Q1 2025 Earnings Call *(Corrected version)*

Event Details

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Company: Reynolds Consumer Products, Inc.
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Company Participants

Mark David Swartzberg - Reynolds Consumer Products, Inc., Vice President-Investor Relations
Scott Edward Huckins - Reynolds Consumer Products, Inc., President, Chief Executive Officer & Director
Nathan D. Lowe - Reynolds Consumer Products, Inc., Chief Financial Officer

Other Participants

Kaumil Gajrawala - Analyst
Peter Grom - Analyst
Lauren R. Lieberman - Analyst
Andrea Teixeira - Analyst
Javier Escalante - Analyst
Brian C. McNamara - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Greetings and welcome to the Reynolds Consumer Products First Quarter 2025 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. 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

Thank you, operator. Good morning and thank you for joining us for Reynolds Consumer Products first quarter earnings conference call. Please note this call is being webcast on the Investor Relations section of our corporate site at reynoldsconsumerproducts.com. Our earnings press release and Investor deck are also available.

With me on the call today are Scott Huckins, our President and Chief Executive Officer; and Nathan Lowe, our Chief Financial Officer. 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 website.

Now, I'd like to turn the call over to Scott.

Scott Edward Huckins

Thank you, Mark, and good morning, everyone. We are executing well in a dynamic consumer and retail environment. I am proud of our team for remaining nimble, staying close to our retail partners and working at pace to manage through this period of heightened uncertainty. We also continue to invest in growth and margin expansion as we are committed to unlocking additional value for RCP and our shareholders. I will review performance and how we were driving our business before passing the call to Nathan to review the financials, our guide and our plans for capital allocation.

As you know, our priorities are to drive growth at or above our categories, expand margins, and invest in a more stable earnings growth model. We made great progress against these priorities during the quarter. We outperformed our categories by two points at retail, capturing share in household foil, waste bags, food bags, and non-foam disposable tableware. And we did so without an increase in promotional spend versus the year-ago quarter, demonstrating our success in driving innovation, and net gains in distribution, including Hefty Press to Close food bags in the addition of new scents to the growing line of Hefty Fabuloso waste bags, the introduction of Hefty compostable cutlery, leveraging in commercializing new technology from the Atacama acquisition, introducing new cooking and baking products including Reynolds Kitchen air fryer cups, building on our success connecting with younger consumers, and the scaling of multiple new store brand products.

We delivered our earnings guide in spite of unanticipated retailer destocking in a very dynamic macro environment, and we employed our strong balance sheet to invest in the high return growth and margin expansion programs I reviewed in February. In other words, the underlying health of our business is strong. We are acting decisively to respond to the changing macro dynamics, and we remain focused on progressing our strategic initiatives.

We are implementing spring resets and price increases according to plan, gaining shelf space in points of distribution across RCP. In response to the increased cost environment and for those of you who are new to our business, we have a clear record of fully recovering gross profit through pricing and productivity. These capabilities are rooted in competitive advantages, including our strong brands and associated pricing power, resilient business model and category leadership positions.

Some of the insights guiding our work with our retail partners include targeted promotions on more discretionary items, assortment changes to meet certain consumers' increased quest for value, and continued price pack architecture work to deliver the right combination of value and purchase size. That said, tariffs and their resulting impact on consumer sentiment have made for a more dynamic near-term environment, and we have tempered our fiscal 2025 expectations accordingly. We could ultimately benefit from changes in US trade policy, given our domestic-oriented supply chain and continue to be guided by the priorities we set for the year.

Turning to progress against our core priorities, we are fortunate to have begun scoping growth and margin expansion initiatives in 2024, and we are executing well against the related pillars I reviewed in February.

As a reminder in the growth pillar, our work consists of targeted distribution gains, the prioritizing and resourcing of larger scale innovation, and reallocating promotional spend to higher return opportunities. In

the area of margin expansion, we are unpacking our supply chain, reviewing input costs and identifying opportunities to improve productivity across our network.

Many of these opportunities are supported by the deployment of capital with attractive returns, and we remain committed to investing in growth. Our work in each area is progressing well and includes success, identifying impactful innovation and resourcing it accordingly, further opportunities to drive share, including the deployment of our developing revenue growth management capabilities, and favorable early reads on efficiencies and cost savings through additional optimization of our supply chain.

I look forward to reporting more on our progress, particularly as we begin to see benefits late this year. And to be clear, the recent tariff announcements and more challenging retail environment have not caused us to alter our strategic direction. If anything, they reinforce the need for us to control our own destiny by driving the top line with innovation and distribution gains while expanding margins through cost out work.

In closing, we are spending even more time in the field with our retail partners, listening to their needs, unlocking shared growth opportunities with insights and products that drive our categories. We are acting with nimbleness and discipline, pulling our many levers to drive financial performance in a very dynamic macro environment. And we are investing with discipline across RCP in high return work streams to drive future performance. Nathan, over to you.

Nathan D. Lowe

Thank you, Scott, and good morning. I'm pleased with our first quarter performance, which is consistent with the expectations we outlined in early February, in spite of the unanticipated headwind from retailer destocking.

We delivered net revenues of $818 million, retail revenues of $767 million with $28 million below retail revenues in the first quarter of 2024, reflecting the headwind from later Easter timing, retailer destocking, and declines in the foam category. Across the balance of our portfolio, we grew volumes at retail and outperformed category takeaways by approximately two points. Non-retail revenues increased $12 million.

Adjusted EBITDA of $117 million was at the midpoint of our guide and compares to $122 million of adjusted EBITDA in the year-ago period, primarily driven by lower retail sales. And adjusted earnings per share was unchanged at $0.23 versus the first quarter of 2024. Adjusted EPS excludes $0.05 of term loan refinancing costs after tax and $0.04 of strategic investments in revenue growth and operational cost savings initiatives and CEO transition costs after tax. Our fundamentals are strong, and we will continue to deploy our wide range of tools to deliver against our commercial, operational and financial priorities in a very dynamic environment.

We continue to expect 2025 net revenues to be down low single digits by comparison to 2024 net revenues and now expect adjusted EBITDA in a range of $650 million to $670 million and adjusted EPS of $1.54 to $1.61 for the year. It is worth noting that our purchases of products from countries currently subject to increased tariffs represent a single digit percentage of our overall COGS, and we currently estimate $100 million to $200 million in cost headwinds on an annualized basis, considering both the direct and indirect impact from tariffs. We are offsetting these headwinds through a combination of pricing, productivity and incremental cost reductions.

On the topic of pricing, our revenue guide now contemplates two to four points of pricing reflecting one element of these recovery actions. We continue to expect retail volume at or above category performance, but anticipate more pressure on our categories, which we previously estimated to be flat, excluding foam. Lower consumer confidence, elasticities, and retailers managing inventory levels are all contributing factors.

As a reminder, our expectations for adjusted EBITDA, adjusted net income and adjusted EPS exclude approximately $25 million to $35 million of pre-tax costs to execute strategic initiatives and CEO transition costs. In addition, the term loan refinancing costs incurred in the first quarter are also excluded from adjusted net income and adjusted EPS for the year.

The work related to these strategic initiatives is going well and on target for delivery of financial benefits late this year. I'm particularly pleased with what has been identified in the area of manufacturing, productivity and network optimization, as well as the quality of the automation investments we have begun and the return profile of our pipeline of opportunities.

Second quarter, we expect net revenues to be down 2% to 5% by comparison to second quarter 2024, net revenues of $930 million, driven by lower volumes and partially offset by pricing. We expect adjusted EBITDA to be in a range of $155 million to $165 million by comparison to second quarter 2024 adjusted EBITDA of $172 million, and expect adjusted earnings per share in a range of $0.35 to $0.39 versus $0.46 in the year-ago period. As a reminder, we are lapping a one-time tax benefit in the second quarter of last year that equates to a $0.05 EPS headwind.

Before turning to capital allocation, please note that effective January 1, 2025, we have updated our segment reporting to now reflect our international business based on product category alignment, as opposed to the entirety of international results historically being reported in the Reynolds Cooking & Baking segment. Reported comparison periods have also been updated to align with our new reporting.

Now, turning to cash flow and capital allocation. In March, we successfully refinanced our term loan facility, extending the maturity of our debt and further enhancing the company's financial flexibility. Along with the upsizing of our revolving credit facility last October, we are now even better positioned to support our strategic priorities and create long-term value for our shareholders.

We remain focused on all elements of strong free cash flow, including working capital, where we see opportunities for additional improvements, and we continue to flow all investment decisions through our returns-based capital allocation framework and continue to anticipate a $20 million to $40 million increase in capital spending in 2025 to drive growth, margin expansion and a more robust earnings model.

In closing, we are adapting well in a very dynamic market and investing in high return programs to drive future performance. We will continue leveraging our competitive advantages and insights to drive our categories, and we remain focused on profitability, cash flow, and investment discipline to drive value in 2025 and over the long term.

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

QUESTION AND ANSWER SECTION

Operator

Thank you. We will now be conducting a question-and-answer session. One moment please while we poll for questions. The first question is from Kaumil Gajrawala from Jefferies. Please go ahead.

Analyst: Kaumil Gajrawala

Question – Kaumil Gajrawala: Hey, everybody. Good morning. Can we maybe dig into the retailer destocking piece of the equation? We've heard it from others as well. As it relates to your business, is this something that seems temporary, maybe just a one-time adjustment to permanently lower inventories, or is this something that is maybe just related to retailers operating differently in this environment? Perhaps there'll be somewhat of a reversal as we get into the back half of the year?

Answer – Scott Edward Huckins: Good morning. Thanks for the question. I guess as we evaluated the first quarter, we certainly did incur headwinds from retailer destocking. We don't have any reason to think there'll be a step change on a go-forward basis, meaning Kaumil, I'm not expecting to see a reversal of that. Our assumption is that what happened in the first quarter sort of flows through the balance of the year. We've been poring over April results, trying to figure out whether there's a step change in it. It's not conclusive at this point, we don't have the benefit of even a full month's worth of data. And, of course, we're also trying to figure out the Easter lap and the timing difference this year versus last year. So, I'd say we certainly saw it in Q1, our assumption is that, that is permanent and flows to the full year.

Question – Kaumil Gajrawala: Okay. Great. And then on some of the strategic expenses, I guess, revenue growth management and some of the other things, Nathan, that you mentioned along with the CapEx, is that the same thing? Did they overlap? How should we just think about really how you're – what you're investing in to evolve the business forward?

Answer – Scott Edward Huckins: Good question. So, the strategic investments that we're referring to there are really focused on the P&L. I think you hit it. And just to remind everybody, we have three things happening. We're evaluating and developing the implementation of revenue growth management. We're evaluating cost outwork around all things procurement, so any and all third-party input costs. And then lastly, evaluating the efficiency of our overall supply chain network. So, those are P&L dollars that, as you know, we baked into our guide and added back from an EBITDA standpoint, that's separate from capital. I'll let Nathan comment on capital.

Answer – Nathan D. Lowe: Yeah. I mean, I can give you, I guess, a little bit of a flavor of some of the capital work we're doing, Kaumil. But in general, I think we talked a little bit about this earlier in the year. We're really gone through all of our manufacturing operations to get a sense of the level of automation in all components and where we have opportunities, we're now ranking, stacking them, and executing against that.

Question – Kaumil Gajrawala: Got it. Thank you.

Operator

The next question is from Peter Grom from UBS. Please go ahead.

Analyst: Peter Grom

Question – Peter Grom: Thanks, operator. Good morning, everyone. I hope you're doing well. I was hoping to just get some color on what is now contemplated in the guidance from a category growth perspective. You mentioned it's worse versus the prior outlook, but is there any way you can maybe provide some guardrails in terms of what you're expecting?

Answer – Nathan D. Lowe: Yeah. Sure. Really, two factors account for the change of the guide. I mean, you could see in our guide that it now contemplates whilst the revenue guide is unchanged, it now contemplates a greater quantum of pricing. So, the two factors, I would say, are the offset to that with a lower expectation of retail volumes. First of all, the retailer destocking was a factor in the first quarter. As Scott just said, we don't expect that to reverse. So, that equates to roughly a point headwind for the full year. The balance of the

change really relates to the consumer being under pressure in general, as well as elasticity implications from higher prices that we expect to show up at retail.

Question – Peter Grom: That's super helpful, Nathan. I guess just following up on just the cost headwinds, and I would love to just maybe get some perspective on phasing. How should we think about the mitigation impact as we move through the year? I guess what I'm trying to get at is you outlined $100 million to $200 million of what I think are gross impacts related to the tariffs and indirect costs. But just any thoughts in terms of how we should be thinking about the net impact as we move through the balance of the year would be helpful.

Answer – Nathan D. Lowe: Yeah, I think probably the best way to think about it is, is we've given a range of pricing outcomes, and they generally tied to the range of cost headwinds that we would anticipate to show up in the year, which is different to the $100 million to $200 million of annualized costs. So, I think if you factor all that in, it gives you a decent sense. In general, I think you know most of our cost flow through timing ranges from two to six months depending on the part of the business. So, you'd expect that to be true for any impact of tariffs.

Question – Peter Grom: Thank you so much. I'll pass it on.

Operator

The next question is from Lauren Lieberman from Barclays. Please go ahead.

Analyst: Lauren R. Lieberman

Question – Lauren R. Lieberman: Great. Thanks. I was wondering if you could first just talk a little bit about where exactly the tariff pressure is coming from. I know you said it's direct and indirect, but just curious about finished goods, packaging, raw materials, if you could give us any delineation on that. Thanks.

Answer – Nathan D. Lowe: Yep. Certainly. So, probably just worth unpacking it a little bit further. Clearly, an area of interest. So, as I mentioned, and as a reminder, our direct tariff exposure represents roughly a single digit of our overall COGS. The $100 million to $200 million in annualized costs increases includes both the direct and indirect impact of tariffs, with the indirect impact commodities such as aluminum contributing significantly to these costs. We've deliberately contemplated a range of outcomes to account for any tariffs announced since January, including the impact they may have on commodity markets.

For completeness, our revenue guide contemplates a range of pricing outcomes similar to the range of tariff outcomes in response to the headwinds. At the middle of the range, approximately 50% of the headwind would be from commodities. The balance would be on what we would consider direct impact of tariffs from importing either finished goods or in some cases (00:21:34).

Question – Lauren R. Lieberman: Okay. Great. Thank you. And then also just curious on this reassignment of product lines related to international distribution. Just curious if you can give us some more color to kind of explain with more words, what that is and why? Thanks.

Answer – Nathan D. Lowe: Yeah, sure. I mean, the international business represents less than 5% of our revenue. Over time, that business has developed and grown away from what was used to be the core business in Cooking & Baking. So, now, that it has more breadth across the RCP categories, we thought it made sense to better align them with the commercial activities in the domestic business, just with the intent, of course, growing faster.

Question – Lauren R. Lieberman: Okay. So, previously, all of international was reported in Cooking & Baking, and now you're putting it in the business lines, is that right?

Answer – Nathan D. Lowe: That's exactly right.

Question – Lauren R. Lieberman: Perfect. Okay. Thanks so much. I'll pass it on.

Operator

The next question is from Andrea Teixeira from JPMorgan. Please go ahead.

Analyst: Andrea Teixeira

Question – Andrea Teixeira: Hi. Good morning, everyone. I was just hoping to see if you can comment how consumption has performed in the exit of the quarter. And then in terms of, like, the pricing realization that you talked about, what we should expect in terms of support, it seems like you're pricing it, you're assuming, of course, some elasticity, as Nathan, you mentioned, but also how we should be thinking of that $20 million reduction at the midpoint of your EBITDA if you're thinking part of it is coming from supporting, scaffolding these price increases with promo. So, how we should be thinking of, number one, consumption as we exit? And number two, how promotional environment has been in relation to private label and all of the details that are important?

Answer – Nathan D. Lowe: I might hit these in reverse. So, what I heard was explaining the $20 million EBITDA a little bit in the context of volume expectations, some understanding of the timing of pricing and then the exit performance of consumption, I think, out of Q1 and into April. So, I'll start with the last one.

Our lower EBITDA guide, which we lowered $20 million, as you pointed out, contemplates really just our lower retail volume expectation. The revenue guide is unchanged, but the pricing component of that really just serves to neutralize both the direct and indirect impact of tariffs. So, it's a net neutral. So, what you're seeing is the volume flow through, which I unpacked a few minutes ago.

And as for the price timing, it's really related to the timing of when tariffs have been announced and then our response to those respective announcements. So, from the first tariffs that were announced late January, early February, you'll start to see some pricing recovery of that showing up in the second quarter. And for the other tariffs later in the second quarter, you would see some of those.

Answer – Scott Edward Huckins: And hi, Andrea, it's Scott. I'll try to pick on the remaining questions. I think the first was around consumption in the quarter. I'd say at the macro level, at retail, the business performed very much like we had expected, specifically the categories at retail down two (00:25:05). As I think I mentioned in my prepared remarks, we outperformed the categories by about two, so, call that flat. Destocking was the net effect of what flowed through the P&L. As I reflect on the quarter by month, I think it'd be fair to say March was actually better than my reflections or our reflections on Jan and Feb. So, maybe that's a bit of perspective.

I think you also asked about the promotion environment. So, a couple of points on that. I think in prepared remarks, we wanted to make clear that our outperformance in the first quarter was actually not driven by an increase in promotion, just to make sure that that point is clear.

Second point I'd offer is, we do think we'll see a bit (00:25:52) of an increase in promotion in the second quarter directly linked to some of the distribution wins and gains that we commented on in prepared remarks.

And then I think third, kind of wrap up, as we think about 2025 taken as a whole, we would expect promotion to look a lot like 2024, certainly across the overwhelming majority of our categories. And that, in fact, looks a lot like what we experienced and saw in the business pre-pandemic.

Question – Andrea Teixeira: Very helpful. Thank you.

Operator

The next question is from Javier Escalante from Evercore ISI. Please go ahead.

Analyst: Javier Escalante

Question – Javier Escalante: Hello. Good morning, everyone. I wonder whether you can discuss Q1 and how that informs your Q2 forecast. This dynamic of retail destocking versus consumer demand, because what is happening in Tableware is very different to what is happening in Hefty, which you have very strong growth. So, I'm a little bit surprised by Q2, given that you have distribution gains and you have the benefit of the Easter shift. So, why is it that the expectation is for sales to be down 2% to 5%?

Answer – Nathan D. Lowe: Yeah. It's a great question, Javier. I think, generally speaking, for the balance of the year, our assumptions for revenue are consistent in each quarter. So, Q2, very similar to what we're saying for the balance of the year guide, with retail volumes down. Of course, we don't have the same level of pricing in Q2, which I just mentioned.

Your observation about Easter is astute. I think the counter to that, that's balancing that out, is that what we did see in some of our categories was a little bit of consumer pantry loading in the first quarter purchasing ahead of tariffs. So, you'd expect some of that to unwind, if you will, in the second quarter, and that largely offsets the benefit of the Easter volume increase.

Question – Javier Escalante: And a follow-up, if you can comment on, because it's part of why it has reduced purchase frequencies, because people are buying in club and buying online. If you can tell us how much of your sales, do you believe, are taking place online? And thinking about reinvestments, whether you think that that shift would eventually require some sort of a system upgrade, as we had seen in other players in HPC. Thank you.

Answer – Scott Edward Huckins: Good morning, Javier. So, I think the first part of the question is about channel and channel shipping (00:28:52). I think it's fair to say that the research we've looked at suggests that club has taken share across retail categories, as has omni-channel or online business taken as a whole.

In terms of what that portends for investment, I wouldn't say anything different than I answered earlier about, again, taking our categories as a whole, 2025 looking a lot like 2024 across the overwhelming majority of our portfolio.

I think your last one was about percentage of our business online, and I guess, what we'd share is, the analysis we see suggests that retailers are somewhere in the high teens in their percentage of business that are deemed online or omni-channel, and our results would be quite consistent with that.

Question – Javier Escalante: Thank you.

Operator

The next question is from Bill Chappell from Truist Securities. Please go ahead.

Unidentified speaker

Question – Unidentified speaker: Hi. Good morning. This is David Holcomb (00:29:57) on for Bill Chappell. We've talked a lot about productivity and RGM and other things that are, I guess, pretty relevant to the consumer backdrop these days. But I was wondering if you could kind of give us a little bit of color on how the innovation pipeline is looking for this year, given that it's one of your drivers of accelerating growth on the top line?

Answer – Scott Edward Huckins: Yeah. Thanks for the question. So, I'll start, I'd offer – we're feeling pretty good about the innovation pipeline, and a couple of examples, one would be we have another scent added to our Hefty Fabuloso lineup. We are gaining distribution with that and investing behind that. That would be a good example of, I think, we talked about in our Q4 call, really prioritizing and resourcing innovation based on scale. The second one would be a different example, which is the launch of Hefty compostable cutlery. We're pretty excited about that because that's the first commercialization of the technology and resin work from the Atacama acquisition from late in 2023. And our assessment is that that will do well in the marketplace, albeit, this is early days, this is the first launch. But I'm trying to kind of share two very different forms of innovation as examples about what makes us excited.

Unidentified speaker

Question – Unidentified speaker: Great. Thanks for that color. I guess, I'll pass it on.

Operator

The next question is from Brian McNamara from Canaccord Genuity. Please go ahead.

Analyst: Brian C. McNamara

Question – Brian C. McNamara: Hey. Good morning, guys. Thanks for taking the question. This might have been asked in a couple of different ways already, but I was hoping you could give some clarity here. Can you remind us of your pricing mechanics, particularly in aluminum foil and the lag between when you take pricing with your customers and when it actually hits retailer shelves? I'm assuming the destocking alters that typical timeline. And then in this environment, would you expect private label to kind of gain share, or do you think just maintaining price gaps will be sufficient to holding branded share? Thank you.

Answer – Scott Edward Huckins: Good morning. Thanks for the question. I'll start on, I think, your private label question. I'd say when we look at the categories taken as a whole, they're actually quite stable. We don't see significant changes in one direction or another. So, for instance, as we looked at the first quarter, we see a couple of categories might have added a point or two of store brand share gains. And we would see other categories where store brands lost a point or two. An interesting learning from the quarter was for our three largest categories. So, that would be foil, waste bags, and food bags: one, RCP enjoyed retail takeaway growth; and two, in each of those categories, store brands actually took a step back in share, just to provide some context directly on point with the largest parts of our business. And I'll defer to Nathan on the balance.

Answer – Nathan D. Lowe: Yeah. Thanks, Brian. So, I think, really you're asking what our cost flow through timing is, and then how that lines up with pricing. I would say, our costs would not flow through in a period shorter than two months, and they would not flow through in a period longer than six. It varies a lot by business and product category, but that's the range, conveniently. That's also roughly the amount of time it takes to communicate pricing to retailers, and then start to see those flowing through its shelf.

Question – Brian C. McNamara: Very helpful. Thank you, guys.

Operator

There are no further questions at this time. I would like to turn the floor back over to Scott Huckins, CEO, for closing comments.

Thank you, operator, and thank you, all, for your time today and your interest in our business. We wish you a great rest of your day.

Operator

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

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