I couldn't hear, it's $70 million, $70 million, right?

Michael Graham
Chief Financial Officer, Reynolds Consumer Products, Inc. A

Yes.

Andrea Teixeira
Analyst, JPMorgan Chase & Co. Q

Okay. Thank you.

Michael Graham
Chief Financial Officer, Reynolds Consumer Products, Inc. A

Broadly in that range.

V. Lance Mitchell
President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc. A

And I would also add, and we said this in Michael's prepared remarks, we did take another price increase because of commodity cost increases in the first quarter that are being implemented in the second quarter. That's across all four segments. It is specifically higher in Tableware and rentals, where we saw the bigger cost increases, but we did take pricing in all four segments.

Andrea Teixeira
Analyst, JPMorgan Chase & Co. Q

Thank you both. I'll pass it on.

Operator: Thank you. The next question is from the line of Lauren Lieberman with Barclays. Please proceed with your questions.

Lauren R. Lieberman
Analyst, Barclays Investment Bank Q

Great. Thanks. Good morning. The incremental pricing is actually exactly what I had wanted to ask about. So, you said it's -- in all categories, it's been announced but will be implemented during second quarter. I guess, I was curious, early late in the quarter, what are we talking about and what's your sense for how this aligns or doesn't with what competitors are doing? But my – I can preempt my follow up, I think, particularly in the trash segment, I was curious where things stood now in terms of you and competitors kind of being in line. I know that you had moved early and you were sort of ahead of the game on pricing, but I was curious where that stood now and how you would describe price gaps between you and Glad in particular, versus where they were prior to the pandemic? Thank you.

V. Lance Mitchell
President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.

A

Well, the pricing that we've taken is across the board. It has varied in timing. The Cooking & Baking increase is in May, so actually it was effective May 7. With Tableware and the Hefty price increases and a minor one in Presto occurs in June. The Hefty Waste & Storage increase was consistent with what we're seeing from competitors from an amount and timing standpoint.

Lauren R. Lieberman
Analyst, Barclays Investment Bank

Q

Okay. Great. And then what about the price gap dynamic now versus where you described things were pre-pandemic. Have they caught up?

V. Lance Mitchell
President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.

A

Yeah. We're pleased with the price gaps across our categories, with the exception of the household foil at this point in time. And we've got to make some of those adjustments there. It has to be slider. Food bags, we're seeing some trade down from the slider food bag segment, the Press-to-Close. So we're looking at some adjustments there, primarily through trade, to ensure the price gaps there are satisfactory, to ensure continued growth. And we are evaluating another Hefty waste bag price increase that would be effective in the next several months.

Lauren R. Lieberman
Analyst, Barclays Investment Bank

Q

So, in addition to what...

Mark David Swartzberg
Vice President-Investor Relations, Reynolds Consumer Products, Inc.

A

And Lauren, just...

Lauren R. Lieberman
Analyst, Barclays Investment Bank

Q

...you announced already.

V. Lance Mitchell
President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.

A

Yeah. That would be in addition to what was announced already.

Lauren R. Lieberman
Analyst, Barclays Investment Bank

Q

Okay.

Mark David Swartzberg
Vice President-Investor Relations, Reynolds Consumer Products, Inc.

A

Lauren, this is Mark. I want to build on what Lance said, because it pertains to a question Michael just answered. So that – the level of cost increase, of course, we guided to $450 million for the year versus $400 million in our prior guide, and we just talked through the pricing actions we're undertaking.

That incremental $50 million is a function of higher domestic and import freight costs, with increased commodity costs, particularly in area of resin, because as you probably noticed, aluminum costs have started coming down. And then there's another $10 million or so in the area of increased manufacturing and third-party supplier costs. So that's the origin, if you will, of the incremental price increases that Lance just spoke about.

Lauren R. Lieberman
Analyst, Barclays Investment Bank

Q

Okay. Great. All right. Thank you.

Operator: Thank you. [Operator Instructions] Our next question will be coming from the line of Peter Grom with UBS. Please proceed with your questions.

Peter Grom
Analyst, UBS Securities LLC

Q

Hey. Good morning, everyone. Hope you're doing well. So, I just wanted to ask about gross margin both for the year and how we should think about phasing. Maybe just to start, I know Michael, you previously expected gross margins to be up 100 basis points year-over-year for 2022, 1Q seemed to be a bit tougher and I guess the implied EBITDA guidance in 2Q seems to embed another challenging quarter. So just any thoughts on the full year outlook and then maybe specifically how we should think about Q2 and the back half of the year.

Michael Graham
Chief Financial Officer, Reynolds Consumer Products, Inc.

A

Yeah. So, just to reiterate. So, if you think about our gross margins that we were challenged with in Q1, right, the lion's share of that was really driven by commodities, about 11 points. Then a little bit about the denominator change and we've talked about the math in the past. That's worth about 4 points. Logistics and other manufacturing cost is about 2 points and mix and scale is another 2 points. So, that was all offset, to some degree, by our pricing actions. So, net-net, that's [ph] good (00:30:38) overall.

As we look forward, obviously we've taken more pricing. We do see commodity costs start to taper off. And so, a combination of pricing and commodity costs starting to taper off will set us up for benefit. The overall manufacturing logistic cost, I would anticipate is going to be pretty consistent. So when I think about overall margins, I think that you'll see a little bit stronger result going forward, primarily given the fact that pricing is going to continue where you see our commodity costs taper off a bit.

Peter Grom
Analyst, UBS Securities LLC

Q

Okay. That's helpful. And then I just wanted to ask about the guidance, particularly kind of what's implied in the back half of the year and just, I guess -- I know you're taking incremental pricing, but the 6% to 8% growth in Q2, it just seems to imply that you expect mid-teens top line growth in the back half of the year to kind of hit the high end of your initial guidance. And so, it just seems like a lot of pricing on top of the low double digit you're cycling a year ago. So, I'm just trying to understand, how comfortable are you that this level of pricing when you're thinking on like a multiyear period that you will still see elasticities above pre-pandemic levels?

Michael Graham
Chief Financial Officer, Reynolds Consumer Products, Inc.
A

So, let me just talk to you about a couple of components, right? One is, in the second half, we do expect some of volume acceleration. And this is driven by the increased trade spend, increase in advertising and strong innovation trends.

You'll also recall that company's volumes are flat in Q3 of 2021 with Tableware posting a minus 4%, which, of course, is our business segment is showing great strength. So, I mean, in addition to some of the other actions that I do want you to take in consideration, some of the volume accelerations that we expect in the second half.

V. Lance Mitchell
President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.
A

But to add to that, we have built in some expectation and elasticities in both the second quarter as well as the full year because of the magnitude of some of the pricing.

Peter Grom
Analyst, UBS Securities LLC
Q

Got it. Thank you so much. I'll pass it on.

Operator: Our next question is from the line of Mark Astrachan with Stifel. Please proceed with your questions.

Mark S. Astrachan
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Thanks, and good morning, everyone. Wanted to ask about, unsurprisingly, pricing and commodities. So, if prices can stay where they are from a commodity standpoint, could you maybe talk a bit about how historically you've either given back price or kind of promoted to give some of that back? I know you talked a bit about the increased trade spending. Is that sort of related to that? Or is it just more on stimulation of volume?

And then somewhat related to that, given kind of where we are more commodity pressure, but more pricing, do you still think it's reasonable to get back to pre-pandemic growth profit dollars in 2023?

V. Lance Mitchell
President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.
A

I'll take the first part of that question and Michael can talk about the whole gross margin dollars part of the equation. From a pricing standpoint, when pricing goes up and commodities come down, historically, we have been able to margin up and recover margins across our portfolio. We do use that opportunity to correct price points and we do that through not just individual promotions on a specified period of time, but also by things called temporary TPRs, which are more permanent type prices reductions, but to make sure you get the price points right and the gaps right across the categories. And that's what I was referring to earlier when I talked about what we were planning to do on the household foil category to adjust pricing not just through promotionals, but to ensure that we're getting the right price points.

Aluminum has gone up to almost $2 a pound in March, it was just short of that. At one point, it actually crossed $2 a pound. It closed Friday at $1.67. So, we have seen a 30% type of reduction in aluminum in the last 30-plus days. And it presents an opportunity for us as we go forward now to margin up and really use that to correct the price points.

And, Michael, you want to talk about gross margin dollars?

Michael Graham
Chief Financial Officer, Reynolds Consumer Products, Inc.

A

Yeah. We've talked about this before. We've talked about this in context of restoring our pre-pandemic profitability. So, just to kind of give you sort of understanding, we expect gross profit – you and we and all of us expect gross profit dollars to grow in line with volume, all else being equal.

To illustrate this, for 2022, if we grow 2019 gross profit dollars by $880 million. So in other words, 8%. And that's basically what our volumes kind of change. You would expect on implied gross profit about $950 million. So, as we look forward, there's three things that we are really focused on, reducing our reliance on higher cost third-party suppliers. This is a result of staffing challenges as well as logistics challenge. So that's a focus area for us going forward.

We continue to make improvements towards our labor challenges and we've invested heavily in this overall space in terms of the wage rates, training, really doing a deep dive across all of our business to understanding why people are changing and turning over at the rates we have. And we've made some tremendous steps in that regard and we feel very comfortable around the progress. And so, that's going to allow us to continue to get product out the door efficiently.

The other big thing that probably won't happen in this year, but hopefully we'll see some early signs is that is the competitive pricing front in the waste and storage space. So obviously, we know from a gross margin standpoint, we haven't gotten full recovery from a pricing standpoint in that overall space. But, if competition reacts appropriately to the overall increases, I think there's an opportunity here that we'll see some additional recovery on gross margins as well.

Mark S. Astrachan
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thank you, guys.

Operator: Thank you. [Operator Instructions] Our next question is a follow-up from the line of Andrea Teixeira with JPMorgan. Please proceed with your question.

Andrea Teixeira
Analyst, JPMorgan Chase & Co.

Q

Thank you for taking my follow-up. Michael, you mentioned a little bit of the aluminum cost and then the 20% that you're seeing sequentially and potentially coming back. I just want to clarify the profit dollars, I think you mentioned something like $50 million or – I don't know if I overheard it correctly.

So, if you can, number one, kind of, give us an idea how you contracted for aluminum into the rest of the year and potentially into 2023? If you're being opportunistic about this reduction or waiting a bit more to see how it lands.

And then on the profitability, I just want to clarify, you said you want to go back to that pre-pandemic profitability and what is the timeframe?

Michael Graham
Chief Financial Officer, Reynolds Consumer Products, Inc.

A

Well, if we see – let me start with the second part of your question. If we see commodity costs update, we could very well see this happening as early as 2023. Now I mean – but that requires commodity cost to abate and inflationary pressures to come down significantly. So, that's the second part of your question. And I want to make sure I understand the first part, because I've disconnected a little bit here on that one. So, can you help me on your first part of your question?

Andrea Teixeira
Analyst, JPMorgan Chase & Co.

Q

Yeah. No. There – it was just the – how you're saying like that – it was related to aluminum anyways. But I was just trying to see how you're contracted into the year 2023 costs for now because of the aluminum decline?

Michael Graham
Chief Financial Officer, Reynolds Consumer Products, Inc.

A

Well, I mean, aluminum prices and rates, I mean, that's pretty – that is not something that we're really locked into from a contractual basis. It's market-based. So, those aluminum rates come down, we get the benefit around that. Recognizing the fact that there's a flow-through of inventory, and then we do have a sizable amount of inventory. So, as those rates come down and we work through our inventory position, you'll start to see the benefits of that flow through from an aluminum perspective. And I think you probably know aluminum rates have come down more recently...

Andrea Teixeira
Analyst, JPMorgan Chase & Co.

Q

Okay. That's fair. Thank you.

Operator: Thank you. Our final question will be coming from the line of Rob Ottenstein with Evercore. Please proceed with your questions.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Yeah. I was just wondering if you could talk a little bit about the dynamic that is emerging on the aluminum side in better understanding, because you don't really have any branded competitors. So, this is being driven presumably by the retailers. And maybe you could talk a little bit about your discussions with retailers on this point. Are they changing how they look at the category or is it just something that that, they, just like everybody else, is just having a really hard time dealing with the kind of incredible volatility in the prices. And, maybe they haven't adjusted in a rational way or just any color around how the category is developing would be helpful. Thank you.

V. Lance Mitchell
President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.

A

Yeah. It's been a very dynamic environment for the – particularly in the last year across the category, and it varies by channel. So, we have worked on this by a retailer by retailer basis, and we're seeing that, the retailers working through it with us. We are the only brand in the category and, as I described in the, I think, in the first question that came through, there's a lot of consumer behavior changes that are occurring because of the higher prices and the costs, trading down the lower footages, trading from heavy duty to everyday foill gauges.

And so, working through all those dynamic changes with the retailers and changing price points is what we're partnering with them on, as well as ensuring that we get the right price gaps to the private label. So, it's – the best that I can describe is they're working with us in a partnership way and it's in a very dynamic environment.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Thank you.

Operator: Thank you. And, at this time, we've reached the end of our question-and-answer session. I'll now turn the call over to Lance Mitchell for closing remarks.

V. Lance Mitchell
President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.

Thank you for your questions and we appreciate your time this morning. I remind you that our business is strong. We're growing share across 70% of our portfolio. And I want to thank our employees and our retail partners for their contributions and their dedication during these very challenging times. Thank you.

Operator: This concludes today's conference. You may disconnect your lines at this time and thank you for your participation.