

11-Nov-2020

Reynolds Consumer Products, Inc. (REYN)

Q3 2020 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Reynolds Consumer Products Third Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's call is being recorded.

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

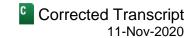
Mark David Swartzberg

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

Good afternoon and thank you for joining us on Reynolds Consumer Products third quarter 2020 earnings conference call. On the call today are Lance Mitchell, President and Chief Executive Officer; and Michael Graham, Chief Financial Officer.

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.

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Please refer to Reynolds Consumer Products Annual Report on Form 10-K and other reports filed from time to time with the Securities and Exchange Commission, and its press release issued this afternoon for a detailed discussion of the risks that could cause actual results to differ materially from those expressed or implied in any forward-looking statements made today.

Please note management's remarks today will focus on non-GAAP or adjusted financial measures. A reconciliation of GAAP results 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, crosstalk 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.

Thanks, Mark. Before we begin with the surge of COVID-19 across our country, I'd like to thank our employees for continuing to follow prevention measures and putting safety first always. And on Veterans Day, we also thank our many colleagues and all who served our country. Men and women and their families who've made personal sacrifices to ensure the security of our nation and our democracy.

For our agenda today, Mike will review our strong quarter and outlook. And I'll cover performance highlights, brand performance, our near-term priorities and fourth quarter demand. Together, our remarks will be brief.

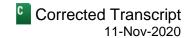
A good quarter requires very little explanation and then we will open it up for questions. We're very pleased with our quarterly results and the progress we're making against the bulls and initiatives we established to position us for future growth and success. Revenue was up strongly reflecting increased everyday use at home and the impact of new products.

Gross margin expanded substantially. We invested significantly in advertising and promotion and market research. All of this together resulted in a \$30 million increase in adjusted EBITDA, enabling us to increase our financial outlook for the year. Turning now to our brands and businesses.

Three years ago, we set out to make Reynolds, a billion dollar brand at retail. And I'm happy to tell you we recently crossed that threshold, growing 18% in the last 52 weeks or more than \$150 million compared to 2019.

Reynolds Wrap foil grew 17% over that period and we saw even faster growth in parts of paper, plastic wrap, and wax and freezer paper. Needless to say Reynold's brand strength and momentum is benefiting from our increases in capacity. We're also seeing strong performance for Hefty, the waste bag category is large and growing strongly and the Hefty brand continues to do very well growing with the category.

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According to Harris, US households are using more than 3.5 kitchen waste bags per week, up from approximately 2.5 bags per week prior to COVID. Innovation has also picked up in the quarter and was led by our Hefty Tableware unit which benefited from a number of new products including ECOSAVE, a new line of disposable tableware made of plant-based materials which is a 100% compostable.

Excellent service across our categories remains a priority and our Presto unit continues to grow with our retail partners and their brand even with year-to-date headwind of last year's exits of low margin business. Our ecommerce business is also doing very well, growing very strongly again in the quarter. We estimate our ecommerce shares to be equal to or better than our brick and mortar shares depending on the category.

Looking forward, our near-term priorities remain employee health and safety, maximizing the availability of our products and investment in our category. We remain vigilant as COVID-19 positivity rate increased nationally and our recordable injury rates remained very low and below year ago levels.

We continue to improve the availability of our products in response to strong demand. In-stocks are improving and we continue to bring on more capacity than plan at the start of the year, with most of it online by year end. We are also increasing spending on advertising and promotion and market research as consumer habits change and benefit our categories.

We previously called out significant second half increases in A&P due to timing. For the year, we plan for A&P to be up strong double digits. We are completing our plans for 2021. But you can expect strong support for our brands next year, considering the favorable demand environment.

Most of us are spending more time at home and our research finds that the behavior that comes with this is a long lasting positive. Repeat rates among new users are up across our categories. In addition, according to Numerator more than 80% of active users of our categories indicate they intend to maintain or increase elevated consumption of foil, waste bags, food bags and disposable tableware beyond 2021.

This is a positive for our categories and it means more innovation. We have a strong new product pipeline. We've invested in market research during this change in consumer behavior to aid in the development of new products. We remain committed to our goal of 20% of our revenue from products that are less than three years old and we're excited about the new product pipeline that we have heading into next year.

Demand remains stronger than historical trends and as you saw in our release, we estimate a mid-single digit net revenue increase in the fourth quarter. After a stronger than expected third quarter, households ended October with increased inventory of our products and we anticipate smaller gatherings around the holidays.

This has reduced the need for promotion in contrast to last year's fourth quarter when we did what we usually do. Step-up promotions at the start of the quarter to build household inventory, ahead of the holidays. Additionally, we've seen some softening of business and restaurant items sold by certain retailers as restaurant restrictions have increased.

We remain firmly focused on leadership of our categories and I could not be more pleased that we're able to simplify daily life for consumers by meeting sustained and fundamental shifts in demand for our products. We are aware of next year's comparison and leaning into the opportunity with capacity innovation and investment. I'm confident our people and our priorities will allow us to deliver another year of strong performance.

I'll now turn it over to Michael to discuss our results for the quarter and our outlook.

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Michael Graham

Chief Financial Officer, Reynolds Consumer Products, Inc.

Thanks, Lance, and good afternoon everyone. I'm really pleased with the results for the quarter. I'll briefly walk through them then wrap-up with the outlook for the fourth quarter net revenues in the third quarter of 2020 were \$823 million compared to \$741 million in the prior year. The growth was driven by a strong demand across all of our business segments, reflecting the continued increase in everyday use at home and the impact of new products.

Net income increased a \$113 million in the third quarter compared to \$63 million in the prior year. And adjusted net income was \$117 million for the third quarter of 2020. The increase was primarily driven by higher revenue and lower interest expense, reflecting a lower interest rates and the capital structure that went into effect with the IPO. Adjusted earnings per share for the quarter was \$0.56, adjusted EBITDA for the third quarter was a \$192 million compared to \$162 million in the prior year.

The increase was primarily due to increased revenue and lower material and manufacturing costs partially offset by a higher advertising and personnel costs. Turning to our segment results. Reynolds Cooking & Baking net revenues in the third quarter were \$285 million compared to \$256 million in the same period of last year. The increase was primarily driven by increased consumer demand partially offset by a decline in related party revenue.

Adjusted EBITDA in the quarter was \$63 million compared to \$49 million in the prior year due to the revenue increase and lower material and manufacturing costs, partially offset by a higher advertising costs. For Hefty Waste & Storage, net revenues in a third quarter were \$209 million compared to \$185 million in the prior year.

The increase was primarily driven by increased consumer demand. Adjusted EBITDA in the quarter was \$65 million compared to \$61 million in the prior year due to the revenue increase and lower material and manufacturing costs partially offset by higher advertising costs. The Hefty Tableware net revenue for the segment were \$192 million compared to a \$174 million in the prior year.

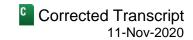
The increase was driven by the impact of several new product introductions. In addition, we saw improved demand for business and restaurant items in comparison to the second quarter. Adjusted EBITDA in the quarter was \$43 million compared to \$40 million in the prior year primarily due to the revenue increase, partially offset by increased advertising and logistics costs.

Finally, Presto Products net revenues were \$136 million compared to \$129 million in the prior year. The increase was primarily driven by increased consumer demand. Adjusted EBITDA in the third quarter was \$28 million compared to \$23 million in the prior year primarily due to the revenue increase and lower material and manufacturing costs.

Now moving to our capital structure. We continue to be very pleased with the cash generating ability of our business and as of as of September 30, 2020 we had a cash balance of \$351 million and a total debt outstanding of \$2.34 billion. Subsequent to quarter end, we made additional voluntary debt payment of \$100 million, continuing on our commitment to deleverage.

Commenting on our guidance for the fourth quarter and the year ending December 31, 2020, for fourth quarter of 2020, we expect net revenue growth to be mid-single digit on net revenues of \$835 million in the fourth quarter of 2019. Increased logistics, resin and COVID related safety costs continue the investment in categories with, with another strong increase in A&P, and adjusted EBIT to be in the range of \$195 million to \$200 million.

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Based on these expectations, we have increased our guidance and expect the following for the full year 2020. Net revenue to be in the range of \$3.24 billion to \$3.26 billion. Adjusted EBITDA to be in the range of \$715 million to \$720 million. Adjusted EPS to be in the range of a \$1.95 to a \$1.97 per share, and net debt to be approximately \$1.9 billion at December 31, 2020. And consistent with our prior communications, we expect capital spending to be approximately 4% of net revenue.

Looking forward to next year, the marketplace is dynamic and we're currently working through our plans. We plan to provide additional detail of our expectations with 2021 with the release of our fourth quarter results. Overall, with these to be operating in categories that are larger than what we anticipated at the time of [ph] IPO (00:14:17) and we remain committed to cash returns including a dividend payout ratio of approximately 50% of net income with dividends growing over time and continue to deleverage to net debt that is between 2x and 2.5x as a multiple of adjusted EBITDA.

With that, I'll turn the call back over to Mark.

Mark David Swartzberg

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

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

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, we'll now have our question-and-answer session. [Operator Instructions] A moment please while we now poll for questions. Our first question comes from Bill Chappell with Truist. Please proceed with your question.

William B. Chappell

Analyst, Truist Securities, Inc.

Thanks. Good afternoon. I guess first question looking at the Presto business, obviously – certainly good growth. It was kind of half the rate of your branded business. So didn't know if you are seeing you know continued trade up of consumers or if there is something else going on just kind of explains that and, and as we go through COVID if – in general, we've seen another category as consumers going to trade more to branded and higher end or there like – if there's something else that I'm missing.

V. Lance Mitchell

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

Hi Bill, actually there's two things occurring here. The first is there's been some moderate trade up to the brands across some of these most of our categories. But it has been moderate, but the main significant difference in the growth rates with Presto and the other segment is the fact that we're still lapping some of that low margin business that we intentionally exited. And as we exit Q3, that is now almost entirely behind us. But that's a big, big part of the percentage difference in the growth rates between the different business segments.

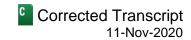
William B. Chappell

Analyst, Truist Securities, Inc.





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Got it. And then just as a follow up on the Hefty Tableware business that seemed to bounce back pretty nicely from 2Q results. You know anything to that? Is that - we're getting out of the picnic season so you have more normal kind of comparisons anyways or is there something else going on there?

V. Lance Mitchell

President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc. There's three dynamics occurring there. The first as you may have picked up in the opening remarks that I talked about was the fact that we saw some recovery in the restaurant and business items. Certainly not the prior year

levels but better than a very depressed Q2. But the real driver was the fact that we had several new products that

were successfully introduced and growing in the tableware business in Q3. And as you've pointed out you know you don't have the Labor Day or rather the Memorial Day and 4th of July

comparisons for holiday occasions, it's really only Labor Day in the Q3 which is not as a robust holiday occasion for the disposal Tableware and the continued strength of everyday use occasions for those products.

William B. Chappell

Analyst, Truist Securities, Inc.

That's great. Thanks so much for the color. '

V. Lance Mitchell



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

Thank you.

Operator: Thank you. Our next question comes from Robert Ottenstein with Evercore ISI. Please proceed to question.

Robert Ottenstein

Analyst, Evercore ISI



Great, thank you very much. Two questions - the first one - sales across the board were very strong which which isn't a surprise, but they did seem to be a good bit stronger than you had guided - and obviously to where consensus was and more in line with - what the track channels reflected which was not true the prior quarter. So I'm wondering if you can kind of help us sort of try to tie that together and sort out the disconnect if any? Thank you.

V. Lance Mitchell

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



Thank you. You know Q3 – you know, it may sound like we had a conservative guide, but I assure you that's not the case. What we had was a very strong September – one that fundamentally surprised us from a strength standpoint – and if you remember we guided last – I think September 8.

So that strong September really tipped the scales was above the high end of our guide. And our research says it was really driven by two things. The first is it was driven by consumers actually buying more in front of the holidays and preparing for the holidays early and the second was there was a resurgence of COVID in some communities and the states and so there was a stock-up period certainly not like anything we saw in March and April, but more of a stock-up occurring in our categories as some pantries were loaded going into Q4.

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Robert Ottenstein

Analyst, Evercore ISI

Great. Great. And I guess that explains a little bit of the slightly lower growth in Q4? My second question or follow-up is on the EBITDA implied guidance for Q4, which is a good bit lower than consensus, it's lower than I think the IPO guidance initially and implies a fair amount of margin contraction.

So I'm just kind of interested – we're actually getting a lot of emails from investors tonight on this, why the margin contraction and lower EBITDA in Q4 given the fact that the sales guidance is still pretty strong?

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

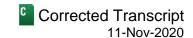
Yeah. A lot has changed since the IPO. And I think the first thing as you already pointed out is some of Q4 revenue really came in Q3 as the preparation for the holidays occurred earlier. But I would – I would also point out our top line guidance is still better than both our IPO forecast and consensuses for Q4. But the EBITDA is a temporary impact of higher commodity costs, that one that we're going to be recovering those as we go into Q1.

But we did see commodity costs increase primarily in resins in Q3 and we will see the impact of those in Q4. And we have numerous countermeasures that we have implemented going into Q1 that will ensure that we get those back as we go into next year. Also point out that we're leaning into advertising investments in Q4. And as pointed out in our opening remarks, there're double digit increases over prior year.

Robert Ottenstein Analyst, Evercore ISI	C
Got it. Thank you very much.	
V. Lance Mitchell President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.	Д
Thank you.	
Operator: Thank you. Our next question comes from Jason English with Gold your question.	dman Sachs. Please proceed with
Jason English Analyst, Goldman Sachs & Co. LLC	C
Hey good evening guys. Congratulations on another strong quarter.	
V. Lance Mitchell President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.	Д
Thank you, Jason.	
Jason English	C

Lance it's – I extremely sense your optimism as now you look to the fourth quarter but as you look into next year and you mentioned your investment behind capacity innovation and A&P but what if you're wrong? What if – what

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if the vaccine comes and a lot of behavior mean reverts to where it was before? What course corrections can you take at that point in time to avoid earnings sliding out back?

V. Lance Mitchell

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

A

Well you know first of all, we've done a lot of market research and according to our research and the Numerator numbers that I just shared, a lot of this consumer behavior is expected to stick. More than 80% of the users of our categories indicate that they're going to maintain or increased elevated consumption of our products and according to [ph] slide plan (00:22:42) 80% of households are going to wait to return to dining in restaurants until 2022.

So – and we've seen changes in consumer behavior in millennials and GenZs towards recognizing that cooking is a healthier, lower cost, easier alternative than always takeout and restaurants. So we're seeing fundamental shifts in consumer behavior. And so our research base is very optimistic that this is sustained and fundamental.

But if it isn't, the investments we've made in our capacity are not new routes. They are, as we heard from our capital investments, were trading at 4% of our revenue from a capital investment standpoint. So it's not significant capital investments to get these new lines and capabilities or increased production and that what we're bringing on is lower cost, it's more efficient, it's less labor. From an automation standpoint alone although the payback will be as quick as growth, we will get a payback on it and we'll be able to utilize that production equipment more efficiently.

Jason English

Analyst, Goldman Sachs & Co. LLC

That's really helpful. Good context. Thanks a lot. I'll pass it on.

Operator: Thank you. [Operator Instructions] Our next question comes from Kaumil Gajrawala from Credit Suisse. Please proceed with your question.

Kaumil Gajrawala

Analyst, Credit Suisse Securities (USA) LLC

Hey guys. Good afternoon. As it relates to capacity, you just mentioned it briefly Lance, that you're adding capacity that doesn't come in a big capital cost. But I think from the prepared remarks you mentioned the revenue of the categories is higher than what you anticipated at IPO. Why wouldn't the CapEx tick up a little bit higher perhaps than planned in order to support that – this higher kind of revenue base or higher TAM that we might be looking at?

V. Lance Mitchell

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

Yeah. Yeah. Thanks Kaumil. You know I think we've shared with you guys in the past that, our CapEx expectations to be around 4% of our total sales. That that increase is primarily related to the fact that we've added additional capacity and as that capacity almost coming [indiscernible] (00:25:12), obviously with that comes CapEx. That again answers your question or is there?

[indiscernible] (00:25:18)

Reynolds Consumer Products, Inc. (REYN) Corrected Transcript Q3 2020 Earnings Call 11-Nov-2020 Kaumil Gajrawala Analyst, Credit Suisse Securities (USA) LLC I guess we are... V. Lance Mitchell President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc. To be clear we are adding... Kaumil Gajrawala Analyst, Credit Suisse Securities (USA) LLC Okay good, go ahead. V. Lance Mitchell President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc. Yeah, to be clear we are adding capacity and investing in capacity. It's higher than we had planned as we went into the year. Kaumil Gajrawala Analyst, Credit Suisse Securities (USA) LLC Thanks, I'll -Michael Graham Chief Financial Officer, Reynolds Consumer Products, Inc. Yeah, so just to add that. We said 4% of revenue previously and our revenues increased, so obviously that's going to be a big driver of global [ph] capacity (00:25:45) too. Kaumil Gajrawala Analyst, Credit Suisse Securities (USA) LLC All right that explains it. Okay great and as follow-up you mentioned briefly about commodity costs and recovering some of the hit from higher commodity costs into 1Q. How should we be thinking about maybe the basket of commodity cost more broadly over the course of next year? Michael Graham Chief Financial Officer, Reynolds Consumer Products, Inc. Yeah. So I think you should think about is like we feel pretty good about the fact that we've been able to neutralize our higher resin costs. We do plan to recover the overwhelming with majority of those costs to increase prices as well as adjustments to our level of promotions that we take. But just keeping in mind, our retailers are our business partners so as we think through that, we look to balance the best - the best for their business, our

business and categories as well as the end consumer.

V. Lance Mitchell

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

I think if you think about 2021, there will be a slight headwind because of the Q3 reduction that occurred rather which then came back. But otherwise we're looking at a fairly stable environment for commodities in 2021.

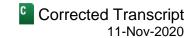
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Kaumil Gajrawala Analyst, Credit Suisse Securities (USA) LLC	C
Okay got it. Thank you very much.	
Operator : Thank you. Our next question comes from Andrea Teixeira question.	with JPMorgan. Please proceed to
Andrea Teixeira Analyst, JPMorgan Securities LLC	C
All right, thank you. Hi good afternoon. I hope you all well. So I just want few step back of your guidance of 7% which is implied sales growth for 2 obviously very impressive, but then you had the headwinds from the residescribed – we can make the math right – it's about 25% for the Tablew I was just thinking, some of your other businesses even in Cooking & Baknow in smaller restaurants or food trucks or – what do you think was the that may reverse – obviously it's not going reverse completely, but it will you.	2020 as the midpoint. And then, which is taurant business that obviously you are business as a percentage of sales busking can probably be using smaller – you headwind? Was that about 2% and 3%
V. Lance Mitchell President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.	Δ
Just in the Tableware business and the restaurant items or just	-
Andrea Teixeira Analyst, JPMorgan Securities LLC	C
Yeah.	
V. Lance Mitchell President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc so I don't make	
Andrea Teixeira Analyst, JPMorgan Securities LLC	C
Correct.	
V. Lance Mitchell President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.	\triangle
Yeah it's about – it's roughly 50% of the total tableware business that are – there's a great crossover on some of those items too. Some of those it as for home use occasion. So it's – it's not a clear cut difference betwee item and a home-use occasion item and disposable tableware. So I – yo roughly in that business segment which is skewed towards that kind of the segment of the segment which is skewed towards that kind of the segment which is skewed towards.	tems are used for catering events as well in let's say, business item, a restaurant bu know a 50% percent of the revenue
Andrea Teixeira	

Analyst, JPMorgan Securities LLC

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That's helpful. And then you think that – if you think about that business and you also had a pipeline of innovation right that you pulled out. So if you – and those three factors value you described, but if you put it on a more normalized way, would you say the outlook for next year could be positive?

Or in other words would cycle for the worst? And conversely on the remaining of the business that is more home cooking, right? That is more retail if you will, you said that you're confident that you can lap those. What makes you confidence in terms of the cadence of innovation so perhaps it will be interesting to see or a more like-for-like growth of the traditional brands vis-a-vis what came from – what has been coming for innovation?

V. Lance Mitchell

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

Yeah like I said in the opening remarks a big piece of our Tableware growth in Q3 was new product innovations and the continued growth of those. So we are – that plus our market research of everyday use occasions for disposable tableware gives us confidence that that segment will continue to have opportunities for growth.

Andrea Teixeira

Analyst, JPMorgan Securities LLC

That's helpful. Thank you.

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

Mark Astrachan

Analyst, Stifel Financial Corp.

Thanks and good afternoon everyone. I wanted to ask two, I think are related but questions, I'll ask [indiscernible] (00:30:38) later. I guess one is and trying to reconcile fourth quarter so in mid-single digit growth and you know I'll obviously look at the track channel growth at least through the first months of the quarter and it has been stronger.

So you mentioned some of – I guess the September that was stronger but you know ideally, I'd like to have you walk us through a little bit of some of the other pieces that are a little less obvious. You touched directionally in foodservice but maybe talk little about what expectations would be for that.

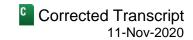
How big of an impact would there be from shipments relative to retail takeaway meaning channel stock or restocking and kind of anything else that would be pertinent to modeling and then sort of related to it. Lance, you had touched on commentary about being aware of comparisons for next year, but also continue to talk about demand being above IPO, so perhaps if you can just touch a high level on that? Not getting into guidance for next year, that'd be helpful.

V. Lance Mitchell

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

Yeah let me tackle the last question first and related to next year, when I talk about comparisons, what we're being very mindful of the stock up period which occurred in March and April where the consumers had significant amount of pantry loading in our categories during that period of time. That won't necessarily repeat in 2021.

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As we look at the fourth quarter, the big difference here is that we're really not promoting into the quarter like we normally would. Normally, we promote heavily to encourage stock up behavior so that consumers have those products on hand in their pantry for use during holiday cooking and baking occasions primarily.

And then what we see is maybe more of those promoter's events and products in Q1. And we don't anticipate that to be the behavior this year because we're not promoting into it. And what we're seeing from a shipment standpoint premiers that. We do expect there to be some replenishment also in Q1 and later in Q4 as retailers continue to replenish their inventory.

Our in stocks are continuing to improve, month over month for most of our products and most of our retailers. And so as that that that'll continue to ensure that replenishment of in stocks also contribute to shipments. But without that promotional heavy offering in Q4, we do expect still growth over a prior year where we had heavy promotions.

Mark Astrachan

Analyst, Stifel Financial Corp.

Great. That's helpful. Thank you.

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

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Great. Thanks so much. You guys have been asked a couple of times about capacity and I wanted to just shift the conversation in capacity to the Hefty Waste and Storage business.

We had really strong volume growth that will be interesting to the track channels. I guess I'd be curious if that's you know similar in what you're seeing on untracked and then your share gains, what we're curious to know about an update on capacity and if this uptick in demand has extended the timeline for you to kind of get back, kind of caught up to where you want to be to meet the consumer demand, do you expect to be out there in the – in the shelf space opportunities? Thanks.

V. Lance Mitchell

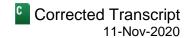
President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.

Yeah. We have you know across all of our product lines, we're specific to have these consensual [indiscernible] (00:34:32). We've been gradually adding capacity through the year and that means bringing on new production lines at existing manufacturing locations and these are new production lines. So, they have been coming online throughout the year.

We have more to go but we are keeping up with in stocks in Hefty very, very well at retailers. The in stock I believe I looked at the report earlier today, was at 96% in stock, so we're not all the way to right where we want to be and expect to be at 98.5% to 99%, but we're certainly in comparison to the rest of the category doing very well and keeping up with this strong demand through our capacity additions.

I would also say that in untracked channels, we're doing as well if not better from a growth standpoint. As you know we gained some new distribution in untracked channels and some of the untracked channels, particularly ecommerce are drawing little faster than brick and mortar and we are – our shares are stronger actually in that channel than they are in the typical track channel.

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Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

That's great and now that you're in this advantage in stock position and the capacity build has gotten to nearly where you want it to be, is there a much in the way of incremental opportunity for shelf space or new account wins that can start to fold into the conversation for 2021?

V. Lance Mitchell

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

Certainly. We're introducing new products in that innovation and the Hefty Waste bag line, across all of our products. So from an innovation standpoint, we definitely are planning for continued growth as we go into 2021. And we do have some opportunities for continuing to increase distribution as a result.

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

OK, all right, great. Thanks so much.

Operator: Thank you. We have no further questions at this time. I'd like to hand this call back over to management for any closing remarks they may have.

V. Lance Mitchell

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

Yeah I appreciate your time and attention today. Some really excellent questions. And so to close, once again extend our appreciation to the men and women who served our country on the Veterans Day. And as we head into the holidays, we hope that your celebrations are meaningful and safe. And thank you everybody. Have a good evening.

Operator: Ladies and gentlemen this concludes today's webcast. You may now disconnect your lines at this time. Thank you for your participation and have a great day.

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