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Reynolds Consumer Products, Inc. (REYN)

Q1 2021 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 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, today's call is being recorded.

I would now like to 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.

Thank you. Good morning. This is Mark Swartzberg, and thank you for joining us on Reynolds Consumer Products first quarter 2021 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, 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 morning 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.

I'd also like to note that we are conducting our call today from our respective remote locations. As such, there may be brief delays, cross talk or other minor technical issues during this call. We thank you in advance for your patience and understanding. 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.

Thank you, Mark. Due to the continued dedication of the RCP team, we delivered another outstanding quarter in a challenging environment. I'm extremely proud that we grew revenues 4% in spite of February storms and unrelenting supply chain challenges. We expect four factors to drive even stronger growth over the balance of the year. Those are: consumer consumption, price increases, innovation, and our increased supply chain capabilities.

We entered 2021 expecting higher consumption to stick. And we're seeing those higher levels sustain across our business. According to our latest Harris Poll, which we have been doing in successive waves since the start of the pandemic, everyday use of foil is up fivefold versus pre-pandemic levels; usage of waste bags per week is up more than 30%; and weekly slider food bag usage is up nearly 40% versus pre-pandemic levels. As a result, dollar sales of foil, waste bags, parchment and other categories are growing at average annual rates well in excess of rates preceding the pandemic. Other categories that are more sensitive to away-from-home activity, including party cups and disposable dishes are posting accelerating two-year CAGRs.

This is a great environment for sales growth and our product portfolio is performing very well. Our brand share in foil, parchment and other categories is increasing following substantial increases in capacity. And our pipeline of new Cooking & Baking products is very strong. Hefty Waste & Storage is also benefiting from significant and sustained increases in consumption, and innovation is increasing hereto.

Hefty Tableware is [ph] notching gain (00:04:52) as demand accelerates, including dollar share gains in party cups and disposable dishes. And Presto has expanded distribution for several major store brands. And we believe we're well positioned to make additional gains. I also want to note that we're investing alongside our customers' e-commerce priorities.

The next driver of our revenue growth is price. Our brand and product portfolio are strong, positioning us well for price increases in one of the toughest commodity cycles that I've ever seen. We're communicating with our retail partners and we've already implemented price increases across our businesses in Q1.

As a result of higher commodity, logistics and related cost, a second round of price increases is underway and we're planning for a third round to be fully implemented in Q3. This pricing is intended to offset estimated cost pressures on an annualized basis. However, timing is such that we expect considerable margin pressure in the second quarter followed by sequential improvement from there. Michael will speak more to that, but I want to underscore this. We believe we have the pricing, plan and a product portfolio to recover margin while also maintaining business momentum.

The third driver of our strong growth is innovation. We expect increasing innovation benefits as we move through the year in Cooking & Baking, expanding and upcoming launches include Reynolds Wrap everyday non-stick foil, Reynolds Wrap 100% recycled foil, Reynolds KITCHENS butcher paper, Reynolds KITCHENS compostable wax paper and [ph] Reynolds Wrap Star (00:06:53), a restaging of the Reynolds Wrap portfolio with up-to-date, easier-to-use packaging.

We're also deploying a high level of innovation in Waste & Storage, including the recent national launch of Hefty waste bag scented with Fabuloso licensed from Colgate-Palmolive. In Hefty Tableware, the new ECOSAVE line was recently awarded product of the year in the tableware category by Product of the Year USA, the largest consumer-voted award for innovation. Distribution of ECOSAVE continues to expand and innovation is not just limited to our brands. Presto's new product development performance demonstrates that innovation continues to be a revenue contributor for that business segment.

Our fourth growth driver is replenishment at retail. We entered 2021 with a benefit of significant increases in capacity which contributed to improvements of in-stock levels near or exceeding 90% in most of our categories. This is a credit to the entire RCP team. But there is more work to do. And we will drive further improvements. And as we do, we expect to see retailer replenishment contribute to growth.

Before I turn the call over to Michael, a few final comments. I hope you saw our 2020 Annual Report in which we introduced our environmental, social and governance framework and goals. We're committed to reporting progress in the quarters and years to come, and look forward to doing so in partnership with you and all of our stakeholders.

Secondly, this is an exceptionally challenging environment. Our people continue to demonstrate the resilience, integrity and can-do spirit that make me confident that we're becoming an even stronger organization. And finally, as I hope you can tell, we're focused on responding effectively to the immediate cause of supply chain pressures we face.

We are stewards of great brands, an exceptionally strong product portfolio and a winning business model. Many of you heard me speak to that at the time of the IPO, and it's even more true now. It is clear from the data that favorable changes in consumer behavior are sustaining, making our long-term growth and earnings potential even greater now than it was then.

Over to you, Michael.

Michael Graham

Chief Financial Officer, Reynolds Consumer Products, Inc.

Thanks, Lance, and good morning, everyone. Before I turn to our results and our outlook, I'd like to point out a couple of things. This is obviously a challenging cost environment, but one that we see as temporary. We have a track record and the tools to ultimately offset cost increases over time. And we remain committed to strong cash generation and a disciplined capital allocation, including [ph] deleverage to (00:10:09) net debt between 2 and 2.5 times adjusted EBITDA, and continued growth of dividends over time.

Turning to the quarter. Net revenues in the first quarter of 2021 were $757 million, an increase of 4% over prior-year net revenues of $730 million. Growth was driven by pricing to offset rising input costs and lower levels of trade promotion. We saw an estimated 2-percentage-point impact to the first quarter net revenues due to February storms, which primarily impacted the Waste & Storage and Presto business segments.

Adjusted EBITDA for the first quarter was $140 million, an increase of 4% over the prior-year adjusted EBITDA of $135 million. Growth was driven by the increase in net revenues, partially offset by higher material, manufacturing and logistics costs. Adjusted earnings per share for the quarter was $0.36, an increase of 20% over prior-year adjusted earnings per share of $0.30.

Turning to our segment results. Reynolds Cooking & Baking net revenues grew double digit in the first quarter, driven by lower levels of trade promotion and increases in volume in addition to price increases. Adjusted EBITDA increased 33% in the first quarter, driven by increase in net revenues, partially offset by higher material, manufacturing and logistics costs.

For Hefty Waste & Storage, net revenues grew 1% in the first quarter, driven by price increases and lower levels of trade promotion, while volume was negatively impacted by storm-related disruption in February. We estimate February storms had a 3% negative impact to revenues for the quarter. The 20% decrease in adjusted EBITDA in the first quarter was due to higher material, manufacturing and logistics costs, partially offset by lower discretionary costs.

For Hefty Tableware, net revenues were down 4% in the first quarter as lower levels of trade promotion were more than offset by lower volume, which was driven by fewer social gatherings which we believe were not fully offset by increased everyday use occasions. The 3% decrease in adjusted EBITDA in the first quarter was primarily due to higher material and manufacturing costs.

Finally, Presto Products net revenues decreased slightly in the first quarter as price increases were more than offset by volume impact of storm-related disruptions in February. We estimate February storms had a 6% negative impact to net revenues for the first quarter. A 22% decrease in adjusted EBITDA in the first quarter was mainly due to higher material and manufacturing costs.

Moving to our capital structure and cash returns. As of March 31, 2021, we had a cash balance of $144 million and a total debt outstanding of $2.1 billion. We paid a quarterly dividend of $0.23 per share in the first quarter and we'll pay another quarterly dividend of $0.23 per share in the second quarter, payable on May 27, 2021.

Now to our guidance, which we have updated versus our previously disclosed guidance. Starting with the guidance for the year, we are increasing our full-year revenue outlook expecting high-single-digit revenue growth on the basis of continued elevated consumption, innovation, retail replenishment, and pricing, with pricing expected to contribute to the majority of growth. Our cost outlook and pricing plans are informed by current commodity indices which have been extremely dynamic since the beginning of the year. We're facing in-year cost pressures approximating to exceed $300 million, driven by increases in commodity and logistics rates.

Price increases have been implemented and a second round is underway, with plans for a third round to be implemented in the third quarter. The magnitude of the increases will be determined by the level of commodity cost changes. We expect increased gross margin pressure in the near term, and are focused on tight management of SG&A to help offset near-term cost increases.

On an annualized basis, aggregated pricing actions are expected to cover the increases in input costs, but we are lowering our expected full-year earnings to reflect the short-term implications of pricing in an environment where costs are still increasing. As we anticipate pricing to catch up to increased input costs through the rest of the year, margins are expected to expand sequentially in the third and fourth quarters.

As a result, for the fiscal year 2021, we now expect net revenues to grow in the high-single digits, adjusted net income to be in the range of $384 million to $407 million, adjusted EPS to be in the range of $1.83 to $1.94, adjusted EBITDA to be in the range of $670 million to $700 million, and capital spending of approximately $155 million, which includes $25 million for the recent purchase of a manufacturing facility which we previously leased, and net debt to be approximately $1.8 billion at December 31, 2021.

Turning to the second quarter. With additional pricing going into effect during the quarter, we expect high-single-digit revenue growth in the second quarter, with pricing expected to contribute approximately two-thirds of the growth. Commodity and logistics costs have increased, resulting in more pronounced margin pressure in the second quarter. We see this as temporary as our second round of planned pricing goes into effect. We expect gross margins to be down approximately 2 to 3 percentage points versus our first quarter gross margin of 25.4%, half of which is solely due to higher revenue from higher prices. As a result, for the second quarter of 2021, we now expect net revenue to grow in the high-single digits, adjusted net income to be in the range of $76 million to $83 million, adjusted EPS to be in the range of $0.36 to $0.39, adjusted EBITDA to be in the range of $140 million to $150 million.

In wrapping up, there are a few things worth highlighting. Our revenue is growing and we expect even stronger growth driven by consumption, price increases, innovation, and increased supply chain capabilities. Our second round of price increases is ramping. And on an annualized basis, we expect full recovery of margins based on our current cost outlook. Our second quarter is the most challenging because costs have not stabilized and it does not fully reflect our second round of pricing actions.

Beyond the second quarter, we expect continued revenue growth and gross margin improvement as we move through the year. And we remain committed to strong cash generation and disciplined capital allocation.

With that, I'll turn it 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 your 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] Our first question comes from the line of Nik Modi with RBC Capital Markets. Please proceed with your question.

Nik Modi
Analyst, RBC Capital Markets LLC

Q

Yeah, good morning, everyone. Just a point of clarification. What exactly was the issue with the Texas storms in terms of the impact that – I'm just trying to get some more clarity around that. And then the broader question is, Lance, last quarter, you made a pretty bold statement about category growth rates doubling post-pandemic relative to what you saw during the IPO road show. Certainly, it seems at this point that was a pretty prescient comment, but I just was hoping you could provide an update based on what you've seen. Do you still think it's 2x or do you think it'll be more like 1.5x or something along those lines? Thanks.

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

A

Okay. I'll start with the issue with the storms and ask MG to add onto that with more specifics. But the issues with the storms were, first of all, we had two plants in Texas which were closed for over an entire week where we had no production that we were able to achieve or shipments as a result for customers. We also had multiple call-ins across many other manufacturing locations with high absence rates due to the storms in other states during that period of time, which resulted in lower productivity and lower volume shipments. In addition to that, freight and be able to ship to customers on a timely basis and be able to get shipments out during the quarter was impacted due to the availability of trucks. So those were the three primary factors. Michael, do you want to add to that?

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

A

Yeah, I can add a few things to that. So when you think about these storms, the biggest driver of that overall impact was the disruption that it created as it relates to availability of trucks being able to get to our destinations. As a result of that, we saw significant increase costs in that particular area, as well as it challenged our ability to get cases out the door. Beyond that, obviously, there was incremental freight costs in this particular period as the availability was a little tighter and there was an opportunity for people to price up accordingly. And we had to accommodate those overall pricing. So, those also influenced the overall challenges that we saw as it relates to that.

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

A

I will also add that a number of our retail partners had retail stores shut down during that period of time which also impacted some sales in the quarter. Turning now to the growth rate, and just to be clear from what I said the last earnings call is if you look at a two-year CAGR for our categories, that we expect continued growth and the growth of the categories continuing stronger than they were pre-pandemic. And if you look at the category growth on a two-year CAGR, that's bearing out; foils growing over 6%, waste bags over 5%, food bags near 5%, party cups 8%, and disposable dishes 9%. So on a two-year CAGR which is what my reference was meant to communicate, we are seeing those kind of growth rates. And I think all of us would agree that based on all the data that the category growth rates pre-pandemic and now post-pandemic, we're seeing higher growth rate. So, I appreciate the opportunity to clarify that comment from last quarter's communication.

Nik Modi
Analyst, RBC Capital Markets LLC

Q

Great. Thanks, guys.

Operator: Thank you. Our next question comes from the line of Jason English with Goldman Sachs. Please proceed with your question.

Jason English
Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. Thanks for slotting me in. A couple of questions. So, first on price increases. You said you're looking through three rounds. How does the conversations go with retailers in round one? How are they going in round two? And what gives you confidence that round three will go smoothly as well?

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

A

Thanks, Jason. Well, retailer receptivity to pricing, the pricing actions we planned for Q1 have been fully executed exactly as planned. And our [ph] retailer customers, our (00:22:15) partners and pricing conversations are never easy and with the current cost environment supports additional cost increases and we show them the detailed costs that we're seeing so that we can provide them with that information so they see the costs as part of the reason that we're requiring price increases. The level and timing of additional price increases and decisions are made on a customer-by-customer basis. The Q2 price increase, most of that is in the May timeframe and is near implementation or being implemented as we speak. And the Q3 planning is underway.

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

A

Lance, I can take the confidence component of that.

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

A

Sure.

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

A

So there are a number of factors kind of build – baked into the confidence levels that we have around the pricing actions. First is the strength of our brands, and Lance talked about that earlier. Second is our history. We've definitely had an exceptional period of increases and we acknowledged that. But truly this is what we do. This is we manage – we managed through these commodity cycles and had a track record of being able to fully offset cost increases in the past. Third is our pricing. We already operated at higher levels of pricing than those entering in a year. And additional pricing increases are well underway and sticking, as Lance mentioned. And then fourth is our cost comparison. Remember in Q4 2020, we saw increasing pressures from sequential increases in commodity and logistics costs. So as we ramp up into the fourth quarter, our comparables will be a little bit easier from that perspective.

Jason English
Analyst, Goldman Sachs & Co. LLC

Q

Okay, that's helpful. And one more question, based on how you talked about your guidance and your high-single-digit revenue forecast with most of that coming from price, it suggests that you're not expecting volume declines. And I guess the question there is, why shouldn't we be looking for volume to be down 4%, 5%, 6% when we contemplate that there's going to be some degree of likely cross-price elasticity with competitors perhaps not moving as quickly?

And second, Lance, we're not out of a pandemic yet, you're calling from three different locations today, and workplace mobility is still down 30% from pre-pandemic levels, that's probably going to change in the back half of the year. So, it seems like the prudent base case is to assume that you will see contraction in the third or fourth quarter or just underlying consumption in your category. So, am I right that you're baking for flat volume? And are there offsets to those factors that should give us confidence in your ability to get there?

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

A

Well, two things, I would say, first of all, we are updating our elasticity models and it's early in updating those. But the elasticity models point the fact that with inflation being across multiple categories, not just ours, that a new normal elasticity is being evaluated by consumers. Secondly, we did do an evaluation of open states that had higher levels of mobility versus states that were still closed that had lower states of mobility in the last four- and eight-week period. I did not see discernible differences in increased consumption between those two areas. So we see strong consumption continuing post-pandemic.

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

A

And, Lance, this is Mark. If I could just add one thing to your response there for you, Jason. Think about the fourth quarter. Remember, fourth quarter last year, we were, of course, somewhat capacity constrained in a very important period for us. Think about particularly the Cooking & Baking unit. So, we didn't promote quite the way we normally would. So that comparison dynamics, coupled with our desire to promote here in the fourth quarter of 2021, I think is also something you should keep in mind as you think about volume performance as we move through the year.

Jason English
Analyst, Goldman Sachs & Co. LLC

Q

Understood. That makes sense. Thank you, guys.

Operator: Thank you. Our next question comes from the line of Andrea Teixeira with JPMorgan. Please proceed with your question.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thank you. Good morning. So I want a follow up on how you – we can track on the Nielsen data and pretty much on the [ph] truck (00:26:53) data how are you seeing consumption now for the Cooking & Baking segments and if you're able to actually grow partially as you said it's pricing. And we're only going to see those in the sales later today. But if you're seeing any green shoots conversely on the other businesses, especially the ones that you sell to like B2B like to the mom and pop services that I believe [indiscernible] (00:27:19). As mobility improves and you lap the weddings, graduations and all those social gatherings that are happening in the spring last year, do we see something more positive now or we should – or this is something that's going to be washed out through the tough comparisons you get in the second quarter? And in terms – and this is like a volume question.

And in terms of a follow-up for the cost pressures, I mean, if I do my math correctly, you have a double-digit cost pressure. You said by the end of the year you're going to – on an annualized basis, you're going to lap those $300 million that you called out. But can you also pull some other levers? As you said, revolution before kind of like innovation that is cost effective. Can you walk us through the bridge for the COGS and see how we can actually see the puts and takes for margins? Thank you.

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

A

Thanks, Andrea. I'll talk about the Nielsen consumption data and the B2B question, then I'll ask Michael to talk about the COGS bridge question that you asked. The Nielsen consumption data continues to show good, strong consumption, albeit we are now lapping a period where there's some pantry loading in the March and April timeframe of prior year. But we're very encouraged by the continued consumption across all of our categories and our brand share in those categories during this period of time.

From a B2B standpoint, we are seeing the tableware and disposable products and B2B accelerating. We've seen very strong sales in the back half of Q1 and we expect that to continue as we go forward into Q2. Any further follow-up on those before I turn it over to MG for the COGS bridge?

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Yeah. No, that's great. And I think that's going to ramp. Remind us again when that business was – Hefty Tableware was, like, more impacted. I know there was puts and takes during the COVID pandemic. You had initially a negative impact. And then later on consumers were using disposables at home. So second quarter definitely, as we said, is an easy comp. And then I believe the third but then the fourth is more normalized. Is that a good metric?

And then related to that, before you pass it on to Michael, the – on the Cooking & Baking segment, do you think inventory on the trade kind of caught up in terms of volumes or conversely, you see that it kind of, like, given the Nielsen data, it may actually have been higher than what it should? How are the inventories on that segment, on the trade?

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

A

Yeah. Inventory on the trade and the Cooking & Baking, we're still at a 90% in-stock level. If you recall, we had some Q4 shipping challenges that we talked about, which we recovered in Q1. But the in-stock levels are still way below acceptable levels hovering at 90%. So there's more replenishment to come in Cooking & Baking, as well as all the other segments.

Turning now to Tableware, there were two quarters where we had challenges last year. Q2 was the biggest. We did repeat Memorial Day and Fourth of July, there were fewer social gatherings. But the same occurred in Q4 last year where their holiday gatherings primarily in the December timeframe were much smaller. So we did see some lower sales versus prior year in Tableware in Q4. And we expect those to recover adding on the comments from Mark about the Q4 holiday celebrations for Reynolds and cooking products as well.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

That's encouraging. Thank you, Lance.

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

MG?

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

Yeah. So, Andrea, when you look at the overall COGS, materials are just under two-thirds – two-third of our COGS, was about 45 or those points coming from commodities, polyethylene and aluminum are clearly our largest, followed by polystyrene. So beyond that, obviously, COGS, the bigger parts of it are conversion and logistics. We've already kind of talked about our plans to offset that material component and we're well on our way to sort of offsetting that through the second round of pricing which is already in flight. And then as appropriately, the third round that is currently being planned.

Andrea Teixeira
Analyst, JPMorgan Securities LLC
Q

And, Michael, just on that, we've heard some of your peers talk about, like, an outlook that actually can ease off potentially by the fall or even before that. Is this – those – especially resins, polyethylene and polypropylene could potentially kind of ease off there. What are you embed in your guide that they [indiscernible] (00:32:42) by then? Yeah.

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

Yeah. So similar – it's probably similar. Our guide is informed by current commodity indices. But I'm not going to say that our indices are crystal ball. There's always some variability around that and we're prepared to respond accordingly. But based upon the indices right now, it is a downward slope as we continue throughout the rest of the year.

Andrea Teixeira
Analyst, JPMorgan Securities LLC
Q

Great. And on the innovation or the cost restructuring, the revolution, and outlook for the year.

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

While we typically don't get into the specifics of our revolution, I would say that our revolution initiatives are tracking incredibly well. We had a record year in that space last year and we anticipate that we'll be beyond that this year. So we continue to drive and elevate our revolution initiatives and we anticipate that's going to be significantly higher than last year – not significantly but sizably higher than last year.

Andrea Teixeira
Analyst, JPMorgan Securities LLC
Q

And if I can squeeze the last one on the cost pressures...

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

Last one.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

...that you – yeah, sorry – the cost pressure from COVID. Is there any opportunity to just reduce those pressures as it's more controlled now or it's still kind of elevated?

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

A

Well, clearly, the COVID cost pressures were more intense last year. We've seen that come down and it's primarily focused on the PP&E now. And we've kind of baked that into our overall guide as we move throughout the year and vaccines take hold.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thanks, Mike. I'll pass it on.

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

William B. Chappell
Analyst, Truist Securities, Inc.

Q

Thanks. Good morning. I just want to follow up a question and the other is on pricing, but I think you said in the prepared remarks you look to price for margin to cover margin which I think is in your kind of historical policy, but not necessarily what other companies do a lot is price for the dollar cost and you're actually pricing to cover margin. So do you expect your competitors to do the same? Is this any issue when you're dealing with the retailers? And did I get that correct, are you pricing to cover margin or are you just pricing to cover dollar cost?

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

A

We're pricing, Bill, to cover margin dollars. So, I hope that's clear.

William B. Chappell
Analyst, Truist Securities, Inc.

Q

So there would be a long-term negative impact on margins, just the way the math works on that?

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

A

The way the math works is right because of the [indiscernible] (00:35:37).

William B. Chappell
Analyst, Truist Securities, Inc.

Q

Okay. And you don't see any competitors doing lesser pricing or slower pricing than you are? Do you expect everybody to kind of move in the same fashion?

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

A

It is a very dynamic situation that changes by category, it changes by channel. And it's something that we managed at that dynamic level. So that there's no one answer to that question.

William B. Chappell
Analyst, Truist Securities, Inc.

Q

Got it.

[indiscernible] (00:36:10)

William B. Chappell
Analyst, Truist Securities, Inc.

Q

Go ahead.

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

A

Go ahead. Go ahead. I'll wait for the question.

William B. Chappell
Analyst, Truist Securities, Inc.

Q

No, no, no. Please expand. I was going to ask a different question.

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

A

So, we – as we said, we are implementing a second round of price increases in Q2 and those are in place. We are planning a second increase for Hefty waste bags which was not included in Q2 round of increases. And if resin stays at this level versus the indices, significant increases are going to be required.

William B. Chappell
Analyst, Truist Securities, Inc.

Q

No, absolutely. My second question is just – maybe tell me how you're planning kind of for the food service or the away-from-home boom over the next few months. I mean, clearly, stuff like New York and New Jersey opening completely up in two weeks or other – I mean, it's going to – I would imagine, put a strain on the food service and supply similar to kind of how lockdowns were a year ago for the at-home. So are you prepared or are you preparing for it or do you expect kind of a normal ramp?

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

A

Well, we are seeing elevated demand for some specific products in the Tableware business which we are meeting that demand. We're watching that elevation closely. And currently, we're able to achieve it. But as things continue to open up, that could be a challenge from a pure capacity standpoint for a period of time until things normalize.

William B. Chappell
Analyst, Truist Securities, Inc.

Q

Okay. Great. I'll pass it on. Thanks.

Operator: Thank you. Our next question comes from line of Rob Ottenstein with Evercore ISI. Please proceed with your question.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Great. Thank you very much. Appreciate it. So a couple of questions. First, you guys are category captains, I think, 70% of your volume. Can you talk a little bit about how your discussions with retailers on the category have evolved apart from pricing which you discussed already today but how are they thinking about shelf space, private label, do they agree with you that demand is likely to be at an elevated level going forward. So just kind of interested in all that. And then second, if you could talk a little bit more about innovation and demand in the Cooking & Baking sector. Thank you.

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

A

Sure. From the feedback we're getting from retailers relatively category – it's a very dynamic environment right now, but they do believe, as we do, that the categories are going to continue to be elevated over the long period of time and they're planning accordingly. We did see some migration to higher levels of brands in the categories during the pandemic and we do expect some of that to moderate as we go forward. But as I've talked about many times, these categories have been very stable between brand and store brand's balance. They didn't change significantly during the pandemic and we don't – and they don't expect it to change post-pandemic from that balance standpoint.

And the overall conversations with the retailers are from a shelf assortment standpoint is skewing towards innovation, looking for opportunities to add shelf space for new products and continued elevation of those new products, which leads to your second question which was innovation on the Cooking & Baking products. We have staged a significant number of changes in that – in those product lines as I indicated in my opening remarks, 100% recycled aluminum foil Reynolds Wrap which is at a price point that is consistent and line priced with the other products in the category, so fewer [ph] fee (00:40:22) but no significant premium any longer because we've got a different supply source.

We've changed the price point on non-stick foil to get more users into the category. And we've changed our packaging on Reynolds Wrap to make it easier to use and easier to shop the category with the graphics on the package. We've also introduced more products for cooking which includes butcher paper which is used for smoking and grilling. And we continue to innovate across the Cooking & Baking product line.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Terrific. Thank you very much.

Operator: Thank you. Our next question comes from the line of Mark Astrachan with Stifel. Please proceed with your question.

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

Q

Thanks. And good morning, everyone. I guess just, first, maybe a follow-up to the last question. Is your expectation that the private label moves pricing similarly to you given that a year ago brands tended to do a little bit better than private label?

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

A

Mark, could you repeat the question? I just didn't quite catch all of it. I think it broke off a bit.

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

Q

Yeah. Sorry about that. Basically I was asking whether you expect private label to move pricing similarly to your brands given what you said about the importance of brands outperforming private label last year.

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

A

Yeah. So we've seen evidence of private label on these categories moving consistently there. As you know, we're a big supplier of private label across these categories. And the cost pressures that all of the suppliers are seeing in these categories are the same, and they're significant. If you follow the polyethylene and aluminum curves, you know that those two cost inputs which are – have almost doubled from their low point of last year.

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

Q

Got it. Okay. And secondly, could you just remind how much of the price increases historically are given back, if any, as we kind of try to think about longer-term sustainability of the benefit of the pricing that you're talking about this year.

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

A

This is going to be a significant increase compared to historicals. But generally, I will say that it's not all given back. There is a lot that we give back and it's partially related to overall market conditions. But it is generally, as you look through the history of these commodity cycles, you see that margins increase after commodity cycles are stabilized.

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

Q

Got it. Okay. Thank you.

Operator: Thank you. Our next question comes from the line of Lauren Lieberman with Barclays. Please proceed with your question.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Great. Thanks. Good morning. I was curious – to just continue the conversation on pricing – but I guess two things on this. One is that in the Reynolds Cooking & Baking business, in the past, you've talked about key thresholds on pricing where elasticity kind of kicks in. I'm going to test my memory, but it was like above $4.99 maybe. I'm just curious about as you – the degree to which one pricing plans in that division and for foil in particular might take you above those threshold levels that the elasticity, notwithstanding your comments on changing elasticity models, would be more relevant.

And then on the Waste & Storage and particularly the branded side of the business, just curious about how you are monitoring or what you're anticipating in terms of price gaps to branded. Because at least, I think all of us, our historic knowledge of the branded side of that business with your public competitor is that three price increases wouldn't be typical, right? It kind of all goes in at once. So trying to understand maybe how much those three rounds of pricing refers more to the private label side of the house versus branded and how to think about price gaps and how – the degree to which you're monitoring that on the branded side of the business. Thanks.

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

Okay. Thanks. Good memory on Cooking & Baking just the price threshold by $1, it's $3.99 versus $4.99. But you're right that that was the key threshold pre-pandemic. Our initial indications of the elasticity models is they have changed post-pandemic and in an inflationary environment across all grocery, not just our categories. So, it is somewhat unknown. There's no question that we're crossing the $3.99 price threshold, but evidence suggests that that whole threshold no longer holds. We don't have complete data on that yet. So some of this will be tested real time. However, there's no choice.

As I mentioned a moment ago, aluminum prices have almost doubled from where they were in a low point in 2020. And so, in order to ensure continued health of our business, we need to take those prices up to reflect commodity costs. And we won't be alone. The commodity costs will be in place for the rest of the category, too. And as consumption has gone up and new users have come into the categories, we're confident that consumption levels will stay high. But time will tell and we'll obviously be closely watching that.

On Waste & Storage, in particular Hefty waste bag price gaps, we did take a price increase in Q1. And as those of you that monitor the – scanning data closely, saw that the price gaps closed. We are implementing a second price increase, as I've said a moment ago, across the majority of our products in Q2. We are now planning a second increase for Hefty waste bags which was not included in that Q2 round. And so, we will continue to move Hefty pricing up as the commodity costs have gone up significantly.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.
Q

Okay. Lance, just to clarify then, you said it was most of your product line in 2Q but Hefty was not a part of that, so some of that 3Q planning – so Hefty would effectively probably get two rounds of pricing, not three?

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

Hefty has gone up one.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.
Q

Yes.

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

We expect to get another one in in Q2, yeah, but it probably – no, I mean, we'll be announcing Q2 for Q3 implementation.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.
Q

For Q3. Okay. Perfect.

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

Right.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.
Q

Thank you so much. Just make sure I got that.

Operator: Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Mitchell for any final comments.

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

Thank you, operator, and thank you, everyone, for your questions. We really value your interest and your participation. Most of all, we appreciate your time. Our revenue is growing and we expect RCP to be even stronger in revenue growth this year driven by pricing, consumer consumption, innovation, and our increased supply chain capabilities. I also want to thank our employees for continuing to follow the prevention measures, putting safety first as we grow our business during this exceptional time. Stay well, stay safe, and hope to see you soon. Thank you.

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