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Reynolds Consumer Products, Inc. (REYN)

Q3 2024 Earnings Call

CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

Nik Modi
Analyst, RBC Capital Markets LLC

Andrea Teixeira
Analyst, JPMorgan Securities LLC

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

Jim Abbott
Analyst, Barclays Capital, Inc.

Robert Ottenstein
Analyst, Evercore ISI

Peter Grom
Analyst, UBS Securities LLC

Brian C. McNamara
Analyst, Canaccord Genuity LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Reynolds Consumer Products Incorporated Third Quarter 2024 Earnings Call. At this time, all participants are in 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 is 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, and thank you for joining us for Reynolds Consumer Products third quarter earnings conference call. Please note that this call is being webcast on the Investor Relations section of our corporate site at reynoldsconsumerproducts.com. Our earnings press release and presentation slides are also available.

With me on the call today are Lance Mitchell, our President and Chief Executive Officer, Scott Huckins, our Chief Financial Officer, and Nathan Lowe, Senior Vice President and Head of Financial Planning and Analysis. Following prepared remarks, we will open the call for a brief question-and-answer session.

Before we begin, I would like to remind you that this morning's discussion will contain forward-looking statements which 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 the Risk Factors section in our SEC filings. The company does not intend to update or alter these forward-looking statements to reflect events or circumstances arising after the call.

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, 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. Our business is performing well, and we are investing in new products, new business wins, and new cost-savings opportunities to drive sustained, long-term, profitable growth.

Turning to the quarter, demand in our categories improved modestly by comparison to first-half performance. Our retail volume was unchanged and in line with our categories after adjusting for product portfolio optimization and shipment timing as we covered on the Q2 call.

We commercialized innovation across our categories, expanded our innovation pipeline, and drove increased awareness among younger consumers. We identified and delivered further Reyvolution cost savings, and we demonstrated the value of our diversified business and product portfolio, delivering revenue and earnings in line with our expectations while continuing the work to drive improved revenues and profitability in our Tableware business.

Before reviewing each of our businesses, I want to remind you of some of the factors positioning RCP for sustained and attractive long-term growth. Our products are well-known, affordable, and convenient. We are effectively leveraging our business model to drive our categories and develop new business in partnership with our retail customers.

We are successfully introducing new products to drive share. And as I mentioned, our pipeline is only getting stronger, including an expanding range of affordable, sustainable solutions. We're commercializing scientific advances and consumer insights acquired through sustained investment in R&D, including last year's purchase of Atacama Manufacturing.

And we're reducing operational costs and identifying significant additional Reyvolution cost savings, providing additional resources for earnings growth.

Our Tableware business unit is a focus for many of you, as it is for us. So I'll speak to that first. The Tableware business unit reported a volume and earnings decline, primarily driven by lower foam plate volume and increased promotional spending. These decreases were largely driven by recent legislative changes in several states, consumers shifting towards more sustainable offerings, and a reduction of retailers' foam plate inventories.

Volume for the rest of our Tableware business was up modestly and continued to outperform its categories, further demonstrating the effectiveness of the price-packed architecture and promotional strategies that we initiated at the beginning of the year.

We expect foam trends to remain a headwind over the near term and have a record of successfully responding to volume declines within our Tableware business. As we reviewed earlier this year at our Investor Day, we fully offset a double-digit foam volume decline between 2019 and 2023 with growth of other disposable tableware products over that period.

A number of factors underlie our confidence and our ability to continue building upon our success, repositioning our Tableware business for growth. We offer a wide range of branded and store-brand sustainable solutions, not only in plates but across disposable tableware.

And we've been expanding our new product pipeline, emphasizing not only sustainability, including the leveraging of technology acquired in the Atacama acquisition, but also other drivers including function, fun, and affordability. And we're commercializing scientific advancements and consumer insights through investments in R&D.

Our third quarter results highlight pressure on a portion of our tableware portfolio, but this business has excellent potential as we've demonstrated by effectively managing product life cycles and our new product pipeline and capabilities are strong.

The Reynolds Cooking & Baking business delivered another solid quarter and outlook remains strong. Reynolds Wrap gained additional share in household foil. Reynolds Kitchens parchment continue to grow, reflecting strong innovation and significant distribution gains.

We recently received new findings on several years of increased and targeted work to build brand equity with younger consumers. And I'm pleased to report that unaided awareness of Reynolds Wrap foil and Reynolds Kitchens parchment among millennials and Gen Z has grown strong double-digits since 2021, a baseline period of measure.

And in the area of operations, we are building on operational reliability and consistency and implementing new programs to achieve increased production efficiencies.

Turning to Hefty Waste & Storage and Presto. Our Waste & Storage business continue to perform well in the quarter and the outlook for these businesses is strong. Recent waste bag share trends can be difficult to interpret due to a competitor's cyber incident last year, but the data is clear.

Hefty share of waste bags is above 2022 levels and the Hefty Waste & Storage business unit delivered record quarterly revenue in the third quarter. In food bags, where we have built a majority share position in store-brand food bags, the volume of [indiscernible] (00:07:50) store brands grew 2% in the quarter. And in the area of product innovation, Hefty Fabuloso waste bags achieved $200 million in annual sales in the quarter, setting the stage for a rollout of Hefty Fabuloso Watermelon, which is tested well with younger consumers and is launching nationally early next year.

Hefty [ph] Press-To-Close (00:08:19) bags continue to build awareness of loyalty as a more affordable branded food bag and is also rolling out nationally in partnership with major retailers next year. And waste and food bag categories continue to benefit from our expanding range of sustainable solutions.

Before turning the call over to Scott, I want to note the devastation that so many in the Southeast are experiencing from Hurricanes Milton and Helene. Reynolds Consumer Products continues to support relief efforts by donating Hefty trash bags and Tableware products to the American Red Cross, who distributes these products to families recovering from these hurricanes and other disasters. Please join us in supporting the American Red Cross online at redcross.org.

As I said in my opening remarks, our business is performing well overall, and we're investing in our categories, product innovation, new business wins, and significant incremental Reyvolution cost savings to drive sustained and attractive long-term growth.

Scott, over to you.

Scott Edward Huckins

Chief Financial Officer, Reynolds Consumer Products, Inc.

Thank you, Lance. Good morning, everyone. We delivered on the financial priorities we set at the start of 2024 again in the third quarter, driving our categories, earnings, and cash flow, while also reducing leverage and increasing financial flexibility.

Our Q3 results were in line with our expectations coming into the quarter, with the exception of non-retail revenues, which exceeded our expectations by approximately [ph] $10 billion (00:10:00). As a reminder, we estimated $15 million of revenues were pulled forward into Q2 from Q3, as contemplated in our guide. Total revenues of $910 million in the third quarter were at the upper end of our guide and consisted of $856 million in retail revenues and $54 million of non-retail revenues.

Third quarter adjusted EBITDA increased $6 million to $171 million, driven by lower operational and SG&A costs, partially offset by lower revenues. Earnings per share were $0.41, up 11% from the third quarter of 2023, reflecting EBITDA growth and lower interest expense from paying down debt. Cash conversion remained strong, with free cash flow of $93 million for the quarter.

As a result of our strong profitability and balance sheet discipline, we continued to reduce net debt leverage, now at 2.3 times trailing 12 months adjusted EBITDA as of Q3. And we made an additional $50 million voluntary principal payment subsequent to quarter end, which makes this our third prepayment of the year, totaling $150 million year-to-date.

Before turning to our year-to-date results and guide, I want to provide you with additional detail on Tableware. As Lance said, Tableware's third quarter revenues were driven by lower foam plate volume and lower pricing resulting from increased promotion. However, the volume of other disposable Tableware categories continued to respond well to our price-pack architecture initiatives, increasing modestly and outperforming its categories by nearly 1 point.

Tableware profits declined by an amount similar to the revenue decline, driven by lower revenue and increases in operational costs. We expect foam plate volumes to remain an increased headwind for a period of time due to legislative and consumption changes in several states. However, as Lance also pointed out, this business has great potential as we have a clear record of successfully repositioning Tableware for growth and we are doing the work to build on our success in offsetting declines in a portion of our portfolio.

For the year-to-date Q3 results, retail revenues were $2,544 million while low margin non-retail revenues decreased to $131 million. Adjusted EBITDA of $465 million increased $67 million from the year-ago period, driven by higher manufacturing output and lower operational costs, partially offset by lower net revenues and increased advertising investments.

Earnings per share were $1.10, up 43% from $0.77 in the same period of 2023, driven by higher adjusted EBITDA and lower interest expense. As a reminder, we had a non-recurring tax benefit in the second quarter of $0.05 per share.

Now, turning to our guide. To reflect the stronger-than-expected third-quarter non-retail revenues, we are slightly increasing our full-year 2024 net revenue outlook to a range of $3,620 million to $3,660 million compared to revenue of $3,756 million in 2023. As part of this guide, we continue to expect a 1-point reduction from pricing, which includes certain contractual pass-throughs.

We expect a minus 0.5 point to a plus 0.5-point impact from retail volume, which is unchanged at the midpoint and in line with or better than our categories. This tightens the range by 100 basis points compared with our prior guide.

We now expect a combined 2-point headwind from a non-retail business and the optimization of our retail product portfolio, slightly stronger than our prior outlook. We plan to continue leading our categories and perform at or better than our categories.

We are [ph] upticking (00:14:41) in our full-year adjusted EBITDA guidance range to $673 million to $683 million, representing a 7% increase over $636 million in 2023. And we anticipate our full-year 2024 earnings per share to be within the range of $1.66 to $1.70 per share. Other considerations incorporated into our full-year 2024 forecast are as follows.

Increased rates for certain commodities, which, in the case of aluminum and key resins, are now priced 10% to 15% above January 2024 levels. SG&A is expected to remain materially unchanged compared to SG&A in 2023. Our appreciation and amortization assumption is approximately $125 million.

Interest expense continues to be estimated at approximately $100 million. And our estimated full-year effective tax rate remains just over 22%, which includes the one-time tax benefit of $0.05 per share in the second quarter.

Turning to the fourth quarter, we expect Q4 net revenue in the range of $945 million to $985 million versus $1.07 billion in the fourth quarter of 2023. The assumptions include a 2-point reduction due to pricing, a 1-point reduction to a 3-point increase from retail volume, reflecting sequentially improving retail volume, and a 3-point reduction attributed to non-retail volume and the optimization of the retail product portfolio.

We forecast fourth quarter adjusted EBITDA in a range of $208 million to $218 million, net income to be in the range of $117 million to $125 million, and earnings per share in a range of $0.56 to $0.60.

As we said when reporting first and second quarter results, we expect the quarterly contribution of EBITDA to return to historical averages in 2024. As a reminder, we anticipate an approximately $10 million increase in combined costs to negatively impact our fourth quarter results, reflecting a flow-through of aluminum purchased during the second quarter and premiums paid for cooking bags as we transition to in-sourcing this product offering.

In terms of capital allocation, our priorities are unchanged and we continue to drive cash flow and plan to invest in strategic opportunities. As you may have seen, we extended and upsized our revolving credit facility earlier this month to better align with companies that have similarly strong credit characteristics. We replaced an undrawn $250 million revolving credit facility with an undrawn $700 million revolving credit facility, maturing in October 2029.

Our term loan facility under the credit agreement continues to mature in February 2027, and we are actively monitoring market conditions for a potential refinancing of this facility on the basis of our strong cash flow profile and improved credit metrics.

Our program of debt reduction translates into further declines in quarterly interest expense, assuming no change to interest rates, while also increasing our ability to invest in attractive organic and inorganic opportunities to drive earnings growth and returns on invested capital.

In closing, as Lance mentioned, our business model remains a competitive advantage. Our product portfolio and business is diversified, and we are doing the work to build on our history of successfully repositioning Tableware for growth. We are driving our categories and investing in an expanding range of new products. We are adding new programs to our strong pipeline of Reyvolution cost savings, and we are driving cash flow and strengthening our balance sheet, providing us with additional resources and flexibility to drive attractive long-term growth and value creation.

With that, I will turn the call back over to Lance.

V. Lance Mitchell

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

Thank you, Scott. I am pleased to announce the next step in the history of leadership of RCP. As you can see from this morning's press release, Scott will succeed me as President and Chief Executive Officer of Reynolds Consumer Products, and Nathan Lowe, currently Head of Financial Planning and Analysis, will succeed Scott as Chief Financial Officer. Both changes are effective January 1st of next year, and I will continue in an advisory role until the planned transition of responsibilities to Scott and Nathan is complete.

I am extremely proud of all that we have achieved since my joining Reynolds Consumer Products as President and CEO 14 years ago when we formed RCP through a combination of acquisitions.

We've accomplished a lot over this period, successfully making safety our number one priority, developing and implementing our business model of category leadership by providing brands and store brands, which has proven to be a competitive advantage, expanding our new product pipeline, making our category stronger while also driving share, consistently delivering Reyvolution in cost savings while also identifying and unlocking significant additional savings opportunities, and most importantly, building a culture of collaboration through diversity, listening, and teamwork that is creative, hardworking, and committed to winning every day in close partnership with our retail customers.

As I said, this announcement is part of a planned transition, and now is the right time for its implementation. Our business is strong and performing very well, on track for delivering its second-best year of earnings since going public, a period including 2020, which was exceptionally strong because of the pandemic.

Succession planning is an area of strength for RCP, and Scott and Nathan are highly qualified for these roles. I'm pleased that so many of you have gotten to know Scott since his joining RCP and that you've interacted with Nathan in the days leading up to and since our listing as a publicly-traded company. I look forward to working with each of you in the coming months, and I'm confident in a seamless transition.

This will be my last quarterly earnings call as President and CEO of RCP. It's been a pleasure working with so many of you since our IPO in 2020. A sincere thank you to the 6,000 RCP employees that have made the last 14 years rewarding, both professionally and personally.

I thank you to all of our retail partners. You have challenged us each day to be a better, stronger supplier to you and consumers. And thank you for all of you that call into these quarterly earnings releases. As you know, we take time and care preparing for these meetings, and we appreciate you taking the time to listen and for your interest in RCP.

Since the leadership changes are scheduled to take effect January 1st of next year, we would ask that you direct your questions to Scott and me during this call. Operator, over to you for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Thank you. And our first question will be coming from the line of Nik Modi with RBC Capital Markets. Please proceed with your questions.

Nik Modi
Analyst, RBC Capital Markets LLC

Q

Yeah. Thank you. Good morning, everyone. And Lance, Scott, Nathan, congratulations. And specifically to you, Lance, I don't know if you know this, but you have doubled the average tenure of a CEO, so congratulations. Really enjoyed working with you.

On to my question. If you think about the kind of overall environment, I'd love to understand kind of how you guys are thinking about the holiday season, which is obviously a very important period for the company, and just kind of the interplay between what is happening broadly in the economy and this kind of out-of-home, into-home migration? Would love to kind of get your perspective on those dynamics for the fourth quarter? Thank you.

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

A

Thank you, Nik, and thank you for that compliment. I'm well aware of the fact that I've extended the tenure of an average CEO, and I'm ready to retire. The state of the consumer remains challenged, but as we talked about in the Q2 earnings call, we have the plans and promotions and new product innovations in place for a strong holiday season. We're very confident in our guide that we just announced and from our retail partners and their confidence in the holiday season.

So what we're seeing so far is very positive and still early, but as you can guess, we do get early leads on what the holiday season looks like, and it's positive for 2024.

Nik Modi
Analyst, RBC Capital Markets LLC

Q

Great. I'll pass it on.

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

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thank you, operator, and Lance, it was a pleasure also interacting with you, and thank you for educating us on the – since the IPO, and wishing you a great new chapter in your life, and also congratulations to Scott and Nathan.

Now, my question is on the down trade that we have been seeing in general. I think it's probably your RGM at play here, which obviously you have your private label offering, and you also have price points that allow for that. So I was wondering if you can help us kind of parse out that impact and see if there is any additional movements that you see, [ph] or if – into (00:25:53) 2025 we are mostly done or lapped into that price point situation?

And similarly for Tableware, you've been very upfront since the IPO about the foam issue, right? So in general, some of the municipalities have been switching out. I was wondering if you also can give us like a bit of a timeframe and now how much of your Tableware is dependent upon that foam? And if that's the case, how you're planning to continue to get ahead of it before having that impact and potentially a lot of promo related to that foam? Thank you so much.

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

A

Well, I'll start, and I'll let Scott elaborate on it. First, regarding the down trade in private label, private label category shares are back to 2019 levels. On a year-over-year basis, private label share is up in some categories and down in some others, and we're influencing and responding to these changes very effectively.

As we've talked about over the years, two things. One, our business model is a competitive advantage by doing both brands and store brands, and secondly, these categories are highly penetrated by private label already, so we don't see significant shifts occurring year-over-year between brands and private label.

On Tableware, the foam trend is one that we have been seeing since 2019, as we indicated in the prepared remarks, and we have very specific plans in new product development and continued work across the portfolio to ensure growth of the overall Tableware business. Scott?

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

A

Yeah, I would just add to that. Hi, Andrea. In terms of the foam topic and Tableware broadly, it's really the tale of two portfolios. The foam category is declining, so resourcing and focus on costs in our execution of that category would make sense. On the other hand, we have a lot of innovation, growth, and outperformance of the comparative categories away from foam. Again, the imperative there would be to resource and invest for that growth.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

How much – and that's helpful, how much do you still have as a total foam or foam within your Tableware sales?

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

A

We don't share SKU level details, as you might imagine, given the competitive sensitivity of it. I'm certainly willing to share it's the minority of the portfolio, but that's about as far as I think we can go.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Okay, that's fair. Thank you both.

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

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

Q

Yeah. Thanks, and good morning, everybody. I guess it's still pretty early on from a 2025 planning standpoint, but maybe trying to approach the question that you're not going to answer in a different way. How do we think about, or how are you thinking about just consumer demand?

As we sit here today, you talked encouragingly about holiday retail volumes have accelerated through 2024, so I guess kind of put and takes there in terms of just broad strokes of how you're thinking about the consumers as we head into 2025? And then the other question related more to commodities.

Aluminum has really moved up here more than many had expected. How do you think about that from here, including if it stays here, do you have to take more pricing? Can you offset that in other ways from a cost-pressure perspective? Thank you.

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

A

I'll take the category and consumer question. I'll turn the commodity question over to Scott. We are seeing a bit of improvement in category volumes in Q3 versus the first half, and that included the added pressure on foam plates.

It tells us the category price and volume is coming at a better balance than at the start of the year, and the shift to at-home consumption continues to be a modest tailwind for our categories. Our [ph] Q4 (00:30:15) guide assumes a category forecast improvement from where we've seen Q3, and we've seen retail adjusted volume for shipment and timing portfolio optimization improved compared to the first half performance. So overall, sequentially, quarter to quarter, we're seeing modest improvement across most of our categories.

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

A

And good morning. I'd offer a couple of comments and thoughts on commodities. The first would be, on aluminum, noted that we've seen escalation. We don't see a fundamental supply and demand imbalance, so we'll see if this is transitory or it sticks for a period of time.

The thoughts on how to manage the commodities are a few. One is, aluminum is a traded exchange, so we look at and periodically execute caps, collars, those sorts of hedging tools or cost control tools.

Number two, we also work with our vendors to attempt to have, for example, semi-annual price structures rather than monthly settlements. That may not change the cost per se, but it allows for more [ph] collar (00:31:27) control of those costs over a period of time.

Third would be, and will always be, our ongoing focus on Reyvolution to continue to drive costs out of our business. Then, of course, the last lever is pricing, recognizing that pricing also comes with imperative of making sure we're thinking about price gaps elasticity. So I think that's the line-up, against potential volatility in commodities.

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

Q

Got it. That's helpful. And then, just on the credit facility, the upsizing there and thoughts on what you potentially can use it for, if anything? It's also sort of related to leverage continuing to fall here. So your balance sheet is probably in a better position than it's been in a really, really long time. Would that potentially change sort of the combination to look at more transformative M&A? You happy with your categories of presence? Any update there?

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

A

I think you're asking about the size of the revolver, if I heard you right?

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

Q

Both that and the fact that leverage on the balance sheet as it stands today is much lower than it's been.

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

A

Yeah. Okay. So the thought on the revolver, we looked pretty, pretty carefully across the marketplace for similarly situated companies, meaning size and profitability. And the conclusion is kind of a one-time EBITDA threshold for revolver sizing is quite consistent. That was the main thought behind it. And, of course, extending that maturity for five years.

On the leverage print, again, we're pleased that the cash flow profile of the company is performing very much as we outlined in Investor Day. And we've consistently said all year long, north of $300 million of free cash flow, which is in the sphere of 50% free cash flow flow through. And, again, much like we talked about.

And so at 2.3 times, that we keep going back to the same framework we talked about, which is capital allocation has three levers. Internal or organic investment back into the company, emphasis on both productivity investments and emphasis on innovative investments.

Number two, of course, would be inorganic or M&A opportunities outside the company. And then the third would be returns of capital to shareholders. I think the key point here is we believe that the right way to do that is each of those three compete for capital on a returns basis. So that philosophy or that framework continues.

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

Q

Great. Thank you very much.

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

A

You're welcome.

Operator: Our next questions are from the line of Jim Abbott with Barclays. Please proceed with your questions.

Jim Abbott
Analyst, Barclays Capital, Inc.

Q

Hey, good morning. I wanted to touch on maybe keeping with the theme of commodities and input costs. Back in late August, we had some news on some Canadian tariffs on Chinese aluminum. I think your Canada business is quite small, but wondering what maybe the competitive impact of that would be?

And more generally, should tariffs become more prevalent ahead of or after the election next week? How might that impact competitive environment more broadly in the US? Thanks.

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

A

Hi, Jim. First of all, the Canadian tariff itself on aluminum has a de minimis impact to Reynolds Consumer Products. But all of us have a lot to learn about the tariff environment as it develops in the coming months. We're staying very close to it and we'll see how it develops. But we have had experience in managing through tariff challenges successfully over the last several years.

Jim Abbott
Analyst, Barclays Capital, Inc.

Q

Got it. Thank you. And then just one other quick question, if I can. The legislation you were talking about in foam plates, can you expand on what exactly that is? And if legislation risk is potential or has potential in other categories? Thanks.

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

A

Yeah. Some states and localities have banned the sale of foam, primarily in the West and the Northeast. Those are areas that are the lower foam use, or most of the foam is used in the middle of the country. And those remain in place without legislation.

Operator: Thank you. [Operator Instructions] Our next questions are from the line of Robert Ottenstein with Evercore. Please proceed with your questions.

Robert Ottenstein
Analyst, Evercore ISI

Q

Great. Thank you. And Lance, you'll be sorely missed. Scott, Nathan, congratulations. I'd like to focus on the waste bag business. And I know that there's a lot of noise in the scanner data, and you mentioned easy comps for your competitor.

But at least just kind of based on the most recent scanner, it does look like, just in the data that we see, that you may be losing a little bit of market share, again, based on the numbers, and that your competitor may be increasing promos. So I'd love to get your thoughts, if there's been any kind of change in the competitive environment there, or is this just kind of statistical noise here?

And then, somewhat related to that, you mentioned higher resin prices. Can you talk a little bit about when that will hit the P&L, and how you're thinking about offsetting them? Thank you.

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

A

Thanks, Robert. Thank you for that compliment. I'll take the first part of the question, which is the waste bag business, and turn over the resin pricing to Scott from a commodity cost standpoint.

Our waste bag business is doing well. As I mentioned in the prepared remarks, the Hefty Waste & Storage business unit achieved record quarterly revenue in the third quarter, and our share is above 2022 levels. So at this point, we're reading at statistical anomalies occurring right now because of the comparison period.

We believe the factors contributing to our gains over the years, the brand equity, our strategy and pricing, our product strength and reliability, and most importantly, our innovation will continue to drive the brand, and we're investing in all of those.

So, it's also worth the note, as I talked about in our Q2 earnings call, that our total points of distribution have also increased for Hefty waste bags. So we're very confident in the trends that we've had for the last eight years in Hefty waste bags will continue and right now we've got some comparison points in the numbers and statistics that are – make it very difficult to read.

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

A

And good morning. On the commodity question, I think you asked about resin and flow-through to P&L. I'd say typically we would see changes in those underlying prices of resin flow-through to P&L, say, in three to four months. When we assessed our Q4 guide, of course, we contemplated that.

And then in terms of the tools, as I mentioned in a previous question, really in the short term it's Reyvolution savings as our target focus to offset those headwinds, and I think that will remain the case.

Robert Ottenstein
Analyst, Evercore ISI

Q

Great. Thank you very much.

Operator: Thank you. [Operator Instructions] Our next questions come from the line of Peter Grom with UBS. Please proceed with your questions.

Peter Grom
Analyst, UBS Securities LLC

Q

Thanks, operator. Good morning, everyone. Lance, Scott, Nathan, congratulations to you all. I just wanted a question on kind of category trends, and I know there were a lot of moving pieces this quarter, shipment timing.

But when you think about the retail volume performance in the quarter, maybe just touch on where things came in better, maybe where were things more challenged?

And then as a follow-up to that, maybe asking Nik's question earlier but just a bit differently, just as we think about the 4Q guidance, it's still pretty wide range as it relates to retail volume. So maybe can you just help frame the assumptions that would put you at the higher end versus the lower end in the fourth quarter here?

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

A

Well, as I mentioned in our prepared remarks and talked about in some of the other Q&A, our category growth rates have been sequentially improving. They do vary, depending on the specific category, with a range of growth rates that are really very comparable to other household categories and staples. So we're seeing much of the same trends that a lot of other products in our proverbial aisle are also seeing in the household staple standpoint. But sequential improvement quarter to quarter, despite pressure on the consumers. And the second part of the question?

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

A

I think you're asking about sort of the pacing range of the guide. I think the first place to start is just a reminder. We looked at underlying retail volumes about flat for the full year, none of the effect of about 1 point of product portfolio optimization.

As I think we've said, all along, we see slight improvements sequentially quarter by quarter. So the center cut of the guide for Q4 would be, again, a bit of a sequential pickup to plus 1 point. And that's how we've been thinking about it. You know, [ph] all units (00:41:20) generally developed about what we thought.

Peter Grom
Analyst, UBS Securities LLC

Q

Got it. Thanks so much. I'll pass it on.

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

Brian C. McNamara
Analyst, Canaccord Genuity LLC

Q

Hey, good morning. Thanks for taking our questions. With weaker restaurant traffic and more meals consumed at-home, given the macro environment, I guess we're a bit surprised that retail volumes weren't a little bit better in Reynolds Cooking & Baking specifically.

I understand you expect further category improvement in Q4, but are there any dynamics there worth pointing out, whether it be timing or something else?

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

A

Let me start. Lance, may add on it. It's a good question. I think one of the things that's affecting what we saw in the Q3 print was the estimated $15 million of retail volumes pulled forward from Q2 to Q3, has a bit to do with retailer promo timing. So I think that's really probably the biggest explanatory variable on the print.

Brian C. McNamara
Analyst, Canaccord Genuity LLC

Q

That's helpful.

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

A

And I did mention in my prepared remarks that we are seeing a modest increase from at-home consumption, and I talked a little bit about what we're seeing from a holiday standpoint, which will also contribute to that.

Brian C. McNamara
Analyst, Canaccord Genuity LLC

Q

Understood. And then at Investor Day back in March, I think the company expressed a belief that its categories will return to kind of low single-digit volume growth next year, with the company expecting to outperform. Does that remain the expectation here, given the management change and things like that? Anything we should be aware of?

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

A

I think the commentary that we had offered is that the long-term algorithm would be low single-digit growth. I think here in October of 24, we're not prepared to speak yet specifically to 2025. But you're correct in what we think of as the underlying category growth for the algorithm.

Brian C. McNamara
Analyst, Canaccord Genuity LLC

Q

Understood. Thank you.

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

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

I'll just close by saying thank you to everybody. As I said earlier, we take a lot of time preparing our prepared remarks as well as preparing for Q&A. We really appreciate the time that you take to listen and ask the questions.

And I will tell you, this being my last earnings call, it's bittersweet to say thank you for your interest in RCP, and thank you for listening in today.

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