NEW RISK ALERT: (TUP)

Tupperware Blames $3.1 Million Misstatement on Rogue Employees

Latest 10-K includes restatement following new management's identification of material weaknesses in internal controls.

By Nick Winkler
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This alert compares the language used in the company's latest filing with the period before. Research suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.

Tupperware Blames Misstatements on Bad Actors in Mexico

The turnaround plan at Tupperware Brands, a maker of food preparation, storage, and serving containers, ran into a global pandemic that shut the company's dominant sales channel. Though the company shifted from in-person to digital demonstrations and sales engagements, the new management team warned its turnaround plan may result in a short-term revenue decline.

In its 2020 10-K, the new CEO and CFO revealed the existence of a material weakness in the disclosure controls and procedure of the company's Mexican location:

> *"In 2020, the Company determined that there were **immaterial misstatements of its inventory and accrued liabilities** within its previously issued annual and interim financial statements resulting from the **override of certain internal controls by plant and local management** at the Company's Tupperware Mexico plant location."*

Since it was allegedly Tupperware's own employees deceiving management, it may explain why the company's auditor, PwC, put its stamp of approval on Tupperware's internal controls in the previous year's annual report:

> *"Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 28, 2019..."*

Tupperware says the negative impact on full year 2020 pre-tax net income was $3.1 million, which is 1.46% of the company's pe-tax net income:

> *"Furthermore, the Company recorded an out of period correction related to tax totaling $2.3 million, decreasing the Company's 2020 net income included on the Consolidated Statements of Income for the year ended December 26, 2020. The Company has determined that these misstatements, and the out of period correction of such amounts, did not result in any previous or current financial statements being materially misstated."*

The new CEO and CFO reassure investors that the latest annual report is accurate. It appears as if the new management team has been thorough as evidenced by the myriad adjustments, charges, and impairments highlighted in the most recent annual report:

> **Lease Adjustment**
> Tupperware adopted the new guidance for lease accounting which required a cumulative-effect adjustment to the opening balance of retained earnings of $7.1 million, net of taxes. Prior periods have not been restated.
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> **Re-engineering Charges**
> Part of the turnaround plan, re-engineering includes charges associated with what the company calls its transformation and revitalization plan. Total re-engineering charges in 2020 were $36.1 million.
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> **Turnaround Plan Charges**
> Includes charges associated with rightsizing, divestiture of non-core assets, and debt restructuring. Total turnaround plan charges in 2020 were $33 million.
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> **Deferred tax assets**
> Tupperware recorded valuation allowances totaling $283.4 million in 2020. The decrease was primarily associated with writing off $42.0 million of expiring foreign tax credits that were fully reserved, offset by an additional valuation allowance booked for current year disallowed interest expense carryforwards of $5.6 million. The remaining valuation allowances relate to tax assets in jurisdictions where it is management's best estimate that there is not a greater than 50% probability that the benefit of the assets will be realized in the associated tax returns.

In all, Tupperware's latest 10-K includes at least $362.7 million in restatements, adjustments, charges, and allowances. Investors looking to capitalize on what appears to be a kitchen sink annual report might think twice tough. Tupperware shares have already skyrocketed more than 2,000% in the past year.