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SEE - Sealed Air Corp Conference Call to Discuss Q3 2016 Earnings Call and Spin-Off of Diversey Care and Related Hygiene Business

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OVERVIEW:

Co. reported 3Q16 sales of $1.7b and adjusted EPS of $0.71. Expects 2016 net sales to be approx. $6.8b.

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PRESENTATION

Operator

Ladies and gentlemen welcome to the Q3 2016 Sealed Air earnings conference call. My name is Matthew and I will be your operator for today.

(Operator Instructions)

As a reminder this call is being recorded for replay purposes. And now I'd 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. Sorry for the delayed start we had some technical difficulties.

Before we begin our call today I would like to note that we have provided slide presentations to help guide our discussions. This presentation can be found on today's webcast and can be downloaded from our IR website at Www.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 on 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 at Www.sealedair.com.

We discuss financial measures that do not conform to US GAAP. You may find important information on our use of these measures in the reconciliations to US GAAP in the financial tables that have we have included in our earnings release. Included in today's presentation on slide 3, you will find US GAAP financial results that complement some of the non-US GAAP measures used throughout the presentation. Now turn the call over to Jerome Peribere our President and CEO. Jerome.

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

Thank you Lori and good morning everyone. We have definitely a lot to cover on our call today in addition to our review of our third-quarter results and outlook, we will be discussing the announcement that we made on October 17 to pursue a tax free spin off of Diversey Care and our related hygiene business. As planned, we have Ken Chrisman, President of our Product Care division, joining Carol for our third-quarter discussion, and I also invited Dr. Ilham Kadri, President of Diversey Care and Karl Deily, President of Food Care to join us during this important Q&A session. Let me get started.

In the third quarter we reported $304 million of adjusted EBITDA on sales of $1.7 billion. Our margin increased cash flow performance in the quarter is a testament to our strong operational discipline and working capital management despite soft organic sales growth of 1%. We're pleased to report adjusted EBITDA margins of 17.7% or 50 basis points improvement over last year. And we generated $212 million of free cash flow during Q3 as compared with $191 million for the same quarter last year. I will provide a few comments and then give this to Carol and Ken.

Our price-mix discipline came through in the quarter with all regions delivering favorable trends except North America primarily due to timing of raw materials cost (inaudible) in Food Care. Let me highlight volume growth which was largely driven by our execution of our changed again strategy.

Product Care volumes in North America were up 7% if you exclude the 100 basis points of rationalization. Diversey Care delivered positive volume in North America, Europe, and Asia Pacific as a result of customer wins, and Food Care protein packaging volumes were led by more than 5% growth in North America and positive trends in the EMEA region. These positive volume trends are very important to us as they are strong indications of what is to come into year end and in 2017.

Unfortunately our business suffered from some softness in Latin America, Middle East, and Australia and continued weakness in the [general] industrial GDP. You can see that we have and will continue to take corrective actions to preserve our bottom-line guidance and commit to our free cash flow in 2017. Such agility is now in our DNA.

With that said let me turn back to our decision to pursue the tax free spin of Diversey. By separating our Food Care, Product Care, and medical business from our Diversey Care and related hygiene business we create two pure-play industry-leading companies with strong financial profiles, each with its own unique and compelling investment opportunity. We believe that this is the appropriate next step in our Company's transformation and will accelerate profitable growth for both entities.

Before I get into the rationale I will quickly highlight the structure of the transaction on slide 5. Following completion of the tax free spin, Sealed Air shareholders will own 100% of the common stock of what I would call New Diversey. Both New Sealed Air and New Diversey will be well-capitalized with disciplined return-based approaches to capital allocation.

We anticipate a similar credit rating to existing Sealed Air as both companies. The transaction is expected to be completed in the second half of 2017 and we anticipate timing of the [form ten] as early as the first quarter of 2017, which will provide you with independent standalone financials for New Diversey.

So now let's turn to slide 6. Where we highlight the strategic rationale for the separation. This separation will give both entities the ability to tailor the strategic objectives and capitalize on global-growth opportunities both at the core of their businesses and with respect to innovative and disruptive technologies. New Sealed Air and New Diversey will have leaner and more streamlined operations and will become even more entrepreneurial. I want to spend a few minutes highlighting both New Sealed Air and New Diversey.

First New Sealed Air on slide 7. Many of you have heard me say this before, but I will say it again. We believe that our Food Care and Product Care divisions are by far the most innovative leaders in their respective industries with unmatched global scale and reach. In short we are market makers.

Over the last three-plus years we extended this leadership globally with new innovative product offerings and consultative services. Adjusted EBITDA for our Food Care division, excluding the hygiene business and our Product Care division, has reported a three-year compounded annual growth rate of approximately 11% in constant dollars.

To give you a sense of the size and the margin profile on an as-reported basis, the adjusted EBITDA margin for New Sealed Air reported approximately 20% adjusted EBITDA margins in the last 12 months ending September 30, 2016. New Sealed Air will continue to generate strong free cash flow which will support future growth initiatives and value-added M&A. And consistently return value to shareholders.

Let me turn to slide 8 on New Diversey. Under the Sealed Air umbrella both Diversey Care and our hygiene business streamline their organizations, revamp their product portfolio and go-to-market strategy, reenergize energy with a renewed focus on disruptive solutions, and embrace a truly entrepreneurial culture which makes them be the most innovative player in the industry.

All of which have contributed to consistent top-line growth what will make the New Diversey and has generated a three-year compounded annual growth rate of approximately 15% in adjusted EBITDA on a constant-dollar basis. Our innovative platforms including the Internet of Things, Intellibot robotics, clean-in-place solutions, biodegradable chemistry, dry lube and others, are enabling us to win new customers around the world.

And in a separate announcement you saw that our branded licensing agreement with SCJ will expire in May 2017. We have already started working on developing new partnerships as announced yesterday morning with Spectrum and Nacoma. We will also look for opportunities to expand existing relationships and grow our own brand into new channels.

Given the low capital requirements and free cash flow generation, New Diversey will have the flexibility to invest in growth and return value to shareholders. In short, you have in Sealed Air what a renowned industry analyst once called the ATM you want to own. Now you will have two ATM machines. With that, let me now turn the call to Carol for a look at the financial results for the third quarter. Carol?

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

Thank you Jerome. On slide 9 of our presentation, you can see our performance by region for the third quarter. The two regions that deliver constant-dollar sales growth were North America and Latin America.

Growth in North America was driven by an increase of approximately 4% in volume with positive trends across our three divisions. In Latin America, constant-dollar growth was a result of our pricing efforts to offset currency devaluations. In EMEA positive trends in Food Care were offset by declines in Diversey Care and Product Care.

Performance in Asia-Pacific was primarily impacted by a 14% decline in Australia. The Australian beef market is significantly depressed with slaughter rates at their lowest levels in 20 years. Australia accounts for approximately 6% of Food Care's net sales.

Turning to slide 10, we highlight volume and price mix trends by division and by region. We have already highlighted key volume trends, so I will focus my comments on price mix. You can see from this slide that with the exception of North America, we have had positive price mix in all regions for three consecutive quarters.

Food Care's price mix was positive on a global basis, despite North America being negatively impacted by the timing of raw material pass-throughs. Diversey Care delivered favorable price mix across all regions which has been consistent throughout the years. In Product Care, strong e-commerce volumes are currently having a negative impact on mix.

Turning to slide 11, let me walk you through our net sales performance on a year-over-year basis. We delivered $1.7 billion in sales on essentially flat volume. Price mix contributed $15 million to top-line growth. Unfavorable currency translation was $31 million, and the impact from divestitures was $15 million.

Now turning to slide 12, we present our adjusted EBITDA bridge. I would like to note that our adjusted gross margin improved 90 basis points from 36.4% in Q3 2015 to 37.3% in Q3 2016. Our adjusted EBITDA was $304 million or 17.7% of net sales. Mix and price cost spread was $22 million favorable and we realized $10 million in restructuring savings. Operating expenses had an impact of $21 million of which salary and wage inflation was $17 million.

Currency was a negative $4 million and divestitures were $3 million. Adjusted earnings per share was $0.71 in the third quarter. Our adjusted tax rate in the quarter was 23%. For the full year, we continue to expect our tax rate to be approximately 24%. We repurchased 3.5 million shares for approximately $165 million and exited the third quarter with 194 million shares outstanding. Let me now turn the call over to Ken to go through our results by division.

Ken Chrisman - *Sealed Air Corporation - President of Product Care*

Thank you Carol. Slide 13 highlights the results from our Product Care division. Product Care net sales on a constant dollar basis were unchanged on a year-over-year basis. Rationalization efforts in North America and Europe had a negative impact on constant-dollar sales of approximately 200 basis points. We reported a record level of EBITDA margin of nearly 23%, an increase of 160 basis points, which is notable given the raw material environment and a soft industrial sector.

As you heard from both Jerome and Carol, our third-quarter sales performance was due to strength in e-commerce and fulfillment. We delivered nearly 4% sales growth in North America adjusted for rationalization. North America accounts for approximately 60% of Product Care's total sales. Volume accelerated throughout the quarter and we continue to see good growth in October.

Our thought leadership in providing solutions to e-commerce and fulfillment sectors is resulting in accelerated adoption of our more profitable differentiated innovations, including inflatable bubble, core view, and B+ equipment, complemented by record levels of equipment installations. We're also seeing expanded adoption of our protective mailers as customers respond to dimensional weight and pricing challenges.

Adding into year end we expect growth in e-commerce and fulfillment to accelerate and drive top- and bottom-line performance. Our robust equipment installations fueled by our new offerings give us confidence in achieving accelerated growth. While we're not seeing much of a rebound from the industrial sector, our customers in this sector are expressing increased interest in our new offerings as they address the impact of dimensional weight and pricing.

Let's turn now to slide 14 and review Food Care results. Favorable price mix, positive volume trends in North America and Europe, and disciplined cost management were key contributors to sales and EBITDA performance in the third quarter. On an organic basis, adjusted EBITDA increased 7% on 1% sales growth.

EBITDA margins increased 110 basis points to just over 21%. Production of all proteins in North America and Europe were up in the third quarter. On one hand, our business is reaping the benefits of higher beef volumes and continued global adoption of our new products.

On the other hand, these positive trends are being offset by the challenging business environments in Asia-Pacific, particularly in Australia as Carol mentioned, and Latin America which took a turn for the worse in September after trends appeared to be stabilizing. In the fourth quarter, we expect sequential improvement in sales and adjusted EBITDA, with accelerating volume trends in North America and Europe offsetting continued weakness in Australia and Latin America.

Let's turn to Diversey Care results on slide 15. Diversey Care net sales were up 1.5% in constant dollars and adjusted EBITDA margins were 13%. Growth in the quarter was driven by new-customer rollouts in North America and Europe, and positive trends in Asia-Pacific. We were pleased to see North America deliver growth in light of a tough comparable. In Western Europe, most of our largest countries experienced positive constant-dollar sales growth, and in Asia-Pacific growth was led by strength in China and India.

These positive trends were partially offset by declines in the Middle East. As we anticipated, the hospitality sector, particularly in Turkey, continues to struggle as a result of significant declines in tourism and occupancy rates. For the fourth quarter, we expect a positive trend in North America, Europe, and Asia Pacific to continue and more than offset challenges in Latin America and Middle East. Customer rollouts are on schedule and our listing strategic wins across all sectors continues to grow. Now let me pass the call back to Carol to review our free cash flow and our outlook for 2016. Carol?

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

Thank you Ken. Turning to slide 16, free cash flow was a source of cash of $280 million. Working capital and other assets and liabilities were a use of cash of $82 million for the nine months ended September 30. CapEx increased to $190 million which includes $71 million related to the investment we are making in our Charlotte campus, and $23 million related to other CapEx restructuring activities. CapEx during the same period last year was $112 million.

Now turning to our outlook on slide 17. Net sales are expected to be approximately $6.8 billion. The impact from the Food Care divestitures on 2016 net sales is $102 million. Currency is expected to have an unfavorable impact on sales of approximately $225 million.

Our outlook for adjusted EBITDA is now at $1.17 billion. The impact on the Food Care divestitures on 2016 EBITDA is $21 million. Currency is expected to have an unfavorable impact on EBITDA of approximately $35 million.

We continue to anticipate that the fourth quarter will be our strongest quarter of the year with organic sales growth of approximately 3%. As Jerome and Ken highlighted, our growth in the fourth quarter will be primarily driven by accelerated volume in both Food Care and Product Care. Our medical and corporate expenses are expected to be a net expense of $90 million for the full year 2016.

Our interest expense for 2016 is estimated at $218 million. Depreciation and amortization is forecast to be approximately $275 million. Adjusted earnings per share is expected to be approximately $2.60.

We are maintaining our free cash flow target of approximately $550 million. CapEx is expected to be $275 million, which includes approximately $125 million related to the investment we are making in our Charlotte campus and other capital restructuring activities. Excluding these items, maintenance and growth CapEx combined is estimated at $150 million.

For the full year we expect working capital and other current assets and liabilities to be a source of cash of approximately $80 million. Cash restructuring payments are estimated at $90 million. And we expect to realize restructuring savings of approximately $40 million. Cash interest payments are expected to be $210 million, and cash tax payments are estimated at $125 million.

That concludes our prepared remarks. Before I open the call to questions, I would like to remind you our fourth-quarter earnings call is tentatively scheduled for Thursday, February 9. With that, operator can you please open the call for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

George Staphos, Bank of America

George Staphos - *BofA Merrill Lynch - Analyst*

Hi everyone, thanks for the details and good luck with the transaction. I will try to ask a two part question, not to cheat too much. In food and beverage, is there a way to parse how the drag that you are seeing in emerging markets may lessen in the fourth quarter such that we might be able to peg what the broader food volume might look like in the quarter, and then the related question would be, in the past and understandably the portfolio decision previously wasn't your decision.

The company has talked about the benefits of having the hygiene business in conjunction with food packaging. Explain to us why whatever synergy there might have been isn't as important on a going forward basis.

Thank you guys.

Karl Deily - *Sealed Air Corporation - President Food Care*

Okay so this is Karl and I will start with your second question first that's okay. We have had synergies with the hygiene business. However, the natural fit is to keep the hygiene business with the Diversey Care business due to the synergies of supply chain and a number of other things. And obviously our ability to partner going forward will still be there. But they are two different businesses with two different sales processes and sales cycles and we feel it is the most prudent thing to do to include them in the spin.

Now on your first question, I wish I could answer Latin America. We thought that Brazil had bottomed out and Argentina was going along relatively well, and they both took a turn for the worse at the end of the quarter which had an impact. We still had very good positive growth going in the northern cone of Latin America so we obviously are keeping our pulse on the market and our key customers and having very good introduction of new products and value-added products in Latin America. So as soon as the market does start to turn positive, we expect to get an accelerated growth. But we just have to stay close to that market because it is volatile.

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

George do you have a follow-up or are you good?

George Staphos - *BofA Merrill Lynch - Analyst*

I will turn it over and try to come back just to be fair. Thanks.

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

Thank you George. Operator next question please.

Operator

Scott Gaffner, Barclays Capital

Scott Gaffner - *Barclays Capital - Analyst*

Thanks, good morning.

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

Good morning Scott

Scott Gaffner - *Barclays Capital - Analyst*

Jerome, you made a comment in your opening remarks. You said the separation between Diversey and legacy Sealed Air would create a leaner and more entrepreneurial environment, you said for both businesses, but I'm just trying to square that with the move to Charlotte. You spent tens of millions, almost $100 million on a new headquarters to create a larger more centralized organization, so is there something that changed along the way where Diversey didn't fit within that more centralized model? Can you flush those the diverging comments out?

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

So for those who know me well I hate centralization. What I want to do is to make sure that we have centers of excellence, and this is what we will be creating and that's where we are creating in our new campus.

Having said that, it is not because I don't like the Diversey business. It is because we believe that by having those two entities separated we'll create a better shareholder value for both entities. You have to realize that the old Diversey was a faint shadow of what it is now. It really woke up a very traditional industry.

We are not seeing this yet in sales growth. We've seen sales growth, but it's nothing compared to what this New Diversey business is going to be over the years to come. Think about the Internet of Clean. 100% biodegradable products, trico [sunsee] products, robotics. By the way at the ISSA this week, we're announcing a new alliance on robotics with discovery robotics, and that's going to even increase the pace of our differentiation with our potential competitors.

Think about dry lubensee: this is a very strong self-standing entity. And when you think about what we have done in the past three years we have an improvement of profitability of what is now to be called the New Diversey on order of 15% EBITDA improvement on a compounded annual growth rate in the last three years.

Very frankly, it's ready to fly from its own wings. It is going to enable an even more entrepreneurial approach. I really believe it is the right time.

Scott Gaffner - *Barclays Capital - Analyst*

Just a quick follow-up on the capital allocation there. You said you were going to have the same capital structure at each business. But you said Diversey has lower capital requirements and relatively high free cash flow. Is there a reason why you wouldn't maybe have a higher leverage ratio at Diversey spend versus the legacy business? Thanks

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

We are working on all of this Scott, and you will see all of that in our Form 10. We have preliminary numbers at this point in time. You will be able to own two ATM machines now.

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

Operator next question please.

Operator

Adam Josephson, Keybanc.

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

Hi Adam. Operator we can't hear Adam.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Can you hear me now?

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

Yes.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

I'm sorry. Jerome, Carol good morning. Question on volume trends, you're up about 1% in the first quarter, up 0.5% in the second quarter, you were flattish this quarter, can you big picture talk about what has changed as the year has unfolded, and what you expect to happen next year with respect to volume. I know you talked at the Analyst Day Jerome about expecting a pretty significant acceleration volume growth in the years to come, do you still think that's a reasonable expectation just in light of what's unfolded this year and if so why? Thank you.

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

Very good question Adam. Let me be very transparent as I like to always be. I have been a bit disappointed with our 1% growth in Q3. But these are two different stories. At that time I did not anticipate the severity of the Australia reduction in the beef market. At that time being in July when I announced the second quarter results, we were coming from a strong Latin American Brazilian recovery on the beef markets, because it was volume growth was there, et cetera and it didn't continue.

It has been just a little positive blip, and as Karl by there way said on Food Care, northern LATAM is very strong and southern LATAM is bad. At that time I was fearing that we would be hurt as Ilham had clearly said we were going to be impacted by the instability of the Middle East and the hospitality business in markets like France, Belgium, and Germany, and we have been a little bit more.

Having said that, and to come to your question, I am very pleased with what we are seeing in some very key markets where we are executing on changed again strategies. North American Food Care has had a 3.5% volume growth in the third quarter.

North American Product Care has had, which is a very key market for us, very big for us in Product Care, has had a 7% volume growth when you exclude the 100 basis points from the divestitures from the portfolio rationalization, and Diversey Care had a very tough comparable in the first Porter and yet has been positive. That tells me that we should be confident on Q4, and I am confident on Q4, and what is going to be really the barometer for me, is going to be how are we going to grow volume in Q4 and in each of those three divisions. And I can assure you that we are projecting volume growth in Q4 in each of those divisions, and slowly volume growth and that's definitely in our mind is showing the cutoff between the trends in 2015 and 2016 into 2017.

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

Thank you Adam, do you have a follow-up?

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Carol, just a quick one just on cash flow. Just in light of some of the changes you made to your projections on cash restructuring, interest, et cetera. Carol can you just remind us what you talked about as far as 2017 as far as CapEx, cash restructuring, working cap, cash taxes, et cetera, just so we have some early bridge to 2017 on the cash flow-line Carol?

Thanks very much.

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

Adam, what we have referenced for CapEx for 2017 was that we would be at approximately $200 million, and actually have said that would be the number going forward. Obviously with all of our numbers, we'll have to update post then as we look at our working capital for the consolidated Sealed Air it was estimated to be positive cash flow of approximately $50 million for 2017.

We had not given specific guidance relative to tax payment for 2015. We are projecting $125 million for 2016. They will be slightly higher than that as we move forward.

If we look at restructuring payments we had originally said cash payments for restructuring would be approximately $100 million excluding CapEx restructuring. As we have reduced the amount that we anticipate to spend in 2016 to $90 million, that difference because we were previously at $110 million we would increase 2017 by $20 million. So in total for 2016 and 2017 we would stay at the $210 million, but we'll have a shift into 2017.

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

Operator next question please.

Operator

Brian Maguire, Goldman Sachs

Brian Maguire - *Goldman Sachs - Analyst*

Good morning everyone.

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

Hi good morning Brian.

Brian Maguire - *Goldman Sachs - Analyst*

Jerome I have a couple questions about Diversey all along those same lines. But first I was just wondering before and after the spin if you considered trying to find a strategic partner for it or if there was any thought about ever trying to sell the business?

Kind of related to that, wondering if that were to be an option if you'd have any significant tax leakage? And then, just a third part of that, just wondering after you spin it if you'd expect any restrictions on anybody being able to buy New Diversey, and any tax implications that can come back to New Sealed Air?

Thanks.

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

Okay so again good question. The spin is a tax-free operation as you know and the potential there would be a taxable operation and my responsibility is to ensure maximum shareholder value. We are reviewing the tax basis as we are merging many legal entities, but the board has been authorized to evaluate a spin based on the information it has and therefore supported the spin. So that's what I can say. Once again as a standalone company it's going to thrive over time.

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

Operator next question please. Brian do you have a follow-up? Sorry about that Brian.

Brian Maguire - *Goldman Sachs - Analyst*

Just one if I can sneak one in. I think Jerome, at one point you talked about Diversey getting to a 15% margin. I recognize there will be some incremental corporate expense and hygiene part of Food Care would be in there a little bit. But just wondering if that's still an aspirational target for Diversey that is reasonable?

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

It's not an aspiration. It is what I really believe it can deliver. So you heard two things. You heard me say for a long time and Dr. Kadri said also, we're on our way and we have been improving double-digit the EBITDA of the Diversey Care business by about 12% per year in the last three years. On a constant currency basis.

What you heard me also say a few minutes ago in my prepared remarks is that when you take the New Diversey, which includes the hygiene business over the last three years we had a 15% compounded annual growth rate in EBITDA and this is the result of innovation, of rationalization, a new way to go-to-market et cetera, et cetera.

The separation of Diversey has nothing to do with any disappointment of the situation. I'm actually bullish about the prospect of that. So the 15% target by 2018 is still here, strong and standing and when you compare 2016 with 2015 you will continue to see the progress and compare it again with 2014, we're seeing that on and on and very solid.

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

Thank you Brian. Operator next question please.

Operator

We don't have any details unfortunately, so please state your name and company name. No response there. Your next call comes from the line of Jason Freuchtel, please go ahead and state your company name.

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

Hi, good morning this is Jason Freuchtel from SunTrust.

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

Hi Jason

Jason Freuchtel - *SunTrust Robinson Humphrey - Analyst*

You guys repurchased an impressive 3.5 million shares in the quarter, and it looks like you still have a little bit of room to increase your leverage within your targeted range. Do you want to maintain some cushioning or leverage ratio given the current macro environment, or are there any other plain uses of cash in the near term that would prevent you from being equally or more aggressive in repurchasing shares in the near-term?

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

Thank you Jason.

As we have stated before our leverage target is 3.5 to 4 times. We came out of Q3 at approximately 3.8 times or about flat with where we were at the end of June this year. We are very cognizant of some of the macroeconomic challenges that are out there on a global basis. And as we have always said, based on indications from the economy and how our various markets are performing, we would move between that 3.5 to 4.

Right now, we see some good points and some conservatism. We have been active in the market, and we have still a lot outstanding in the approved program from the Board of Directors. We actually have $884 million that still available under the board authorization. So management will take the action that is appropriate given the leverage and given the performance of the business, which we see is continuing to improve and get stronger as Jerome noted in his remarks headed into Q4 and into 2017.

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

In fact we have $670 million left in the authorization. We have $670 million left, and what we will have to review is our leverage ratio band as we separate the two entities. What I can assure you, and actually this is lead by Carol, is we're not going to increase the leverage because we don't feel it is appropriate. But we will review all of those and we will guide in the future about those.

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

Thank you. Operator can we take the next question please.

Operator

Your next question comes from the line of Mark Wilde. Please state your company name.

Mark Wilde - *BMO Capital Markets - Analyst*

Hi, it's Mark Wilde from BMO. Good morning Jerome, good morning Carol

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

Good morning.

Mark Wilde - *BMO Capital Markets - Analyst*

A couple of questions, first is a possible Carol to quantify the cost to Diversey of being a separate public company?

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

We're still in the process of preparing the standalone financials and they will be available when we file the form 10. So we're not prepared to comment on those at this time.

Mark Wilde - *BMO Capital Markets - Analyst*

No ballpark estimates or anything?

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

No speculation.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay that's fine and then I wondered if either Jerome or Carol could talk with us a little bit about how you see the impact of resin prices in the fourth quarter, just in terms of lags between when resin moves and when your product pricing might move?

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

So the polyethylene situation is right now is a big question and you have CDI and HIS which are projecting a slight reduction over time. Some are saying that the $0.05 will be given back. You know that the October increase didn't go through et cetera. So as you say as you know we had to take a little bit of time so there's been an impact on our cost and all of this is included in our Q4 EBITDA projection.

Mark Wilde - *BMO Capital Markets - Analyst*

Can you give us any sense of what the size of that might be?

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

No that's too much detail here, but as we say as you know we are and agile organization. We make sure that our pricing discipline is staying intact and when you look at the gross profit of Sealed Air you have seen in the third quarter we have increased our gross profits by about 70 basis points, which just shows that we are very focused on those kind of things and it is as valid, same thing for the Food Care division.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay, finally if I could Jerome, your margins are kind of back in both of the packaging businesses, where the company had margins in the late 90s and early 2000s. What's the additional run rate that you see in both businesses?

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

As we introduce our knowledge base solutions, as I hope you were going to be coming to Pack Expo and your jaw is going to fall if you do. You will see the we do have margin expansion opportunities, both in product care and in Food Care. By the way PackEx, you will also see our innovation in Food Care, which is why I'm taking that opportunity to once again invite everybody to come and see the New Sealed Air and Sealed Air at Pack Expo, and to come and visit the potential for New Diversey at the ISSA this week, and also going to have some robotics at Pack Expo the week of November 7.

By working that booth, either this week at ISSA or at Pack Expo week of November 7, you will be able to realize that it's not necessary for me to highlight the changed again strategy because they are there and a visit is worth 1000 words.

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

Thank you. Operator next question please.

Operator

Edlain Rodriguez, UBS

Edlain Rodriguez - *UBS - Analyst*

Thank you, good morning guys.

One quick question and this is a follow-up to the resin costs going up. Jerome can you talk about the levers you have to offset those costs for the customers that don't have formula-based pricing? How quickly can you go to those other customers to raise prices to offset higher costs?

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

Okay well first of all we have for a long time moved from a cost plus-based company to a value-creating company. We're seeing this all the time. When you look at this, if I just tell you that for meat processor packaging is less than 1% of the cost, it's nothing compared to the value that we create to them.

And we create value to the meat processes, we create value to the retailers by reducing food waste, meat waste, et cetera, et cetera. So we're just not pricing based on our cost. So this concept that the price goes up when resin prices go up and the price go down when resin prices go down is not the right concept.

With some customers we do have a formula. And we apply those formulas. But I think it's very important to see that like every company we do have a commodity business and we make sure we are competitive in the commodity business. And as a solutions business we just don't price according to our costs.

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

Do you have a follow-up question?

Edlain Rodriguez - *UBS - Analyst*

Yes I do. One quick one on the spinoff decision. When you look at an another two companies, now they are going to be separate, was there any reason why you wanted to do the separation. For example, can you give any examples of any constraints that you had between New Diversey and New Sealed Air by being together in terms of transactions you wanted to do, but couldn't do because it didn't make sense for one part of the portfolio, or investments you have to forego by being together?

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

Carol has talked to you about the synergies between food packaging and food hygiene and they are very small. So that's point number one. Then you go and look at whether the R&D is similar. It is not, in one case you are dealing with chemicals and you are dealing with -- basically with chemicals on the other side you are dealing with specialty highly specialized plastic extrusion et cetera. Then you look at the customer base and the overlap is not very strong. Then actually it is weak. When you look at supply chain and you see the same.

So when you really think about it, the synergies are low. So from then on you've got to go and wonder whether you're going there, are things, what is the best solution? The best solution for us was to really look at how we can improve this business and as I said, the old Diversey is a feint shadow of what it is now.

We now have a winning company in the marketplace. We have value-added solution for our customers and when we switch a customer to us it is because they see the differential advantage of our solution and this is why. So it's not so much a question of if it would be a question of when and the reason why we started to do it now is because no kidding, under the leadership of Dr. Kadri, this New Diversey is going to fly very nicely under -- by its own wing.

If there was one thing which has been positive, is the creation of one culture and this is why we have leveraged all of those kind of things. And the decision on the campus by the way has been taken in the summer of 2014. At time at which we do not think we would do what we do now, but we're actually doing it now because we do believe that the recovery of the New Diversey has been faster than what we think it could be.

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

Operator, next question please.

Operator

Ghansham Panjabi, Robert W. Baird

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

Hey guys good morning.

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

Good morning Ghansham

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

First up, how should we think about the termination of the SC Johnson relationship. Looks like they're returning to the traditional cleaning business as announced a couple days ago. In your 10-K you highlighted that the loss of the license could have material impact on Diversey, and especially since they're now competitors as well, so how should we think about what offsets you have towards that?

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

So in fact, you got to go back to the Genesis of this agreement. This agreement had been signed between SC Johnson and the Diversey division when Diversey was part of SC Johnson. Between you and me it was not a good long-term fit for Diversey. Diversey under Sealed Air offers New Diversey as it is going to be. What you have to look therefore is about the long-term and very frankly there are some very strong long-term opportunities.

So in the short-term, it might be a short-term downside but that is not the most important thing. We have new agreements in place with spectrum brands. We are working nicely with Nacoma. We are going to have more of those, we're going to be launching our cryovacs better bags. And this is by the way we have verified that this cryovac brand, which will stay with Diversey is a very strong brand and we're going to be continuing to announce more partnerships. This agreement signed under -- long ago when SCJ was owning Diversey was limiting the potential for Diversey.

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

Okay can ask another question?

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

Go ahead Ghansham.

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

For New Sealed Air, which would be fluid and Product Care, Jerome what you envision the strategy will be longer-term apart from the growth initiatives you have in place. Does it make sense to think about another vertical in the portfolio to complement the remaining segments? You called out farm to fork in your slide deck and hopefully you're not going to acquire farms. But what is your strategic view on the residual portfolio.

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

My view is that focus is a very strong strength of the company and this is going to enable us to do exactly that. So we do have two divisions which are formidable competitors in their space. And what I can assure you is that we're going to be working on reinforcing those two divisions to make them even stronger. We might add another strategic pillar which will have either commonality on technology to leverage our technology, very unique technology, or our common entity on our customer base.

We're here to add value to our customers. And I really believe that we're going to be able to do that better. So what you should expect over time is us to reward our shareholders to accelerate our innovation and to increase and to do M&A.

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

Thanks Ghansham.

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

Thanks so much.

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

Operator we have time for one last question.

Operator

Anthony Pettinari, Citi

Anthony Pettinari - *Citigroup - Analyst*

Hi good morning

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

Hi Anthony.

Anthony Pettinari - *Citigroup - Analyst*

Jerome, at your analyst day you laid out detailed targets for the segments and then a free cash flow goal for the combined company for 2018, and my question is when you look at the 2018 free cash flow goal, do you still feel you can achieve that? Do you have some levers that you can offset the slower organic growth you've seen this year? And in the Form 10, can we expect you will breakout or update the 2018 free cash flow goal between New Sealed Air and New Diversey?

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

I don't think the Form 10 will highlight the New Sealed Air free cash flow goal, but your point is very valid. When we were talking about the free cash flow goals of 2018 was a result of some organic growth that we're seeing, let me remind you that because we have that in mind and I'm reminded that to all my division presidents every single day as they start the day. We said 4% to 5% in Food Care, 4% to 5% in Product Care, and 3% to 4% in Diversey Care, and this was for the period of 2016 through 2018.

As I told you, I also told you that the first half of 2016 was going to be [mused] and we were going to see the growth coming up in the second half. I'm not pleased, I told you earlier that I was a little bit disappointed with the first quarter, but I am optimistic about the fourth quarter as I indicated 3% growth and about 2017. So we will update you all of this.

The 775 at the time was taking the given assumption on currency and on the world stage, which is not exactly that one. Having said that, we will update you when good time with our 2018 goals, and you always should look for opportunities to expand the margins and maximizing this free cash flow. And as you have seen in an environment which is not been really good this year because of lack of growth, we have been confirming our guidance of free cash flow for 2016.

So we are very, very focused on those things.

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

Thank you Jerome, and Anthony do you have a follow-up?

Anthony Pettinari - *Citigroup - Analyst*

Just maybe one follow-up with the lower organic growth that you have seen year-to-date, do you think you're tracking end market demand in Food Care and Product Care, or do you feel that you've lost any share or are you seeing any real changes in the competitive dynamics in Food Care and Product Care?

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

Let me be very, very clear. We are increasing our share. There's not a shadow of a doubt.

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

Thank you Anthony

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

And by the way we are increasing the share thanks to our very powerful innovation. See you the week of November 7 in Pack Expo I hope.

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

Thank you Jerome and thank you Anthony and thanks everybody for all your questions. Operator that concludes our call.

Operator

Thank you very much indeed. Ladies and gentlemen thank you for joining today's conference. You may now disconnect. Thank you very much. Have a great day.
