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SEE - Q3 2014 Sealed Air Corp Earnings Call

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OVERVIEW:

Co. reported 3Q14 net sales of $2b and adjusted EPS of $0.52. Expects 2014 net sales to be approx. $7.7b and adjusted EPS to be $1.70-1.75.

CORPORATE PARTICIPANTS

Lori Chaitman *Sealed Air Corporation - VP of IR*

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the quarter-three 2014 Sealed Air earnings conference call. My name is Matthew and I will be your operator for today.

(Operator Instructions)

As a reminder of this call is being recorded for replay purposes. And now I would like to turn the call over to Ms. Lori Chaitman, Vice President of Investor Relations. Please proceed, ma'am.

Lori Chaitman - *Sealed Air Corporation - VP of IR*

Thank you and good morning, everyone. Before we begin our call today, I would like to note that we have provided a slide presentation to help guide our discussion. This presentation can be found on today's webcast and can be downloaded from our IR website at SealedAir.com.

I would like to remind you that statements made during this call stating management's outlook or predictions for the future are forward-looking statements. These statements are based solely on information that is now available to us. We encourage you to review the information in the section entitled forward-looking statements in our earnings release which applies to this call.

Additionally, our future performance may differ due to a number of factors. Many of these factors are listed in our most recent annual report on form 10-K and as revised and updated on our quarterly reports on Form 10-Q, which, you can also find on our website.

We also discuss financial measures that do not conform to US GAAP. You may find important information on our use of these measures and their reconciliations to US GAAP in the financial tables that we have included in our earnings release.

Please note that we will end the call by 9.30 AM today.

Now I will turn the call over to Jerome Peribere, our President and CEO. Jerome?

Jerome Peribere - *Sealed Air Corporation - President & CEO*

Thank you, Lori, and good morning, everyone. Our third-quarter financial results and operational performance exceeded our expectations across all key metrics. Food care, Diversey Care and Product Care all delivered constant and reported sales growth, expanded gross profit and EBITDA margins and had a favorable price mix.

We also generated $354 million in free cash flow for in the first nine months of the year. And as a result of third-quarter performance, we are raising our full-year forecast for adjusted EBITDA, earnings per share and free cash flow, despite a tough protein market uncertain macro environment and currency headwinds.

Our execution so far in 2014 is a direct result of our commitment to improving the operations at every level of this organization, re-imagined Sealed Air, and the trends that we have seen and expect to see. And what we expect to see is very encouraging.

Before Carol provides you with a detailed discussion on the numbers, I wanted to update you on a few things. First, I wanted to make you aware that for the first time we are hosting our quarterly earnings call from our temporary site in Charlotte.

As you know, Charlotte will become the home of our new state-of-the-art global corporate headquarters. We look forward to taking this significant step in creating a stronger, one-Company culture.

Second, I'd like to highlight our recent re-commission by CDP, also known as Carbon Disclosure Project. Sealed Air was named to CDP's climate disclosure leadership index where our transparency in reporting scored 97 out of 100 points, which puts us in the top 10% of S&B companies.

We also scored an A minus on our performance in achieving energy efficiency and reduction in CO2 emissions. These are Sealed Air's best ratings to date and is significantly improvement over last year's scores.

An integral part of our sustainability strategy is focused on reducing our own and our customers' carbon footprint and providing solutions that help drive in a sustainable economy. This underscores our commitment as a world leader in sustainability and supports our Company vision, which is to create a better way for life.

Third, we're very pleased to have announced our new President for our Product Care division, Ken Chrisman. He has been with Sealed Air for 27 years and most recently has been leading our global cushioning products business.

As many of you know, I anticipate great things from this division. I'm confident in Ken's ability to lead the team forward and continue executing on our strategic direction with a very clear focus on innovation, strong discipline, and margin expansion. Ken will join us on our first-quarter earnings call in 2015 alongside Carol and me.

For today's call we have invited Dr. Ilham Kadri, President of our Diversey Care division to provide you with a detailed update on Diversey Care. Under Ilham's leadership the Diversey care team has made significant progress despite the economy challenges in Europe, which is Diversey Care's largest market.

Ilham will also highlight Food Care and Product Care's performance. And at the conclusion of our prepared remarks, Carol, Ilham and myself will be available for questions.

With that, let's start with an overview of the financial results. Carol?

Carol Lowe - *Sealed Air Corporation - SVP & CFO*

Thank you, Jerome. On slide 4 of our presentation, you can see our performance by region for the second quarter. I will highlight sales trends on a constant dollar basis as compared to last year unless otherwise noted.

Latin America and AMAT continued to be our fastest growing regions, with constant dollar growth of 8% and 7% respectively. Given the currency devaluation in Latin America, our as-reported sales were essentially flat compared to last year.

Brazil and Mexico were up approximately 10% in both constant currency and as-reported due to growth in both Food Care and Diversey Care. For the AMAT region China and India delivered 6% and 15% constant currency growth respectively.

China was driven by double-digit growth in Diversey Care and mid single-digit growth in Food Care and Product Care. Strength in India was primarily attributable to Diversey Care and our food hygiene business.

North America sales were up 3% compared to last year, led by 6% growth in Product Care. Both Food Care and Diversey care increased sales in North America by 2%.

In Europe we delivered a 1% increase in sales. The UK reported 5% growth and France, Germany and Spain were essentially unchanged. This was offset by declines in Italy, Switzerland and Holland.

The seven countries I just referenced accounted for approximately 21% of third-quarter consolidated sales. Russia and Poland delivered 9% and 6% constant currency sales growth respectively.

Sales in Japan, Australia and New Zealand increased 5%, primarily driven by a 5% increase in Australia and a 3% increase in New Zealand. While our business in Japan is still relatively small, our Product Care division has been performing well with double-digit growth for the third consecutive quarter.

Turning to slide 5 and 6, let me walk you through our net sales and adjusted EBITDA performance on a year-over-year basis. Starting with the net sales on slide 5, we delivered $2 billion in sales, an increase of 3.1% on an as-reported basis and 3.6% in constant currency.

Favorable price mix was 3.1% or $59 million. Volume increased $9 million or 50 basis points. Unfavorable currency translation of $4 million was mostly due to the currency weakness in Argentina, Turkey and Canada.

Now turning to slide 6, for the quarter, adjusted EBITDA increased 8% on a year-over-year basis to $300 million or 15.2% of net sales. For the total Company the increase in adjusted EBITDA was due to favorable mix and price cost spread of $31 million and a $5 million increase in volume.

Cost synergies were $24 million in the quarter. SG&A and other expenses increased by $36 million, of which $12 million was attributable to an increase in incentive performance-based compensation and $11 million was related to salary inflation.

We delivered a 120 basis point improvement in adjusted gross profit margin and a 70 basis point improvement in adjusted EBITDA margin compared to last year. Adjusted earnings per share for the quarter was $0.52 as compared to $0.42 in the third quarter last year. As we anticipated, the tax rate of 27.8% increased as compared to last year, primarily due to greater earnings in the US and other jurisdictions with higher tax rates and the lapse of certain US tax laws, including the research and development credit.

Beginning in September and as of yesterday's close, we have repurchased approximately 800,000 shares for a total value of approximately $27 million. As a reminder, our target EBITDA leverage ratio is 3.5 to 4 times. We continue to evaluate alternatives and are now evaluating our alternatives that will enable us to increase returns to our shareholders and maintain our target leverage.

On slide 7 we outline our price mix, volume trends, and sales growth on a constant-dollar basis by division and by region. As you can see from the slide, we have constant currency sales growth and favorable price mix in every division and in every region.

Food Care has had solid performance despite the challenges in the protein market in North America and Europe. And both Diversey Care and Product Care have been gaining momentum throughout the year.

For three consecutive quarters, the year-over-year growth trends in net sales have improved on an as-reported basis and in constant currency.

I will now turn the call over to Ilham, who will provide you with a more detailed review of Diversey Care results and a recap of Food Care and Product Care. Ilham?

Ilham Kadri *- Sealed Air Corporation - President of Diversey Care*

Thank you, Carol, and good morning, everyone. Slide 8 highlights the results from our Diversey Care division. Diversey Care net sales on a constant-currency basis were up 4%. Volume was up 3.7% with a favorable price mix of 0.2%.

Developing regions increased 12%. Latin America was up 15%, AMAT was up 12% and Eastern European countries were up in the mid single-digits.

Turkey, China and India were our fastest growing countries, both as reported and in constant currency. We experienced increased demand in the building service contractors, food service and hospitality sectors.

North America sales were up 2% in the quarter. Growth in the US was a partially offset by a slight decline in Canada. Building service contractors and hospitality were our two strongest end markets.

In Europe constant currency sales were essentially unchanged. Positive trends in the UK, Switzerland and Spain were offset by declines in France, Holland, Italy and Germany. We experienced growth in the hospitality and retail markets, which was offset by declines in building service contractors and food service.

In both North America and Europe we are experiencing healthy demand for our floor care machines. Our business is beginning to benefit from our focus on quality, value and innovation and our commitment to exiting low-margin businesses.

You may remember that we have talked about this at our Analyst Day last year. I have three examples to share with you to demonstrate our progress.

First, in the first quarter we completed our first multi-million dollar sale of Intellitrail TASKI machine, which is an innovative web-based GPS system optimized for intelligent fleet management. We believe our TASKI portfolio will be a key driver for future growth.

Second, you may recall that earlier this year we announced that we were walking away from customers in the UK that were a drain on our bottom line. To targeted sales effort and a focus on the quality advantages we offer, sales in the UK increased 4% in constant currency in the third quarter, as we have more than recouped the loss saved with the higher-margin business.

And third, we've recently acquired the Accel products line from Virox. We continue investing in different shapes of this infection technology that not only outperforms other technology but also has a much better environmental profile.

Our emphasis on environmental and socially responsible programs is being recognized by major brands in the market. We are confident that this will prove to be a competitive advantage over time.

You can see that we delivered adjusted EBITDA of $70 million or 12.7% of net sales in the quarter. Last year adjusted EBITDA was negatively impacted by $3.8 million that was reserved related to a large customer in AMAT. Adjusting for these reserves the year-over-year increase in EBITDA would have been 8%, which is a solid improvement.

We are making progress with investments in R&D and sales and marketing, and you will see some of that spend in Q4 along with some currency headwinds given our exposure to Europe. With all that said, and Carol will provide details pertaining to our outlook we remain confident that we will deliver adjusted EBITDA growth and margin expansion for the full year.

Turning to slide 9. Food Care sales increased 4% in constant dollars, with approximately 3% growth in packaging and 4% growth in hygiene. We had 10% constant-currency growth in the developing regions.

Latin America and AMAT continue to be our fastest growing regions with some demand for our innovative products and solutions. Both Brazil and Mexico reported approximately double-digit sales growth on as-reported and constant-currency basis. Japan, Australia and New Zealand constant-currency sales were up approximately 5%.

In Europe the protein market was relatively flat, yet our constant-dollar net sales increased 2% on a year-over-year basis. Volumes were up just over 1% and price mix was slightly favorable. On a constant-dollar basis, double-digit growth in the UK and Russia and positive trends in France were partially offset by declines in Spain, Italy, and Germany.

In North America cattle and hog slaughter rates were down approximately 10% and 5% compared to last year. Despite these [untrovertable] market trends, we were able to outperform the market and deliver approximately 2% constant-currency sales growth with favorable product mix, better pricing, and new product introduction.

We believe third quarter will most likely be the bottom of the beef cycle and expect the rate of decline to moderate into year end. We believe that the PED virus is now largely behind us and we expect the hog production declines to moderate in the fourth quarter.

It's worth noting that despite volume declines in the beef markets in North America and the soft economic environment in Europe, fresh red meat sales were up in the mid single-digit tranche in the third quarter. And for the first nine months of the year in both regions.

The stock performance is a direct result of customer acceptance of our value-added solutions, including Case Ready, Ready Meals, Grip & Tear and QuickRip. Poultry has also been a key growth driver in North America and Latin America.

I want to briefly highlight the EBITDA margin performance in the second quarter for Food Care. Adjusted EBITDA of $178 million, or 18.1% of net sales, increased 11% as compared to last year.

This increase was largely a result of pricing discipline, adoption of our innovative product portfolio and cost synergies. Despite the anticipated volume declines in the protein market in North America and currency headwinds in the fourth quarter, we are well on track to deliver EBITDA growth and margin expansion for the full year.

Turning to slide 10, Product Care delivered 4% constant-currency sales growth with favorable price mix of 4.5% and a slight decline in volume. North America, which accounts for 60% of our Product Care business, increased sales 6%.

Europe was flat with last year and accounted for just over 20% of our Product Care sales. Constant-currency sales growth in Germany was offset by declines in the UK, France and Italy.

In AMAT it's worth noting that we had double-digit growth in Japan and high single-digit growth in China. Similar to last quarter, growth in our higher performance solutions, including cushioning and packaging systems, were driven by an increase in demand from our e-commerce and third-party logistics customers.

I want to briefly highlight the recent market introduction of the Instapak Simple foam-in-bag system. This patented solution represents the first truly mobile Instapak platform capable of delivering the damage reduction and cube optimization benefits that are increasingly demanded by the growing e-commerce market segment.

The characteristic that makes the Instapak Simple system so valuable to the e-commerce is also stimulating significant demand in our targeted global emerging markets. In just a few months we are seeing a strong pipeline from global customers and expect this to be a key growth driver going forward.

Adjusted EBITDA increased 7% to $74 million, or 17.7% of net sales. The margin improvement is a direct result of the pricing actions and discipline in North America and Europe, particularly in our general use business.

Despite some of the pricing and product rationalization actions we have taken in our general use business, we had positive sales trends in the third quarter with an improvement in the contribution margin. In Product Care we expect to deliver EBITDA growth and margin expansion for the full year.

Let me now pass the call back to Carol to review cash flow and outlook. Carol?

Carol Lowe - *Sealed Air Corporation - SVP & CFO*

Thank you, Ilham. Turning to slide 11, free cash flow, excluding the $930 million payment under the Grace settlement agreement made in February this year, was a source of $354 million in the first nine months of 2014. This compares favorably to a source of $154 million in the nine months ending 2013, due to higher earnings and improvement in operating working capital management.

Operating working capital as a percent of net sales improved from 20% at September 30, 2013 to 16% at September 30, 2014. CapEx was $94 million and cash restructuring costs were $76 million in the nine months ending September 30. Cash payments related to SARs were $18 million in the nine months ending September 2014 as compared to $43 million in the prior-year period.

Turning to slide 12 our updated guidance for 2014. Based on our performance on a year-to-date basis and our outlook into year-end, we are revising our full-year 2014 guidance.

For net sales we estimate approximately $7.7 billion, which assumes an estimated unfavorable impact of approximately 2% or $160 million from foreign currency translation. We most recently guided to an unfavorable impact of approximately 1% from foreign currency translation.

Adjusted earnings per share is now expected to be in the range of $1.70 to $1.75, as compared to the previously provided guidance of $1.65 to $1.70. The increased outlook for adjusted earnings per share is due to higher estimated adjusted EBITDA. Adjusted EBITDA is anticipated to be approximately $1.11 billion an increase from our prior guidance of $1.085 billion to $1.095 billion.

We still expect full-year adjusted EBITDA to improve in each of our three divisions as compared to 2013. The impact on EBITDA from unfavorable foreign currency translation is expected to be approximately $25 million for the full year, of which approximately $11 million is in the fourth quarter. Our adjusted EBITDA guidance for the other category, which includes our medical and new ventures business and our corporate an unallocated costs, is unchanged at approximately $90 million of net costs.

We continue to evaluate our total cost structure, including as appropriate the possibility for future restructuring programs. Any such programs would of course require approval by our Board of Directors.

We would provide any related update on our Q4 earnings call in early February on any additional restructuring program. Such programs would be funded with the Grace tax refund we expect to receive by mid 2015.

We are increasing our free cash flow outlook to approximately $540 million from $485 million, reflecting our higher adjusted EBITDA forecast combined with lower restructuring cash costs. For cash restructuring costs we anticipate approximately $100 million for 2014.

You may recall that at the beginning of the year we had forecasted $150 million in cash restructuring charges for 2014, as compared to the $100 million we are forecasting today. The remaining $50 million in cash payments is expected to be made in the first half of 2015. Our forecast for capital expenditures and cash interest are unchanged at $150 million and $273 million respectively.

To conclude my remarks, I would like to congratulate our employees around the world for their ongoing commitment to improving the quality of earnings and the execution demonstrated in the third quarter. We plan to build on this momentum and drive continuous improvement in the years ahead.

We look forward to speaking with you again on our fourth-quarter earnings conference call, which is tentatively scheduled for February 10 at 8.30 AM. I would now like to open the call to Q&A session and I encourage you to focus on Diversey care, as we have the privilege of having Dr. Ilham Kadri with us today. Ilham has done great things and has a lot of information to share with you about the strategies she is leading and the improvements she is driving so far for our Diversey Care business.

With that, Operator, can you please open the call for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from Al Kabili of Macquarie.

Albert Kabili - *Macquarie Research Equities - Analyst*

I'll take your suggestion, Carol, on the Diversey Care. Ilham, can you highlight? The volume increase in Diversey Care was surprising to us especially given the macro environment in Europe. So can you talk about the sustainability you see in volumes in Diversey Care? And how concerned are you with the macro environment? Are you seeing any recent weakening given the data that's out there? Thank you.

Ilham Kadri - *Sealed Air Corporation - President of Diversey Care*

Thank you, Al. Indeed a good question. 'm very pleased and proud of our team of what I would name as a very, very good quarter, both in the Diversey Care side, but also in the total Company.

If you think about it, the way I look at it is that we had started to harvest what we have done in the past two years previous. Since 2012 we increased our EBITDA percent by 120 basis points. Our organization is much more focused on quality business. And this focus on quality is showing up in the numbers, although we have still a lot of work to do.

You only see where we need customers in hospitality in healthcare. We are extending in building service contractors, thanks to our labor productivity programs or our equipment systems.

Throughout 2014 I'm sure you have noticed that year-on-year trends are improving. We had double-digit growth in Latin America followed by AMAT scoring a high single-digit growth there.

The United States, for example, grew 2.8% of constant currency. And Europe is further improving trends and is flattish year on year, which is a very good achievement, as we were declining since the decayed boom in Europe and in the US.

Operator

Your next question comes from John McNulty of Credit Suisse.

John McNulty - *Credit Suisse - Analyst*

Good morning. Thanks for taking my question. Carol, maybe a question for you with regard to the pushing off of the restructuring program. Can you walk us through how we should be -- or at least the cash flows around that -- can you walk us through how we should be thinking about the timing of cost cuts coming in and give us an update on that as we look to 2015 and beyond?

Carol Lowe - *Sealed Air Corporation - SVP & CFO*

Okay, great. Thank you, John. So we started the year thinking that our synergy costs related to restructuring would be approximately $80 million. Were on track to realize $95 million in cost synergies. We had $27 million in Q3 and we expect approximately $20 million, $21 million for Q4.

Our original program was our integration and optimization program, which was to generate cost synergies of $200 million versus the 2011 base. That will wrap up by the end of this year.

Our second program, which was our earnings quality improvement program, that is what's tracking at a more accelerated basis, with savings closer to $115 million versus our previous estimate of $90 million to 110 million versus the 2012 cost save. When we look at 2015 as our reference from cash costs for the restructuring, we would expect to have approximately $50 million that we expected to spend in 2014 that we'll spend in the first half of 2015.

As we re-prioritized our projects for 2014, we've concentrated on the higher-returning projects first. That has resulted in some of the projects being pushed out a little bit into 2015. But again, we are on track for that total savings for the equip program, which is what you'll see a lot of in 2015, for a total savings of $115 million versus the $90 million to $110 million.

Operator

The next question comes from George Staphos of Bank of America Merrill Lynch.

George Staphos - *BofA Merrill Lynch - Analyst*

Thanks, hi everyone, good morning. Jumped on late. I would been better off being on your call for the entirety. In any event, I wanted to say, first, congrats on the progress.

What gives you the most confidence in your free cash flow guidance over the next couple of years? And in particular, how does Diversey, do you think, Jerome or Ilham, contribute to that? What's made you more comfortable about the Diversey contribution to cash? Thanks.

Carol Lowe - *Sealed Air Corporation - SVP & CFO*

So thank you, George. With respect to free cash flow, we definitely have a keen focus on our working capital management that's been a significant contributor. We've been very open and vocal about our improvement in terms of DSOs, reducing past dues.

We also are actively managing our inventory through our sales and operations planning process. That is generated a lot of the cash flow that you've seen to date.

Also our continued discipline around quality of earnings is providing the growth in EBITDA, which we see sitting in our cash flow. And all three of the businesses are contributing to that improvement.

Diversey Care has had strong cash flow and we expect them to continue to have strong cash flow. With what Ilham is driving in terms of the disciplines and the focus that she commented on for Diversey Care, we continue to expect them to deliver on free cash flow as we move forward. Jerome, Ilham, did you want to add anything?

Jerome Peribere - *Sealed Air Corporation - President & CEO*

You might want to talk about SKU rationalization, customer rationalization.

Ilham Kadri - *Sealed Air Corporation - President of Diversey Care*

I think you said it all, Carol. Obviously we had made great progress in Diversey Care on the DSO basis, on obsolete, on looking at our low-margin businesses grown from the customer's perspective, Jerome likes to say, we need to choose our customers as well. And we need to pay a premium for our breakthrough and innovative technologies.

We are having, as we speak, a big SKU rationalization program because we have a big sale. Our business is about managing complexity. But the 80/20 rule applies to our business and to our technologies.

We are, as we speak, building up that SKU rationalization, which is going to take some time. But definitely in the coming year or 18 months you will see great progress there.

So great discipline. Now in Diversey Care it's about the culture of discipline. And that's what we are engaging into.

Operator

Your next question comes from Ghansham Panjabi of Robert W. Baird.

Ghansham Panjabi - *Robert W. Baird & Company, Inc. - Analyst*

Hey, guys, good morning. When you look at the EBITDA bridge for either the quarter or so far in 2014, the increase has been disproportionate on the pricing cost side. And the margin expansion story in both Food and Product Care, particularly, seems to be well underway.

As we think about a comparable bridge for 2015, how should we think about these various elements on a year-over-year basis including foreign exchange? And since Ilham is on the call, maybe Ilham can give us a sense as to how Diversey, more specifically, will participate in 2015 on a financial basis. Thanks.

Carol Lowe - *Sealed Air Corporation - SVP & CFO*

So Ghansham, we're not providing 2015 guidance right now. But what I will say, because we know there is concern around currency and obviously because we have such a large percentage of our sales that are European or they're based in some countries where there has been devaluation, we will share that let's make an assumption that the euro was at a $1.25 for 2014.

That could potentially have an impact on our 2015 sales top line for a negative currency of $300 million. Now that is not just the euro, but looking across all of our currencies, which could potentially have an impact on EBITDA of approximately $40 million on a year-over-year basis. So we'll share that, but again, not any additional comments on 2015 guidance. So Ilham?

Jerome Peribere - *Sealed Air Corporation - President & CEO*

Before Ilham jumps in on Diversey Care and general comments, let me just say this is going to be, of course, an impact that we are likely to see happen. We haven't seen it in Q3.

We're going to see it somewhat at a sizeable amount. We are estimating this is the currency impact on EBITDA level in Q4 it's going to be at about $11 million.

Carol just talked about the $40 million on the EBITDA level just from currency at the exchange rates of today. And it is not the euro devaluating, it is the dollar revaluating against all the major currencies, including real, et cetera.

So as far as we're concerned, we already have embarked into a plan, an intervention which is going to mitigate this. And of course you're going to hear about our guidance in early February.

But I want you to know that Ilham said the right word. We are moving towards a culture of discipline. We already proactively are taking actions to mitigate that kind of negative impact.

Ilham Kadri - *Sealed Air Corporation - President of Diversey Care*

So on Diversey Care specifically over the market in Q4 is forecasted to be largely flat as compared to Q3. We will continue our journey towards quality business, exiting low-margin businesses and replacing those lost sales with higher-margin customers, as we have done in the UK and other places. We expect Eastern Europe and AMAT, Latin America to continue showing good growth.

I remind you as well about the businesses seasonality. Quarter two is our strongest quarter of the year, quarter one being the weakest one. The difference between quarter three and quarter four is much smaller and depends on distribution channel sales, destocking and equipment sales, which can travel between one quarter to another.

As Carol and Jerome said, I also remind you that our business in Diversey Care, 45% of our business in Diversey Care is in Europe. The currency exposure, as we'll say, will impact soften but as we speak we are trying to mitigate the currency impact. Despite the challenging environment, Diversey Care is holding its own with a handful of customer wins and cost savings programs.

And also you will see us in quarter four targeting to invest in sales, marketing and R&D, which will further allow Diversey Care to differentiate in the marketplace. But expect margin growth and margin expansion for the year.

Operator

Your next question comes from Scott Gaffner of Barclays.

Scott Gaffner - *Barclays Capital - Analyst*

Hey, good morning, everyone.

Jerome Peribere - *Sealed Air Corporation - President & CEO*

Good morning.

Scott Gaffner - *Barclays Capital - Analyst*

Just wanted to dig into Food Care for a moment. Adjusted EBITDA margin year to date, you have it at 17.4%. I think at the Analyst Day you mentioned 16% to 16.5% was the 2016 EBITDA margin target.

Is there any reason that you can see, Jerome, why there would be some margin give back in the next couple of years? Or is there the ability to continue to push hard on price cost, even if the resin prices maybe come down next year and in the future? Thanks.

Jerome Peribere - *Sealed Air Corporation - President & CEO*

Thank you. Good question, Scott. So what you just said is that we are ahead of our program. And, yes, in 2014 execution is going extremely well.

So my answer to you is no, there is no reason that it would be giving back. You have the resin prices and they go up or down. The trend is up. I think nobody should expect that we're going to see resin prices is going down over time.

There is a decoupling for many years now between the price of ethylene in North America and the price of gas and shale gas, which is why ethylene producers have had so much margin expansion. This is due to tight capacity utilization, which are also affecting Europe.

We are preparing ourselves. We have prepared ourselves for two years now with a disciplined approach to our pricing. This is about passing the cost increases as they occur.

Next to that, you have innovation and you have all the service and the value that we add to our customers. The value that we add to the customers is huge, thanks to our innovation especially.

If you would have been at the Sial, which is food show of the world, which happened last week in Europe, you would have seen that our Darfresh entree was the star product. It was the star attraction. And we have had extreme success with that launch just recently. This is going to be followed into the US.

We also are launching a high-abuse bag, which is called Optidur in Europe. In Q4 we're going to be launching on packs with two-part fill North America at Pack Expo in November in Chicago. We have a lot of momentum with innovation and that is how we express the fact that we're bringing value to our customers. And that is the way we approach the situation.

Operator

Next question comes from Chris Manuel of Wells Fargo.

Chris Manuel - *Wells Fargo Securities, LLC - Analyst*

Good morning and congratulations on the terrific progress thus far.

Carol Lowe - *Sealed Air Corporation - SVP & CFO*

Thank you, Chris.

Chris Manuel - *Wells Fargo Securities, LLC - Analyst*

You talked about potentially, or alluded to potentially, doing some further restructuring or some other actions as we look forward to 2015. I wanted to get a sense as to, or at least some thoughts as to, how you're thinking about what that might look like.

Is that focused, the next wave of restructuring, primarily on taking more costs out of the business? You've already gone quite a way that way, looking through different businesses.

Is a more focused, maybe, on headcount or on regions or to do work to grow the business faster? How do you think about the next wave that you would undertake and what it might touch?

Jerome Peribere - *Sealed Air Corporation - President & CEO*

So let me introduce the subject and Carol might add some color here. We have a very key metric, which is our expense to gross profits ratio. Our expense to gross profit ratio is a productivity ratio.

We believe that we can improve, and should improve, this ratio year over year in the next several years. So this is not a metric for one to two years. I believe that we can progress on productivity.

We all do projections and you've seen that some areas in the world are softer than some others. And you see some functions which can still continue to improve on their productivity.

So that is where we are targeting our program. By definition, we don't do restructuring for the sake of restructuring. You've heard me say several times that we're moving Sealed Air to become a modern and well-managed Company.

There's still work to do. We're continuing in that journey. And we are systematically talking about playback time on those restructuring programs to improve our expense to gross profit ratio, which is a good way of operating this business.

And in some regions we do have a better ratio than some others. Those are going to be unaffected. And some others, we are.

Carol Lowe - *Sealed Air Corporation - SVP & CFO*

Chris, just a couple comments to follow on. Referencing our productivity metric that we use is part of our annual incentive program. Year-to-date we have had a 240 basis point improvement in that metric, so it's a keen focus across the entire Company.

As I stated in my prepared comments, any restructuring program that we conduct going forward that we might take to the Board, we would expect to fully fund with the Grace tax refund that we will receive in 2015. That's estimated at approximately $200 million from the cash that we would receive back. So we would expect to fully fund it.

And I'll also remind you that I talked about last quarter the fact that we had a special incentive program focused on free cash flow generation. It's a three-year program that runs through the end of 2016.

The starting point to have any payout under that program, we have to receive $1.7 billion in free cash flow generation over the three-year period. We expect to have that program be a very positive program for a large number of our employees in the Company.

Operator

The next question comes from Mark Wilde of Bank of Montréal.

Mark Wilde - *BMO Capital Markets - Analyst*

Good morning.

Jerome Peribere - *Sealed Air Corporation - President & CEO*

Good morning, Mark.

Mark Wilde - *BMO Capital Markets - Analyst*

I wondered if you'd take a step back now after 24 months, if you have any different views on what either the growth rate potential is in these different businesses, or what the margin potential in the businesses is? You're still a long way from the kind of margins that the legacy Sealed Air business had back in the late 1990s and early 2000s.

Jerome Peribere - *Sealed Air Corporation - President & CEO*

All right, so it's a good benchmark. It's a good benchmark and we have laid out the journey in our Investor Day September of last year.

We're going to have another Investor Day in June of next year. This one is going to be focused on innovation and Change the Game.

We are ahead of our forecast, as you all can see by now. My view is that this Company is a Company which is continuing on its way to transformation. We are very truly re-imagining Sealed Air.

For those who would think that our margin is plateauing, our view is that it is going to continue to improve. It's going to continue to improve as a result of our discipline. This is what I would call the quote-unquote mathematical aspects of it. We have very focused targeted programs on multi-functional and multi-businesses.

We also are transforming this Company with regards to the value we create to our customers. And we now price according to the value that we create to our customers. Therefore, my view is that the numbers you' re referring to of the good old Sealed Air are realistic numbers long-term.

What is long-term? It's more than three years. We know it's going to go to 20% EBITDA in 2016 or in 2017. We have laid the road.

But you heard me very clearly saying that there are two phases in our transformation. One is called Get Fit. This is the left part of the brain. This is the mechanical part of the business. And we're making fabulous progress.

We are starting in re-imagining Sealed Air in the way of transforming this Company and change in the game. The move to Charlotte, having all the divisions together, exchanging ideas and view and setting the outcomes. Because the commonality of those three divisions is about selling the outcome and not selling stuff.

That is going to change this Company. I am very optimistic. You laid out the journey. I'm going to follow it.

Operator

The next question comes from Alex Ovshey of Goldman Sachs.

Alex Ovshey - *Goldman Sachs - Analyst*

Good morning, everyone. On Diversey business, and as you think about the marketplace and how you stack up relative to your biggest competitor, Ecolab, can you talk about how over the last couple of years you feel like you've improved the Diversey business where you can better compete in the market relative to some of your biggest competitors?

Ilham Kadri - *Sealed Air Corporation - President of Diversey Care*

Thank you for the question, Alex. I will focus on how Diversey Care competes rather than on a given competitor. Obviously our focus since I joined the Company was to lose non-profitable deals win better quality businesses. This is the name of the game.

I tell you it has been the biggest mindset and cultural transformation our organization has ever experienced. For example, to give you an example of how we track the wins and losses, we track all the wins and losses above 500K. This is a low threshold and we did it on purpose to allow us building a division culture around quality wins and low-quality business losses.

Year to date we are scoring and lose a bleeder, we target to win and offset this with a better quality business. This is what we are doing in many places like in the UK, as I shared in my prepared remarks, but we are doing it in other places as well.

This is key, as we cannot lose businesses and sit on huge amounts of fixed costs, as we are in the service business. The example of growing in the US we'll continue building an infrastructure there, targeting to expanding hospitality, where we are progressing very well.

And we are getting more wins in Food Service where our TASKI equipments are being adopted by the US markets in the building service contractors and preventments and education. So all in all, we are gaining share with attention to quality.

Operator

Your next question comes from Adam Josephson of KeyBanc.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Thanks, good morning, everyone, and congratulations on your continued strong results. I joined a bit late, so my apologies if someone asked my question already. Carol, would you mind reminding us about the restrictions on your ability to buy back shares in the next few years? And what, if anything, you might do, regarding your notes outstanding, to deal with that issue?

Carol Lowe - *Sealed Air Corporation - SVP & CFO*

Okay, yes, thank you, Adam. Right now what we would have remaining based on -- since September we repurchased approximately 800,000 shares at an average price of $33 for a total approximate value of $27 million. That would leave us with a capacity of approximately $40 million due to the restricted payment basket.

We've been very focused on having the leverage reach between 3 1/2 and 4 times. As we wrapped up Q3, we have now dropped below 4 times, we're at approximately 4.8 times leverage. So that gives us flexibility to take a look at our debt structure and maybe step up how we're going to pursue flexibility to return value to shareholders.

Operator

The next question comes from Chip Dillon of Vertical Research Partners.

Chip Dillon - *Vertical Research Partners - Analyst*

Yes and good morning, everyone. Question is on the pricing power. It looks like, clearly in the quarter, both Food Care and Product Care saw nice, at least price mix, improvement.

I guess the two-part question is how much of it would you say of the roughly 4% improvement was price and how much was mix? And as you look ahead, do you think there's still more runway in terms of recapturing some of the value that Sealed Air should of been getting in the past, as you've talked about, from its product differentiation? In other words, do you have more room there?

Jerome Peribere - *Sealed Air Corporation - President & CEO*

First, generally speaking, you heard me say in February of 2013 that I see the role of a leader who leads and that is our responsibility. We have sometimes high market shares and we need to decide what is our approach to the value we create and how we share it. We have clearly determined this.

So when you look at the price mix in the third quarter, actually what we think is that this price mix is increasing, but the bulk of it is in price. And if you look at -- let me give you some flavor -- if you look at Food Care for example, we have a price mix in the third quarter of 4% and almost 3% is just price.

There is a lot in North America just on price. And in Latin America you need to remember that we buy resins in dollar or in dollar equivalent. As a result, we have had a lot of price. Out of our price mix in Latin America in Food Care of 13%, about 9% is just price. And it is very key, because otherwise our margins would go down.

In Product Care it is about the same kind of trend. When we talk about price mix, the bulk is on price. To give you an example, in North America on Product Care our price mix was 4.6% in the third quarter, and almost 4% was just price.

In Europe you don't have the same kind of environment because you have stagflation, a deflation environment, but we're also having margin expansion. And we are positive on price alone beyond Food Care, beyond Product Care, and also in Diversey Care when you look at this.

So it is not only about price, it is also about price, but it's not only about price. What I'm really attentive to is whether we do have margin expansion or margin compression. And we are having margin expansion. And we have room to go.

Operator

You next question comes from George Staphos of Bank of America Merrill Lynch.

George Staphos - *BofA Merrill Lynch - Analyst*

Thanks for taking my follow-up. That's a great segue to what my next question was going to be, Jerome. Right now you're still in the Get Fit phase, and it's been going, as you said, well.

Does the imperative to innovate, does the imperative to drive mix relative to price, increase perhaps even on an exponential rate over the next couple of years given what's already been very good progress on margin and pricing for the business? So that obviously you don't sell product, you have to sell product, you're trying to sell value, but you also want to maintain your shares where there is economic profit over time.

So does the imperative to innovate and to raise mix accelerate here the next couple of years and how do you do that? Thanks and good luck in the quarter.

Jerome Peribere - *Sealed Air Corporation - President & CEO*

Thank you for staying with our call. Yes, it probably is better than the call on which you were before. (laughter)

George Staphos - *BofA Merrill Lynch - Analyst*

I didn't even get a question on that one. (laughter)

Jerome Peribere - *Sealed Air Corporation - President & CEO*

That is a very good question. Actually it's a repeat of your second-quarter question which was thank you very much for the Get Fit, when is Change the Game coming? That was your question.

And let me confirm that Change the Game is not going to be coming. It is en route. Every single division has a Change the Game commitment. I know what you guys want. What you want is show me the money, show me the innovation, show me the Change the Game, and give me numbers.

And this is why we're going to do that in 2015 at our Investor Day focused on Change the Game, where we are going to give you specific examples of how we tackle the market differently. It is important for us to bring innovation, and we are bringing innovation, because innovation is the mother of differentiation, and therefore of margin expansion, through the creation of value to our customers.

I have several examples. I already talked about a few on Food Care, the Darfresh entree, a great innovation. Optidur, a great innovation. We're going to be talking to you pretty soon about the new type of structure in bags, which is going to be fairly disruptive.

On Product Care, our Instapak Simple that we have launched on October 1, is a great innovation. And it is a great innovation because the main issue of Instapak is that you need to have a fairly big sizable equipment to serve your customers, or in the customer premises.

Well, this is a smaller equipment which opens a whole lot of doors to e-commerce and to smaller type of companies who need strong cushioning. I have several examples on Diversey Care and including on some mops and soap, but you might want to mention one or two, Ilham.

Ilham Kadri - *Sealed Air Corporation - President of Diversey Care*

As Jerome said, in Diversey Care journey Get Fit and Change the Game were not sequential events. We started both at the same time. And I believe we shall compete with a differentiated value proposition.

I remind you that we are the only player in the market who has clinical machines proven equipment and Intellitrail example I shared in my prepared remarks speaks for itself. We compete by integrating and differentiating with technology we sell. We invoice detergent dollars but we sell productivity and labor productivity programs to building service contractors.

Finally, and this is something new, and we changed the conversation with our customers, we are still there and our business puts together can also retail store or a quick service restaurant much more than just detergent for floors. We are a leader in food waste and farm to fork chain management. And along with Diversey Care food safety program and integrated socials, we are combining both strengths to better service our customers.

Lori Chaitman - *Sealed Air Corporation - VP of IR*

Operator, I think we have time for one more question.

Operator

We have no more questions.

Jerome Peribere - *Sealed Air Corporation - President & CEO*

In that case, I am going to make a last comment to George's question. We are having a very strong focus on the long-term because we are determined to transform this Company into what I called a knowledge-based Company. That is what we are.

This is a long-term goal and we are truly going to become more and more knowledge-based Company. This is a journey and this is why we have those two programs. One is about delivering short-term and we're very pleased with where we are now. And the second one is about creating additional value to our customers into this Company.

Thank you very much for attending. I hope to see you soon. And we'll continue working. Goodbye.

Operator

Thank you for joining in today's conference, ladies and gentlemen. This concludes the presentation. You may now disconnect. Good day.