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Reynolds Consumer Products, Inc. (REYN)

Q2 2023 Earnings Call

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V. Lance Mitchell

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Michael Graham

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Reynolds Consumer Products Second Quarter 2023 Earnings Call. At this time, all participants are in listen-only mode. After the speaker presentation, there'll 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, and please go ahead.

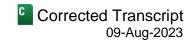
Mark David Swartzberg

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

Thank you, operator. Good morning, everyone, and thank you for joining us on Reynolds Consumer Products second quarter 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 on this 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 second quarter performance, progress on the Reynolds Cooking & Baking recovery plan and what we are doing to drive results across our business. Mike will review our second quarter financials and our outlook for the third quarter and the full year. Following prepared remarks, we will open the call for questions.

Q2 2023 Earnings Call



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 this 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 site.

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. As we enter the second half of our fiscal year, I'm exceptionally pleased with our second quarter results. We are well-positioned to deliver significantly improved earnings in fiscal year 2023 and continued future growth.

We began 2023 with profitability restored in three of our four businesses, as well as a comprehensive plan to recover the profitability in our Reynolds Cooking & Baking business by the end of the second quarter. We were very effective executing each business' plans in the first quarter and again in the second quarter, including Reynolds Cooking & Baking's ongoing operational improvement initiatives.

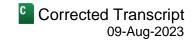
We also gained share in household foil and other categories. As a result, we have returned earnings to historical levels in all four of our businesses and expect strong earnings growth and cash flow to continue over the balance of 2023.

Before turning to our plans to drive continued earnings improvement across RCP, I'd like to give you an update on the Reynolds Cooking & Baking business. As I mentioned, we executed extensive planned initiatives to stabilize manufacturing and improve operational efficiencies in the quarter. Performance against those initiatives progressed as we had planned. As a result, we continue to achieve the operational and gross margin objectives we set at the start of the fiscal year.

In addition, we have done the work required to ensure operational stability and equipment reliability extends well beyond 2023. For example, we completed the largest combined scope of planned maintenance downtime and new equipment installation in the history of the Reynolds Cooking & Baking unit manufacturing operations, including replacement and rebuilds of key equipment, multiple upgrades to electronics, installation of condition-based monitoring systems and installation of new automation equipment to our spooling production. We also advanced ongoing work to standardize manufacturing and maintenance processes. In summary, we are successfully executing the Reynolds Cooking & Baking recovery plan and I am confident in our ability to increase earnings in this business.

Now, let's turn to how we're performing at retail and what we're doing to drive growth with our retail partners and consumers. Our integrated brand and store brand model continues to be a competitive advantage. That was proven again in the second quarter. Reynolds Wrap gained more than 5 points of brand share in the foil category, gaining even more share than in the first quarter.

Q2 2023 Earnings Call



Reynolds Wrap is responding to an improvement in retail price points and price gaps versus store brands, a return to holiday trade promotions, which were very well received by retailers and consumers over Memorial Day and leading into the 4th of July, increased advertising across major media platforms, resulting in strong double-digit increase in media impressions versus the second quarter of 2022, and increased reliance upon influencers and relevant media channels contributing to increases in household penetration among Gen Z and Millennials.

In waste bags, Hefty entered 2023 with waste bags share multiple points above 2019. The brand is holding share and the company increased its share of store brand waste bags. In food bags, Hefty gained share of slider bags and the company's share of store brand press-to-close food bags increased. And in tableware, Hefty held share of disposable tableware while also benefiting from the consumer migration to store brands.

We implemented previously communicated increases in advertising and trade investment in the second quarter and the first half of 2023 and plan for continued investments over the balance of the year. I mentioned Reynolds Wrap pronounced pick up in media impressions and its penetration of young adult households. In fact, Reynolds Wrap has increased household penetration in all major demographics, and we're seeing favorable household penetration trends for Hefty as well.

As planned, we've also increased trade investment by implementing proven promotional programs. Going forward, we plan to execute promotions around retailer key events and major seasonal periods, including back to school and the holiday season.

And in terms of innovation, since the launch of our Hefty Fabuloso Lavender waste bags over two years ago and the more recent launch of our Fabuloso Lemon waste bags, the entire Fabuloso product line has grown exceptionally well, reaching \$140 million in retail sales during the second quarter and attaining a 73% ACV. We expect this growth to continue as we earn more distribution of our lemon-scented Fabuloso bags.

Other newer products that provide differentiation for our customers and consumers include Presto's stand-and-fill store brand press-to-close food bags, Reynolds Kitchen Stay Flat Parchment with SmartGrid technology and Reynolds Kitchens Air Fryer Liners, all of which are gaining increased distribution.

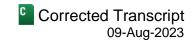
Environmentally-friendly products are becoming more and more relevant among consumers, which provides us the opportunity to introduce more innovative, sustainable products. These include Hefty Ultra Strong Waste Bags made with 50% recovered materials, Hefty and store brand waste bags made with post-consumer recycled materials and store brand food bags incorporating land and ocean materials.

Also in the area of sustainability, we recently announced a grant to The New Norm, a startup out of Johns Hopkins University that has developed an exciting technology transforming materials from party cups into sustainable yarns and fabrics. As the number one party cup manufacturer, we are excited to assist The New Norm with their research and development efforts.

We continue to operate in an economy with mixed growth signals, including shifting consumer confidence. To ensure success in any economic environment, we're focused on providing consumers with the right combination of value, product performance and convenience. Our first half category share gains demonstrate our effectiveness in accomplishing that goal.

In closing, we are very well positioned for the second half of 2023. We restored profitability across RCP, our integrated brand and store brand model remains a competitive advantage and we're making the investments and

Q2 2023 Earnings Call



innovating to drive added growth for Reynolds, Hefty and our store brands. As a result, we expect strong earnings growth and cash flows to continue over the balance of the year.

With that, over to you, Michael.

Michael Graham

Chief Financial Officer, Reynolds Consumer Products, Inc.

Thank you, Lance, and good morning, everyone. We performed well in the second quarter, reflecting strong consumption trends at retail, successful implementation of comprehensive initiatives to improve operations and return Reynolds Cooking & Baking to historical earnings levels, and a continuation of restore profitability in our other three businesses. All of this has set us up for a strong earnings growth, cash flow and debt reduction this year.

Looking at the results, net revenues increased 3% over the year ago period due to price increases combined with strong volumes in Reynolds Cooking & Baking, which were up 12% overall and 15% in our retail business. This increase reflected continued strength at retail, including consistent and significant share gains for Reynolds Wrap, which offset volume declines in our other three businesses.

In Hefty Waste & Storage, volume decreased 8%, driven by category declines and consumer migration to store brand waste bags and food bags where our share increased. Volume in Hefty Tableware declined 7%, consistent with category trends. And Presto Products volume declined 3%, driven by lower specialty products sales volume, partially offset by continued strength in food bag products.

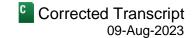
Second quarter net income and adjusted EBITDA also increased over the prior year period, driven by margin expansion across all businesses. SG&A was also up as expected, driven by higher personnel costs, investments in advertising and professional fees in support of our Reynolds Cooking & Baking plan. And higher interest costs continued to have an expected impact on net income in the guarter, reflecting higher interest rates.

Our cash flow trends remained strong in the second quarter, resulting in operating cash flow of \$207 million year-to-date, representing a \$106 million increase over operating cash flow for the comparable period in the prior year. Looking ahead, for the third quarter, we expect net revenues to be down in the range of 3% to 5%, consisting of essentially unchanged pricing and 3% to 5% lower volume, noting that Memorial Day and 4th July holiday promotions resulted in stronger second quarter shipments and higher household inventories at the start of the third quarter.

Our third quarter adjusted EBITDA is expected to be in the range of \$155 million to \$165 million, up by comparison to adjusted EBITDA of \$116 million in the prior year, driven by Reynolds Cooking & Baking's recent return to historical levels of earnings and a continuation of restored profitability in our other three businesses. And EPS is expected to be in the range of \$0.34 to \$0.38 per share.

For the full year 2023, we are reconfirming our revenue guide and raising our earnings outlook to reflect our strong performance in the second quarter. We continue to expect net revenues to be in line with prior year, plus or minus 1%, consisting of 2% higher pricing and 2% lower volume at the midpoint of our guide. Consolidated retail volume is estimated to be in line with prior year consolidated retail volume. Consolidated non-retail sales are estimated to be down \$60 million by comparison to \$268 million in the prior year. And our new adjusted EBITDA range is now \$615 million to \$635 million, up from our previous range of \$605 million to \$635 million. And EPS is expected to be in the range of \$1.41 per share.

Q2 2023 Earnings Call



Other key assumptions for the year include further execution of the Reynolds Cooking & Baking recovery plan and earnings consistent with historical levels in all of our businesses in the second half of the fiscal year. Commodity rates, which have been consistent with our expectations since reporting first quarter of 2023 results, remain broadly stable over the balance of the year. Another year of approximate 200 basis points of incremental margin from revolution cost savings is expected and we will continue to use these savings as a potential source of investment in our categories and in our business.

Gross profit is slightly above \$920 million at the midpoint of our adjusted EBITDA guide, with no significant change to annual depreciation and amortization, interest expense, effective tax rates and capital spending estimates that we provided in our last earnings call.

Now, before I wrap up my prepared remarks, I like to share my perspective on what's being achieved in Reynolds Cooking & Baking as well as on our cash flow and debt reduction. As Lance said, we began 2023 with a clear and comprehensive plan for restoring Reynolds Cooking & Baking profitability. We are delivering on that plan, while also driving strong retail trends for the Reynolds portfolio.

In terms of cash flow, as I mentioned, first half cash flow was strong. A big driver of that is the work undertaken to reduce inventory and our ongoing efforts to improve payment terms. And in terms of capital allocation, our priorities are unchanged, invest in our business, maintain capital spending discipline and continue to deleverage and evaluate bolt-on M&A, which takes me to debt reduction. I am pleased to report that we made a voluntary principal payment of \$100 million subsequent to quarter end, and we continue to expect net debt in the range of \$1.8 billion to \$1.9 billion at year end.

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

V. Lance Mitchell

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

Thank you, Michael. Before we turn the call over to your questions, I know you would like an update on our CFO search following Michael's decision to retire following the release of earnings for the fiscal year. The search for Michael's replacement is going well. As I communicated in May during our first quarter earnings call, we're reviewing internal and external candidates for the CFO role. I anticipate naming his successor on or before our next earnings release. That timing will allow for a smooth transition.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Rob Ottenstein with Evercore ISI. Please proceed with your questions.

Robert Ottenstein

Analyst, Evercore ISI

Great. Thank you very much. I'm just wondering if you could maybe give us a little bit more insight into the Q3 sales guidance. I think we understand the timing issues, but that's a pretty big decline in volumes, given your broad market share gains, increasing household penetration, you're stepping up advertising, you're stepping up promos a little bit, tremendous commercial momentum. It's surprising to us to see the down volume guidance to that extent. Thank you.

V. Lance Mitchell

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

Hi, Robert. Thank you for the question. Our Q3 guide is based on two factors. First of all, we are estimating non-retail sales to be down 2% in the quarter. And then the remainder is retail sales, 1% to 3%. 2% of that 1% to 3% is based on household inventories that were built on foil primarily as a result of the promotions in Memorial Day and 4th of July, so that that was really Q2 sales that were – or Q3 sales that are pulled forward into Q2.

Now, non-retail sales are metal from excess capacity to industrial customers from our Hot Springs melting and casting facility, as well as foodservice revenues, which are classified as related party revenues. These sales have been a source of distraction in explaining our underlying top line performance, but have no meaningful impact to earnings because the products are very low margin. As you saw in our release, the reduction in non-retail sales is approximately \$60 million in net revenue as a headwind and approximately two-point headwind to consolidated volume growth in 2023. So we increased our earnings guide despite that revenue non-retail impact.

Robert Ottenstein

Analyst, Evercore ISI

Great. That's helpful. And in terms of the household inventories, could you maybe just give us some insight into your methodology in terms of understanding what that is and where that looks both for foil and your other categories?

V. Lance Mitchell

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

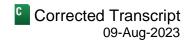
Yeah. It's done on a survey basis, on a proprietary survey that we do with consumers on a quarterly basis. I will tell you, it's not always completely accurate, but it's trending accurate as we've done this over the last four years during – we started this in COVID, and it provides us an understanding of what's in the pantry and what customers' intentions are from a restocking standpoint in the following quarter.

Robert Ottenstein

Analyst, Evercore ISI

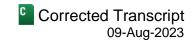
Got it. Thank you very much.

Q2 2023 Earnings Call



Operator: The next questions come from the line of Lauren Lieberman with Barclays. Please properties.	proceed with your
Lauren R. Lieberman Analyst, Barclays Capital, Inc.	Q
[indiscernible] (00:20:47-00:20:55).	
Mark David Swartzberg Vice President-Investor Relations, Reynolds Consumer Products, Inc.	A
Hey, Lauren. Lauren, this is Mark. I think your line is – well, we're hearing your line very wildly. come back into the queue on a different line.	l'd suggest you
Lauren R. Lieberman Analyst, Barclays Capital, Inc.	Q
No problem.	
Mark David Swartzberg Vice President-Investor Relations, Reynolds Consumer Products, Inc.	A
I think it's your line. I don't think it's ours, judging by the prior conversation with Robert.	
Lauren R. Lieberman Analyst, Barclays Capital, Inc.	Q
Sure. [indiscernible] (00:21:10).	
Mark David Swartzberg Vice President-Investor Relations, Reynolds Consumer Products, Inc. Yeah.	A
Operator: Thank you. Our next question is from the line of Mark Astrachan with Stifel. Please question.	proceed with your
Mark S. Astrachan Analyst, Stifel, Nicolaus & Co., Inc.	Q
Yeah. Hey. Good morning, everyone. A couple of questions on sort of – I don't know, I guess, c picture, sort of how are the consumers responding to pricing and to volumes and promotions. I commentary about the response of holiday promotions, Memorial Day, 4th of July, curious what hearing from both retailers and customers in terms of response to promotions and how if they're that, does that affect or impact the ability to sell on everyday prices?	guess your t you're seeing and
And sort of related to that, how generally should we be thinking about retention of pricing? I gue pleasantly surprised at the ability to retain a lot of the pricing taken over the last few years. I thin pre-IPO, there was some portion of pricing taken in the last cycle that was given back to folks in another. So how do we think about that on a go forward basis? Thank you.	nk if you go back

Q2 2023 Earnings Call



V. Lance Mitchell

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

Hey, Mark. This is Lance. There's two questions there. First of all, response to promotions, I think you need to look at it in two parts. One is the actual promotion period itself, or the holidays, for example, and really an example is what we saw in Reynolds Wrap, where it's really been very effective as it has been in the past, providing an opportunity for consumers to really purchase products in front of a holiday occasion.

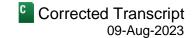
The second part of promotions is what we call TPRs is to ensure that the pricing is correct on the shelf and getting the price points correct, which we've done very effectively with Reynolds Wrap. You can see that from the everyday purchasing, not just on promotion, but a temporary price reduction is something to extend over a longer period of time and it's an adjustment to the shelf price to ensure that we get the price point, let's say, below \$5 at \$4.99 on 75-foot Reynolds Wrap.

We've executed that very effectively in the household foil category. We are doing the same in the other categories. We've proven that it works in household foils. So for waste bags, food bags and tableware products, we're evaluating the right price points and price gaps to ensure that we get the right TPRs in place for those categories as well.

The second part of that is the surprise on being able to retain the pricing in this cycle. And the answer to that comes from inflation. The inflationary environment is different than it's been in past cycles. We've seen labor inflation. We've seen inflation on other costs, like packaging costs and electricity and energy costs. Granted, they've retreated somewhat in the last few months, but they're still elevated from what they were historically. So as a result of that, the pricing is recovering inflationary cost, not just commodity costs, and our retailer and consumers recognize that inflation is an environment that's across all products, not just in household staples.

Mark S. Astrachan Analyst, Stifel, Nicolaus & Co., Inc.			
Great. Thank you.			
Operator : Thank you. The next questions come from the line of Lauren Lieberman with Barclays. Please proceed with your questions.			
Lauren R. Lieberman Analyst, Barclays Capital, Inc.	Q		
Great. Thanks. Hopefully that's better? You can hear me now?			
V. Lance Mitchell President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.	A		
Much better.			
Mark David Swartzberg Vice President-Investor Relations, Reynolds Consumer Products, Inc.	A		
Much better.			
Lauren R. Lieberman Analyst, Barclays Capital, Inc.	Q		

Q2 2023 Earnings Call



Okay. Great. Sorry about that. So I want to – first, I was going to ask about gross profit per unit, because you talked about previously around \$920 million. Now you're saying slightly above that, I think, for the year. But the and just it might be splitting hairs, but now the volumes are expected to be down a little bit and then you also have the impact of the non-retail sales. So I was just curious, I guess, where you are on or projected to be, I should say, on gross profit per unit at the end of this year versus 2019 and then scope for that building from there.

Michael Graham

Chief Financial Officer, Reynolds Consumer Products, Inc.

Yeah. So what you can expect from a gross profit per unit basis is that you'll see sequential quarter-over-quarter improvements throughout year. And from return to our profit expectations, we've arrived at levels that are beyond what we expected – what we had in 2019. So we're progressing quite well against that overall objective.

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Okay. And then I wanted to also talk about consumer behavior. And so while we know your – the portfolio and participating in store brands is very much part of the strategy and the approach and mattering a lot today. I felt like in your prepared remarks and also in the release, there was a lot more emphasis on just there being down-trading at retail. And I think it feels like we're not hearing it to the same degree from other companies. It's not perhaps as obvious in the data. So curious maybe what you think it is, whether it's about your categories, whether it is about why now versus six months ago or longer than that when pricing was first going into place, but what's your understanding or sense of why the consumer behavior change is happening now when pricing is already pretty well established in the market? And if anything, I would expect that elasticity effect to start easing.

V. Lance Mitchell

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

Yeah. Perhaps we overemphasize that in reading between the lines. There has not been a significant migration of private label in our categories. We've seen some migration of private label in our waste bag and our food bag business. And the revision to our guide shows the strength of our integrated brand and store brand model and our diversified household products portfolio.

From a category summary standpoint, private label share is up in waste and food bags, in party cups and in plastic wrap, which is a small part of the category. But private label's down in foil, foam dishes and other Reynolds Cooking & Baking products.

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

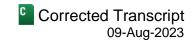
Right.

V. Lance Mitchell

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

Our integrated branded store brand model is a competitive advantage because it positions us to benefit from shifts in either directions, which is what we're emphasizing in our prepared remarks, in our press release. And our retailers really rely on us to provide the right category mix and we've been doing that for years. But the relative stability that we've seen is sound economically for consumers and retailers alike. And as I mentioned in a lot of earnings calls, private label already represents a sizable portion of our category's consumptions and private label category share has been relatively consistent through economic cycles.

Q2 2023 Earnings Call



Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

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

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

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Thank you, operator, and good morning, everyone. So I wanted to go back to the commentary now on [indiscernible] (00:28:51) promo. And as you said, consumers and retailers, in your prepared remarks, you said that that they're responding well to bringing back promo to the levels before. And so I want to understand because you also had mentioned before in particularly aluminum foil that you are setting RGM and price points that were obviously more interesting for them for kind of like protecting entry-level and also allowing consumers to make choices within your brand. Can you comment on how that evolved over the last, I would say, you started like mid-last year, if I understood it correctly, and through now?

And then a second part of the question for Michael, in terms of the gross margin, I think the 4 points that you had alluded to for the full year, you achieved in the quarter, of course, there are puts and takes on productivity and all of that. Can you kind of like update us on your goal? I understand, this is a moving target and it's hard to go back to that level that we were [ph] pre-pandemic (00:30:00), but there is definitely an expectation that at some point, you're going to see that on [indiscernible] (00:30:05) basis. Thank you.

V. Lance Mitchell

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

Hi, Andrea. Thank you. I'll answer the first part of the question, which is regarding our investment in trade and promotions. COVID gave us the opportunity to really reset our whole trade program, because as you know, in 2020 and 2021, we really scaled back on trade promotions and focused on supply and ensuring that we had the right products in place for our retailers and consumers.

We have reinvested in trade spending, but we didn't necessarily go back to the previous programs that gave us the opportunity to completely reset and reevaluate where we had proven promotional trade programs and the right price points at new inflationary levels. And we've got programs that have been really proven and tailored to our categories and our customers, and we've proven that with the Reynolds Wrap volume that we've seen.

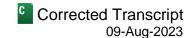
Now, we're not necessarily back to 2019 levels. It really depends on the category. And in some levels, in some cases, we're promoting more of our volume and other categories of products less. It really depends on the price points that we're looking to achieve and the specific holiday and features that we're looking to gain. So historically, prior to the pandemic, roughly 25% of our sales were on promotion in a given year. We're below that at this point. We feel our marketing spend is efficient and effective. We're seeing good share trends for our brands and our total business as we entered 2023, and we have a strong position across our categories.

Andrea Teixeira

Analyst, JPMorgan Securities LLC

And then just - sorry, go ahead, Michael. I'll come back.

Q2 2023 Earnings Call



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Chief Financial Officer, Reynolds Consumer Products, Inc.

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No, I was going to add...

V. Lance Mitchell

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

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Continue with your first point.

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Yeah. No, I wanted to just, as Lance was saying, like so should we expect and I understand the puts and takes from a shipment perspective and the timing and getting these other non-retail contracts out of the way, on an underlying basis, though, if the shipments against consumption trend similar now, granted that you have some inventory to work through the pantry, when do you think – are you planning for that to reverse itself, I believe in the fourth quarter, if my math works right, that the fourth quarter we will see more shipments against consumption.

V. Lance Mitchell

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

A

Yeah, I think there's three dimensions here, Andrea. It's a great question. One is retailer inventory and consumption from consumers and those are in line. We monitor that very closely by retailer, by product category. And we have consistent consumption with shipments and retailer inventory. What we're referring to is what's occurred primarily in household foil and to a lesser extent the other categories is household inventory and we have seen a gain in household inventory in the pantry as a result primarily of the holiday promotions and the holiday period for household foil that will then work its way through in Q3. And to your point, we expect that to be depleted by the end of Q3 and respond to our Q4 promotions and growth in Q4 versus prior year.

Andrea Teixeira

Analyst, JPMorgan Securities LLC



Okay. Thank you. And Michael, sorry, please go ahead.

Michael Graham

Chief Financial Officer, Reynolds Consumer Products, Inc.



Yeah. I was going to answer the question around gross margins. So if you look broadly prices, we've restored our unit profitability already with gross margins of approximately 24% this year. As you look at the long term journey, our journey – we see ourselves getting back to the high 20s in gross margins from a percentage standpoint. The Reynolds recovery is planned [indiscernible] (00:34:08) obviously, it continues along the journey. We also know that revolution has been a continued source and contributing to the overall gross margin improvement. And then we also were focused on driving increases through our innovation efforts. So we feel good about our journey and basically we do anticipate getting back into those high 20s.

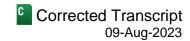
Andrea Teixeira

Analyst, JPMorgan Securities LLC



And no timing on that yet, correct?

Q2 2023 Earnings Call



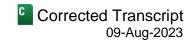
Michael Graham Chief Financial Officer, Reynolds Consumer Products, Inc.	А
Yeah.	,,
Andrea Teixeira Analyst, JPMorgan Securities LLC	Q
Okay. Thank you.	
Operator : [Operator Instructions] The next question is coming from the line of Peter Grom proceed with your questions.	with UBS. Please
Peter Grom Analyst, UBS Securities LLC	Q
Thanks, operator, and good morning. So I guess I just wanted to follow-up quickly on Andre the implied 4Q sales guidance really – depending on where you fall in the 3Q range, does s continued sales declines exiting the year. So maybe just to put a finer point, are you actually return to growth as you – the consumers respond to the promos and that the decline is from you could just put a finer point on that, that would be helpful.	eem to suggest y expecting volumes to
V. Lance Mitchell President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.	А
Sure, Peter. Absolutely. If you deconstruct the guide, we expect retail sales to be up 3% in the expect a 3% increase in the fourth quarter due to the comparisons. If you remember, we we when elasticities really picked up. And our retail volume, if you compare it to 2019, is up 5%. So that growth is continuing for our brand momentum and we are seeing growth in the fourth	re lapping Q4 2022 and for Q4 it's up 6%.
Peter Grom Analyst, UBS Securities LLC	Q
Got it. That's super helpful. And then I guess just given that exit rate	
Michael Graham Chief Financial Officer, Reynolds Consumer Products, Inc.	А
Peter, this is Mark. Those are all volume comments. And as Lance said, they're pertaining to of the business.	o the retail component
Peter Grom Analyst, UBS Securities LLC	Q
Okay. Yeah. I guess, maybe just following up on that then, maybe how should we think aboup on Mark's earlier question around pricing moving forward, because it did sound like there giveback given inflation is still high elsewhere despite moderating commodity costs. So is the expectation? Because I know 3Q pricing is expected to be flat, which is a bit better than mo	e may be less price at right? Is that the

But would you expect pricing to kind of shift negative here in the fourth quarter and how does that inform your



view as we think about the exit rate into 2024?

Q2 2023 Earnings Call



V. Lance Mitchell

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

We don't expect there to be any significant change in pricing in Q4. We will consider additional pricing actions if inflation picks up again, but we're not seeing pressure for increases at this time. We do have some contractual pass through of lower commodity costs, but that's offset by some of the increases we've seen in other inflationary impacts, which we're ensuring we have price for that as well across our entire portfolio.

Peter Grom

Analyst, UBS Securities LLC

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

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

William B. Chappell

Analyst, Truist Securities, Inc.

Thanks. Good morning. Wanted to, I guess, ask the same question on third quarter volumes a different way. I guess I would assume that, as we're looking back at last year, as we got to the summer, we kind of started to lap – fully lap Omicron, COVID behavior, more people at home. So I would assume that second quarter was kind of the last, I guess, tough comparison and third quarter would be where you had a more normalized comparison. And so by that thought process, volume should improve sequentially. Am I thinking about that wrong, were people more at home still all the way up until September or just from a consumer behavior trends, I would think that the comps get easier as we move forward.

Michael Graham

Chief Financial Officer, Reynolds Consumer Products, Inc.

Yeah. Good morning, Bill. This is Mark. Let me respond to that and it's really to amplify something Lance said in his response to, I believe it was Robert. In the second quarter, you can see our volumes were flat overall. And in the third quarter, if you take the midpoint of our revenue guide, we're looking for volumes to be down 4%. As Lance said, we got about a 2 point volume benefit in the second quarter from that household buying of product more successfully than we anticipated.

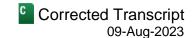
So if you actually just simply move those 2 points out of the second quarter and into the third quarter, you wind up with – I'm sorry, out of the third quarter back into the second quarter, you wind up with a minus 2 points in both periods. So it's a very consistent trend.

And then I want to add to something Lance said a moment ago about the fourth quarter, and we are looking for our volumes to pick up in the fourth quarter. But again, the reason for that is we're lapping a very – a comparatively easy compare in the fourth quarter. And then to build on something Lance said, if you actually look at our volumes in the fourth quarter compared to 2019 levels, they're up consistent with the amount of increase we're looking versus 2019 on a full year basis. So that's a very long way of saying we're looking for very consistent underlying trends, it just boils down to the nature of comparisons.

William B. Chappell

Analyst, Truist Securities, Inc.

Q2 2023 Earnings Call



Okay. But back to my question, am I right in saying that we're kind of into a normalized period on a year-over-year comparison or... Michael Graham Chief Financial Officer, Reynolds Consumer Products, Inc. Yeah. William B. Chappell Analyst, Truist Securities, Inc. ...you're already seeing kind of normalized last quarter? Michael Graham Chief Financial Officer, Reynolds Consumer Products, Inc. You are right to say that we started having very normalized comparisons early this year and fourth quarter last year we did see a pickup in elasticity. So you get that comparison benefit, if you will, in the fourth quarter and we're not looking for a versus 2019 improvement of volume performance. So you can actually make the case that we'll have better performance in the fourth quarter. We're not making that case by any means, but very similar comparisons because of what I just said. William B. Chappell Analyst, Truist Securities, Inc. Got it. And then just second follow-up, there have been a lot of talk this quarter from consumer companies about weather, obviously your picnic items, tableware-type stuff would be affected. But I don't think you really mentioned it. Was it enough of an impact? Was it a normal summer weather-wise for your business? Any comments there? Thanks.

V. Lance Mitchell

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

Normal weather-wise from a consumer consumption of tableware, yes, we are seeing elasticity issues that I mentioned in the tableware businesses. Prices have increased double digits. We've seen some pullback of consumer purchasing and we're working to adjust price points accordingly as we have in household foil. Weather events have moderately impacted some of our manufacturing operations with some power outages over a day or so, but not had any impact on consumer demand that we've tracked.

William B. Chappell

Analyst, Truist Securities, Inc.

Great. Thanks so much.

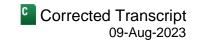
Operator: Thank you. Our next questions is coming from the line of Brian McNamara with Canaccord Genuity. Please proceed with your question.

Brian C. McNamara

Analyst, Canaccord Genuity LLC

Hey. Good morning, guys. Thanks for taking our question and congrats on the progress on your initiatives. So I don't mean to beat a dead horse on household inventories, but in layman's terms, is this promotional lever in foil

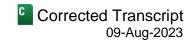
Q2 2023 Earnings Call



healthy overall with the 4th of July promotions creating pantry overload for the next promotion at the end of Q3, are these promotions required in your view, like how do you think they would look with them? Thank you.

V. Lance Mitchell President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.	A			
Vell, we've done holiday promotions on Memorial Day and leading into 4th of July consistently prior to COVID and it's been a very healthy improvement to our business and our share. And you could see we saw those sharesults and the volume uptake as a result in 2023 as well. So despite the fact that there's some household eventory build from an overall volume growth standpoint and profitability improvement, it's a very strong and govestment.				
Brian C. McNamara Analyst, Canaccord Genuity LLC	Q			
And how should investors think about the volume algorithm longer term across your businesses?				
V. Lance Mitchell President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc. Our volume share?	A			
Brian C. McNamara Analyst, Canaccord Genuity LLC No, volume growth.	Q			
V. Lance Mitchell President, Chief Executive Officer & Director, Reynolds Consumer Products, Inc.	A			
Yeah. I would say that our volume growth is consistent with the categories we are holding share or in all of our categories. And the categories are responding to some elasticity issues, which we're ad through price points and promotions.				
Brian C. McNamara Analyst, Canaccord Genuity LLC Great. Thank you.	Q			
Operator: The next question is a follow-up from the line of Mark Astrachan with Stifel. Please procuestions.	eed with your			
Mark S. Astrachan Analyst, Stifel, Nicolaus & Co., Inc.	Q			
Yeah. Hey. Thanks for the follow-up, guys. Just two things. One, on the interest expense, Michael, y for 3Q, does that reflect payment? Does that reflect lower rates?	your guidance			
Michael Graham Chief Financial Officer, Reynolds Consumer Products, Inc.	A			
Yes, it does.				

Q2 2023 Earnings Call



Mark S. Astrachan

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. Got it. And then just I know it's early and you don't want to talk about 2024. I guess you'd given some comments a year ago about how to think about gross profit. Anything that you can give as far as how we think about continued recovery in gross margin and how that works with expectations for top line at this point, just maybe more hypothetically or anything else?

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

Yeah, I think broadly, it's a little too soon to talk about that at this time.

Mark S. Astrachan

Analyst, Stifel, Nicolaus & Co., Inc.

All right. I tried. Thank you.

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

Good try, Mark.

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

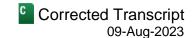
V. Lance Mitchell

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

Thank you. Thank you, everyone, for your questions and your interest in our business and Reynolds Consumer Products. I want to extend a sincere thank you to all of our employees and especially the many employees who are responsible for the ongoing and effective execution of the Reynolds Cooking & Baking recovery plan. Our business overall is performing well and we look forward to updating you with further updates throughout the year. Thank you.

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

Q2 2023 Earnings Call



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