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SEE - Q2 2016 Sealed Air Corp Earnings Call

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## OVERVIEW:

Co. reported 2Q16 net sales of \$1.7b and adjusted EPS of \$0.65. Expects 2016 net sales to be approx. \$6.85b.



## CORPORATE PARTICIPANTS

**Lori Chaitman** *Sealed Air Corporation - VP of IR*  
**Jerome Peribere** *Sealed Air Corporation - President & CEO*  
**Carol Lowe** *Sealed Air Corporation - CFO*  
**Ilham Kadri** *Sealed Air Corporation - President of Diversey Care*

## CONFERENCE CALL PARTICIPANTS

**Scott Gaffner** *Barclays Capital - Analyst*  
**George Staphos** *BofA Merrill Lynch - Analyst*  
**Ghansham Panjabi** *Robert W. Baird & Company, Inc. - Analyst*  
**Arun Viswanathan** *RBC Capital Markets - Analyst*  
**Phillip Ng** *Jefferies & Co. - Analyst*  
**Adam Josephson** *KeyBanc Capital Markets - Analyst*  
**Chris Manuel** *Wells Fargo Securities, LLC - Analyst*  
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**Jeff Danchell** *SunTrust Robinson Humphrey - Analyst*  
**Anthony Pettinari** *Citigroup - Analyst*  
**Brian MacGuire** *Goldman Sachs - Analyst*

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the second-quarter 2016 Sealed Air earnings conference call. My name is Shontilay and I will be your facilitator for today's call.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today, Ms. Lori Chaitman, Vice President of Investor Relations. Please proceed.

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### 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 slide presentations to help guide discussion. This presentation can be found on today's webcast and can be downloaded from our IR website at [www.sealdedair.com](http://www.sealdedair.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 quarterly reports on form 10-Q, which you can also find on our website at sealedair.com. We also discuss financial measures that do not conform to US GAAP. You may find important information on our use of these measures and a reconciliation to US GAAP in the financial tables that we have included in our earnings release. Included in today's presentation on slide 3, will find US GAAP financial results that complement some of the non-US GAAP measures used throughout the presentation.

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

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

Thank you, Lori, and good morning, everyone. I'm sure that you will have had the time to review our second-quarter earnings result and I will keep my comments brief and then pass the call on to Carol Lowe, our CFO, and Dr. Ilham Kadri, President of our Diversey Care division to provide a more detailed review of our second-quarter performance and full-year outlook.

Our second-quarter results were in line with our expectations in each of our three divisions. We knew from the onset of the year that our growth in the first half would be muted. Food Care, Diversey Care and Product Care capitalized on growth opportunities in targeted countries and end markets which offset other areas challenge by economic uncertainties, political unrest and a weak industrial environment.

Overall I am pleased with our adjusted EBITDA results of \$306 million, or 17.7% of net sales, which include about \$7 million of reimbursement related to environmental expenses on a slight increase in organic net sales. Excluding this reimbursement we had a very solid adjusted EBITDA margin performance of over 17% of sales. Product Care delivered over 21% margin, Food Care over 20% and for the first time, Diversey Care delivered 15% margin, excluding the environmental reimbursement.

As we look to the second half, as previously communicated we expect stronger performance, primarily driven by volume acceleration. In Food Care (inaudible) continues to penetrate the market in Europe and we are in successful trials with two large retailers in North America. Diversey Care is enjoying new customer wins across its portfolio and our robotic startup, Intellibot, delivered record sales in May and June. In Product Care, our new innovation pipeline and customer [in stores] are building as we prepare for a seasonally strong year end. This momentum, coupled with an improved [protein] market and accelerated growth in e-commerce and fulfillment, continues gives us the confidence in our second-half growth trajectory.

For full year, our outlook is within the range of our previous provided guidance. Currency headwinds are not as high as we anticipated, but these benefits is being offset by our assumptions on rising cost and the related impact on Food Care's formula pricing.

Additionally, we anticipate the recent geopolitical events in Europe and in Italy to have an impact on our business in the coming months. Overall, our strategy is clearly working. Our market differentiation of revolutionary innovation is gaining a significant traction in each of our divisions.

In Food Care, customer interest continues to increase for our next-generation barrier technology, OptiDure Diversey Care's disruptive and innovative technology, including the Internet of Things platform and digitally enabled solutions are increasing our sales opportunity in a meaningful way.

In May we received a top Innovation award at the ISSA/INTERCLEAN trade show in Amsterdam. Product Care has reshaped its entire portfolio and go-to-market strategy with dimensional weight full sealing [velocity] and consumer experience solutions.

I strongly encourage all of you to attend two upcoming trade shows, the ISSA/INTERCLEAN in late October and PACK EXPO in early November, both of which are being held in Chicago. At PACK EXPO, Product Care will showcase more commercialized innovation that they ever have in the history of Sealed Air. With that said, let me now turn the call over to Carol and Ilham to get into more details of by division and our outlook and then we will answer any questions that you may have. Carol?

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

Thank you, Jerome. On slide 5 of our presentation you can see our performance by region for the second quarter. Let me start with EMEA, where we had 2.5% organic growth and positive sales all across our three divisions. Food Care sales increased 3%, Diversey Care increased 1% and Product Care increased 5%. On a by-country basis, EMEA was led by double-digit growth in Russia and high-single-digit growth in Spain and Holland. We also experienced positive sales in Germany and Sweden.

Asia-Pacific was up 1% in constant dollars. India was up 12% led by double-digit growth in Diversey Care and Product Care. In China, Diversey Care delivered high-single-digit growth and Product Care's business returned to growth in the quarter.

Our largest markets in Asia-Pacific are Australia and New Zealand and combined, they account for 6% of our total net sales and just over 10% of Food Care sales. In Food Care, sales in Australia and New Zealand were essentially flat compared to last year.

In Australia, adoption of our advance product portfolio and new customer wins are helping to offset the double-digit declines in slaughter rate and the export of live animals. In New Zealand, our business continues to be impacted by the ongoing weakness in the global dairy market.

Latin America was hit the hardest by currency devaluation and socio and political instability. On a reported basis, Latin America was down 11%, which translates into constant dollar growth of 8%. Despite the current environment in Latin America, Food Care experienced positive sales growth in Brazil and Mexico on an as-reported basis. This translates into nearly 20% growth in both countries on a constant dollar basis. Brazil and Mexico each account for approximately 4% of Food Care sales.

Let's move to slide 6 and look at trends in North America. Overall, North America sales were down 2% on an organic basis due to unfavorable price mix of 3%, partially offset by 1% volume growth. Food Care delivered healthy volume growth of 3%. This was more than offset by unfavorable formula pass through.

Diversey Care's North America business returned to growth in the second quarter, with positive price mix and volume trends. Product Care's volume and product mix were negatively impacted by the ongoing weakness in the industrial market, particularly in manufacturing and electronics. Volume was also impacted by our rationalization efforts. Excluding rationalization, volume would have been positive in the quarter.

Turning to slide 7, let me walk you through our net sales and adjusted EBITDA performance on a year-over-year basis. Starting with the net sales, you can see that we delivered \$1.7 billion. Volume contributed \$9 million to top-line growth and favorable price mix contributed \$7 million. Unfavorable currency translations was \$59 million and the impact from divestitures was \$15 million.

On slide 8 you can see that our adjusted EBITDA was \$306 million, or 17.7% of net sales. Mix and price cost spread was \$9 million favorable and positive volume contributed \$4 million. We had \$9 million in restructuring savings.

Operating expenses of \$12 million is net of the \$7 million environmental reimbursement Jerome mentioned in his comments earlier. Salary and wage inflation of \$17 million, currency was negative \$9 million and divestitures were \$3 million.

Adjusted earnings per share was \$0.65 in the second quarter. Our adjusted tax rate in the quarter was 29%. For the full year, we continue to expect our tax rate to be approximately 24%. Let me now turn the call over to Ilham to go through our results by division. Ilham?

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

Thank you, Carol. Slide 9 highlights the results of our Diversey Care division. Diversey Care's net sales on a constant dollar basis were up 2.4% in the second quarter.

We had positive sales growth in constant dollars in all regions. Asia-Pacific was our fastest growing region, with 7% constant dollar sales grow. In North America and Europe, constant dollar sales were up 3% and 2.4%, respectively.

If you look at our adjusted EBITDA, excluding the environmentally reimbursement, we delivered \$80 million, or 15% of net sales. Volume, pricing and cost management all contributed to our strong EBITDA performance. It's worth noting that in the last 2.5 years, with the exception of one quarter, we delivered positive constant dollar sales and adjusted EBITDA growth every quarter. I am positively proud of the performance in North America and Europe over this time period. Remember that when we reorganized this business in 2013, both Europe and North America had many years of declining sales and deterioration margins.

While Middle East, Africa and Latin America increased sales on a constant dollar basis this quarter, we are seeing a slowdown in our business due to political unrest in the Middle East and economic weakness in Argentina. Middle East, Africa and Latin America combined represent 15% of our sales.

Looking ahead, we are confident the momentum in North America, Europe, and Asia-Pacific will continue. We are rolling out new customers and adding to our list of strategic wins across all sectors, including (inaudible) management, retail and healthcare sectors. Customer feedback on our robotics and case-ready platforms have been in extremely positive and as a result we're accelerating our go-to-market strategy.

For the full year we expect constant dollar adjusted EBITDA growth and margin expansion. The third quarter will experience a decline versus quarter two as we step up our implementation of new sites related to recent customer wins and a significant slow down in hospitality in Middle East-Africa. We expect our fourth-quarter adjusted EBITDA to be stronger given the timing of new customer rollouts and products in regional mix heading into year end.

Let's now turn to slide 10 and review Food Care results. Food Care sales increased 1% on an organic basis driven by a combination of higher volume and favorable price mix. By region, Latin America was up 11% and EMEA increased 3%. Asia-Pacific was essentially unchanged and North America declined 3%. Adjusted EBITDA was \$163 million, or 20.3% of net sales.

Positive volume in North America and EMEA is largely a result of our case-ready platform, including Darfresh on Tray. Also our next-generation barrier technology, OptiDure, is gaining traction, with successful trials in North America, Asia-Pacific and Europe.

In hygiene, we continue to improve both sales trends and profitability. We are also investing in new solutions, including our recent acquisition of Finland-based TTS-Ciptec, a leading clean-in-place systems optimization company. These acquisitions complement our expertise in remote (inaudible) and data analytics and enhances our knowledge-based service offering.

In the second half of the year, Food Care organic sales growth is expected to accelerate, primarily driven by increasing sales volume in North America and Europe. Both regions will benefit from higher (inaudible) productions level as well as continued adoption of advanced products.

We also believe our packaging business in Brazil is beginning to stabilize, with 4% volume growth in the second quarter. These positive trends will be partially offset by declines in Australia and New Zealand and North America formula pricing.

On the bottom line, we continue to expect sequential growth in absolute dollars in the third and fourth quarter, resulting in full-year organic EBITDA growth and margin expansion. As Jerome noted, Food Care EBITDA will be negatively impacted by our assumption on raw material cost heading into year end.

Let's turn to Product Care reserve on slide 11. Product Care's net sales in constant dollars were down 1.5% due to a 4% decline in North America, partially offset by mid-single-digit growth in EMEA. We continue to experience strong growth in e-commerce and [sustainment] in the first half of the year on a global basis.

In North America this was more than offset by ongoing weakness in the industrial sector. Also keep in mind that we divested \$15 million of annualized sales in North America in January and another \$12 million of annualized sales in Europe in May. Excluding these divestitures, global volume trends would have been stronger and we would have delivered a slight uptake in North America.

In the second half of the year, and more so in the fourth quarter than the third quarter, we expect our constant dollar growth rate to accelerate. Demand continues to increase for our inflatable bubble (inaudible), Fill-Air, B-Plus, and flow wrap equipment platform. This level of demand is translating in to strong double-digit growth in equipment sales and installments. For the full year 2016, top-line growth, coupled with our focus on pricing and cost discipline will drive constant dollar EBITDA growth and margin extension.

Now let me turn the call back to Carol to review our free cash flow and our outlook for 2016. Carol?

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

Thank you, Ilham. Turning to slide 12, free cash flow was a source of cash of \$68 million in the first half the year. CapEx increased to \$114 million as compared to \$58 million during the same period a year ago, of which \$40 million was related to our Charlotte campus.

Working capital and other assets and liabilities were a use of cash of \$165 million. Operating working capital as a percent of net sales based on a 13-month average is relatively the same since year end at 14.3%. As compared to June 30 last year we improved 130 basis points.

Now turning to outlook on slide 13, net sales are expected to be approximately \$6.85 billion. The impact from the Food Care divestitures on 2016 net sales is \$102 million, of which \$82 million impacted the first half of the year. Currency is expected to have an unfavorable impact on sales of approximately \$275 million.

Our outlook for adjusted EBITDA is now at \$1.17 billion to \$1.18 billion. The impact from the Food Care divestitures on 2016 EBITDA is \$21 million, of which \$17 million impacted the first half of the year. Currency is expected to have an unfavorable impact on EBITDA of approximately \$45 million.

As Jerome mentioned earlier we are expecting accelerated EBITDA growth in the second half of the year and anticipate that the fourth quarter will be our strongest quarter of the year. Strength in the fourth quarter will be driven by higher Food Care volumes, our customer rollouts schedule in Diversey Care and seasonal strength in 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 \$225 million. Depreciation and amortization is forecast to be approximately \$280 million.

Adjusted earnings per share is expected to be at the high end of our previously provided range of \$2.52 to \$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 to be approximately \$150 million. For the full-year we continue to expect working capital and other assets liabilities to be a source of cash of approximately \$100 million.

Cash restructuring payments are estimated to be \$110 million and we expect to realize restructuring savings of approximately \$30 million. Cash interest payment are expected to be \$220 million and cash tax payments are estimated at \$125 million.

As we head into year end, we will focus on what we can control and look for opportunities that will help mitigate potential impact at the macro environment. We will continue investing to support our future growth opportunity. Our focus on execution and delivering profitable growth is embedded in our winning culture.

Before I open the call to questions, I would like to remind you our third-quarter earnings call is tentatively scheduled Thursday, October 27. We have invited Ken Chrisman, President of Product Care to join Jerome and I on that call. With that, operator, can you please open up the call for questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Scott Gaffner, Barclays.

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### Scott Gaffner - Barclays Capital - Analyst

Thanks. Good morning. Just wanted to look at the EBITDA guidance. It comes down to \$1.17 billion to \$1.18 billion, down \$10 million, and yet currency is better. You had a better-than-expected first half and you're talking about accelerating EBITDA growth in the second half. What is it that is maybe below expectations for the full year now that's caused that reduction in the EBITDA guidance.

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

Let me first say that I'm really counting on the acceleration that it talked about back in February. I said from the very beginning that the first half was going to be really muted and that we were going to see business acceleration. What I also said was that this was going to grow mostly with volume. What I didn't think was going to happen was the assumptions that I we have put on (inaudible) prices. They are have been lower than what we thought. That is having an impact on a formula prices. You know important they are. We were thinking at the time that those formula prices in Food Care in North America were go mostly going to be in the first half and not in the second half. Well, because of what rising prices are and we anticipate they are going to be we are going to have negative formula pricing in the second half and that's basically how we were seeing the situation today.

Having said that, our global price mix in Food Care and price mix versus cost price will be positive for the full year but not as positive as we had originally forecasted. That's basically the slight difference. This is impacting sales growth because of the net sales as a results of the lower raising prices. But what we are doing here is that we are narrowing the range that we are having and that's mostly what we're doing here. Keep in mind that pricing goes straight to the bottom line. The important thing to remember here is the volume trends and the volume trend is really after we were expecting and while we are experiencing good volume trends it is very clearly the impact of our innovation is kicking in.

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

Operator, next question, please.

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### Operator

George Staphos, Bank of America.

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### George Staphos - BofA Merrill Lynch - Analyst

Hi, everyone, good morning. Thanks for the details and discussion. I guess I wanted to ask a two-part question. One just tying may be a bow on Scott's question and then I had a question on volumes relative to case-ready of the new products. So with EBITDA coming down relative to your prior guidance, and we understand the reasons why, your EPS guidance is towards a higher range. Is there some sort of non-cash driver of that? What reconciles that? On OptiDure, what's the risk of cannibalization around it's existing sales? With Darfresh on Tray, what is so positive about that now versus prior case-ready offerings? Thank you, guys.

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

I will answer the two questions. The EPS is going to go through Carol. Let me just talk about OptiDure and Darfresh on Tray. OptiDure, when it is fully launched, which means as it is -- as it will have ramped up, will have cannibalization effects. But it will also have a strong margin improvement effect. But his is going to be part of the full-year program.

We have several generations of OptiDure products. The first one right here that we are introducing for obvious reasons be mostly new business. This is at this point in time in Europe. We have run trials in plants in North America, all extremely successful. Between you and me, highly, highly compelling product -- products, actually. Therefore, overall in time it is going to be quarter of sales cannibalization but dramatically improved margin expansion for all kinds of reasons that we have already talked about.

With regards to Darfresh on Tray, the value setting proposition is several fold. Number one, you have vacuum skin packaging, which is improving shelf life and this has value for the retailer. It also has value for the -- for uses because of the shipping time, et cetera, and it has value for the consumer because you can keep the product freezer ready, keep the product longer in the refrigerator, et cetera, et cetera. For then in production the equipment runs extremely fast. Also for the production, the producer, you also have no (inaudible) weight on the top lead because of the way the machine works versus about 20% to 40% weight (inaudible). On the EPS, Carol?

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

George, with EPS one of the changes is the slight decrease in depreciation and amortization of about \$5 million. Also our share count as we're exiting Q2, we're at about proximately 197 million shares outstanding. We're seeing benefits from share repurchases going into the weighted average calculation from the first quarter where we spent about \$32 million to buy almost 700,000 shares back in Q2. We spent approximately \$20 million to buy an additional [435] shares back. Year today we are at 1.13 million shares with a spend up \$52 million. I will remind everyone we still have \$832 million available under our July 2015 Board authorization. Managing within our targeted leveraged range of 3.5 to 4 times, we would expect to return value to shareholders as we consistently message as we move forward throughout the year, again maintaining within our leverage.

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

Operator, next question, please.

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**Operator**

Ghansham Panjabi, Baird.

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

Good morning, guys. Sticking on the growth question, can you give us your view on second half end-market growth for your three segments across the various regions. Obviously is a very complicated backdrop. Also, how much in total do you think your new growth initiatives will to that growth rate? Thanks so much.

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

I can detail you what the growth initiatives are going to get right way but as I said, starting with Food Care, our growth is it led by innovation. We are in trials with Darfresh on Tray with two large retailers. Things are going extremely well. It takes time to ramp all of this and then to have the full adoption, et cetera, because all of this requires investments. What I would say, if you just go back to our Investor Day of exactly a year ago, it is all happening and better. When you look at Product Care, and I will let, then, Ilham talk on Diversey Care, you absolutely need to come to PACK EXPO



this autumn as I mentioned in my prepared remarks. You will see Sealed Air as the booth with the highest innovation and that is what is driving our growth.

Our e-commerce business is going extremely well. (Inaudible) in Product Care is very simple is that industrial GDP is not good. If you look at the (inaudible) index which is the (inaudible) index it is that the lowest since 2010 right now. We can't pretend that the economy, the industrial economy is doing really well because it isn't. But when you look at e-commerce and when you look at how we are doing in that environment, actually we are clearly (inaudible) with our customers full-season company 3PLs to join them in the growth they are expecting and in the gross plan.

We have multiplied by 2.5 the installs of our small equipment in North America. We have done the same but we have increased by 15% installs of small equipment in India and almost 30% in Asia. This tells you that the consumables are going to come during the year. Some comments on Diversey Care, Ilham?

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

Yes. On Diversey Care I think you've seen the numbers. I'm extremely proud of the hard work done by the Diversey Care team (inaudible) EBITDA. To give you some color on regional performance Europe was extremely strong, showing continuing momentum since we started transforming this business back in 2013. (Inaudible) both markets in South Europe. In Germany we are winning new customers like in the UK where we are rolling out and we start ticking in by the end of the year.

In North America, North America returns to growth as we told you in quarter two thanks to our health care business doing extremely great, our unique sustainable technology there as well as we are rolling out some large customers in facility management. (Inaudible) We have implemented (inaudible) of the [50,000] price in the report finding and we are tracking ahead of time. And last but not least in APAC, we have a good momentum there as well. We are growing in both the industries we serve. We're 4% out of the [60] Diversey Care coming from volume. (Inaudible) As we told you, China is growing high-single digits and India mid-double digits. Just to highlight (inaudible) for our and their economy.

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

What should make us be careful in the second half is what you and I read in the newspapers. Which means that in Diversey Care, for example, you have tourism, which coming back in Europe. You have tourism down and some hotels chains have published results and you can see tourism down in France, tourism down in Belgium, down in Morocco, dramatically down in Turkey, somewhat down in the Middle East. In Asia, the capacity, hotel capacity (inaudible) 55% and 50% in Turkey.

So you just can't dream of a perfect world because it is not. That is going to -- two things are going to impact a little bit Diversey Care in the third quarter and be favorable in the fourth. One is what I just talked about. In the third quarter remember that tourism is right now is peak season right now. And the second one is that because of our customer wins, we have a lot, a lot, a lot of installs and that requires resources which are being deployed exactly now (inaudible) sometime next year. Generally speaking, overall on the net sales growth, it is the pricing and the formula pricing of resins which is impacting in the dollar sales growth, but definitely no the momentum.

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

Operator next question, please.

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**Operator**

Arun Viswanathan, RBC Capital Markets.



**Arun Viswanathan** - *RBC Capital Markets - Analyst*

Thank you. Could you just discuss your outlook on the resin price environment and maybe some of the actions that you take to mitigate the volatility that you see there?

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

Okay, am not going to go into details not to signal too much to our competition but on what we are doing, but we are a large buyer and you should rest assure that we take -- we do what it takes to stay very highly competitive. With regards to the resin, they have -- actually, that's what I said before. Entering the year, I said in the February call that we were seeing the resins being weak and staying weak for the year. They haven't been that weak because you have had this price increases in March and you have had these price increases in April. Whereas one could anticipate that they wouldn't hold for a long time, so far so good for the producers. They have helped quite a lot.

So therefore this has have, and will have in the second half, a negative impact which is in fact eliminating the positive impact from lower -- from better currency movements that we were anticipating. So we're going to have a negative formula pricing there. We -- I just don't know what to tell you because I didn't think that resin prices would be where they are and I wouldn't expect that they would be at the beginning of the year what they are right now.

Yes, capacity is going to come in next year and so on and the whole thing will very much depend on the hurricane. We're entering the hurricane season. Some people are wishing for lots of hurricanes and some of us for nothing, et cetera. It's very difficult to predict one. If you have one or two hurricanes hitting sectors, I tell you, this is going to change the game.

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

Operator next question, please.

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**Operator**

Philip Ng, Jefferies.

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**Phillip Ng** - *Jefferies & Co. - Analyst*

Should we expected the product rationalization on Product Care largely behind you at this point? Will that help firm up demand despite some of the weakness you're calling in the industry economy and stabilize or firm up price in the back half? I would of thought that even some of the mix improvements you are doing on e-commerce that would've helped down pricing. Thanks.

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

Good questions. So, some comments on the economy. Our industrial part is today more important than the e-commerce part. The e-commerce in (inaudible) is growing and it is growing very nicely but it is (inaudible) 30% and so and this is where our growth is going to be. We anticipate that we are going to take full advantage of our equipment and our consumables in that market sector. We are completely reinventing this division and it is growing absolutely fabulously.

I told you at the very beginning of this year, I told you at the end of last year, that you will be surprised with our innovation momentum and customer pickup over time and starting the second half. We have all the time to come (inaudible), so no rationalization. I told you also in January that we have just divested from a (inaudible) in the US which \$15 million of sales. I told you that we were going to be closing in the second quarter on the planned (inaudible) product lines in France. I think I told you that was about \$12 million.



To your question, yes we believe that this is basically over in terms of product rationalization there. We have -- then you go and look at Brexit. The Brexit is having an impact on our translation cost. We have a strong business in Product Care, in Food Care also, in Diversey Care also in the UK. So what we have been clearly doing here is that we have announced for a 6% to 8% price increase effective (inaudible), sometimes earlier, in order to capture the transaction costs that we are suffering from, from the UK pound.

And that is what I would say embedded in our culture now. We just don't take those kind of things and absorb it because we're not in that business. We have communicated that to our customers. We're moving on and actually between you and me, we have in a little bit surprised by how easy this is going through, because everybody understands that this is the way it's supposed to be

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

Phil, I think it's also important and it's on our slides, but just to highlight for Product Care, the continued strong improvement in margin, so for the second quarter an improvement of 40 basis points over a year ago on our adjusted EBITDA and for the full half, a 60 basis point improvement. When you look at the challenges with the industrial market that Jerome has highlighted, I think that's just very, very strong performance by the team.

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

Operator, next question, please.

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**Operator**

Adam Josephson, KeyBanc.

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**Adam Josephson** - *KeyBanc Capital Markets - Analyst*

Thanks. Good morning. Jerome or Carol, just one clarification on organic sales growth. I think last quarter you stopped disclosing a growth target and there was some weakness in Brazil and Venezuela that you called out. Now I think, Jerome, you're saying that the impact of lower resin prices is having a profound impact on your organic net sales, dollars sales. You're also talking about global economic weakness as evident in industrial conditions, tourism, et cetera. I'm just trying to understand exactly what the puts and takes are in terms of your organic sales for forecast now compared to where it was six months ago would be really helpful. Thank you.

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

Yes. Good question. What did I say at the beginning of the year? I said about 3.5%. What you are seeing is that it's going to be slightly less than 3%. That is not because of volume. It is because of resin prices and a little bit of weakness in these sectors on hospitality that I just talked about.

But those kinds of things and situations are happening every single day. Every single day we have positive and we have negatives. So if resin prices would have gone up another 10%, you would've seen our sales growth go up more than what I would've said at the beginning of the year and 3.5% and there is a (inaudible) those kind of things because of the pricing. The real question to say is that you were saying 2.5%, you're saying slightly less than 3%, is there a problem? No, it is basically when you have the raw material, which is part of your cost base, when you have formulas which in time correct for your overall pricing without impacting your margin, you have, you booked slightly less (inaudible).

If we have resin prices going up or doubling in the next five years, what you're going to see a proportion improvements (Inaudible) which was not necessarily the case a few years ago. You are going to see a proportionate increase in our top-level sales. That separates what is an external environment which impacts potentially your net sales but not your margins internal issues. Let me confirm to you point-blank very clearly we are

ahead of everything we said we would be doing in our Investor Day. Our innovation is kicking in better and this is what is going to fuel and our margin and our business in the future.

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

Operator, next question, please.

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**Operator**

Chris Manuel, Wells Fargo.

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

Good morning. I want to follow up here because I'm a little bit confused on a couple topics. Look, I think coming into the year to come back to Adams point, you guys were anticipating a point -- I think it was 3%-ish growth with 2% of it being organic and 1% being price. And now as material costs are falling, my understanding was for a lot of your formulaic pass-throughs that it's basically passing through and that it doesn't have a dollar impact to Sealed Air.

It sounds now like maybe, Jerome, what you're saying is while you're still on track to get volume growth through the back half the year to make up that piece, the revenue growth might not be there because of some of the mechanisms are lower in price. Is or something perhaps different in the competitive landscape today that is not enabling you to -- that is cutting price perhaps more than what the formulas are moving that's impeding your ability to work on the net price side? What has changed, perhaps, from a quarter or so ago to today or this is progressed?

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

Chris, I don't know how to say that. I told you nothing. I told you that we had 3% growth in Food Care in North America in the second quarter. Not bad, actually. We had in the second quarter 3% growth.

I told you that we had slightly less than 6% negative growth in Latin America. If you take out Venezuela, again in Food Care, if you take out Venezuela, we would've had volume growth in Latin America. Things are stabilizing. We are very happy with what is going on in Brazil, the way our management, local management has turned things around. And very key, we are doing well in India. This is all about Food Care and we have about the same in Product Care and Diversey Care.

What I'm telling you here, we have given you a guidance of about [6850] for the total year in total sales. We have benefits from currency on one side and what I just talked about a few minutes ago is giving you the answer on the next selling price, which is impacted by the resin costs on the formula pricing. You were referring to competition, well look at our competition and look at how we are growing our volume compared to how our competition is growing volume. Product Care growing fabulous. Food Care going fabulous. And we are doing very well, we had a bumper year, a record year in Diversey Care at the very same time.

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

Operator next question.

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**Operator**

Chip Dillon, Vertical Research Partners.



**Chip Dillon** - Vertical Research Partners - Analyst

Yes. Good morning. Jerome, could you give us a quick view of how the beef businesses is looking for you guys in Food Care around the world and how things may have changed in the last call?

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

Let me start with the good news, which is that Australia beef cycle is stabilizing. It's only down 0.5% which is better than originally anticipated. Remember that it was exactly 12 months ago going gangbusters with a 10% growth in the slaughter rates, which was clearly unsustainable. And then went down over the fourth quarter and first quarter. Now it seems that it is stabilizing there.

You have the volumes in North America which have been going up and now you are going to see that it has been nicely going up in the second quarter. There seems to be a sign for very slight pause in the third quarter, but that's going to be because of the dairy second-quarter harvest. But overall, it is anticipated by over 3.5%. That trend is on and it is moving and you know that over the cycle, we are going to move from about 22 million head slaughtered to 27 million, 28 million by the end of the decade. That is on its way.

Then you look at the situation in Russia which is developing its heard, et cetera. Things are positive. By the way, our business down there is doing absolutely wonderful. When you look at how our local business is going, Russia is up by 15%. Spain is up by 8%. The exports of meat is out of Brazil are started to improve and things are going better. So I would say that what we were anticipating is really happening and I can, once again, assure you. We have a high share in that business and it will continue to gain share, thanks to our (inaudible) business and thanks (inaudible).

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

Operator, next question, please.

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**Operator**

Mark Wilde, BMO Capital Markets.

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**Mark Wilde** - BMO Capital Markets - Analyst

Good morning, Jerome. Good morning, Carol. Just to follow on Chip's question there, Jerome. Is it possible for you to give us some sense of the size of your North American beef business versus the size of your beef business in all of those this offshore markets?

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

No, we don't publish, we don't (inaudible) that, but we have giving indications of the overall market and the impact. Our globally -- our fresh red meat market is about 30% of our total sales. And that's as much as we give, but I have given indications in the previous earning calls about how to size this kind of business.

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

Operator, I think we have one or two more questions, please.

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**Operator**

Jason Freuchtel, SunTrust.

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**Jeff Danchell** - SunTrust Robinson Humphrey - Analyst

Good morning. This is Jeff [Danchell] sitting in for Jason Freuchtel. My first question is when do you expect to be able to quit making restructuring payments? Are you still anticipating generating \$775 million in free cash flow by 2018? On top of that, how should we see CapEx trending over the next few years?

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

Okay. I will take that. With respect to the guidance that we provided, just as a reminder the expense that we will see this year to hit the P&L is estimated -- the cash related to that at approximately \$110 million. We also within CapEx activity for our new campus and other restructuring investment of around \$140 million.

If we look at the cash flow as we move forward, that approximately restructuring cash payments for 2017 we previously stated around \$95 million and then some will trail into 2018, but we should be substantially done in 2017. We always remind everyone though that it is not as easy to forecast as it relates to certain actions we take in various countries. Some of our restructuring is also related to our footprint optimization for supply chain. The timing of some of that spend, capital and related expense, can be very lumpy.

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

Operator, next question, please.

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**Operator**

Anthony Pettinari, Citi.

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**Anthony Pettinari** - Citigroup - Analyst

Just going back to the discussion of weaker hospitality demand in Middle East, and I think you mentioned are Europe as well. Is it possible to size how much of a hit that was in the second quarter? Or maybe how much of a hit you might have baked into second-half guidance? Or what percentage of your hospitality demand in Diversey is in these regions where you have seen some impact from macro events?

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

I can take it. On Diversey Care, as you know, Q3 is our strongest quarter historically and the results are in line with that. Quarter three is a hospitality quarter. It's seasonal business, although the hospitality is only 10% to 12% of our business globally through the year. As you know, trends are weakening in Europe, Middle East and Africa because of the political unrest. You heard me say it is soft but in fact we did okay in quarter two and you all familiar what's going on. (Inaudible) and we suffer from all of this.

This is where we will experience a slow down. That's in quarter two you will see a slowdown of the pace of the growth in the Diversey Care. I remain confident (inaudible) the regional promise and the sector promise. As we went through, there have been times in our life (inaudible) and the business is extremely resilient. We had a very good season there. There have been through turbulence several times (inaudible). Anything to add, Jerome?

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

No, I would say that this explains -- we like to be fairly transparent on all of those things. It doesn't mean that has a huge impact. What we are saying is that we have as a result of all the good initiatives that we have taken, we had a bumper -- a fabulous quarter in the second quarter in Diversey Care. It's not going to be another record quarter in the third quarter, but we are pretty confident on our growth. We have had a compounded annual growth rates in the last two years of (inaudible) line of about 12% in constant currency and we are very optimistic that this going to continue.

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

Before we go to a last question, Lori cut me off before I could answer Jeff's question on the 2018 target. Just to go quickly back to that with respect to free cash flow, we're continued to drive towards the targets that we shared in June of 2015 at our Analyst Day, focusing on profitable growth and remain confident in the business' ability to deliver on the growth rate and profitability improvement. We have always been a strong free cash flow generator and expect to be as we move forward. Obviously, the risk relates to currency. That something that is out of our control but we always do our best to mitigate that and Jerome's talked about our actions from a pricing standpoint when we see devaluation.

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

Thank you. Operator I'm not sure there's one more person in the queue, but otherwise I think we actually have hit our time.

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**Operator**

Brian MacGuire, Goldman Sachs.

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**Brian MacGuire** - *Goldman Sachs - Analyst*

Thanks for squeezing me in. Jerome, I just wanted to ask you about the dimensional pricing for minute. Just curious how the customer adoption on that has gone so far. I know you signed some strategic partnerships during the quarter. Just wondering if you could expand upon what those will allow you to do that you couldn't do on your own. Finally, when do think we will start to see this kind of move the needle on the volume or price numbers for the Product Care segment? Thanks.

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

Dimension weight and pricing fee's a big boost to our business thanks to our B-plus and pro wrap technologies, et cetera. Our new (inaudible) innovation also providing all of this. Just to answer very shortly your question. You are going to see all of it in the third and especially in the fourth quarter because Q4 is in e-commerce quarter and all of the cards are set for a bumper quarter there.

I can't be more pleased with the transformation of that division. I have made no mystery that we're just completely revolutionizing this industry. Our customers are responding and not only are they responding to (inaudible) but they are responding to something which is very, very new, which is that they now start to understand that the packaging looks -- how you present your products through e-commerce packaging is very important. We have all kinds of studies. We continuing them. We are going to publish them at PACK Expo, showing that the image of the retailer, all of the e-commerce company is dramatically conveyed through the packaging, which is, by the way, something that you could very instinctively understand. As a result of this, our new (inaudible) is actually getting a lot of traction.

So come to PACK Expo. You will be very positively surprised.

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

Operator, I believe there's one question when the follow-up queue. It looks like George Staphos is trying to ask a follow-up question. If you see him in the queue can you please open his line?

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**Operator**

Mr. Staphos has just disconnected his line.

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

Thank you very much for everybody joining us today if you have any follow-up additional calls, please reach out to myself and I will be happy to follow up. Thank you.

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**Operator**

Thank you for participation in your today's conference. This concludes the presentation. You may now disconnect. Have a wonderful day.

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