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SEE - Q2 2017 Sealed Air Corp Earnings Call

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OVERVIEW:

Co. reported 2Q17 sales of $1.1b and adjusted EPS from continuing operations of $0.35.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q2 2017 Sealed Air Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Ms. Lori Chaitman, Vice President of Investor Relations. Ma'am, you may begin.

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

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

I would like to remind you that statements made during this call stating management's outlook or predictions for the future are forward-looking statements. These statements are based solely on information that is now available to us. We encourage you to review the information in the section entitled Forward-Looking Statements in our earnings release, which applies to this call. Additionally, our future performance may differ due to a number of factors. Many of these factors are listed in our most recent annual report on Form 10-K and as revised and updated on our quarterly reports on Form 10-Q and current reports on Form 8-K, which you can also find on our website at sealedair.com or at the SEC's website at sec.gov.

We also discuss financial measures that do not conform to U.S. GAAP. You may find important information on our use of these measures and their reconciliation to U.S. GAAP in the financial tables that we've included in our earnings release. Included in today's presentation, on Slide 3, you will find U.S. GAAP financial results that complement some of the non-U.S. GAAP measures used throughout the presentation.

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

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

Thank you, Lori, and good morning, everyone. We will cover our second quarter and first half results, key drivers for the second half and how we are executing on our strategy. We will also provide an update on our sale of Diversey to Bain, use of proceeds and our share buyback program. And as we review our quarterly results and near-term business trends, you will see that our long-term profitable growth strategy is coming to fruition, presently led by volume growth. You are now seeing renewed top line growth as a result of our Change the Game execution.

In Product Care, our stated strategy is to disproportionately grow our e-commerce and 3PL business and progressively transform it with automated fulfillment solutions that will over time give us equivalent margins to our industrial business.

In Food Care, we are benefiting from our focused efforts to deliver unique, differentiated, case-ready applications that align with protein processors' productivity imperatives and retailers' and consumers' demand for longer shelf life and waste reduction. Our execution on our growth initiatives will continue to gain momentum. We are making the right investments and taking the correct actions where needed to drive additional and sustainable EBITDA growth.

During our Analyst Day scheduled for the week of December 4, we will provide an update on our strategy and 2018 outlook and longer-term financial objectives.

In reviewing our second quarter for continuing operations, sales of $1.1 billion were up 4% in constant dollars after delivering a 3% increase in the first quarter. Food Care sales were up 3%, and Product Care sales were up 6%. The acceleration in both divisions was led by outstanding results in North America, with growth of 9% in constant dollars on the heel of 6% growth in Q1. This is the highest level of growth we have delivered in North America since 2010.

Adjusted EBITDA of $196 million increased from $182 million in the first quarter. Our divisions performed in line with our expectations, particularly in light of higher raw material cost and increased freight surcharges.

In Product Care, we were faced with increased cost of olefin, nylon, NDI and paper. And the price increases that we announced in the spring did not produce the yield that we were expecting. Therefore, we announced a second price increase effective September 1. Also, we have a temporary unfavorable mix impact in Product Care due to higher sales of utility products to our e-commerce and fulfilling operations. With that said, I cannot be more pleased with the execution of our automated solutions portfolio and the value it is bringing to our customers. Sales already increased more than 10% in the first half, and the pipeline continues to expand globally.

In Food Care, we continue to see increased market penetration for our proprietary, case-ready solutions, and we are capitalizing on the North American beef cycle. To be fully transparent, we have been surprised by the magnitude of the impact on our business from the beef inspection scandal in Brazil. And as you all know, we have been faced with higher resin costs, which takes time to recover, given our formula pricing. We just started to see a turnaround in formulas late in the second quarter. But for 2017, we are committed to achieving our financial objective and expect sequential EBITDA growth in both divisions in Q3 and Q4. Our second half results will benefit from a combination of higher sales of our differentiated solution as well as our price and cost actions.

With regards to our Diversey. Our sales of Diversey to Bain is on track to close, and we are committed to a successful separation. When we announced the sale in late March, we also increased our share buyback program to address the dilution of the transaction. Following our May 9 earnings call into August 1, we repurchased 6.5 million shares for $285 million using a combination of open-market repurchases and accelerated share repurchase program. We have approximately $1.9 billion remaining under our existing program. And once the transaction closes, we will have more flexibility with share repurchases; targeted M&A opportunity; and as previously discussed, we also plan to pay down our debt.

Let me now turn to Slide 5 and briefly review our regional performance for Sealed Air for the second quarter. North America accounted for 55% of our net sales and, as I noted, delivered impressive growth of 9% in constant dollars. Europe, Middle East, Africa, which accounted for 22% of our total net sales. Food Care sales in EMEA declined 1% year-over-year as positive sales trends in France, Italy and Spain were offset by weakness in the U.K., Russia and Germany. Product Care was down 2%, primarily related to rationalization efforts in France and the softness in the industrial sector in the U.K. Excluding this rationalization, Product Care sales in EMEA were -- would have been down less than 1%. And this is, by the way, the last quarter that we will report a year-over-year impact from rationalization. Asia Pacific represented 14% of net sales. In Food Care, APAC sales declined 7% due to the Australian beef market down cycle, which was partially offset by an increase of 11% in New Zealand and 6% in China. Product Care delivered double-digit growth in APAC, led by 15% growth in Japan and 11% in China. And Latin America, which accounted for 9% of net sales, declined 4% in constant dollars. Food Care was badly hit by Brazil and to a lesser extent, the economic weakness in Argentina. On the contrary, Mexico was our fastest-growing country in LatAm with 9% growth.

Turning to Slide 6, which highlights volume and price mix trends by division and by region. You can see that this slide -- from this slide that on a global basis, volume trends were up 4% in the second quarter led by 9% volume growth in North America. Price/mix was essentially neutral to our overall sales performance. In Food Care, I want to highlight that for the first time since the third quarter of 2015, North America delivered a favorable price/mix due to the continued adoption of our case-ready platform and the timing of raw material cost pass-through. And in Product Care, unfavorable price/mix in North America was partially offset by the positive impact of our rationalization in -- on product mix in EMEA.

And now let's turn to Slide 7 and review Food Care results in more detail. Food Care delivered $680 million in net sales in the second quarter and adjusted EBITDA of $146 million or 21.5% of net sales. As illustrated in the EBITDA bridge provided on this slide, higher volumes and cost management were offset by a negative price/mix and price/cost spread. Strength in North America was driven by improved protein production in all market segments led by the beef sector with a 5% increase in slaughter rates and the adoption of case-ready applications across all proteins. And looking ahead to Q3 and Q4, we expect North America to be our fastest-growing region, yet at a slightly more moderated pace. Keep in mind that our second half is facing tougher comps as cattle production started to increase in the second half of last year. Therefore, the industry is forecasting production to be at a more measured rate of 3% to 4%.

EMEA accounted -- which accounted for 22% of Food Care sales, was essentially flat compared with last year as it follows a tough first quarter. Food Care equipment sales returned to growth one quarter earlier than anticipated, and I would add that the pipeline for both materials and equipment is nicely improving. Multiple penetration for our case-ready solutions, including our Darfresh platform, ready meals and ovenables, will continue to increase. This is the primary driver for higher equipment sales and our anticipated improved performance in EMEA in the second half.

APAC accounts for 14% of Food Care, with Australia and New Zealand accounting for close to 70% of our sales in this region. Beef production in Australia was down approximately 12% in the second quarter as cattle farmers continue to rebuilding their herds. We have easier comps heading into the second half. However, we are not anticipating growth in this region until late 2018.

Latin America represents the remaining 12% of sales, with Mexico, Brazil and Argentina accounting for approximately 75% of Food Care sales. Our business in Mexico increased 9% in constant dollars as we continue to penetrate the market with our advanced solutions. Despite the current events in Brazil and the economic situation in Argentina, we continue to view LatAm as a region with significant growth potential. And as such, we recently closed the acquisition of Deltaplam, which is a $25 million net sales Brazilian manufacturer of flexible packaging. Deltaplam utilizes superior extrusion technology to create recyclable, high-value solutions, and this acquisition strengthens our position in Latin America, expands our portfolio of consumer unit packaged solutions and extends our reach into several new market segments. For the full year of 2017, we expect Food Care to increase sales 3% in constant dollars led by North America and improving trends in EMEA. We expect sequential growth in EBITDA in Q3 and Q4, largely due to timing of our raw materials cost pass-through.

Slide 8 highlights results for our Product Care division. Product Care net sales were $391 million, and adjusted EBITDA was $77 million or 19.7% of net sales. Similar to Food Care, you can see in the EBITDA bridge that higher volumes and cost management were offset by a negative mix and price/cost spread. North America and EMEA account for approximately 85% of Product Care sales. E-commerce and fulfillment are our fastest-growing sectors in both of these regions, and we are starting to see a rebound in some areas with industrial segments. Sales in APAC were up 10% in constant dollars, led by Japan and China, where we are experiencing its increased demand for our differentiated solutions portfolio, including Fill-Air inflatable and automated equipment. We are increasing our market presence in this region and have expanded our local manufacturing capabilities to support that growth.

For the full -- the year 2017, we continue to anticipate top line sales growth in the range of 3% to 4%. We expect sequential EBITDA improvement in Q3 and Q4 as a result of cost management, coupled with pricing actions. And as compared to last year, our third quarter is expected to be flat to down, with year-on-year growth returning in the fourth quarter. For the full year 2017, we expect adjusted EBITDA in Product Care to be essentially in line with 2016 as a result of segment mix and the timing of recovery of raw material cost.

Let me now call -- pass the call to Carol to review our net sales and adjusted EBITDA, free cash flow and our outlook for 2017. Carol?

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

Thank you, Jerome. Let's turn to Slides 9 and 10, which provide the sales and EBITDA bridges for Q2 and the first half 2017. Jerome has provided comments on our sales trends in the quarter and first half of the year, so my comments will focus on the bottom of Slide 9, which highlights our second quarter adjusted EBITDA from continuing operations on a year-over-year basis.

Adjusted EBITDA was $196 million. Volume contributed $19 million in Q2, which was offset by unfavorable mix and price/cost spread of $20 million. Operating expenses decreased $5 million, and restructuring savings were $2 million. Currency had an unfavorable impact on adjusted EBITDA of $2 million. Unallocated costs were $3 million in the second quarter 2017 as compared to $4 million in the second quarter 2016. Adjusted earnings per share from continuing operations were $0.35 in the second quarter compared to $0.37 in Q2 2016. Our adjusted tax rate for continuing operations in Q2 2017 was 39% compared to 32% in Q2 2016. The adjusted tax rate in the second quarter 2017 was impacted by our mix of earnings in higher tax jurisdictions.

On Slide 10, we present our first half sales and EBITDA bridges. Higher volumes in the first half of the year were essentially offset by unfavorable mix and price/cost spread.

On Slide 11, free cash flow is presented on a consolidated basis, which includes results from continuing and discontinued operations. For the 6 months ended June 30, consolidated free cash flow, excluding payments related to the sale of Diversey, was a source of cash of $93 million. CapEx was $93 million. Cash interest payments were $105 million, and restructuring costs were $33 million. Aligned with our typical free cash flow seasonality, working capital and other assets and liabilities were a use of cash of $110 million. Payments related to the sale of Diversey were $45 million, of which $33 million relates to a cash tax payment that secured certain benefits, enabling us to divest Diversey in a tax-efficient manner. This cash tax payment was included in our gross to net proceeds calculation, which we estimated cash tax payments in the range of $250 million to $275 million.

Turning to our outlook on Slide 12. We are on track to achieve approximately $4.3 billion in net sales or more than 3% constant dollar growth. This forecast assumes increases of 3% in Food Care and 3% to 4% in Product Care. We expect our top line performance to be driven largely by volume in both divisions. 2017 adjusted EBITDA from continuing operations is expected to be in the range of $825 million to $835 million as compared with our previous guidance of approximately $825 million. Corporate expenses are now expected to be $125 million, which includes $20 million of unallocated costs related to discontinued operations. As a reminder, these unallocated costs consist of functional support and related expenses previously allocated to Diversey Care and hygiene solutions that do not qualify for discontinued operations.

Our net interest expense for 2017 is estimated at $190 million, with the assumption that we pay down $1.1 billion of debt in 2017. Depreciation and amortization is forecast at $160 million. We continue to expect our adjusted tax rate to be 28% for the full year 2017. Adjusted earnings per share is expected to be in the range of $1.75 to $1.80 compared to our previous guidance of approximately $1.70. Our adjusted earnings per share outlook is based on 193 million shares, which reflects the weighted average full year effect of share repurchases through August 1.

Currency is not expected to have a material impact on net sales, adjusted EBITDA or adjusted earnings per share for the full year 2017. Our major currency exposures include the euro, which was approximately 13% of net sales in Q2; Australian dollar, 5%; and the Mexican peso, British pound, Canadian dollar and Brazilian real were each approximately 3% of net sales.

Turning to Slide 13, we will review our outlook for free cash flow. Our forecast for free cash flow in 2017 is approximately $400 million. This forecast excludes cash payments related to the sale of Diversey. To calculate our free cash flow outlook, we started with an estimated consolidated adjusted EBITDA of approximately $1 billion, which includes our full year 2017 outlook from continuing operations, plus $215 million from the first 8 months of discontinued operations assuming a September close. We anticipate cash interest payments to be $200 million and cash tax payments to be $160 million.

Restructuring cash costs, excluding efforts dedicated to reducing unallocated and stranded costs, are estimated to be $50 million. Capital expenditures are forecast to be $175 million, of which, $165 million represents Sealed Air continuing operations. Restructuring-related CapEx is expected at $25 million in 2017, and it is included in the $175 million total CapEx estimate. Working capital and other assets and liabilities is expected to be a use of cash of approximately $65 million. As you know, a large portion of our free cash flow is typically generated in the second half of the year, with the fourth quarter being our strongest quarter for cash generation.

This concludes our prepared remarks. Before I open the call to questions, I would like to note that our third quarter 2017 earnings call is tentatively scheduled for Wednesday, November 8.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Ghansham Panjabi from Robert W. Baird.

Mehul M. Dalia - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate*

This is actually Mehul Dalia sitting in for Ghansham. Why do you think the previous price increase didn't yield the amount it should have? And I guess, what gives you confidence on your September 1 price increase that you've recently implemented?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

Very good question. You can go and say competitive forces, et cetera. I think the more important thing was the importance of the price increases. We tend to talk about polyethylene so -- which year-to-date went up 7%. We are not so much opening -- open on the price increases on nylon, which were very, very hefty between the fourth quarter last year and now, about NDI for our polyurethane foams, which has doubled in China, for example, in the period of 12 months. And paper and for example, corrugated OCC went up 79% since July of last year. So they were very hefty, very big. We tried to pass important price increases, and some of that got passed, but not enough. So this is not very different than what happens from time to time. We had that 3 years ago, where we had to go back. We did. We're going back, and we are just going to execute that on September 1.

Operator

And our next question comes from the line of George Staphos from Bank of America Merrill Lynch.

George Leon Staphos - *BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research*

I hope you can hear me well. I just wanted to piggyback on the question of pricing and margin conversion. So Jerome, is it fair to say that in your view, the pricing efforts maybe not being where you had expected them to be was more a function -- in terms of their conversion to margin, the pace of the increase in input costs? Or, in fact, was it more competitive activity? And as you looked overall at the quarter, you had very strong volume growth in North America, congratulations on that. We would have expected more conversion in margin. What were the keys in terms of margin conversion relative to volume? Was it really the pace of inputs? Was it competition? What would you single out?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

All in all, actually, I'm really happy with what's going on. We had a strategy, which is about differentiating ourselves from competition and introducing our Change the Game strategy. You -- this is clearly ongoing because, actually, it shows in our product mix. New products don't necessarily have the margins that we'll have when they reach bigger volumes and things like this. New product introduction can be somewhat costly. But at the very same time, you're seeing this volume growth and these trends, which are very, very different from what you are seeing in the industry. And as a result of that, you've got to ask yourself, what's going on? What is going on is that the evolution of our portfolio is ongoing in that we are passing cost increases -- our cost increases. And this is something that we know how to do. And when we're not 100% successful, we just come back later on. And it's not so much about pricing of competition. It is about the execution on our strategy. Some are tactical things. And if we don't get it right, right away, we just come back. The reality is that in Food Care, our case-ready applications are ongoing everywhere. This is not a North American phenomenon, and we're seeing this through our equipment sales. Our equipment sales are strong, and our orders book is very strong. This is going to happen later in this year, and this is also going to continue next year. And what we're seeing there is that the -- it's about replacement equipment and it's also about new installs. This is not in North America only. This is in North America as there is a need for automation and newer and more performing equipment. This is the case in Latin America, which is making us also very positive about the fact that there are long-term strengths here to come. This is also in Australia and New Zealand. So what you're seeing is our customer investing in new type of equipment. It can be Darfresh On Tray. It can be Darfresh VSP technology, et cetera, but we see a very strong trend. What you're also seeing in Product Care is that we are going through a tremendous evolution of our portfolio and our segment sales. E-commerce and 3PL is geared to grow. It is, for us, a very important segment. And we are seeing equipment introduction again all over the world, replacing equipment in Japan. You saw tremendous growth in China, in North America. The orders book in Europe is also very strong. And this is something which is a fundamental trend in our portfolio. Short term, the numbers that I gave you, 79% increase in the last 12 months on paper; NDI, 30% up in Europe, 2x in China versus last -- the same time last year; nylon doubling and things like this, almost, are things that are short-term headwinds, but we know how to deal with that. We have proven to you over the past few years that we deal properly and we pass our cost increases.

Operator

And our next question comes from the line of Edlain Rodriguez from UBS.

Edlain S. Rodriguez - *UBS Investment Bank, Research Division - Director and Equity Research Associate, Chemicals*

A quick one on Product Care. I mean, you've talked in the past, and I think you mentioned that today, shorter term, like lower margins in e-commerce and 3PLs versus the segment margin. How quickly do you believe you can close that gap?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

So the pace is going to depend on our placement of new equipment and our reducing manufacturing cost of those equipment as we produce -- as we go through mass production. There is a trend in e-commerce, and this trend is that corrugated cardboard prices are going up dramatically and that as a result of that, you are going to see more and more pouchers which are enabling lower dimension and weight costing for shipping and lower cost of packaging. This is a trend. We have 2 very strong offering here. For corrugated -- for boxes, our I-Pack and e-Cube product line improved dimensional weight costing. And our StealthWrap and FloWrap equipment and the generations to come, which we are going to present at PACK EXPO later in the year, are tremendous substitutes for boxes. So we have a huge momentum in e-commerce 3PL, and this is, therefore, accelerating our sales growth in Product Care. Yes, we are -- because of the cost increases, we are having slightly lower margins. But as I said, we're dealing with those. So how quickly, we're going to show you. During our Investor Day week of December 4, we're going to show you our 3-year targets and plans. And you will see that what I said earlier in my prepared remarks, which deal -- with regards to margin in that segment, you will see that we intend to recoup and have similar margins than the rest of the portfolio over the next few years.

Operator

And our next question comes from the line of Anthony Pettinari from Citibank.

Anthony James Pettinari - *Citigroup Inc, Research Division - VP and Paper, Packaging and Forest Products Analyst*

Just following up on the previous question. The $20 million EBITDA hit you saw in the quarter from mix and price/cost spread, is it possible at all to say roughly what portion of that was mix shift and what portion is price/cost that, I guess, at some point, you might get recovered?

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

So we don't break out between mix and price/cost spread. It's a combination of both, Anthony. But we do expect, as Jerome has highlighted, to see improvement sequentially in our EBITDA growth as we move through the balance of the year, and we started to see the turn from the formula pricing for Food Care at the end of the second quarter. And we'll expect to have positive trends from that, obviously, depending on how resins play out for the second half of the year. And the price increases being implemented for the Product Care division will also favorably impact our improvement sequentially in our EBITDA margins as well as our overall EBITDA growth.

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

We are in a specialty business. You don't shovel your price increases onto your customers. You collaboratively work to introduce those solutions. And at the very same time, you have to pass your costs. We understand that, and it's just a question of time. It would have been faster if those cost increases would not have been that important. So have we absorbed a little bit of those? Yes, we have. But our customers know that we are passing them. This is why we are -- we have announced our September 1 price increase. And this is -- we have announced those in North America. We have announced those in Europe. So it's ongoing. In the end, we have a lot of momentum with our customers because they know that in both of those divisions, we are the innovator. And this is what allows us to work collaboratively, positively with them.

Operator

And our next question comes from the line of Arun Viswanathan from RBC Capital Markets.

Arun Shankar Viswanathan - *RBC Capital Markets, LLC, Research Division - Analyst*

Just trying to understand the guidance for the rest of 2017. So you increased the EBITDA range to $825 million to $835 million from $825 million, but you also lowered the FX headwind to 0 from 5. And you had other lower cost as well in Q2. I'm just trying to understand, is the guidance bump from the lower FX headwind and lower stranded costs? Or are you actually more confident in the Food Care and Product Care segments?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

So what you're seeing is that there are a few bubbles in the air right now, but the effect is more favorable than anticipated at the beginning of the year. Where is it going to be 3 or 4 months from now? I don't know. It just take to the euro. In January, the euro was at $1.03. It is at $1.18 today, and nobody would've thought in January that it would be at $1.18 today. So I'm not going to go and anticipate. But at this point in time, there is a positive bubble in the air, which is related to currency, and that's one thing we have as a positive -- on the possible -- as a possible positive. As a positive negative, we're a little bit concerned with polyethylene prices. We were anticipating that they were going to start to come down in September. And right now, we have some producers who are already just talking about price increases on the heels of possible hurricane. I mean, this is the last -- this is the most fun thing that you can hear, but there is a little bit of momentum there. You have some producers who have announced price increases for July that did not happen that's been announced for -- that's been pushed to August. And then you have some more announcements, which have been done for September. So you've got some of those gains going on right now. But we're a little bit concerned that as a potential negative, we will not have what we were expecting in terms of raw materials on polyethylene for September to December. So that's why we're seeing that. Next to that, we are -- our -- we're very determined to get our price increase through, and we might suffer a little bit from volume in some more commoditized segments in there. So that's what we're doing. Overall, these are short-term tailwinds or headwinds, very short term. We believe that our fourth quarter is going to be very strong. And the most important thing is to see that this Change the Game, which was in doubt in 2016 that we were believing was coming, is definitely coming. This is why we're having that growth momentum right now, which we didn't have in 2016 and which, in general, the industry doesn't have.

Operator

Our next question comes from the line of Adam Josephson from KeyBanc Capital Markets.

Adam Jesse Josephson - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Equity Research Analyst*

Jerome, 2 questions. First is just aside from paying down debt and buying back shares to offset the dilution once the deal closes, what is your just overarching strategic plan for the new company? Do you eventually plan to grow by acquisition? Or what exactly do you have in mind? Obviously, EBITDA over the last 8 quarters or so has been kind of flat to down. It's just been hard to generate organic EBITDA growth. So what do you have in mind longer term post the deal closing?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

So we did not have growth in 2016, sales growth and therefore, EBITDA. We are in transition, and we said that several years ago, there was a Get Fit and there was a Change the Game. It is very important to understand who we are. We're not a simple packaging company. We are solutions driven, and our margins will expand as we expand the value of our solutions to our customers. That is very clear, and there is a fundamental mega trend in the way we're working with our customers. They respond. We are the very big player in the sectors of protein and in the sector of Protective Packaging through our solutions. We are. That is the way we're going. So we're not going to only buy back share and pay down debt. We are starting to look at some potential acquisition targets. Multiples are very high. Generally speaking, acquisitions do not return shareholder value traditionally or most of them don't. There is a vast majority of acquisitions do not generate shareholder value in general. And when you look at the multiples right now, you have to be careful. This Deltaplam, very small acquisition, is a very good example of a small acquisition in a given country where we do believe that there is potential. It was the right time at the right price with the right equipment and technology. They have fabulous equipment, and that is going to be a very nice little acquisition. We are looking at some others. At the very same time, you have to understand that we've been very, very busy with the separation of Diversey. Therefore, we're not going to rush into things right away. We are working diligently and with discipline on the next step. But yes, we are going to be doing acquisitions over time.

Adam Jesse Josephson - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Equity Research Analyst*

Just one follow-up. You talked about acquisition multiples being quite high. I know you're buying back your stock just to offset dilution. But you guys are, call it, a 12, 13x EBITDA once you get the proceeds. I mean, do you think your stock is undervalued here? And if so, kind of can you explain why you think that?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

Well, you're not going to take me there. Do I personally think our stock is undervalued? Well, looking at the Investor Day as it is coming and our numbers, you will judge in December whether you think that our stock is overvalued or undervalued. I have my own opinion on those kinds of things. We are determined to become a value-add company to our customers with new solutions. We happen to invoice packaging. But our #1 asset is to add value to our customers because of longer shelf life, because of the very differentiated equipment that we're bringing. And with regards to protective and the e-commerce and industrial, the dim weight cost increases are important, and they become -- as e-commerce is growing very rapidly, you are seeing the absolute need of optimizing e-commerce packaging, and we are in a tremendous position to do that. So we are specialty of specialty. This is the way you are going to see us over time.

Operator

And our next question comes from the line of Tyler Langton from JPMorgan.

Tyler J. Langton - *JP Morgan Chase & Co, Research Division - Research Analyst*

Can you just, I guess, talk a little bit about the type of volumes that you're seeing on the industrial side of Product Care? I mean, are you seeing growth there? Or is it really mostly from the e-commerce and fulfillment?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

We're seeing growth in industrial sector. I'm not going to tell you that we're seeing a huge growth, but it has bottomed last year, and it is the second quarter that -- where we're seeing some volume -- some dollars and volume growth. I would call that in the range of 2%, 2.5%, which is quite good. Not everywhere. It is country by country. But we're seeing -- in China, we're seeing industrial growth. In some West European countries, we're seeing industrial growth. In the U.S., we're seeing a little bit of industrial growth. In the U.K., we're not. So really, you read the GDP, and you see what's going on. But we're doing quite well there.

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

Tyler, do you have a follow-up?

Tyler J. Langton - *JP Morgan Chase & Co, Research Division - Research Analyst*

Yes. I guess, Carol, just on the corporate expense. I think the previous targets were to get rid of the $40 million of stranded costs, eliminate 50% in 2 years. And then on the unallocated was to eliminate -- by 2018, I guess, those unallocated are a little bit lower. But has anything sort of materially changed with those targets?

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

No, we're still on track for that. The $20 million unallocated that was revised down from $25 million should not have any negative impact on 2018. We are already starting activities to address the unallocated as well as stranded costs. So we're confident that we'll be able to stay on plan, if not outperform what's been previously communicated.

Operator

And our next question comes from the line of (inaudible) from [BMW Capital].

Unidentified Analyst

I just wanted to go back to Brazil. Did we actually get a volume decline? Or can you just give us a little more flavor on what happened in the quarter in Brazil? And then secondly, I think you were embedding some recovery in the second half for Brazil. Is that still the case? And if so, some idea of how much?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

So in Brazil, you can -- you could see, if you look at the details, that charcoal consumption went down 11% in the second quarter and that local meat consumption is down about 20% in the second quarter as a result of the inspection scandal saga and the related items in the production of fresh red meat. This is -- this has been much -- the impact has been much bigger than anyone could anticipate. The exports have been impacted also. Our view is that this is temporary. We're seeing that it's stabilizing. We're seeing that you have equipment being sold and placed and ordered by red meat producers. And we are -- I was in Brazil 3 weeks ago and just talking to all of those customers, and they believe that the slaughter rates are going to start to increase sometime in the third quarter and into the fourth quarter. So this is not a long-term trend. This is specific to Brazil, given the scandals that have happened. Then you look at Argentina, and Argentina is seeing its consumption go up by 2%, which is very little. And you see the exports going up nicely at -- increasing in year-to-date by 38%, except that Argentina is not a big meat producer anymore. It is the #17 meat exporter -- sorry, not producer, exporter. It is the 17th largest exporter of meat and much smaller than it was a decade ago. That is for Argentina and Brazil. You are seeing -- we're seeing some positives in other countries. Very strong business in Mexico, where we have extraordinary position. I was there last week. I can assure you that the trends are very, very positive there. We're seeing nice trends in the second quarter in Chile for fish production, where we participate very nicely there. So all in all, total Latin America is negative as a result of the weight of Brazil, but we believe that this is temporary.

Operator

And our next question comes from the line of Brian Maguire from Goldman Sachs.

Brian P. Maguire - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Just had 2 questions, one following up on the last one. Just wondering if you could parse out, if any, of the strengths in the non-BRAZIL Food Care business you think might have been benefiting from some of the reduced exports out of Brazil. Is some of that had to come from other regions? And then as a second question, Jerome, just wondering if you could comment on the e-commerce margins. It's been weak for a couple of quarters. I think a couple people were alluding to it. But just wondering how you see the margins on some of the new product offerings. Can they be in that 20% plus range that you've been in, in the past once they started to get a little bit more scale and maturity?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

So starting with the exports, yes, the U.S. is dramatically benefiting from beef exports. You saw what happened in the first quarter. If I remember well, the April exports were at over 30% growth out of the U.S. So what Brazil did not export and given the cycle in -- negative cycle in Australia, the U.S. has been a huge winner in this. And you are seeing right now that prices of U.S. beef are very high, but this did not affect the exports. And exports have been freshened and frozen and could be for the month of June, have been almost 12% higher than a year ago. So this is very strong. It's positive also for us because all of that is packed with our bags, and we are really happy going -- to see what's going on there. With regards to e-commerce, yes, we have a product mix. Very nice. We have segment mix, which, at this point in time, is negative. We made no mystery about that already last year. What we were not seeing is the growth that we think. What you have to understand is that we're having positions. We're building with our new business with our customers. And what I talked about last quarter is something that is happening, which is that it takes time to go and sell equipment. It is a capital spending for our customers. This is not a consumable. So on one side, you'll have margin squeezed a little bit to the very strong and steep increases of raw materials, paper, polyethylene, nylon, et cetera, which are ingredients, which are raw materials for our mailers, for our phones, for our Bubble Wrap, et cetera. And -- but we can get over that. And next to that, you have this capital equipment. The very strong sign is that our sales of equipment in Product Care year-to-date are up 10% compared to last year, knowing that we had some StealthWrap and FloWrap and also made its core view, which were equipment which were prototypes shown in -- at PACK EXPO last year, we're seeing a very nice momentum in there that's going to accelerate. So we're producing a few of those machines. And when that accelerates also, we're going to see margin expansion.

Operator

And our next question comes from the line of Jason Freuchtel from SunTrust.

Jason Alexander Freuchtel - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

I think it'd be helpful to better understand your intended pace of share repurchases versus other uses of capital. Following the completion of the Diversey Care divestiture, should we expect to see a larger purchase in September? Are there any limitations of repurchasing shares in 2017 aside from the size of your share repurchase program? And I think you touched on this, but how do you think about the trade-offs of mitigating near-term dilution through share repurchases versus creating shareholder value through other uses of capital?

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

So, Jason, I'll start, and then Jerome may want to address the very last part of your question. But we -- there's nothing that would restrict us from being very active in the market following the close of the Diversey transaction. We have communicated previously that it is our intent to address the dilution. It will take some time. It won't all be done by the end of '17. And addressing that dilution includes not only the share buyback, but also improvement in our EBITDA as we move forward. So we do plan to be active in the market. We plan to continue to use a combination of tools such as the OMR as well as the ASR as we move forward. We model the share price based on our strategic plans and working with the board, set levels of that share price that we feel is a fair value for that share buyback.

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

And I made comments earlier about our discipline. In the years to come, we are going to be bigger through acquisitions also. We're not going to rush into it. We're going to make sure that we add shareholder value. This is a fundamental approach of this management team, and we pursue innovation and strategy execution along the lines that we have already announced. You are going to see, during Investor Day early December, how disciplined we are and the importance of this innovation. These are going to be complemented by regional bolt-ons in very strategic places, where we believe that we can add tremendous value to deploy our technology. You are going to also see over time that we are going to reinforce those 2 divisions and be very focused in making sure that we are the specialty of the specialty companies that we say we are becoming and that we already announced that we are going to become as a result of our Change the Game strategy. We're just not -- we're not seeing ourselves as just a simple, normal packaging company. We are solutions-driven, oriented there. Our automation is a big part of our offering with the razor/razor blade, and you're going to see more of that as the years are coming.

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

Operator, that concludes our call.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.

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