10-May-2023

Reynolds Consumer Products, Inc. (REYN)

Q1 2023 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

Nik Modi
Analyst, RBC Capital Markets LLC

Robert Ottenstein
Analyst, Evercore Group LLC

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

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

Andrea Teixeira
Analyst, JPMorgan Securities LLC

William B. Chappell
Analyst, Truist Securities, Inc.

Brian C. McNamara
Analyst, Canaccord Genuity LLC

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to Reynolds Consumer Products First Quarter 2023 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' 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. Please go ahead.

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

Thank you, operator. Good morning, everyone, and thank you for joining us on Reynolds Consumer Products first quarter 2023 earnings conference call. Please note that this call is being simultaneously webcast on the Investor Relations section of our corporate website at reynoldsconsumerproducts.com. Our earnings press release and accompanying presentation slides are also available on the site. With me on the call today are Lance Mitchell, our President and Chief Executive Officer; and Michael Graham, our Chief Financial Officer.

For our call, Lance will focus his remarks on our first quarter performance, progress on the Reynolds Cooking & Baking Recovery Plan, and what we are doing to drive results across our business. Michael will review our first quarter financials and our outlook for the second quarter and the full year. Following prepared remarks, we'll open the call for questions.

Before we begin, I would like to provide a few reminders. First, this morning's discussion may contain forward-looking statements based on current expectations and beliefs. These statements are subject to risks, uncertainties and changes in circumstances that could cause actual results and outcomes to differ materially from those described today. Please refer to our Risk Factors section in our SEC filings, including in our Annual Report on Form 10-K and our quarterly report on Form 10-Q. Please note that the company does not intend to update or alter these forward-looking statements to reflect events or circumstances arising after the call.

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

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, and good morning, everyone. I will begin today with comments on our performance and what we are doing to drive stronger results across our business. Then, I will turn the call over to Michael to elaborate on our results and our guide, followed by your questions. We exited 2022 with strong positions in our categories, restored profitability in three of our four business segments, and implemented a comprehensive plan for returning Reynolds Cooking & Baking to historical levels of profitability.

We executed that plan well in the first quarter setting the stage for strong earnings growth for the year. We stabilized Reynolds Cooking & Baking operations by reducing operational inefficiencies and the other three businesses Hefty Waste & Storage, Hefty Tableware and Presto continue to operate at restored levels of profitability.

Before I speak to what we're doing to drive improved results across our business, I'd like to review Reynolds Cooking & Baking segment more specifically from an operational, commercial and financial perspective. Operationally, we've met our goals for stability in the quarter, as we implemented the measures mentioned in our last earnings call, including cross-functional teams focus on critical asset efficiencies, increased technical expertise alongside key production assets and redesign of equipment, reliability processes and practices.

We're also standardizing processes across operations in order to further ensure operational stability. We have now entered the next phase of our recovery plan, which is to rebuild margins driven by moderating material costs and improve operational efficiencies. We're also making continued progress in automation and recently installed our second new spooling line in our Louisville facility.

Now, while we hit our goals for the first quarter, we still have work to do to fully restore production efficiencies and our cost position. Commercially, dollar and volume share for Reynolds Wrap is growing, reflecting strength with millennials and other key demographics. We're back to on air advertising and lifting trade support for Reynolds Wrap this summer, including Memorial Day and 4th of July. And new products including Reynolds Kitchens Stay Flat Parchment Paper and Reynolds Kitchens Air Fryer Liners are expanding distribution. Driven by strong consumer trial and adoption.

Financially, profits are in line with our expectations for the quarter driven by Reynolds Wrap share gains. And we're on track to attain our quarterly earnings targets and a return to profit consistent with historical levels in the second half of 2023. Reynolds Cooking & Baking is delivering against the plan we established at the start of the year, and we're confident we will achieve the plan this year.

So now let me turn to what we're doing to drive continued momentum across our entire business. As you know, many consumer staples brands benefited from the pandemic. We participated in that trend and we've gained additional brand share in 2023 as well. I mentioned the improving share trends for Reynolds, Hefty share of waste bags also grew in the quarter. And in recent weeks, Hefty has also delivered a solid gain in food bag share driven by innovation. I attribute much of our company's strength to our integrated brand and store brand model, together with our role as a category advisor to the vast majority of our customer base.

Dedicated data makes it difficult externally to see how we're doing on a combined brand and store brand basis. But I can tell you we're pleased with our category share trend as well as our performance within store brands. For example, store brand share of food bags is growing and our share of that segment is also growing.

Investment and innovation are driving strength, and we plan for that to continue. We've increased trade investment consistent with our plan, and the results have achieved our expectations. Trade is driving volume and share, and we will continue to execute our plan to continue promotions around holidays and retailer key events.

We're advertising at pre-pandemic historical levels, which represents a higher investment than prior years. Advertising spend was up in the first quarter versus a year ago, and we plan for increased advertising on top of last year's increase versus 2021 levels. This is expected to translate not only into additional awareness. As I mentioned, Reynolds Wrap return to air advertising, but also increases in household penetration.

In new products, we're strengthening our market position by elevating and expanding our categories while bringing value to consumers through sustainable solutions. Our Hefty Fabuloso waste bags continue to demonstrate momentum driven by expanding distribution for Fabuloso Lavender and strong retailer adoption of the new Hefty Fabuloso with Lemon scent. Hefty EnergyBag, our partnership program for recycling and hard to recycle plastics continues to perform well is being rebranded as Hefty ReNew.

Other sustainable solutions including Hefty and store branded waste bags made with 20% post-consumer recycled materials and Reynolds Kitchens Air Fryer Liners made with compostable, unbleached paper are performing well. Our new product pipeline is very strong. So look for more on that whenever you and your families are shopping in our future earnings calls.

Our integrated brand and store brand model is a competitive advantage and I'm pleased how our portfolio is performing at retail, but consumers are under pressure and we're watching volumes more closely than ever before for impacts from price elasticity and changes in consumer behavior. We believe our relentless focus on profitability puts us on track for strong earnings growth and financial performance in 2023.

With that, over to you, Michael.

Michael Graham

Chief Financial Officer, Reynolds Consumer Products, Inc.

Thanks, Lance, and good morning, everyone. Our first quarter results were consistent with our expectations and provide us with a foundation for strong earnings growth and cash flow this year. Net revenues increased 3% versus the prior year as the price increases implemented last year more than offset a 2% volume decline. Net income and adjusted EBITDA declined versus the prior year, as the anticipated increases in material and manufacturing costs in the Reynolds Cooking & Baking business as well as higher personnel costs, professional fees and advertising costs were partially offset by increased profitability in the rest of our businesses.

In addition, net income was negatively impacted by higher interest costs due to increased interest rates. We drove an improvement in cash flow compared to the first quarter of prior year in spite of the anticipated earnings decline. Working capital initiatives contributed to an improvement in cash conversion. And we remain disciplined in with our capital spending, including strategic investments in Reynolds Cooking & Baking operations. Consistent with the plans for the year.

For the full year of 2023, we are reiterating our previously provided guidance metrics. We expect net revenues to be flat plus or minus 1% with pricing flat to slightly up compared to net revenues of $3.8 billion in 2022. Adjusted EBITDA be in the range of $605 million to $635 million and adjusted EPS to be in the range of a $1.30 to $1.41 per share. Our key assumptions that underpin this guide include continued execution of the Reynolds Cooking & Baking recovery plan, which, as Lance said, is off to a strong start and further solid performance for Hefty Waste & Storage, Hefty Tableware and Presto.

Commodity rates are relatively stable versus at the end of April levels. Commodity prices are certainly more stable than they have been. But the environment remains dynamic, including two polyethylene price increases in the first quarter. Another year of approximately 200 basis points of incremental margin from Reyvolution cost savings, where we continue to use these savings as potential sources of investment in our categories and business.

Gross profit of approximately $920 million at the midpoint of our adjusted EBITDA guide. And the same depreciation and amortization, interest expense, effective tax rate and capital spending estimates that we provided in our last earnings call. For the second quarter, we expect net revenue growth in the range of flat to 2% on net revenues of $917 million in the prior year including an approximate 2% increase from price. Adjusted EBITDA would be in the range of a $135 million to $145 million up by comparison to adjusted EBITDA of over $180 million in the prior-year period. And adjusted EPS in the range of $0.27 to $0.30 per share.

Now, we'll turn to the phasing and the factors that drive our confidence in earnings growth in the second quarter and for the year. We are pleased with the progress we are making in Reynolds Cooking & Baking and are on track to achieve our quarterly margin targets in this business. Hefty Waste & Storage, Hefty Tableware and Presto are operating at restored levels of profitability.

The level of pricing and margin already achieved in these businesses translates into restored margin in 2023. We have the retail momentum that Lance discussed and are investing to build on that including increases in spending in trade and advertising.

Operational inefficiencies and carryover with the higher cost aluminum are expected to remain a headwind in the Reynolds Cooking & Baking in the second quarter, but to a lesser extent than the first quarter. These headwinds are also expected to moderate during the quarter, contributing to our confidence in a return to earnings consistent with historical levels for this business in the second half of the year.

In terms of cash flows and capital allocation, as mentioned, cash conversion improved in the first quarter versus the same period last year. Multiple initiatives are in flight to drive further working capital improvements. We plan to remain disciplined in the area of capital spending as well. Together with the anticipated earnings growth, we expect these measures to enable us to pay down additional debt this year and our capital allocation priorities are unchanged.

With that, I'll hand the call back over to you, Lance.

V. Lance Mitchell

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

Thanks, Michael. Before we turn the call over to your questions, I know you would like to get an update on our CFO search following Michael's decision to retire following the release of earnings for the fiscal year. Our search for Michael's replacement is going well, and I'm confident in a smooth transition. We are looking at strong internal and external candidates and we expect to announce Michael's replacement before reporting fourth quarter results for the fiscal year. We plan for an appropriate period of overlap between the new CFO's assumption of the role and Michael's departure from RCP. Since we have nothing further to add on the CFO transition at this time, please hold off any questions on this topic.

And with that operator, let's go to our first question.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question is 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. Thanks for the question and Michael, best of luck in your future endeavors.

Michael Graham

Chief Financial Officer, Reynolds Consumer Products, Inc.

A

Thanks.

Nik Modi

Analyst, RBC Capital Markets LLC

Q

I was hoping you guys can just talk about critical price thresholds. I mean, obviously, in foil, you had to deal with some issues a year ago, last year – late last year. And I'm just curious, as you look across the rest of the portfolio, do you feel like pricing is in the right place for given some of what we call the [indiscernible] (00:15:37) where consumers really start exiting categories or buying less of a category because of a certain price threshold was crossed, any thoughts around that? Are you're seeing any consumer behavior changes in terms of people using more reusable containers to store their food.

V. Lance Mitchell

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

A

Hey, Nik, overall, we're pretty happy with our price gaps they've settled out to where we expected and we're pleased with the gaps. We continue to monitor and manage our categories through pricing and trade as necessary. But for all of our categories we're pretty pleased with where they're currently at. Our volume is doing well across most of our categories. Customers are, of course, feeling the pinch and seeing alternatives to offset some prolonged inflationary prices. But overall, our categories are performing well and our shares are performing well across our categories.

Nik Modi
Analyst, RBC Capital Markets LLC

Q

Great. And Lance, any thoughts on just the consumer behavioral changes, anything you're seeing in terms of reusables and things like that?

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

A

Essentially, we're seeing continued use of our household staple products and we're seeing share growth across most of our categories. In fact, the only two areas where we are not gaining share are in party cups and parchment and we are addressing those specifically. But all the rest of our brands and our categories are growing and we're gaining share.

Nik Modi
Analyst, RBC Capital Markets LLC

Q

Great. Thank you. I'll pass it on.

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

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Great. Thank you very much. Couple of questions here. First, looking at the Q2 guidance, it looks like you're suggesting volumes could be, I guess, flat to maybe down a couple of percent versus 2022, is that right? And then I think more importantly, can you give us a sense of where volumes are, where the business is compared to 2019? So we can get an assess of what's happened, kind of changed over the last few years? And what would explain any particular changes? And then I'll have a follow-up. Thank you.

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

A

Consumers – higher income consumers are purchasing larger sizes. They're concerned more about value per bag or per square foot, which is extending the purchase cycle. And lower income houses are purchasing smaller sizes, they're more concerned about specific price points. Well, consumption is up 3% versus pandemic. Household formation, increased activity in the home have benefited consumption. Reynolds Wrap entered 2023 with higher share than it had in 2019 and we gained three share points during the quarter.

Waste bag consumption continues to be above pre-pandemic levels, it's up 4%. Hefty gained share before the pandemic, during the pandemic and continue to gain share in the first quarter. Hefty is also growing buyers of all generational groups, especially millennials. In food bags, we estimate food bag consumption is up slightly in all channels, but it's shifted to on track channels driven by both press-to-close and – primarily. Our first quarter trends in food bags were strong. Hefty sliders began gaining share driven in part by the introduction of a half-gallon freezer bag and our private label food bags also gained share during the third quarter.

Plastic party cups also remain above pre-pandemic levels. They've grown 4%. I did mention a moment ago there are branded shares gone down, but we have a very high participation in private label and we're growing very effectively in our private label in this segment. Disposable dish consumption is up slightly to pre-pandemic levels and our share of Hefty Dishes is up versus pre-pandemic levels.

And parchment consumption is probably the strongest of all. It's up 43% versus pre-pandemic levels driven by the increase of baking among young adults and consumer behavior. And we have a large share of this category and we're introducing some new products, specifically the Reynolds Stay Flat Parchment.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

So just – I mean, if we just look at bags, would you say your volumes are kind of running up 2% to 4% over 2019 levels?

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

A

The category is up 4% and our shares up versus 2019.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Okay. So you're up more like 5% then?

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

A

High-single digits. Yes.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Oh, nice, very nice. Great. And then as you given, right, these share gains that you've executed and won, can you talk a little bit about the competitive intensity in the market? And if you're seeing more of a promotional stance from your competition? Or are they trying to win through innovation and marketing?

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

A

I describe a competitive environment right now at this point in time is being rational in all of our categories. We are seeing some increases in promotional activities across our categories. But we've planned for that as well. We're returning our trade to pre-pandemic levels, so that's reflected in our guide and our plan.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Great. Thank you very much.

Operator: Thank you. [Operator Instructions] The next question is 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. Wanted to talk to you for a sec about the remediation in Reynolds Cooking & Baking. I was just curious – I mean, made very quick progress there, obviously. I was just curious about costs to get that done. Was there sort of excess cost embedded in the P&L this quarter that you had to incur along that process? And also just anything maybe that was uncovered through that work that may lay groundwork for things to be arguably even better going forward like new efficiencies that you found opportunities for within the scope of that work? Thanks.

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

A

Yeah. So one thing is – let me answer this in a couple parts, the professional fees, we are experiencing higher professional fees, which is flowing through our SG&A and that's part of the reason that you're seeing a slightly higher SG&A increase in overall results. So that's kind of the professional fee component of that. As it relates to – I want to make sure I'm clear on the rest of your question, though.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Sure thing. So as in with those external consultants or someone that you've been working with, if in the work to remediate the issues you run into, if you also uncover any incremental opportunities for efficiency that may build beyond, again, remediation like taking it a step further, if there's any sort of incremental findings as you've been working on this?

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

A

I would answer that by saying we are exactly on the plan that we had expected and we developed at the beginning of the year. Those operational costs that Michael just referred to were in our plan and in our guide. And the KPIs that we established that we share with the board on a monthly basis are exactly on plan. So I wouldn't say that there's anything that's potentially above the plan. But we are executing exactly what we had expected to achieve in Q1 and on track to achieve in Q2.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. Thanks.

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

A

And Laura, this is Mark. Those professional fees...

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Yeah.

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

A

...were built into the guide we provided for the first quarter and what we actually had in the first quarter...

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay.

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

A

...and for the year.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Perfect. Okay. Great. And I also ask that in the context of I think a lot of other companies would probably exclude those charges or those expenses. So yeah, that was sort of the genesis of the question, so that's great. Okay. And then, other thing was just I know aluminum has been really very volatile, but it seems to be pricing is coming down. You've still got high cost aluminum flowing through your P&L, your promotion is back in – you got some promotional activity back in the market. Shares are back up. But just curious, like, when should we, I guess, a, start to see some of that lower cost aluminum make its way through given your expectations for volume growth and working directed inventory? And is there any pressure in the marketplace to take trade promote deeper than what you would – what you have planned then just given the spot rate deflation that's out there? Thanks.

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

A

Yeah. I'll remind you that aluminum during 2020 was like at $0.70 a pound. At the end of the year, it was a $1.30. It spiked up to a $1.40 in Q1 and is back down to a $1.30. So it is more stable than it was, but it's stable at a much higher price than it was. Our retailers recognized that it is a commodity. They are in line with our plans for trade and pricing. And so at this point, we're executing exactly what we had expected and planned. And our retailers are in agreement with our plans.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. All right. Great. Thanks so much.

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

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

Q

Hey. Good morning, guys. First question, anything in particular that drove the higher unallocated costs in the quarter? If you look at the profitability on the segment basis it was obviously much better offset by that. And so what was in that and kind of how do we think about that going forward?

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

A

Yeah. Let me start, I would say, the costs were in line with our expectation. Higher cost over prior year to due to higher variable comp and professional fees. The majority of which are in support of the Cooking & Baking recovery that we just talked about. And also worth knowing that there are some costs in Q1 2023 that had historically been added back such as D&O insurance. But again, these costs were expected and baked into our overall guide.

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

And did those recur? And I guess if not, then that would suggest that the profitability on a segment basis would be greater because the base is higher, is that reasonable?

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

I'm not sure, [indiscernible] (00:27:42) can you repeat that?

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

Yeah, I'm just basically saying, like, that was a bigger drag in 1Q on EBITDA right, so the base on the segment profitability is higher, so those costs, the unallocated costs don't recur, and then the base on the segments are higher?

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

Actually pretty flat throughout the year, Mark.

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

Okay. All right. And I guess just switching to more of a higher level question. Any sort of thoughts, any – to the extent you can relay how your customers and the retailers are thinking about the balance of private label in your brands as they think about what's potentially a more volatile consumer environment? And how you think about both the pricing and the promotional activity as it relates to those discussions?

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

Well, overall private label share is up in waste bags, food bags, party cups and parchment paper and plastic wrap and it's down in foil, foam dishes, slow cooker liners and oven bags. But as I think I indicated in our prepared remarks are our integrated brand, store brand model is really a competitive advantage and it positions us to benefit and shift in either direction. Our retailers really rely on us to advise them on the category mix, and we've been doing that for years. So the relative stability that we've seen between brands and store brands is sound economically for both consumers and retailers alike and that our category advisor counsel is reliable.

Private label already represents a sizable portion of our category's consumption and private labels category share has been relatively consistent and stable throughout all these economic cycles, including this one. And we have a strong share of private label in many of our categories including food bags, plastic wrap, waste bags, foam dishes and slow cooker liners.

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

Got it. Okay. Thank you. If I could just squeeze one more quick one in there. Pricing slack up slightly, I think I heard for the year. So what does that imply in the back half of the year? Does pricing come down or is it negative in 2H volumes, up in 2H, is that a best way to think about it?

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

A

Yeah. Go ahead.

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

A

Second half down a bit. [indiscernible] (00:30:18) at a higher rate in the fourth quarter.

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

A

And remember, we've got some contractual pass-throughs that occur in our private label business as well as our related party transactions.

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

Q

Got it. Thank you.

Operator: Our next question is coming from the line of Andrea Teixeira with JPMorgan. Please proceed with your question.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Good morning, everybody. Just – and thanks, operator. Just wanted to check-in in terms of how you were tracking on coming back to the pre-pandemic margins in Q3. And I know you did speak to that on the last earnings call. Today, I think Lance or Michael, I think you both kind of alluded that you're on track to that comment.

But then knowing what you have said actually about the pass-through last quarter, obviously that was on track and that's what we knew would happen as you put in the new show guide into the last quarter. Now you iterated it, but the prices have since changed. I'm thinking for Presto when you think about those margins as they settle and going back to that hopefully high 20s and potentially 30 in the fourth quarter. Is that contemplated including the price that the reduction in pricing for Presto products into the fourth quarter? Or the private label that you have with your key customer, is that included or that's only on apples-to-apples basis?

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

A

Yeah. So let me kind of take that on. The – from overall standpoint, we're quite pleased on how our recovery process is working, right? We're on track and we anticipate that – consistent with our guide that the recovery plan is pretty much right in line with our overall expectations. I think Lance spoke to this earlier. So at this point in time, really, there's no additional updates we can provide in overall space but through tracking in accordance with plan. So – and we were quite pleased with that. As it relates to the private label pass through, that pass through is built into our – in our Presto business already. So as Lance indicated, there is some contractual stuff that we already have to give back to our customer base. So that's already baked in.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

And just – this is super helpful, Michael. Just one quick fine point on the second quarter is specifically because I did the math right and with the top line that you're saying, as expected, right? The first quarter was a tough quarter where you had the Cooking & Baking issues kind of most prominent and the recovery there. And then in the second quarter, you have a very seasonally high number for grilling and cooking. And it implies in your guide that you're tracking actually to do an inflection. And we all had it in the second quarter inflection. I think in margins at least consensus shows that. But is it fair to say that the second quarter is probably shaping up better than you thought?

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

A

No, I wouldn't draw that conclusions. So I mean, we do and we've shared this before that on a sequential quarter basis that we did expect to see improvements as the higher cost of aluminum that was flowing through our business would begin to abate as well as we start to make progress on our operational efficiencies. And we're tracking to that. So I don't see at this point in time any additional upside.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Okay.

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

A

Hopefully there will be, but nothing that we are willing to commit to at this point.

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

A

And Andrea, I would entirely echo everything Michael just said and add that on the total company basis. You can tell from the second quarter guide that we expect our gross profit dollars and gross margin percentage to be up year-on-year in the second quarter.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Yeah. Okay, great. Thank you so much again. I'll pass it on.

Operator: [Operator Instructions] The next question is from the line of Bill Chappell with Truist Securities. Please proceed with your question.

William B. Chappell
Analyst, Truist Securities, Inc.

Q

Thanks. Good morning. Just had a couple, I guess, clarifications of the prior question. First, I guess I didn't fully understand the answer to Lauren's question in terms of pricing promotion. I think you've said that elasticities in aluminum foil have been higher than you would expected and you've had some customer switching and kind of behavioral change to other options. So I would think from a consumer standpoint, you would want to get the prices down, where you drive volume as fast as possible, let alone what you have planned with the retailers. Am I thinking about that wrong? Or are you just – do you believe those consumers will eventually adjust?

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

A

Well, if you look at our volume in aluminum foil in Q1, we actually surpassed our expectations and we've gotten our price gaps to across all of our categories to where we wanted to have them. So we've got really good price points. Granted, there are higher than they were because of inflation, but price gaps across the categories, we've established points where we're pleased with.

William B. Chappell
Analyst, Truist Securities, Inc.

Q

Okay. So you look at like the elasticity and kind of the demand destruction last year, but you just figured consumers will just kind of bounce back to that and they'll get used to the new prices over time?

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

A

Yeah, they have. I mean, look at the growth across the categories in our share growth. And you can see that that there's strong evidence of that consistent with what we've guided, we're promoting at pre-pandemic levels and that's been very effective.

William B. Chappell
Analyst, Truist Securities, Inc.

Q

Okay. I'll – moving on to just the comment on margins, I just want to make sure I understand getting back to pre-pandemic margins would entail costs coming down. And you have a price per margin improvement. You would need some help from the [indiscernible] (00:36:53) to get back to that level, is that right? Or have you actually priced the margin?

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

A

Yeah. Hey, Bill. Really, since the beginning of the pandemic and the inflation that began with that, we've been saying we're about dollar gross profit unit economics in dollar terms not percentage margins. So in three of our businesses we're there and we're tracking to where we want to be in the Reynolds Cooking & Baking business later this year.

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

A

And as you know, we expect approximately some $920 million of gross profit this year at the midpoint of our guide. That's approximately 4 points of margin expansion versus last year. And in terms of progression through the year, we're on track for dollar gross profit growth in the second quarter, and that translates into multiple points of expansion in terms of gross profit as a percentage of sales versus 20% in Q2 of last year and we look for that trend to continue to go forward in Q3 and Q4 as well.

William B. Chappell
Analyst, Truist Securities, Inc.

Q

Okay. Thanks for the color.

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

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Great. Thank you for the follow-up. So I'd like to kind of shift gears a little bit, stand back and think more longer term, obviously a lot of fires to put out over the last two, three years. Incredibly challenging environment where you had to think short term in many ways out of necessity. Lance, I'd love to get a sense of, are you at the point now where you can start spending more time thinking longer term strategically? And maybe give us a little bit of your thoughts kind of going forward over the next three, four or five years, whatever timeframe you want in terms of the things that your initiatives that you're thinking about in terms of driving the value of the business? Thank you.

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

A

So you asked the question that the board asked last month. And absolutely, we have been having to really think short term over the last two years and we're in the process of developing our long term strategic plan. We obviously had a long term strategic plan on the roadshow, which we shared with everybody. But the world's changed since then, and we're redeveloping our long term plan. It is not fully ready for prime time, but I expect us to have an Investor Day after we've completed our discussions with the board and they're aligned with our plan. We're sharing that plan with them in July at our board meeting. So perhaps third or fourth quarter, while on Investor Day, we'll be able to go into more detail.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

It makes sense. Thank you very much.

Operator: Thank you. [Operator Instructions] Our next question is from the line of Brian McNamara with Canaccord Genuity. Please proceed with your questions.

Brian C. McNamara
Analyst, Canaccord Genuity LLC

Q

Good morning and thanks for taking our question. Our profitability inflection question was already answered. So just one from us. It's perhaps this is a longer-term question, I guess while it's tough for anybody to grow volumes in the current inflationary environment, what is a reasonable expectation for volume growth across your product lines during normal times? You guys have what appears to be a winners curve of really high brand awareness and household penetration. So we're curious what drives those incremental volumes? Thank you.

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

A

So as we said on the Road Show our algorithm has really not changed since then with household formation and the overall household staples and use of our products, low single digits, which is what we've been performing at now versus pre-pandemic levels for most of our categories is a fair volume growth to use as a model.

Brian C. McNamara
Analyst, Canaccord Genuity LLC

Q

Thank you.

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

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

Well. Well, thank you, operator. And thank you, everyone, for your questions and your interest in our business. I want to extend this and sincere thank you to all of our employees and to our team has been focused on the execution of the Reynolds BU recovery plan. They've done an outstanding job, and I'm really proud of them. We're off to a good start in 2023, and I look forward to updating you further throughout the year. Thank you.

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