02-Aug-2021

Reynolds Consumer Products, Inc. (REYN)

Q2 2021 Earnings Call

CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

Robert Ottenstein
Analyst, Evercore Group LLC

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Nik Modi
Analyst, RBC Capital Markets LLC

Christopher Armes
Analyst, Stifel, Nicolaus & Co., Inc.

Peter K. Grom
Analyst, UBS Securities LLC

Andrea Teixeira
Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Reynolds Consumer Products Second Quarter 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's call is being recorded.

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

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

Thank you. Good afternoon and thank you for joining us for Reynolds Consumer Products second quarter 2021 earnings conference call. On the call today are Lance Mitchell, President and Chief Executive Officer; and Michael Graham, Chief Financial Officer. Per our agenda today, Lance will focus on market conditions, our fundamentals, and our 2021 priorities; 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 to 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 afternoon for a detailed discussion of the risks 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 website.

While we would like to answer all of your questions during the question-and-answer 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 delivered a good quarter in a challenging environment, thanks to the resilience and dedication of our team. We grew revenue 6% on top of last year's record second quarter revenues and in spite of estimating 2 percentage point impact from shipment delays, from import and other third-party suppliers. We grew both price and volume. We strengthened market shares across our business and we achieved our earnings forecast in the face of continuing pressure from rising commodity costs.

Nonetheless, we are lowering our earnings guide to reflect significant increases in commodity costs since we spoke with you last. Michael will walk through the drivers of this pressure and the pricing actions we are taking to offset material costs increases on an annualized basis. I'm committed to implementing price increases that fully offset material cost increases at a pace and amount appropriate to market conditions. We will also talk about revolution cost savings, which are tracking ahead of plan and remain another significant source of margin recovery.

Now, let's return to the top line. We expect four factors to drive accelerating revenue growth for RCP over the balance of the year. They are consumer demand, price increases, innovation and strengthened manufacturing and supply chain capabilities. Together with our market share trends, these drivers demonstrate how our company is getting stronger.

First, consumer demand. Household use of our products remains elevated versus pre-pandemic levels. According to our latest Harris Poll, which we conducted again in June, everyday use of foil is up nearly fivefold versus pre-pandemic level and weekly use of waste bags and food bags is up 40% versus pre-pandemic levels.

In addition, the overwhelming majority of respondents in the numerator polling expect to maintain or increase their foil, waste bag and food bag use beyond 2021. This consumer demand sets up our categories, our brands and our product portfolio for continued strong performance.

On an omni-channel basis, through July 11, branded dollar share in foil, waste bags, disposable cups and dishes is up versus year-ago levels and is improving sequentially. Those figures are inclusive of e-commerce. And in track channels, it's the same trend. Branded dollar share of foil, waste bags and disposable cups and dishes is higher than year-ago levels and improving sequentially.

The next driver of our revenue growth is price. Our first and second rounds of pricing were successfully implemented and we have announced a third round across most of our business, consistent with the timing we shared with you when reporting the first quarter. We expect our third round of pricing to be in effect during the third quarter, resolving the substantial improvement in profitability as we enter the fourth quarter. Michael will speak more to the timing and results of our pricing actions in a moment.

The third driver of our strong growth is innovation. I shared in May that we expect increasing innovation benefits as we move through the year. Our retailer partners are reemphasizing innovation. Some notable new product launches this year are Hefty Fabuloso, launched nationally this spring and is exceeding our expectations, delivering strong velocities and ACV gains because it combined Hefty quality with Colgate-Palmolive's Fabuloso scent, a fragrance loved by many long before its debut in waste bags.

Our Reynolds Wrap new packaging offers consumers easier to use packaging across the Reynolds Wrap portfolio and is becoming a major contributor to our continued category leadership. And Reynolds Wrap non-stick foil is also posting accelerating distribution gains, providing consumers the nonstick feature they prize for everyday use.

Renewable products are a priority for us, too. You've heard me talk about Reynolds Wrap 100% recycled foil and ECOSAVE disposable tableware, each of which are growing and gaining new distribution. Hefty Renew waste bags are expanding and our Hefty EnergyBag program which helps communities to work hard to recycle plastics from landfills just announced an expansion into the Atlanta market. And Presto continues to be a major source of innovation-based revenue and we're benefiting from store brand innovation in our other business units, too.

Our fourth growth driver is strength in manufacturing and supply chain capabilities. Our team continues to employ creativity, discipline and hard work to resolve countless pain points emerging since the start of the pandemic. As a result, staffing is at or near target levels at most of our facilities and retailer insights improved further in the quarter.

Our company has momentum and our business model is getting stronger. We have the brands, the product portfolio, category management team, the manufacturing and supply chain capabilities, the pricing actions, the cost savings and most of all the people who position us for substantial improvement in earnings growth in the fourth quarter and over the long-term. I look forward to our future growth and success for our company and our partners.

With that, over to you, Michael.

Michael Graham

Chief Financial Officer, Reynolds Consumer Products, Inc.

Thanks, Lance, and good afternoon, everyone. I'll briefly review our second quarter results, then turn to our outlook. Revenues increased 6% on top of record second quarter revenues in 2020 and this was in spite of shipment delays from import and other third-party suppliers having an impact of approximately 2 percentage point. Price and volume each contributed to the increase, reflecting pricing to offset commodity cost increases and the pickup in growth for Hefty Waste & Storage and Hefty Tableware as everyday usage occasions remained strong and social gatherings increased. Adjusted EBITDA was $148 million, down 23% versus last year's adjusted EBITDA as price increases lagged material cost increases. Adjusted earnings per share for the quarter was $0.39.

Turning to our segment results for the second quarter, there were two main drivers of our year-on-year performance, strong demand and material cost increases outpacing pricing implementation. In Cooking & Baking, net revenues grew 3%, driven by price increases, partially offset by a volume decline. Adjusted EBITDA decreased 11%, driven by lower volume as pricing actions fully offset increases in material and other costs. The volume decline was primarily due to lapping of last year's elevated consumption. Also as Lance told you, a [indiscernible] (00:10:07) is up versus year ago levels, and I'm happy to add that this is an all-time high.

For Hefty Waste & Storage, net revenues grew 8%, driven by price increases and higher volume as at-home use remained strong. Adjusted EBITDA decreased 29% as increases in material cost outpaced our price increases. For Hefty Tableware, net revenues increased 17%, driven by higher volume as social gatherings have increased and everyday use occasions remains strong as well as by price increases. Adjusted EBITDA increased 5%, primarily driven by a higher volume, partially offset by price increases lagging material cost increases.

Finally, Presto Products, net revenues increased 3%, driven by price increases, partially offset by volume decline primarily due to the lapping of pantry loading at the onset of COVID-19. Adjusted EBITDA decreased 25% as price increases lagged material cost increases.

Moving to our capital structure and cash returns, as of June 30, 2021, we had a cash balance of $49 million and total debt outstanding of $2.1 billion. Capital spending of $50 million in the second quarter included $25 million for the purchase of a previously leased manufacturing facility. We paid a quarterly dividend of $0.23 per share in the second quarter and we'll pay another quarterly dividend of $0.23 per share in the third quarter, payable on August 31, 2021.

Now, to our outlook and guidance, which we have updated versus our previously disclosed guidance. We still expect high-single-digit revenue growth for the year, underpinned by pricing, at-home consumption, increases in social gatherings, innovation, and retail replenishment. However, we have reduced our earnings outlook because of continued increases in commodity costs.

Material cost pressures are estimated to exceed $400 million this year, reflecting the inflation we anticipated when reporting our first quarter results, and steady increases in resin and aluminum rates since May. This estimate also considers market indices for key inputs and assumes resin rates peaked in July and eased through year-end, and aluminum rates remained stable by comparison to the July levels through to year-end.

On an annualized basis, we expect the approximate $400 million of pressure to be nearly offset by the combination of two rounds of successfully implemented pricing and a third round which has been announced, with the majority going into effect during the third quarter. Therefore, we expect that pronounced improvement in margins as we enter the fourth quarter.

However, because of the size of the commodity increases since May and the effective timing of recent announced pricing, we expect significant margin pressure again in the third quarter. In other words, we expect the overwhelming majority of the margin pressure arising from the lag between pricing and commodity increases to be behind us as we exit the fourth quarter.

Now, having said all that, I do want to repeat that on an annualized basis, we expect to offset the vast majority of incremental commodity pressures with pricing. We are on track for a complete recovery of material costs through pricing on an annualized basis in Cooking & Baking, Hefty Tableware and Presto, while the recovery in the Waste & Storage segment will be dependent on the easing of commodity rates, additional pricing actions, or both.

I also want to expand on Lance's comments regarding revolution. Revolution remains a major source of cost savings providing us with an additional source of margin recovery that is also tracking ahead of plan. Those savings represent more than 200 basis points of EBITDA margin this year. The source of these savings is wide-reaching and includes improvements in procurement, material processing, supply chain management, and production automation and there remains plenty of additional opportunity beyond 2021.

Now, let's turn to the details of our guide. For fiscal year 2021, we now expect net revenues to grow in the high-single digits, adjusted net income to be in the range of $323 million to $344 million, adjusted EBITDA to be in the range of $590 million to $620 million, adjusted EPS to be in the range of $1.54 to $1.64, and capital spending of approximately $145 million, which includes $25 million for the recent purchase of the manufacturing facility we previously leased, net debt to be approximately $1.9 billion at December 31, 2021.

For the third quarter, we expect net revenues to grow in the high-single digits, reflecting two successfully implemented rounds of pricing and a modest benefit from our third round's pricing implementation during the quarter, as well as similar volume to Q3 2020 levels. Adjusted net income to be in the range of $63 million to $70 million; adjusted EBITDA to be in the range of $125 million to $135 million, down year-on-year, primarily as a result of price increases lagging cost increases; adjusted EPS to be in the range of $0.30 to $0.33.

Now, before I turn the call over to Mark and for your questions, I'd like to leave you with the following: as Lance reviewed, our business is getting stronger. Demand for our products is up, our market shares are increasing and our manufacturing and supply chain capabilities are getting stronger, too. We consider this year's profit pressures temporary and expect a significant rebound in profitability in the fourth quarter.

We have a track record and the tools to fully offset cost increases. We have a history of complete profit recovery in prior commodity cycles, attributable to a number of factors, including the strength of our brands, the breadth of our portfolio, the strength of our category management team and our focus on service. Our focus on short term profitability is balanced by decisions that strengthen our business for the long term. And we remain committed to strong cash generation and disciplined capital allocation.

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

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 you, 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. We'll now be conducting a question-and-answer session [Operator Instructions] Our first question today is coming from Rob Ottenstein from Evercore. Your line is now live.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Great. Thank you very much. So, I was wondering if you could give us a sense of the magnitude of the price increases that you're putting through in Q3, with particular color on waste bags and private label.

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

A

Thanks, Robert. Well, we've announced and raised prices at double digit rates across our entire portfolio with these three price increases. And we have announced increases across most of our portfolio. Most of the third quarter price increases have already been announced. And as Michael indicated, we expect the pricing to result in improvement in profitability as we enter the fourth quarter and we expect the majority of the margin pressure arising from the lag between price and commodity increases to be behind us as we exit the quarter. Those price increases were across the product portfolio as I mentioned, including our store brands and these were high – these were double-digit to mid-double-digits depending on the products and the product portfolio.

Now, in waste bags, in late June, we announced the second round of increases in waste bags. That increase goes into effect on August 30. We are evaluating our opportunity for a third increase this year. As Michael said, the recovery in Waste & Storage will be dependent upon the easing of commodity rates, additional pricing, or both. And there are numerous factors that form our pricing decisions. Those include consumer demand, strength of the category, retail price points, price gaps, consultation with our retail partners, and the competitive environment.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Just to clarify what you said in terms of double-digit rates across the entire portfolio with the three increases, so the double digit is a cumulative amount of the three increases?

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

A

Yes. That includes all three of the increases. And as Michael indicated in three of our four segments, that covers the current outlook for the commodity costs.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

And what have you seen in terms of retailers, their own pricing that they've been putting in and consumers' reaction to price increases?

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

A

The retailers have been increasing prices. Some of these increases are not yet reflective at retail. That's a retailer-by-retailer decision. And as we've indicated in our opening remarks, consumer demand and share remain strong.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Terrific. Thank you very much.

Operator: Thank you. Our next question today is coming from Bill Chappell from Truist Securities. Your line is now live.

Q

Hey, team. This is [ph] Stephen Lango (00:20:18) on for Bill Chappell. I guess as we head into 2022, are you guys comfortable with where your 3Q pricing actions played out given costs moved higher? Also, like, what should our expectations be for margins in 2022? Is there a potential return to 2019 levels or possible expansion given your history of profit recovery? Thank you.

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

A

Yeah. So let me start with the latter part of that question. So, I don't want to get ahead of myself start talking about 2022. So, we're still evaluating this. This environment has been incredibly, incredibly dynamic. Hard to predict what's going to happen. And so we need a little bit more information, a little bit more time and we'll be prepared to talk about that as we talk about our Q4 results, I mean, our Q3 results as well as start talking about our 2021 guide. Was there – did I miss a part of your question? I'm sorry.

Q

Yeah, in terms of talking about like the comfortability to where your 3Q pricing actions are playing out given like the heightened cost increases.

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

A

Well, I think we answer that both in the prepared earlier opening remarks as well as in my last answer. We have based on the current index is that we use IHS and CDI for resin and we use the LME and the Midwest Premium for aluminum. And based on those forward curves and the pricing actions we've taken, we have in three of our four business segments achieved pricing that offset those commodity costs with these three price increases.

Q

Okay. Thank you.

Operator: Thank you. Our next question today is coming from Lauren Lieberman from Barclays. Your line is now live.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Great. Thanks. Hi, everyone. I know also in the press release today that you had mentioned challenges in supply chain, import delays, third-party producers. So I was hoping you could just elaborate a bit more on that. Have things opened up a bit kind of your thought process on how that may or may not impinge your ability to have product on shelves as you go into the second half of the year? Thanks.

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

A

Yeah. Some of the challenges, as I stated, have been the import delays, those import delays were kind of really isolated to a few core products. Some of the ones that have been impacted have been low count sliders, plastic wraps, Reynolds Wrap pre-cut sheets and foam dishes. So those are the primary ones that have been impacted and impacted at 2% challenged that – that impacted our overall results.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

And Michael, is that easing now or is that still a dynamic?

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

A

Yeah. It is abating now. It will slowly go away. So we feel comfortable that things are caught up. Got to understand what it's related to. This is – many people are experiencing an ability to get orders out of the docks. And as that improves, we improve with it. And that was already [indiscernible] (00:23:48).

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay, great. And then it was also – the sentence in the release also mentioned third-party manufacturing. So I didn't know if that was domestic. And if so, if there's any thought process on kind of – I know we're in a certainly unprecedented time, but on qualifying other producers or if there's anything in terms of just if that's something that should be part of the thought process in terms of planning and risk mitigation it has.

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

A

Yeah, Lauren, I think it's important to note that the vast majority of our products we have the control over producing ourselves. The imports and third parties are not necessarily core to our total business, but they do represent part of how we go to market. Some are imports, some are domestics. And in all cases, we are evaluating other parties to ensure we have a surety of supply, both in the near term and the long term.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. All right, great. Thanks. I appreciate it.

Operator: Thank you. Our next question today is coming from Andrea Teixeira from JPMorgan. Your line is now live.

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

A

Andrea, your line is live.

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

A

Maybe on mute.

Operator: Please re-queue. Our next question today is coming from Nik Modi from RBC. Your line is now live.

Nik Modi
Analyst, RBC Capital Markets LLC

Q

Yeah. Good morning, everyone. Sorry. Good afternoon. So, I guess the question is kind of twofold. Lance, maybe you could just talk a little bit about the return of social gatherings and the impact on demand. And then, I guess, the secondary question is, given the dynamic nature of this COVID situation, if things really start to ramp and we start seeing more at-home behavior, do you think the supply chain is prepared for another surge in demand?

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

A

The first question on the social mobility and gatherings that actually does have a positive impact in a lot of aspects of our business. If you think about our tableware business particularly, that's an – and we saw the growth of that in the second quarter from the social mobility, but also in everyday occasions like grilling with family and friends, with Reynolds Wrap and Cooking & Baking as groups. And as we head in the holiday season and having more normalized holiday occasions, we've seen the benefit of social gatherings, but we're also seeing everyday use occasion also be a positive influence on consumer demand. So, it's a win-win.

From a supply chain standpoint, we talked about last year that we were adding capacity without adding roofs, and that's largely completed. So, we have the capacity in place to be able to meet continued strong consumer demand. Some of that was because we took some noncommissioned lines and recommissioned them. And although there are certain pockets and locations where we faced some staffing challenges, on balance and across most of our plants and our locations, we have been able to effectively staff our plants, be able to hit high utilization rates and have continued to improve our retailers in stocks in most of our product lines.

Nik Modi
Analyst, RBC Capital Markets LLC

Q

Excellent. Thank you.

Operator: Thank you. Our next question today is coming from Mark Astrachan from Stifel. Your line is now live.

Christopher Armes
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hey, guys. This is Chris Armes on for Mark. I just wanted to start off with if you could talk about if you're kind of seeing any volume impact from the multiple rounds of pricing. Any change to that elasticity function relative to history? I know you guys kind of talked to that on the last call as well.

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

We've been raising prices in a broadly inflationary consumer environment. And as we indicated, we continue to see strong consumer demand in these categories, as well as our market shares are doing extremely well. In fact, Reynolds Wrap is at an all-time high. So, some of these price increases are still to be reflected at retail. We'll continue to watch the momentum going forward and adjust accordingly if necessary. But to this point, we're very pleased with what we're seeing from a continued consumer demand and in an inflationary environment.

Christopher Armes
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Got it. That's helpful. If I could follow-up and maybe if you just give us a reminder on how to think about kind of these price increases, kind of the year after you take them, is it – how do you guys think about are you mainly giving them back or are you going to reinvest or does it kind of flow through really it inputs come back down?

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

Probably the best way to characterize this is have you reflect upon what we experienced back in 2017 where we experienced some pretty significant commodity increases and how we managed through that. During that period of time, we recover all the commodity cost through pricing and that offset other and – also offset of other inflationary pressures by leveraging our revolution initiatives. I think that's a good indicator of what we would expect going forward here, and we're pretty confident that we're really good at this, all right? And we've demonstrated our courage and taken pricing, and we've demonstrated in the past the ability to benefit from that pricing in subsequent years.

Christopher Armes
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Thanks, guys.

Operator: Thank you. Our next question today is coming from Peter Grom from UBS. Your line is now live.

Peter K. Grom
Analyst, UBS Securities LLC
Q

Hey. Good afternoon. So I just wanted to understand the top line guidance for Q3 to a degree. Could you maybe help us understand what it embeds from a pricing versus volume perspective? I mean, do you expect volume growth? I know the comp gets much tougher there. And then maybe more of a housekeeping and following up on Lauren's question, do you anticipate that 200 basis points negative impact from shipping delays and suppliers to reverse in Q3? And then, sorry, just lastly on the top line, like how much more room is there from a retailer replenishment perspective? Thanks.

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

Well, let me just start with the last part of your question. We do expect that the impact of the shipping delays to some degree will abate, right? But that's been baked into our overall guide. As it relates to the...

Peter K. Grom
Analyst, UBS Securities LLC

Q

Okay.

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

A

All right. So as it relates to the pricing increases and how we will fare going forward on that, I mean, I think that we've kind of communicated that clearly. We feel pretty confident about those and that our ability to recover that has been proven in the past. So I feel pretty good about our ability to continue to manage through this.

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

A

And regarding your last question on retailer replenishment, it's made significant progress in Q2. There's some to go in Q3 and that's baked into our guide as well. But the revenue in Q3 is primarily price. We're not making a lot of volume growth assumptions in Q3 based on growth of volume. We had a good strong year last year. Consumer demand remains strong, but the revenue guide for Q3 is primarily price.

Peter K. Grom
Analyst, UBS Securities LLC

Q

Okay. Super helpful. And then, Lance, I just wanted to go back to the comments you made in Q4 and then again in Q1 around changes in category growth rates. And I know you mentioned in your prepared remarks the Harris Poll and numerator polling around stronger category ground versus pre-COVID levels. But I would love to get your perspective on if anything has changed in your view sequentially, right, as consumer behavior has changed. Is there any way you can help us quantify what you expect that new blended category growth rate that look like post-COVID? I think it was around 2% pre-COVID, so is the long term expectation, 2.5%, 3%, just anything there will be really helpful.

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

A

Yeah. We haven't seen a fundamental shift in consumer behavior. I've talked a lot about in our prepared remarks that consumers in both of our Harris Polls and our numerator polling indicate continued elevated use of our products across our categories. So, no fundamental shift from all those previous seven polls that we've done throughout COVID.

As far as the category growth, of course, that's a bit difficult to predict. But what we said pre-COVID was these categories were growing at 2% to 3%. And we expect after COVID for the usage to be higher as people are cooking, baking, and spending more time at home.

Peter K. Grom
Analyst, UBS Securities LLC

Q

Very helpful. Thank you so much.

Operator: Thank you. Our next question today is coming from Andrea Teixeira from JPMorgan. Your line is now live.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thank you. So my question is regarding basically the phasing of your guide. So when we look at how you like the new guidance for the third quarter like – well, not the new, but how the third quarter and the fourth quarter will shape and then the way you were saying about the timing of the price increases. How should we be thinking because I'm assuming like to get into a guide, you're still looking at a high single on the top line and then the fourth quarter is a much easier comparison? And to your point that's where we're going to get all the benefit of the three price increases. So I'm just surprised that the decline in guidance is actually also impacting the fourth quarter so much. And on that, like I was curious because you did say the resins, your expectation that the resins will have peaked in July. Is that what you're baking into guidance or you're basically saying that's what we expect, but we – just to be prudent, we are assuming spot prices for everything else for the remaining of the year.

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

A

Well, let me take the last part of that question first which is what are we baking in the guide relative resin prices and what we're baking in is what the curves are that I referred to from IHS and CDI which have it peaking in the July timeframe and easing through the balance of the year for resin and aluminum stabilizing at the current rate. So, from a standpoint of what's changed from the last commodity increases, that's a $100 million of higher commodities across those three – the two resins and aluminum versus what we had when we talked to in May. And so two things happen, one, it continue to go up very rapidly and then, two, the forecast for the curves came down much slower, much more gradual. And that's the – that is the difference between both Q3 and Q4 in a May guide versus our current guide.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

No, I understand that. But then probably what's happening and you're assuming the phasing of it because by the time you hit your P&L, it may not, like the decline may not be effective fast enough. So you're not – we are not going to see the alleviation of those costs. Is that the way we should be thinking?

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

A

Yeah. Because it got pushed out further on the curve, it pushes it out on the P&L. It's fundamentally timing, it's all timing. So as the curves, if they continue to go up and then they come down more gradually, the recovery time gets pushed out on an annualized basis as I mentioned a moment ago. In three of our four business segments, we've got enough pricing now in and covers those curves on an annualized basis. But the timing lag is the challenge with Q3 primarily and then some of Q4 versus the prior guide.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Okay, thank you. And on the top line, just as we go into, I understand like most of your high-single-digit is pretty much your price and so right there, we got the two price increases or about that call it, 6% and no volume. But then when we're getting to the fourth quarter, then we're probably going to get a double-digit growth because then you're going to get the volume and the price increase at a higher magnitude. Is that the way to think as we back out your guide?

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

A

Yeah. I think that is exactly the way to think about it. In addition to that, I would say that some of the things that we are benefiting from as well is our innovation pipeline. So, we still are seeing 20% of our overall revenue coming from new products. And within those new products, like non-stock and 100% recycled oil, we're also seeing richer margins as a result of that. So, I think I think it's a combination of what you said as well as the benefit we're getting from the innovative products coming on stream.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

And Michael, that's super helpful. Then the 200 basis points improvement in the revolution, so that – is that's baked – basically, is that going to impact mostly the fourth quarter? Is that the way to think or that was gradual?

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

A

That's gradual, spread out throughout the over the course of the year. And I mean in revolution, we've been quite pleased with it. It's tracking well ahead of what was expected. But that's a continuous process, it's not as choppy as one might think about.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you. I'll pass it around.

Operator: Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

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

Well, thank you, everybody, for your questions and we sincerely appreciate your time this afternoon. Our revenue is growing and we expect accelerating revenue growth over the balance of the year, driven by consumer demand, pricing, innovation and our strength in manufacturing and supply chain capabilities. I also want to particularly thank all of our employees for continuing to follow prevention measures and putting safety first as we grow our business in a very exceptional time. Stay safe. Stay well. Thank you.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.