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SEE - Q4 2016 Sealed Air Corp Earnings Call

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OVERVIEW:

Co. reported 2016 net sales of $6.8b and adjusted EPS of $2.66. 4Q16 net sales were $1.7b and adjusted EPS was $0.76. Expects 2017 net sales growth on a constant dollar basis to be approx. 2.5% and adjusted EPS to be approx. $2.70.

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Sealed Air fourth-quarter 2016 earnings conference call.

(Operator Instructions)

As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Lori Chaitman, Vice President of Investor Relations. Please begin.

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

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

I would like to remind you that statements made during this call stating Managements 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 apply 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.

We also discuss financial measures that do not conform to US GAAP. You may find important information on our use of these measures and their reconciliation to US GAAP in the financial tables that we have included in our earnings press release. Including in today's presentation, on slide 3 you will find US GAAP financial results to 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?

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

Thank you, Lori. Good morning, everyone.

As you can see from our results, free cash flow and earnings per share performance were the highlights for the quarter and the year. We generated $631 million in free cash flow in 2016 and this was net of $276 million in CapEx and $66 million in restructuring. The significant upside relative to our guidance was primarily driven by our continued strong focus on working capital. We also delivered $0.76 in adjusted EPS in the fourth quarter and $2.66 per share in 2016 after repurchasing only 5 million shares in the first nine months of the year.

In the fourth quarter, both food care and Diversey care delivered organic sales growth of approximately 3% and adjusted EPS growth of 16%. In food care, protein packaging volumes in North America increased more than 6%, our hygiene business increased sales in constant -- by 5% in constant dollars and we delivered favorable price mix on a global basis. Diversey care's growth was primarily driven by favorable price mix of over 2% and volume increases of 7% and 3% in Asia Pacific and North America, respectively.

Where we fell short in the quarter was our top-line constant dollar growth in product care, which weighed on our adjusted EBITDA performance. We knew December would be a critical month for us with most of our global growth depending on our eCommerce business, and we were happy with our eCommerce volume growth of 15% in the quarter, but this was offset by weakness in global industrial GDP and our product rationalization efforts. Despite the shortfall in sales, adjusted EBITDA margins increased 80 basis points over the last year to 22.3%.

As I'm sure you all know, I am not happy with our overall organic growth of 1.3% in 2016. We underestimated the impact of the economic and geopolitical environment in Latin America and the Middle East, the depth of the down cycle in the Australian beef market and the weakness in the industrial world. But at the same time, I'm very pleased with the agility of our organization, its ability to deliver bottom-line results and properly prioritize. I'm also extremely pleased with the innovation pipelines and the number of new disruptive products that we are gradually introducing and launching across the three divisions.

Our total net sales outlook for 2017 of 2.5% constant dollar growth reflects approximately 3% of growth for food care and product care and 1% for Diversey care, which accounts for the short-term impact of the expiration of the brand licensing agreement with SC Johnson. Internally, the actions that we're taking to drive growth in 2017 are purposeful. We will leverage our strong global presence in food care and continue growing at the faster pace than the protein packaging markets. We will capitalize on the eCommerce opportunity with our disruptive technologies and the underlying constant dollar sales growth for Diversey care, excluding SCJ, is expected to be at an all-time high in 2017 and our plans to rebuild our consumer brands business is very well under way.

We recognize that 2017 will prove to be a critical year for Sealed Air, particularly as we proceed with our plan for the separation of New Diversey. As you know, we disclosed back in October that we are pursuing a tax free spinoff and today we announced that we are also exploring all the strategic alternatives, including the potential sale of New Diversey, and we are confident that the separation is the appropriate next step in our Company's transformation and will enable us to unlock meaningful value for customers and shareholders. At this point, we are very limited on what we can share about the separation process and thank you in advance for respecting our need to significantly limit our comments.

Now let me turn back on the full-quarter and year-end performance. On slide 5 and 6 of our presentation you can see our performance by region for the fourth quarter and the full year. In Q4, organic sales growth was 2%, with positive trends across all regions. Organic growth in North America was driven by an increase of approximately 4% in volume.

Constant dollar growth in Latin America was a result of our pricing efforts to offset currency devaluations. In EMEA, positive trends in food care and Diversey care were partially offset by declines in product care. Performance in Asia was very strong in Diversey care at 7% constant dollar growth, but the total Company's results were impacted by a 10% decline in Australia due to the beef market down cycle. Australia accounted for approximately 7% of food care net sales in the fourth quarter.

For the full year 2016, net sales increased 1.3% as compared to 2015 on an organic basis. Constant dollar growth in Latin America was 9% and organic growth in EMEA was 2%. North America and Asia Pacific were essentially unchanged as compared to last year.

Turning to slide 7, which highlights volume and price mix trends by division and by region, you can see that from this slide that on a global basis, volume trends were flat to up 2% throughout the year. Let me highlight that our volume in North America has accelerated throughout the year, with 4.2% growth in the fourth quarter on the heals of 3.8% in the third quarter. We delivered favorable price mix in each quarter throughout 2016 as a result of positive trends in food care and Diversey care.

Now let me turn to slide 8 and review food care results. Positive volume trends in North America and EMEA, favorable price mix, and disciplined cost management were key contributors to our fourth-quarter organic sales growth of 3% and adjusted EBITDA margin of 21%, an increase of 250 basis points over last year. We are seeing the benefit of higher beef volume and market share gains through the continued global adoption of our new products. Similar to the third quarter, these positive trends were offset by volume decline in Australia and Latin America.

For the full year 2016, food care delivered $3.2 billion in net sales, or 2% organic sales growth. Packaging solutions were $2.6 billion and hygiene solutions were $600 million. In adjusted EBITDA, food care reported $661 million, or 20.5% of net sales, packaging solutions delivered adjusted EBITDA of $593 million, or 22.7% of net sales, and hygiene delivered the remaining $68 million of EBITDA, or 11.3% of net sales.

I'd like to highlight that the hygiene business has improved its margins by over 400 basis points on an as-reported basis in 2013 and has a very bright future as part of New Diversey by providing market-leading solutions and technology advancements, enhanced by acquisitions of Dry Lube and Ciptec. For the full 2017, food care sales are forecasted to increase approximately 3% in constant dollars. Our core business is expected to continue growing faster than the market, with more contribution from our Change the Game initiative, particularly OptiDure and Darfresh.

Latin America is starting to stabilize and Australia will continue to be impacted by declines in the beef market, also to a lesser degree as compared to 2016. Adjusted EBITDA is expected to increase at a faster pace than sales and similar to 2016, we expect the Q1 to be our low point for sales and EBITDA.

Turning to Diversey care's results on slide 9, you can see that net sales were up 3% in constant dollars in the fourth quarter and up 2% for the full year. Adjusted EBITDA margins of 13% increased 180 basis points in the quarter and for the full year, margins increased 120 basis points to 12.8%. Sales growth in the quarter and throughout the year was driven by increased sales from existing and new customers in North America, Europe, and Asia Pacific.

In Western Europe, most of our largest countries experienced positive constant sales growth. In Asia Pacific, growth was lead by strength in China, India, and Southeast Asia. Throughout the Middle East and parts of Europe, the hospitality sector struggled in the second half as a result of declines in tourism and occupancy rates due to terrorists attacks.

In 2017, Diversey sales are expected to increase approximately 1% on a constant dollar basis, with adjusted EBITDA margin in line with 2016 results. As I noted earlier, our plans are well under way to mitigate the impact of SCJ and sales from the core business excluding SCJ is growing on an accelerated pace. This growth is a direct result of the investment that we have made in our product portfolio, go-to-market strategy and sales organization.

Slide 10 highlights the results from our product care division. In the fourth quarter and full year, product care net sales on a constant dollar basis were essentially unchanged as compared to 2015. Adjusted EBITDA margins increased 80 basis points to 22.3% in the quarter and 90 basis points to 21.8% in 2016. In the fourth quarter, product care delivered strong volume trends in North America, which were partially offset by declines in Europe. Adjusting for product rationalization, North America volumes were up approximately 5%, driven by strength in our eCommerce segments and similar to the third quarter, our performance in Europe was negatively impacted by the industrial environment.

In the latter half of 2016, we have been introducing an unprecedented number of new technologies and solutions and as a result, we are experiencing significant interest from our customers, which mainly you saw firsthand at Pack Expo -- many of you saw at Pack Expo in early November. Sales for these products, including I-Pack, flow wraps, sales wrap, inflatable Bubble and auto mailers are expected to ramp up in 2017 and contribute to both our top- and bottom-line growth.

We will continue to invest heavily in the business to support new product launches and global growth opportunities, but for our industrial-based business, we are planning for sales to be relatively in line with 2016. Also, keep in mind that our rationalization efforts are behind us but that you will not see a true apples-to-apples constant dollar sales growth rates until the second half of 2017. For the full year 2017, we anticipate year-over-year constant dollar sales to increase approximately 3% and similar to food care, adjusted EBITDA is expected to increase at a faster pace than sales.

Now let me pass the call to Carol to review our net sales and adjusted EBITDA, free cash flow and our more details on our outlook for 2017. Carol?

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

Thank you, Jerome. Turning to slide 11, let me walk you through our net sales performance on a year-over-year basis. We delivered $1.7 billion in net sales in the fourth quarter and $6.8 billion for the full year 2016. Volume contributed $26 million and $50 million to top-line growth in the quarter and for the full year, respectively.

Favorable price mix was $9 million in Q4 and $41 million for the year. Unfavorable currency translation was $40 million in the quarter and $243 million in 2016. Food care divestitures impacted sales by $5 million in Q4 and $102 million for the full year.

On slide 12, you can see that our adjusted EBITDA was $304 million, or 17.5% of net sales in the fourth quarter, and $1.16 billion, or 17.1%, for the full year. Mix and price cost spread was $13 million favorable in Q4 and $46 million in 2016. Volume growth contributed $9 million to the quarter and $19 million for the year. Restructuring savings were $10 million and $43 million in Q4 and 2016, respectively.

Operating expenses increased $6 million in the quarter. For the full year, operating expenses increased $69 million, most of which is related to compensation inflation. Currency was a negative $4 million in Q4 and a negative $35 million in 2016. For the full year, divestitures had a negative impact of $21 million on adjusted EBITDA.

Adjusted gross margins improved 60 basis points in the fourth quarter and in the full year, resulting in 36.8% margin and 37.4% margin, respectively. We were pleased with this performance in light of the volatility of input costs and timing of raw material cost pass throughs in food care. Adjusted earnings per share were $0.76 in the fourth quarter and $2.66 for the full year. Currency translation reduced EPS by $0.01 in the quarter and by $0.11 for the full year.

Our adjusted tax rate in the quarter was 18% and for the full year 21.6%. We repurchased 4.7 million shares for approximately $217 million in 2016. We still have approximately $667 million available under the Board approved share repurchase plan and expect to return to share buybacks following the New Diversey separation.

Turning to slide 13, free cash flow was a source of cash of $631 million. Working capital and other assets and liability were a source of cash of $151 million. CapEx increased to $276 million, which includes $100 million related to the investment in our Charlotte campus and $30 million related to other CapEx restructuring activities. CapEx in 2015 was $184 million.

As Jerome commented, the strong free cash flow performance was driven by optimization of our working capital, including the implementation of our new supply chain financing program. Our procurement team and our credit and collections team exceeded their targets for the fourth quarter, generating more than $80 million improvement above our prior guidance for free cash flow.

Now, turning to outlook on slide 14, in constant dollars, net sales are expected to increase approximately 2.5% for the full year 2017. This forecast assumes approximately 1% constant dollar growth for Diversey care and approximately 3% growth for both food care and product care. While both volume and price mix are expected to be contributors to 2017 growth, we expect more growth to come from accelerated volume trends throughout the year.

We estimate that currency translation will reduce net sales by approximately $220 million, or 3%. Our major currency exposures in 2016 included the Euro, which was approximately 18% of net sales, the British pound, which was 5%, Australian dollar was 4%, and the Brazilian real, Mexican peso and Canadian dollar were each approximately 3% of net sales. 2017 adjusted EBITDA is expected to be approximately $1.18 billion. Please note that contrary to last year, interest income of $10 million is excluded from our EBITDA guidance. Unfavorable currency translation is estimated to be approximately $40 million. As a reminder, a 5% swing in the Euro has an impact of approximately $10 million on adjusted EBITDA.

Our medical and corporate expenses are expected to be a net expense of $90 million for the full year 2017. Our net interest expense for 2017 is estimated at $215 million. Depreciation and amortization is forecast to be approximately $275 million. Adjusted earnings per share is expected to be approximately $2.70, assuming unfavorable currency translation of $0.14.

We expect our adjusted tax rate to increase to approximately 23%, which will negatively impact year-over-year EPS by $0.05. Our forecast for EPS is based on a weighted average 197 million diluted shares. We are forecasting free cash flow to be approximately $600 million in 2017. We expect working capital and other current assets and liabilities to be a source of cash as we continue to progress on inventory management and our supply chain financing program.

Cash restructuring payments are estimated to be approximately $85 million to $100 million, depending on the pace of addressing stranded costs. We expect to realize restructuring savings of approximately $40 million in 2017, with additional savings in 2018. Cash interest payments are expected to be $210 million. Cash tax payments are estimated to increase to $175 million.

CapEx is expected to return to a more normalized level of approximately $185 million. Our outlook for free cash flow in 2017 does not include any material fees associated with the separation efforts of New Diversey. The cost associated with the separation is expected to be managed within existing programs and funds generated as a result of the separation.

That concludes our prepared remarks. Before I open the call to questions, I would like to remind you our first-quarter 2017 earnings call is tentatively scheduled for Thursday, April 27. With that, Operator, can you please open up the call for questions?

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

The first question is from Ghansham Panjabi of Baird.

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

Hey, guys. Good morning.

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

Good morning.

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

I guess kind of looking back at 2016 and core sales growth, it was almost 50/50 divided between price mix and volume. Is that the right way to think about 2017 as it relates to food and product care growth of 3%? Of the volume bucket for food and product care, those two businesses, how much do you think will come from new products, OptiDure, Darfresh on Tray and all the many new products you're on that you introduced in product care late last year? Thanks.

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

Good question. No, I don't think that is going to be the growth, is going to be 50/50. I think that the growth is going to -- actually, the way we are seeing growth is definitely more towards volume growth than price mix. That's mainly how we see it happen.

We are dealing with resin price, which is flattish. It's coming up in the first quarter and so -- but we believe that those are going to come down during the year. It really is volume growth that we are looking at.

Operator

The next question is from George Staphos of Bank of America.

George Staphos - *BofA Merrill Lynch - Analyst*

Hi, everyone. Good morning. Appreciate all the details.

I guess if you could go back to the prior quarter and what your internal views might have been for 2017 and as we then fast forward to the current time, Jerome, what if anything has changed the most for you, either positively or negatively, in terms of the outlook for 2017? Recognizing volume is going to be, in your view, an important contributor to top-line growth, are there any other elements to your strategy that you might be working a little bit more aggressively this year, given that you said that you weren't entirely happy with the performance in 2016 as well? Thanks.

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

Okay, thanks, George. Good question again.

No, I'm not happy. I'm not happy with the growth that we had and I am disappointed. Why? Because we didn't have a very strong, or we didn't have much growth in the first half, a little bit in the third quarter. It's improving somewhat in the fourth quarter but it is not at the levels that I was expecting.

Yes, indeed, we have been surprised by a few things. Number one is the global GDP. You go to Bloomberg on February 2016 and you see that global GDP was forecasted at 2.4% and it ended up -- global ended up at 1.9% with the US at 2.4% also, which ended up also at 1.9% and Europe, which was forecasted at 1.9% and it is at 1.6%. For 2017, the trend seems to be the same. Last year, 2017 was seen to have a global GDP forecast for 2017 a year ago at 2.6% and today's projection is 2.3%.

We can take note of these kinds of things and what has disappointed me is the lack of industrial GDP growth. In a world economy which had 1.9% global GDP growth, this is probably one of the worst years that we have experienced in many years, actually. It's always next year which is supposed to be better, but do you know what? We're not counting on it. In our forecast at this point in time, we are considering that the industrial world is not going to be better and if it comes as a good surprise, indeed, we would love that.

Back in June of 2015, during Analyst Day, almost two years ago now, or 18 months ago, we were seeing a macro world which was going to be better. The reality that in 2016 Lat Am is much worse than -- has been much worse than we thought it was going to be. And again, industrial market has been much softer. So that's how we plan.

What am I happy with? Very frankly, we have invested a lot of money in new products and in R&D and marketing to position new products. At Pack Expo late October, we have shown and we have announced quite a few innovations which are going to be -- which are disruptive and are going to make an impact. But what you had seen at that time for several of those equipment are products which it was the first production, so we did not launch, we launched it at that time and now in 2017 we have to ramp up those things.

The thing that we all need to understand is that we are doing very different things than we were doing a few years ago. A few years ago, we were launching just simple products. Today, we are launching solutions, we are launching equipment (inaudible). Those are higher margin products, but the issue of this is that it takes a little bit of -- the sales cycle is a little bit longer. When you work with meat processors and retail chains in Europe, in North America, to establish Darfresh on Tray or those kind of extraordinary solutions which have a very, very clear mega trend, it just takes time.

We have talked about that. We have talked that with some of those (inaudible) that the cycle between the first time we talk about that -- about such a product or a solution and the production or the go let's produce after ordering the equipment, this is two years. It's the same on product care. One thing was to sell a little inflatable machine. Another thing is to do operational excellence with our eCommerce partners and improve all of the organization and show them how much value they can create out of sell wrap, flow wrap and I-Pack and those kind of things.

I'm disappointed with the overall world economy support. I'm extraordinarily excited, which is why during the year 2016 we have invested so much money in R&D and in marketing to position those new solutions, because I really believe that this is disruptive and our expected growth is probably delayed, has probably been delayed by a few quarters.

I'll conclude, because this is very key, that we've seen an acceleration of the volume growth in Sealed Air in the fourth quarter. We had the highest volume growth in food care of all the quarters in the fourth quarter. Same for Diversey. Almost the same, we had a very strong third quarter in product care but same -- almost the same in product care.

So it's absolutely not doom and gloom, but we have to be realistic and 2017 is going to be mostly about volume. Talking about Diversey, let me remind you what I said earlier. It is going to be our fastest growth business -- fastest growth year if you exclude the short-term impacts of the SCJ, and we told you why this agreement did not get renewed is that it was not fitting either company. We wanted access to wider markets, to consumer markets, to all kinds of do-it-yourself type of markets and SCJ didn't want that and therefore, we agreed to disagree.

Yes, it does have a short-term impact but this was really the right thing to do for the Company. We have lots of great plans in place and you're going to see, outside of this SCJ business, we are going to have the highest growth that we ever had in Diversey care.

Operator

The next question is from Scott Gaffner of Barclays.

Scott Gaffner - *Barclays Capital - Analyst*

Thanks. Good morning, Jerome. Good morning, Carol.

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

Good morning, Scott.

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

Morning.

Scott Gaffner - *Barclays Capital - Analyst*

Just looking back at the presentation from late last year when you talked about the spin transaction for the Diversey business, and obviously it was a tax-free spin and you mentioned in the release you're including possibly doing a potential sale. Are you okay potentially realizing the lower proceeds simply due to tax leakage for the business now just because it does maybe get you to your goal of simplifying the operating structure? How should we think about that?

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

Well, the way you should think about this is that we are going to be counting properly and we are going to do what is the best for our shareholders. I'm not announcing a sale. I'm saying that we are pursuing the dual track here.

Operator

The next question is from Edlain Rodriguez of UBS.

Edlain Rodriguez - *UBS - Analyst*

Oh, thank you. Good morning, guys.

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

Good morning.

Edlain Rodriguez - *UBS - Analyst*

Just one quick question on resin costs. What are your expectations for 2017? They seem to be staying higher than expected and (inaudible) prices do or whether we'll see a decline in the second half of the year. How are you combating those rise in resin costs?

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

The market is choppy. You've seen that there's been increases in September which (inaudible) back two months later. You see that the $0.05 in February is going through. We'll have to see whether the $0.06 is going through. You'll have polyethylene prices which are high, you'll have turnarounds which are fabulously orchestrated and at the very same time you'll have some high capacity or lots of capacity which is coming later in the year.

So our view on the full year is that prices are going to be flattish and formula prices have a little bit of lag. Is this going to impact the first half a little bit with those price increases announced? Yes, but for the whole year, we are counting on flat sales, which is why, by the way, we are not going to -- we are not having a lot of price in our growth forecast. We have price mix, but we don't have very much of that.

What you have to know is that we are very diligent. We have announced a price increase effective March 1 in our product care business. We are looking at systematic price product line by line. It is not going to apply across the board, because it's going to apply to polyethylene-based products and we don't have only polyethylene-based products in product care. We are looking at similar things where we don't have formulas in other divisions, and by definition, we're not in the business of absorbing those cost increases.

Operator

Next question is from Adam Josephson of KeyBanc Capital Markets.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Thanks, good morning, everyone. Just one on the SC Johnson agreement. Can you just talk about what the adverse impact on Diversey's EBITDA is from the termination of that relationship and how the new Diversey pro forma EBITDA now compares to the $305 million that you laid out when you announced the spin? Thank you.

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

We have never given, and we are not going to be giving, the specific detail on this contract, but I have said that we're expecting 1% sales growth and flattish EBITDA in 2017 out of Diversey care. As a result of this, given that we are having on the non-Diversey care -- non-SC Johnson business, we are having higher growth than what we had in total in 2017 -- in 2016.

Operator

The next question is from Brian Maguire of Goldman Sachs.

Brian Maguire - *Goldman Sachs - Analyst*

Good morning. Thanks for taking my question. Just wanted to clarify a couple things on the 2017 outlook. Carol, first I think I heard you mention it was probably a $10 million basis adjustment in the way that you're calculating EBITDA for 2017. That's a negative on there. Then why not give a range on it, given some of the uncertainty out there? Historically I think you'd given a $20 million range. Is it appropriate to think about it as $10 million range around the point estimate? Finally, on the first quarter usually, at least in 2016, you saw about a $40 million drop in EBITDA from 4Q to 1Q. Are you thinking about a similar amount of seasonality this year? Thanks.

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

Thank you, Brian. Yes, we highlighted that if you looked at it apples to apples in how interest income would be treated, the [1180] would be $10 million higher, including interest income, so we have made that change in our guidance and we'll reflect that in our actual results as we move forward. If you want to have a number for comparison purposes, the interest income that was included in the adjusted EBITDA reported for 2016 is $13 million of positive interest income and we'll reflect that change in Q1.

With respect to providing a range, we just felt that it was probably cleaner to pick a point of the $1.18 billion and work towards that. It helps with our modeling as well as yours and our investors to do that, so that's what we've done. Then just we highlighted and called out the various moving pieces and I think one of the changes versus maybe what you were looking at before is definitely on the share count and the currency in SCJ. All three of those are causing a bit of headwind if you look at probably street expectations versus the numbers that we reported this morning as our outlook.

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

What you're having here is in 2017, we have included basically $50 million of negative. It's $40 million from currency and it is $10 million, actually it's more, it's $13 million on the interest income, so you have $53 million right there. Next to that, you have a very transparent explanation of flat Diversey care in terms of EBITDA for the simple reason that we have a temporary situation with this consumer goods contract. This compared to a double-digit EBITDA growth in constant currency every single year in last four years in Diversey care.

So that's what's going on and should currency be better than the $40 million impact, we are going to be obviously happy about this. It is pretty choppy. Remember, the euro was at $1.03 four weeks ago, or three and a half weeks ago. It is at $1.07 and those kind of things. You have quite a few movements of currency at this point in time. But you have $53 million of negatives right away as I just compare those two things on interest income and currency.

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

Brian, with respect to your question about Q1 2017, we did highlight in our comments that we do expect it to be the low point in terms of EBITDA earnings in 2017 and we will accelerate as we move throughout the year.

Operator

The next question is from Tyler Langton of JPMorgan.

Tyler Langton - *JPMorgan - Analyst*

Good morning. Thank you. Just had a question on the currencies. I don't know if I missed it, but could you give details on what rates you are assuming in your guidance? Carol, I think you mentioned the euro sensitivity, but could you give any sensitivity around your exposure to the other currencies? Thanks.

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

Yes, so if we look at for 2017, we have assumed the euro at $1.05 and the great British pound at $1.25. Those would be two of the major currencies. I called out the percentages in my comments that the euro represents about 18% of net sales and the British pound was 5%. The next highest currency that impacts us is the Australian dollar at 4% of our net sales and we are assuming a rate of $1.33 for 2017.

Operator

The next question is from Phil Ng of Jefferies.

Phil Ng - *Jefferies & Company - Analyst*

Hey, guys. Just a quick clarification question. I've seen the comment around looking at strategic alternatives. Is this limited to Diversey rather than the entire Company? Separately, just given the growth you're seeing in 2017 from new products, the beef cycle turning and being done with pruning on the industrial side, I would have thought mix would have contributed more in 2017. Can you talk about how you think about mix the next few years? Thanks.

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

Could you just give a little bit of more color to the question, specific question? Mix, what kind of mix are you referring to?

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

Referring to (inaudible) in terms of price mix in 2017.

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

Oh, okay. We're not giving those kind of details of price mix for existing products or new products, et cetera. Generally speaking, what you have to consider is that our solution-based offering is having higher margins, because as we are creating with some of our solutions extraordinary value for our customers, we are in a mode of sharing those. We have growing examples of those and when you take products like OptiDure where you have less leakers production level, where you have more additional sales because of the shine of the product and tightness in the vacuum, when you have Darfresh on Tray which reduces dramatically the shrink at the retailer level and improves the shelf life and therefore the supply chain.

When you have products like flow wrap and self wrap whose number one benefits are an I-Pack, number one benefits are to reduce the shipping costs, because they have less -- they generate less cube, which is, by the way, in eCommerce the number one cost. When you take the whole packaging operation, the number one cost is freight, is shipping cost. So when you can improve all of those kind of things, you are in a position to obviously enjoy better margins if you can demonstrate those values.

That's how we are going, but having said that, we aren't giving details on the margins of existing products versus the new products, although during our Investor Day in September we'll be able to give an update of how we're progressing and with our Change the Game offering.

Operator

The next question is from Anthony Pettinari of Citi.

Anthony Pettinari - *Citigroup - Analyst*

Good morning.

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

Good morning.

Anthony Pettinari - *Citigroup - Analyst*

Just a question on product care. If a third of that business is eCommerce, third-party logistics, that's presumably growing double digits. Can you help us square that with the 1.5% overall volume growth in the queue. Then maybe just following up on Phil's question, if I look at the three businesses for the year, product care had the best volume growth but the weakest price mix. Is that a case where some of the new sales gains in eCommerce are coming from lower margin products? Any color there you could give would be helpful.

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

Yes, you're correct that the volume growth in product care, total year, has been 1.4% in 2016 versus 1% in food care. It's not that like this in the fourth quarter because it was food care which had the highest growth. Having said that, the price mix has also been different and the price mix has been more unfavorable every single quarter during 2016. This is because we don't have price formula, so depending on the mix and also depending on the type of products or resin prices, we have to adapt our pricing in a very different way, because those are very different businesses with our customers there.

Operator

The next question is from Chris Manuel of Wells Fargo Securities.

Chris Manuel - *Wells Fargo Securities - Analyst*

Good morning. I had just one question on Diversey, but there's a couple little pieces to it. First, the 250 or so you did this year, remind us, because I forget, what the corporate allocation element is in there, so what should I think of the real EBITDA number is. Then if I heard you correctly, earlier in the call you said that share repurchase would be sort of an hold until you made a decision or got some clarity there, whether it's a spin or sale. The last piece is timing. Has anything changed from it being a kind of third-quarter event?

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

Chris, I'll start. With respect to allocation, the costs that fit within the businesses that you see within our segment reporting, they primarily represent the cost to operate that business and that's true for all three of the businesses, so I would not think about it having a huge amount or even a midsized amount of allocation that's not needed to support the business. We've made a decision all along that we keep a lot of the more corporate hype costs, they sit in that other category where we have corporate and the other medical and new ventures, small business. What sits there within the segment is largely what it requires for that business to rate within Sealed Air.

Then with respect to the separation itself, we've referenced the second half and there's really not a lot more we can say on that separation. It's proceeding as Jerome has described.

Operator

The next question is from Jason Freuchtel of SunTrust.

Jason Freuchtel - *SunTrust - Analyst*

In terms of your free cash flow guidance, I think total cash restructuring expectations over the course of 2016 and 2017 came down relative to what you previously indicated. Is the difference primarily being driven by the separation of Diversey care and will restructuring payments go away in 2018? Additionally for CapEx, is $185 million an appropriate level to assume going forward for just the food care and product care segments?

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

Okay, so Jason, thank you. With respect to the restructuring, you're correct. The amounts are lower than what we had originally forecast, even as late as Q3 and you're also correct that it is largely driven by the separation plans. I made the comment on our Q3 earnings call that we would manage initial costs within the existing program as it related to starting to address some of the stranded costs and that's what we've looked at.

We've also been very diligent about going through the program and prioritizing based on what to give near-term returns and also recognizing that the separation of a business of this size for New Diversey also takes commitment and focus and we want to make sure we optimize value for the shareholder and we continue great service for our customers. That's also caused a prioritization and it decreased the amount we spent in 2016 and shifting to 2017. In total, the amount for restructuring is not changing. We would expect to have some spend in 2018 but also savings in 2018 based on this shift but we will be taking a hard look as we move throughout the first half at this program in what will add the most value for Sealed Air.

With respect to the CapEx, we'll provide more color on forecasted CapEx for food care and for product care post identification of the separation.

Operator

The next question is from Mark Wilde from Bank of Montreal.

Mark Wilde - *BMO Capital Markets - Analyst*

Good morning, Jerome. Good morning, Carol and Lori. Just wanted to swing back to the product care business. Can we get some sense of whether in general the eCommerce business right now has lower margins than the segment overall? Also, I'm just curious why volume isn't a little bit better given that we're seeing things like the ISM Index for manufacturing pick up, we're seeing some pick up in other forms of industrial packaging, so maybe your thoughts there.

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

Okay, so what we do, what product care has clearly suffered from is from the mix between industrial and eCommerce and 3PL. Let me address the second part of your question first, which is the Index. Yes, in generally speaking, we can see some ratios which are hanging in there. The reality is that we have the bulk of our business, about 85% of our business, is in North America and is in Europe.

When you look at those two parts of the world and when you talk with our customers and very frankly on the industrial parts, their exports and their business is suffering and it's just sluggish. When you have the US with a GDP of 1.9%, all driven by consumers, you can't call this an industrial GDP boom or these kind of things, and the bulk, as I said, the bulk of our product care business is in North America and in Europe. So that's the way it is.

Unfortunately, we have a large part of our product care business in there. Fortunately, we are growing very fast in the 3PL and eCommerce business and the solutions that we have are absolutely second to none, disruptive and revolutionary. Every time we are engaged with a new customer, we are going through a whole process of new value being created and working on how we can go and get these kind of things done.

If you -- and now addressing your first question, which was related to the margins of eCommerce versus industrial, yes indeed, with our current portfolio, they are slightly lower, but with the solutions that we have shown at Pack Expo, they are going to be definitely improving and not lagging our industrial business.

Operator

The final question will come from Arun Viswanathan of RBC Capital Markets.

Arun Viswanathan - *RBC Capital Markets - Analyst*

Great, thank you. I just wanted to get back to the volume side. You seem somewhat confident in there. Maybe you can just discuss how that works out by region. North America and Europe have seen decent gains in both food care and product care but non-US is still pretty concerning. How do you see that playing out next year? Do you see continued drags in Latin America and Australia and then also in Europe in product care. Thanks.

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

It seems that your question started with food care --

Arun Viswanathan - *RBC Capital Markets - Analyst*

Yes, I want to see if you can go through both, if possible. Thanks.

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

Sure, so in food care, we are seeing continuous strong growth out of North America. We had negative volume in Latin America, actually very negative in Brazil, positive in some other parts of Latin America, but for a total being negative. We believe that this is going to be stabilizing. When we look at the herds and the type of the cattle cycle, we are seeing that -- specifically in Brazil, we are seeing that it has hit the trough in 2016. We believe the first half of the year is going to be somewhat flattish and that it is going to start to improve in the second half of 2017.

When you look at Australia, 2017 is going to be lower than 2016. Again, we are following very closely the herd size. The herd size is being rebuilt in 2017. It is -- it has dramatically come down in 2016 for all the reasons that we talked about and when you think about the herds in 2014, it was 29 million head and in 2016 it was about 26.2 million. This has been a huge reduction and the slaughter rate has dramatically decreased.

We believe that it is going to continue in 2017 at a lower pace, but it's going to continue and that definitely as the herd is being rebuilt from 2016 in 2017 and onwards towards 2021, we believe that the business in Australia, the slaughter rate is going to increase. As you know, it's a positive from 2018. So what we see is that from 2018 we are going to have the three big parts of the world which are exporting, et cetera, which are Latin America, Australia and North America be on an up cycle and that's going to be definitely very positive of that.

To be noted also is that the exports out of Brazil are improving, but you have to remember that about 88% of the Brazilian beef exports are frozen and 12% are fresh. The good news is that fresh is expanding with the approval to export to the US and will open to Asian markets as well.

On product care, we are seeing we have a huge momentum on 3PL and eCommerce. We are going to be showing more of the partnership agreement that we have during -- in the second quarter, with very important ones. We are going great things. It's going great and we are going to be showing nice, we believe nice growth in the 3PL eCommerce in North America. The European business has been negative in the fourth quarter, disappointing, definitely lead by our industrial business in Europe and -- but we -- the whole question is how do we mitigate with eCommerce and 3PL, the flattish trend in industrial, and our view is that we shouldn't count on industrial increase in the second in 2017 and preserve our position there at the very same time, continue aggressively grow the businesses which have momentum and in which we are very disruptive.

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

That ends our conference call for today. Thank you, everyone, for joining.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. You may now disconnect. Good day.

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