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Reynolds Consumer Products, Inc. (REYN)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Reynolds Consumer Products, Inc. Fourth Quarter 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It's now my pleasure to introduce your host, Mark Swartzberg, Vice President of Investor Relations. Thank you, sir. You may begin.

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' fourth quarter and fiscal year 2023 earnings conference call. Please note that this call is being recorded and webcast on the Investor Relations section of our corporate website at reynoldsconsumerproducts.com. Our earnings press release and accompanying presentation slides are also available.

With me on the call today are Lance Mitchell, our President and Chief Executive Officer; and Scott Huckins, our Chief Financial Officer. Lance will review our accomplishments in 2023, our priorities for 2024 and our commercial performance by business, followed by Scott, who will review our results, our guide and our capital allocation priorities. Following prepared remarks, we will open the call for your questions.

Before we begin, I would like to provide a couple 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 Factor Section in our SEC filings, including in our Annual Report on Form 10-K and our quarterly reports 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. Reconciliation of these GAAP to non-GAAP financial measures are available in our earnings press release, investor presentation deck and Form 10-K. 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.

V. Lance Mitchell

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

Thank you, Mark, and good morning, everyone. I'm extremely proud of all of our team accomplished in 2023. We finished very strong at our most important quarter, record profit, significant margin expansion, and record cash flow in Q4. Throughout 2023, we grew share in our largest categories, including household foil and waste bags. We exceeded our target of 20% of sales from products launched in the past three years. We restored operational stability and returned the Reynolds Cooking business to historical earnings. Our execution across the company is strong, each of our businesses delivering double-digit profit growth. We outperformed our earnings guide, growing adjusted EBITDA and EPS double-digits, and we increased financial flexibility, reducing leverage to less than three times adjusted EBITDA at year-end.

As strong as our company is, volume is under pressure across consumer staples. Unemployment rates are relatively low and inflation is moderating. However, household savings are down, credit card debt is at record highs, and wages have not kept pace with food and energy inflation. Consumers continue to contend with challenging economic pressures. As a result, our categories volumes were down 4% in 2023. Household formation and other drivers of long-term growth that drive category consumption are being more than offset by reduced consumer spending.

But what does that mean for RCP? First, this means our integrated national brand and store brand business model remains a competitive advantage. Secondly, that our entire organization is focused on driving volume at or above the category growth, expanding margins and maintaining discipline on costs. In 2024, we will invest in impactful advertising and actively manage price pack sizes and promotions to meet our retailer partner and consumers needs for the right combination of value and performance. We will continue to innovate with new sustainable solutions and other new products to further differentiate our offerings in our categories to protect and grow our share. We will continue to optimize our retail product portfolio to drive improved profitability, and we will drive productivity and other Reyvolution cost savings across our business, providing additional margin growth.

I'll now review our performance and outlook by business. The Reynolds Cooking & Baking team is executing consistently on the recovery plan we introduced to you a year ago. I'm pleased to report that operational stability has been restored. We've achieved historical levels of earnings. Reynolds Wrap gained 3 points of share in 2023, and new product innovations are expanding distribution and driving growth. I'm very proud of the Reynolds Cooking & Baking team and how the broader organization rallied behind the recovery plan. And I'm equally pleased with our plan to continue investing in our categories to drive volume and margin in 2024.

Reynolds recently surpassed the $1 billion mark at retail. We plan to build on that momentum by adapting and executing proven features, displays and promotions to meet consumers' needs for value, making additional modifications to price and pack combination across channels, and continuing to monitor and make refinements to pricing, evaluating price gaps and thresholds by channel. We plan to drive additional volume from expanded distribution of new products in addition to increasing distribution of more established high velocity products.

We'll continue to recruit millennials and Gen Z consumers to our products and categories. We recently launched Reynolds Chef's Kiss Advertising Campaign nationally across digital and traditional media outlets. Chef's Kiss targets young adults who want to put more but lack the experience in the kitchen, demonstrating how Reynolds products make meal prep, cooking and cleanup easier and better. And we plan to drive additional margin through ongoing work to optimize our retail product portfolio and the implementation of new Reyvolution cost savings programs.

Our Hefty and Presto waste bag and Storage businesses both achieved strong recovery of earnings in 2023. Hefty gained share of waste bags at an increasing rate as the year progressed, delivering nearly a point of share growth in the third and fourth quarter. We expanded and launched high impact product innovations, including Hefty Fabuloso, which continue to grow and eclipsed a $160 million in annual retail sales for the year and numerous other products, including Hefty Ultra Strong made with 50% post-consumer recycled materials and Hefty press to close food bags.

We continue to lead the store brand food segment with strong product innovation, including bio-based sandwich bags made with 20% plant and ocean materials, and in store brand waste bags, we partnered with our retail partners to launch new sizes and new sets. We increased profitability through ongoing work to optimize our retail product portfolio in both businesses, and we invested in advertising and trade support for our retail product portfolio. Our plan for driving volume and expanding waste and storage margins in 2024 include, continued investment in advertising and trade to protect and drive brand share, further distribution gains for Hefty Fabuloso as existing scents acquire additional shelf space and new scents are added, launching expansion of other new products, including Hefty press to close food bags, Hefty Compostable press to close food bags and Hefty recovered bags made with coastal collected plastics.

New and expanded distribution of store brand's stretchable waste bags [ph] Slider (00:09:14) and half gallon food bags and compostable sandwich bags, continued optimization of our Hefty and store brand product portfolios and additional Reyvolution and cost savings in both businesses.

Turning now to our disposable tableware segment. We've been very effective restoring tableware profitability. During our Q3 earnings release, I provided an update on the volume softness we were experiencing in certain tableware categories. And while we had a plan, I said it would take multiple quarters to see sustained improvement. I'm encouraged by the moderation of declines in the fourth quarter and I'm confident that the plans we're implementing will drive further improvements in 2024 and over the long-term.

As we noted in our earnings release, improved holiday-related features, displays and promotions were effective in offsetting continued elasticity pressure in the fourth quarter. We increased the advertising in Hefty Party Cups and Disposable Dishes, reminding consumers will do the dishes. And we're modifying trade plans to manage price points to key thresholds and certain packs in select channels.

We're introducing new multi-packs of cups and plates at lower opening price points. We are expanding distribution of select high velocity products and we are introducing and expanding distribution of sustainable solutions and other new products, including Hefty Zoo towels, Hefty ECOSAVE molded fiber plates and cutlery, Hefty compostable printed paper plates and new cups and plates with designs and colors to help celebrate and entertain during important holiday periods.

I will close by reiterating, we've been very effective supporting our categories and driving share growth while increasing earnings and financial flexibility in a challenging macroeconomic environment. Our team is implementing proven and comprehensive programs to deliver an even stronger 2024 and sustained growth into the future.

Let me turn the call over to Scott, I'd like to close by highlighting that we've been very successful completing our well-planned CFO transition. Scott has come up to speed quickly, and our finance team has clear priorities to support our plans for 2024 and beyond.

Scott, over to you.

Scott Edward Huckins

Chief Financial Officer, Reynolds Consumer Products, Inc.

Thank you, Lance. Good morning, everyone. Before we dive in, I'd like to offer a few observations about Reynolds from my first 100 days. First, the Reynolds business is a very durable, sustainable earnings platform from which to build upon. Second, our integrated national and store brand offerings provide a strong source of competitive advantage. Third, we have runway to deliver earnings growth from the existing business portfolio over time. Fourth, I've been fortunate to have had a very thorough and thoughtful onboarding process, allowing me to get up to speed quickly. And fifth, I found the leadership team to be very talented, collaborative and supportive. As a result, I'm very pleased to be at Reynolds, and I look forward to working with all of you in the quarters and years to come.

Now, turning to our results. As Lance said, we accomplished a lot in 2023 in a challenging macro environment. Increasing share in our largest categories, including household foil and waste bags, outperforming our earnings guides, delivering double-digit earnings growth in the quarter and the year, strong execution across the entire company with each of our businesses delivering double-digit earnings growth, generating record free cash flows through profit improvement and very strong working capital management, including nearly $200 million reduction of inventory, and significantly increasing financial flexibility by reducing leverage by more than one turn of adjusted EBITDA from 3.8 times in 2022 to 2.7 times in 2023.

You should expect us to continue down this path in 2024. Driving retail volume at or above the categories performance, delivering earnings growth by investing in our categories and product innovation, optimizing our retail product mix, driving productivity, disciplined cost management, and unlocking additional Reyvolution cost savings, and continuing to increase financial flexibility by reducing leverage toward the top of our target range of 2 to 2.5 times adjusted EBITDA by year-end.

Now, I would like to review our 2023 and fourth quarter results in more detail before turning to our guide. For the year, retail net revenues were $3,559 million, surpassing 2022 retail net revenues by $10 million. This increase was more than offset by a $71 million decrease in low margin non-retail net revenues, resulting in a $61 million decline in consolidated net revenues for the year. Our share gains were significant, demonstrated by a 2% decline in retail volume compared to a weighted average category decline of 4% for the year. Adjusted EBITDA increased $90 million or 16% to $636 million, reflecting over 250 basis points of margin expansion. This was driven by executing the Reynolds Cooking & Baking recovery plan, ongoing work to optimize the retail product portfolio, lower operational costs, and previously implemented pricing actions partially offset by higher SG&A, which included an increased investment in advertising.

Free cash flow of $540 million, which increased $449 million versus the prior year, driven by earnings growth and a nearly $200 million reduction of inventory. As a result of our successful focus on cash flow, we paid down $262 million of debt, driving a significant increase in financial flexibility that I mentioned. And adjusted earnings per share were $1.42 per share, up 11% from $1.28 per share in 2022.

Now, turning to the results of the fourth quarter. We delivered in-line revenues, gained share, grew earnings at the high-end of our guide and continued to increase financial flexibility. Retail net revenues were $972 million, $42 million below retail net revenues in the fourth quarter of 2022, driven primarily by lower tableware volumes, as well as the optimization of our retail product portfolio. As Lance mentioned, tableware volume improved sequentially, responding well to improved holiday related promotions.

We continue to outperform our categories in the fourth quarter. Retail volume decreased 3% compared to a weighted average category decline of 4%, evidencing the strength of our brands and advantages of our integrated business model. Low margin non-retail net revenues declined $40 million as expected, driven by lower demand from industrial customers. Adjusted EBITDA increased $38 million or 19% to $238 million, reflecting over 500 basis points of margin expansion. This was driven by executing the Reynolds Cooking & Baking recovery plan, increased optimization of the retail product portfolio, and lower operational costs, partially offset by higher SG&A, which included increased investment in advertising. Free cash flow of $194 million, driven by earnings growth and an over $50 million reduction of inventory. $150 million of voluntary principal payments were made during the quarter, and adjusted earnings per share were $0.65 a share, up 23% from $0.53 per share in the fourth quarter of 2022.

Turning to our 2024 guide. As I mentioned, our financial objectives are simple and clear. One, protect and grow share; two, drive earnings growth; and three, continue to increase financial flexibility. We guide net revenues in the range of $3,530 million to $3,640 million for the year, compared to net revenues of $3,756 million in 2023. Most of the decrease or approximately 3 percentage points, is expected from declines in our non-retail business and further optimization of our retail product portfolio. As a reminder, our non-retail business is reported in our Reynolds Cooking & Baking business and is low margin and subject to different demand dynamics than our retail business. According to Circana, our categories are projected to be down 2% on average for the year in 2024. We plan to perform at or better than these categories at a rate of minus 2% to plus 1%.

Pricing is forecasted to be a headwind of 1%, which includes certain contractual pass-throughs. [ph] To (00:19:39) plan and support our categories and product portfolio by investing in advertising, trade and product innovation. We plan to grow earnings by protecting and growing share, continuing to optimize our retail product portfolio, driving productivity, maintaining cost discipline, and unlocking additional Reyvolution cost savings, resulting in adjusted EBITDA in a range of $660 million to $680 million for the year. And we forecast earnings per share of $1.57 to $1.65 for the year, driven by adjusted EBITDA growth and last year's significant improvement in leverage resulting in lower interest expense. Other considerations for the year consist of the following. Commodities are expected to be more stable than in recent years. SG&A is forecasted to be unchanged to slightly down compared to SG&A in 2023. Depreciation and amortization is estimated at $120 million for the year. Interest expense is estimated at $100 million for the year. And our estimated effective tax rate is 24.5%.

Turning to phasing. In the first quarter, we expect net revenues in a range of $795 million to $820 million versus first quarter 2023 net revenues of $874 million, consisting of a 4.5 point headwind from lower non-retail volume and further optimization of the retail product portfolio, a 4.5 to 1.5-point headwind from retail volume at or better than category volumes, which we expect to improve as the year progresses and unchanged pricing. We expect adjusted EBITDA in a range of $115 million to $120 million, representing a significant increase over first quarter 2023 adjusted EBITDA and earnings per share of $0.21 to $0.23 per share. In addition, it is worth noting that in 2023, with one of our businesses executing a recovery plan, the quarterly contribution of earnings was not representative of our historical phasing of earnings. We see quarterly phasing of earnings looking a lot more like historical levels in 2024.

Turning to cash flow and capital allocation. Our top priority is to continue increasing financial flexibility by paying down debt. We estimate free cash flow of over $300 million this year. Remember, we are comping last year's nearly $200 million reduction of inventory and that we will be below the upper end of target leverage of 2 to 2.5 times adjusted EBITDA by year end. Our 2023 results put us on track to cut the annual interest expense by approximately $20 million in 2024. And as you know, every dollar of debt paydown generates a roughly 7% return. Remember too, as we noted in November, our term loan is a floating rate facility. We have hedged approximately 60% of the floating rate risk, affording us the flexibility to delever without penalty, while providing protection and predictability in this volatile interest rate environment. And our capital allocation priorities remain unchanged. One, invest in organic growth, automation and other Reyvolution cost savings. Two, returning cash to shareholders by maintaining our current dividend and achieving leverage of 2 to 2.5 times adjusted EBITDA. And three, pursue bolt-on acquisitions consistent with our marketplace position and core competencies.

Before I turn the call over to your questions, we had a very strong year in 2023, and I am pleased with our high degree of visibility into 2024 earnings, noting that we plan for a stronger contribution in the first half as we return to our historical phasing of earnings. Our financial flexibility is increasing and we have the opportunities, commercial strength and programs to drive earnings growth over the long-term. Finally, and importantly, I'd like to remind everyone that we are hosting an Investor Day in New York on March 19th. Our business unit Presidents, Lance and I, look forward to speaking in more detail about our strategies to create value by driving organic and inorganic growth.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Rob Ottenstein with Evercore ISI. Please proceed with your question.

Robert Ottenstein Q
Analyst, Evercore ISI

Great. Thank you very much, and congratulations on a real solid year. Two questions, please. First, your non-retail revenue guide seems to be the big difference between consensus revenue estimates. Is that right? And what's driving the declines of that business? So, that's the first question.

And then second, can you give us some details in terms of the cost savings programs for 2024? What areas you're attacking and perhaps dimensionalize that a little bit more. Thank you.

Scott Edward Huckins A
Chief Financial Officer, Reynolds Consumer Products, Inc.

Good morning. It's Scott. Thanks for the question. So, on the first topic, I think your conclusion is correct around non-retail revenues, maybe just to reset. On the third quarter earnings call, in November, the company commented that we expected a pretty sharp decline in non-retail revenue in the fourth quarter, and that's exactly what manifested itself. We went on to say that that run rate of non-retail revenue in the fourth quarter would probably be a pretty good proxy for what we would expect to see in 2024. And I think it's probably worth reminding the margin profile of that revenue stream is fairly low, as evidenced by the results that you would have seen both in dollar and margin form in the P&L in the fourth quarter.

In terms of the cost savings, I think if you work through the implied margin rates in the guide, it's about a 200 basis point improvement 2024 versus 2023. So again, a good contribution from the Reyvolution program is behind that. In terms of the topics or categories of focus, manufacturing would be on that list. I think many companies coming out of COVID are getting back in the business of really focusing on manufacturing efficiencies in a new normal. And number two would be across supply chain costs, both inbound and outbound receipt of materials.

Robert Ottenstein
Analyst, Evercore ISI

Q

Okay. Can you give us a range of an actual absolute number on the cost saving side?

Scott Edward Huckins
Chief Financial Officer, Reynolds Consumer Products, Inc.

A

I think you could see it really in the differential in an EBITDA to keep it simple. That's probably the best proxy rather than go through a really detailed reconciliation. That's probably the easiest way to think about it.

Robert Ottenstein
Analyst, Evercore ISI

Q

All right. 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. So, two, kind of threads of language that struck me is pretty interesting this morning. One was both in the release and through the call, the mentions about portfolio rationalization on the retail side. A lot of discussion around velocity. And then, Scott, you mentioned that one of your observations was the runway for growth with the existing product portfolio. So, it sounds like there's almost like a new lens through which the team is looking at the business and evaluating the kind of the strategy. So, as [indiscernible] (00:28:48) not to front run the Investor Day, but I was wondering if you could maybe talk a little bit about the genesis of this conversation around portfolio optimization. How significant are we talking? Is it around the edge of SKUs? But kind of what happened to make this opportunity clear that it's getting so much airtime today? Thanks.

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

A

Hi, Lauren. This is Lance. Thank you for your question. Regarding the retail product portfolio optimization, it's really not anything new. I would say as we reengage in that post-COVID because during the COVID timeframe, we were more focused on supply. Manufacturing, supply chain challenges ensuring that we were providing our retail partners and our consumers with adequate supply. We since matured into where we are now where we are evaluating each product and ensuring the velocities and the product profitability is enough to ensure sustained presence on the shelf. And in those cases where it's not, we've made decisions to rationalize the SKUs and the product lines.

To be clear, this is around the tail. This is around the edges. For your question, this is not a significant change in the product portfolio, but rather just continuous evaluation as we bid previous to COVID to ensure that we've got the right products at the right velocities.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. Great. And then – thank you. If I could do just one more, was just around the commodities. A), I know it's tough to know what and how you buy, et cetera. But just curious, I would have thought there might have been more upside in 2024 from commodities. So just kind of curious to get your thoughts on why it seems to be a bit more muted?

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

A

Well, commodities have, for the most part, stabilized. But I will point out, for example, polyethylene, which is used in our waste bags and food bags, primarily product lines, increased $0.09 a pound in 2023, and recently increased another $0.05 per pound in 2024. So it's stable compared to the last couple of years, but it is still on an upward trajectory, as is inflation of other inputs, including labor costs, utility costs. So, those costs continue to increase and we're managing from a cost management standpoint to ensure margin improvement.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay, great. All right. Thank you. I'll pass it on.

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

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

Q

Yes, thanks. Good morning, everyone. I wanted to go back to the innovation commentary and just sort of – in sort of – in retrospect ask about how you think about cannibalization versus incrementality of innovation. You talked about contribution to total growth from innovation. There's been a lot of innovation. I don't know how it compares to pre-IPO levels. But certainly seen a lot over the last year or so. How is that in 2023 relative to expectations and historical levels? And as you think about the innovation going into 2024, sort of the same question, and then I've got a follow-up. Thank you.

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

A

Sure, Mark. Thank you. In 2023, we did exceed our target of 20% of products introduced within the last three years from a revenue standpoint, contributing to our share gains in multiple categories. In 2024, as I mentioned in prepared remarks, we – we've had recent introductions like Hefty Fabuloso with new scents, Hefty press to close food bags, which are gaining distribution in our largest categories and recent introductions like Reynolds Kitchens Air Fryer liners and butcher paper to build in our adjacencies. So, entirely new products increased usage among Gen Zs, millennials and all consumers, including Hefty Compostable press to close food bags, Hefty recover bags with coastal plastics and Hefty Party Cups with 100% post-consumer recycled materials. They do cannibalize existing products. So, we take that into account. But it's the product lifecycle while products to ensure that we're continually reinventing ourselves to ensure continued growth and growing faster than the category which we demonstrated in 2023, and we're going to do again in 2024.

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

Q

Got it. Okay. Thank you. And then maybe bigger picture sort of a question in retrospect and kind of on a year-end result, which is sustainability and impact on the business. I guess I ask in the context of some of your product categories being maybe a little less sustainable than some others thinking like plastic wrap versus alternatives. Obviously, you made an acquisition about Atacama a few months ago, and so that was partly with this idea of creating a bit more of a sustainability edge relative to what you could develop. So, I guess if you could kind of give a state of the union, so to speak, and how you think about your consumers, especially if you talk about younger consumers in household formation trying to drive incrementality of usage, who may be more focused on things like that relative to older households and older consumers and sort of how does it all fit together? What was the impact in 2023 on the business and kind of how do you think about that in the context of the business plan over the next three to five years?

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

A

Thank you, Mark. We have stated in our ESG scorecard and goals that we will have a sustainable alternative for all of our products by 2025. And I'm proud to say that we're well on our way to accomplishing that goal. We are – over 90% of our products have a sustainable product solution. For example, think of 100% recycled aluminum foil in the Reynolds Wrap family of products. Think about the fact we have unbleached compostable parchment paper in our parchment paper line and it goes on. We've got post-consumer recycled plastics in our waste bags. We got compostable food bags. So, across the line, we are focused on developing sustainable product solutions to reach all generations. It's not just Gen Zs and millennials that are seeking those opportunity, it's all of our consumers. And we're focused on developing a wide range of products to meet their requirements.

From a product development standpoint, the other thing we're focused on, and the reason we made that acquisition is to look at narrowing the price cost gap between the sustainable solutions and the more traditional products, so that we can, for example, provide 100% recycled post-consumer party cup at a near price point to our existing product line.

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

Q

Got it. Okay. Thank you.

Operator: Thank you. Our next question comes from line of Brian McNamara with Canaccord Genuity. Please proceed with your question.

Brian C. McNamara
Analyst, Canaccord Genuity LLC

Q

Hey, good morning, guys. Thanks for taking the question. I have one for Scott. I'm curious, what has surprised you after your first 100 days about the organization? I'm assuming when you were hired you had some baseline level of expectation. I'm curious what has deviated, maybe both good and bad relative to your initial thoughts? Thanks.

Scott Edward Huckins
Chief Financial Officer, Reynolds Consumer Products, Inc.

A

Good morning. Thank you. It's a great question. I would say probably two themes of comments. But the most noteworthy to me is, we all read about and hear about Reyvolution near and dear to CFO's heart. And what I hadn't fully appreciated is how vibrant and part of the fabric of the company, top to bottom that is, meaning just an ongoing daily focus of trying to drive profit into the business. It's even more prominent, frankly, than I had expected. The second would be more on the qualitative, which is I tried to foreshadow in my prepared remarks. It's a super collaborative team, very used to working through problems together as a team in a room. And what I think that that does is it creates alignment and clarity of priorities. And not all organizations, I think enjoy that. So, those are probably the two that would stick out to me, but appreciate the question.

Brian C. McNamara
Analyst, Canaccord Genuity LLC

Q

And just a quick housekeeping follow-up. Did you guys guide to a gross profit dollar number or how should we – if not, how should we think about that over the course of the year? Thanks.

Scott Edward Huckins
Chief Financial Officer, Reynolds Consumer Products, Inc.

A

We – another good question. We did not, but I think if you work your way through the elements that I had shared for revenue and EBITDA with the color offered to the balance of the P&L, I think you'd be able to squeeze margin and I think I gave a hint about a roughly 200 basis point lift. So, hopefully with that you got a pretty good idea of how to model gross profit and gross profit margin.

Brian C. McNamara
Analyst, Canaccord Genuity LLC

Q

Great. Thanks a lot. Best of luck.

Scott Edward Huckins
Chief Financial Officer, Reynolds Consumer Products, Inc.

A

Thank you.

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, operator, and good morning, everyone, and welcome, Scott. My question is on the state of the consumer and how to think about the like-for-like pricing compared to the mix headwinds, Lance, you spoke about? I was just trying to understand your revenue guidance and also the margin outlook, which I believe came below the Street for 2024. I think we all understood the exit from some of these non-retail contracts we spoke about last quarter, but it seems that the core consumer business remains more pressure than feared even after lapping the declines in tableware. So, can you bridge how much of your expected sales decline can come from perhaps price rollbacks or if it's mostly mix? And how to think about the phasing of tableware? When should we see tableware stabilizing?

V. Lance Mitchell

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

A

Andrea, thank you. I'll answer the first part of that question and ask Scott, to then jump in and provide some of the number details. Regarding the state of the consumer, I did try to frame that a bit in my prepared remarks. While the overall economy is experiencing lower rates of unemployment, [ph] it's steady at (00:40:04) 4%, and we've seen that in our labor at our plants and slowing rates of inflation, we continue to see the consumers in our categories are under pressure with less savings and more debt, particularly in credit cards up 30%.Credit card debts up 30% from 2020.

So, we have always relied on outside data for evaluating our forecasts, Circana. Before that IRI, Nielsen, et cetera. And this is the first year we've seen a negative forecast for our category. Now, forecasts are forecasts. They're not necessarily always accurate, but we've used that to inform our forecast and our guide. If the consumer is not as under much pressure, we expect to outperform the categories under any circumstance through all the reasons we outlined in the prepared remarks and our answers to the questions here today. So, consumers are under pressure. You've seen what's going on in the staples market. We're doing better than the category. And I'll turn it over to Scott, to talk about the specifics of how we've framed that in the guide.

Scott Edward Huckins

Chief Financial Officer, Reynolds Consumer Products, Inc.

A

You bet. So, I think again, is to reset the macro of the guide we expect – start with the full year, 1% pricing headwind, 3 points or 3% of headwind in revenue from our non-retail business supplemented by product portfolio rationalization and picking up where Lance left off. We expect our retail business to be in a range of down 2%, which would be consistent with the category to a range of positive 1% back to outperformance. I think you also asked a bit about phasing, and I think there are two elements of your question. The first was around non-retail. As I shared earlier, I think we expect that to look fairly ratable through the year, meaning again, picking up on that Q4 run rate as we commented on. And then last one was on tableware, we saw a decent buffering in Q4 of performance relative to our outlook we shared in Q3. But I think it'll take some time as we work our way through the year for all of those programs [indiscernible] (00:42:34).

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Q

Okay. So, so how much of – that's super helpful. I understand the components of guidance and I appreciate where you put that in writing this morning. But when you think about the pricing of the retail business, is that you're seeing some of the mix effects or consumer downtrading within that or you are rolling back some of this pricing? I think that's what the key question for all of us. Are you seeing the pressure to roll back? Or you're seeing just consumers downtrading within your portfolio into private label – into own private label?

V. Lance Mitchell

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

A

Andrea, we're seeing some trading down into private label within the categories, as you know. And as I said in my prepared remarks, that's one of the benefits of our business model, brands and store brands. We have a high share in both. And so, we participate on both sides of that equation. But the vast majority of the change is just consumers are not spending as much in the categories. It's not a question of trade down. It's a question of using less during this challenging period of economic – macroeconomic challenges.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thank you.

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

A

From a pricing standpoint, I think Scott was very clear about the fact that we don't see a lot of change in pricing. We are returning to historical levels on promotions and that is factored into our guide.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you very much.

Operator: Thank you. [Operator Instructions] Our next question is a follow-up from the line of Rob Ottenstein with Evercore ISI. Please proceed with your question.

Robert Ottenstein
Analyst, Evercore ISI

Q

Great. Two questions. Just kind of following on Andrea's question. I think the price it could come down, right, if, on private label, there's a pass-through of lower commodity cost, that's one way. So, to what extent is that actionable or part of this? And then, you mentioned promos coming back to more historical levels. Can you just put that in the context of the competitive dynamic on branded products? You noted that you're gaining market share, which is terrific. I think what we'd all like to better understand is, is the market share gains in any way tied to – you're promoting more than competition? And we obviously see Circana data, but we don't see, what's online. So, maybe when you address the question and give it a little bit of a sense of what's going on online as well to get a fuller picture? Thank you.

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

A

Thank you, Robert. You got a couple of questions in there. The first regarding commodity costs and if they come down, will they be passed on, starting with private label. First of all, if I indicated in an earlier answer, commodity costs have stabilized, but some have gone up. Some have gone down modestly. But other input costs have also increased. So, we have not seen a lot of changes in price as a result. And don't expect to see significant changes in price. But of course, we're always agile and react accordingly if things change in the categories. From a promotion standpoint, I would suggest and state that the reason that we're gaining share is primarily innovation and advertising. The combination of those two is the main reason that we've gained share. But the products are differentiated and we've got an advertising campaign sort of working very effectively. You'll see in the K, we increased our advertising spend to nearly $80 million, which is significant, and we expect to continue at that level as we go into 2024.

Robert Ottenstein
Analyst, Evercore ISI

Q

Thank you.

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 and for your continuing interest in our business. Scott and I, and the entire RCP leadership team had an enormous debt of gratitude to the 6,000 people responsible for the success of our business. And I'm confident our team will continue to advance our plans to create long-term value for our stakeholders. We look forward to seeing you in New York on March 19th for our Investor Day. Thank you.

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