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SEE - Q2 2012 Sealed Air Earnings Conference Call

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OVERVIEW:

Co. reported 2Q12 sales of $2b. 2012 adjusted EPS guidance is $1.00-1.10.

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PRESENTATION

Operator

Good morning, everyone, and welcome to the Sealed Air conference call discussing the Company's second quarter 2012 results. This call is being recorded. Leading the call today, we have William V. Hickey, President and Chief Executive Officer, and Carol P. Lowe, Senior Vice President and Chief Financial Officer. Also participating on the call today is Tod S. Christie, Treasurer. After management's prepared comments, they will be taking questions.

(Operator Instructions)

We ask that you limit yourself to one question and a brief related follow-up question per caller so that others will have a chance to participate. Additionally, they will be accepting text questions which can be submitted on the webcast page.

And now at this time I would like to turn the call over to Amanda Butler, Executive Director of Investor Relations. Please go ahead, Ms. Butler.

Al Kabili - *Credit Suisse - Analyst*

Thank you and good morning, everyone. Before we begin our call today, I'd like to note that we have provided a slide presentation to help guide our discussion today. This presentation can be found on today's webcast as well it can also be downloaded from our IR website at SealedAir.com. I'd 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 made solely on information that is now available to us. And 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 be different due to a number of factors and many of these factors are listed in our most recent annual report on Form 10-K which you can find on our website at SealedAir.com. We also discuss financial measures that do not conform to US GAAP and you may find important information on our use of these measures and their reconciliation to US GAAP in the financial tables that we've included in our earnings release. Lastly, we have also used pro forma results for certain metrics in the quarter to aid in the comparison of our performance to historical combined metrics of Sealed Air and Diversey.

Now I'll turn the call over to Bill Hickey, our CEO. Bill?

William Hickey - *Sealed Air Corp - President and CEO*

Good morning. Thank you, Amanda, and good morning to everyone. Before we begin our discussions on the quarter, I'd like to welcome Carol Lowe as our new Chief Financial Officer, and I'm also pleased that Tod Christie, our Treasurer, is able to join us today as well as to complete the transition. During today's call, I will lead the discussion on our top line performance, our expanded Integration & Optimization Program, and our outlook for the balance of the year. Carol will focus on our financial results, our liquidity measures, and key balance sheet items. We will then open up the call to questions and answers and text-in questions.

Getting started on page 2 of our slide presentation, as we noted in our press release earlier today, our second quarter results fell far short of our expectations. Like many, we experienced increasing challenges in the quarter from macroeconomic conditions which noticeably weakened in the latter part of the quarter in Europe and in exports out of China. We also saw a challenging protein production trends. For example, US beef production down approximately 4% to 5% in the second quarter, and lower consumer demand prompted a slowdown in our more defensive food segments.

While we are clearly disappointed, we are accomplishing a great deal against the key objectives we outlined at the beginning of the year, namely integrating the Diversey business, achieving our synergy targets, and generating cash flow to reduce debt. Some of our accomplishments include, we further penetrated markets with net gains, we are seeing good results from new products, targeted account penetration, and we grew solidly in the developing regions of the world. We are exceeding our targeted cost synergy benefits by aggressively accelerating and expanding our Integration & Optimization Program in the quarter with new cost cutting measures that will align our cost structure to an expected lower rate of economic recovery and improved returns. And we generated over $100 million in free cash flow and continue to prepay our bank debt. Despite making this strong progress in our priorities, volume weakness and unfavorable foreign exchange impacted our profitability in the quarter resulting in a more cautious outlook for 2012 and a revision to our full-year guidance which we will cover in more detail later in the call.

Focusing on sales performance on slide 3, on a pro forma basis reported sales declined 4% to $2 billion. Excluding the negative impact of currency, our organic sales increased 1% in the quarter. This was driven by 2% higher price and 1% lower volume which was largely due to weakness in Europe. Looking at price, overall all of our segments held or increased price benefits in the quarter versus last year due to the benefits of our prior pricing actions that went into effect either in the first or early second quarter. These benefits, combined with modestly easing raw material costs late in the quarter, did allow us to achieve a positive price cost spread of approximately $35 million in the second quarter.

Looking at slide number 4, you can see that all regions reported positive organic sales growth in the quarter accept EMEA. The EMEA region was impacted by the weak European economy resulting in 3% lower volumes in that region on a pro forma basis. This decline reflected greater weakness in Europe across all of our business segments and was predominantly in Southern Europe which was a disappointment as early quarter trending had suggested sequential stabilization. Looking at the remaining regions, North America generated 1% organic growth on a pro forma basis including 1% lower volumes. The volume decline was largely attributed to our Food Packaging and Diversey businesses. Weaknesses in our customers' protein production levels impacted our Food Packaging segments demand. In the Diversey segment volumes were negatively impacted by the effect of customer destocking and a bankruptcy related to the pink slime incident that we reported in the first quarter. I am pleased to report that July trends for Diversey North America did show marked improvement, reaffirming the expectations for more normalized customer order patterns.

Latin America and Asia were real areas of strength for the business in the second quarter. Latin America organic sales rose 11% on a pro forma basis led by 19% higher organic sales in Food Packaging due to customer protein production strength both in the northern cone of Latin America and in Brazil. Additionally, we achieved 6% higher organic sales in the Diversey business with the food and beverage sector up 5% and the retail sector up 23% in Latin America.

You can see by the map that the Asia-Pacific region organic sales were up 2%. Excluding slower growth in the more mature markets like Japan and Australia and New Zealand, Asia organic sales were up approximately 8% led by a 25% increase in sales in the Diversey business. Although all of Diversey's business segments were up in the quarter, this increase was led by organic growth of over 30% in food and beverage and over 20% in the hospitality and lodging sector. Our other category showed strength in the region also due to higher year-over-year growth in our medical business leading to about a 45% increase in that category. Additionally, Food Packaging showed strength in Asia with 12% higher organic sales. Protective packaging did see a slowing pace of growth in Asia primarily related to slowing export markets with organic sales up a modest 3% to 4% in the quarter. And to round off the regional discussion, the developing regions which continued to comprise 22% of our sales were up 10% in the quarter on a pro forma constant dollar basis.

Moving onto slide 5, I will touch upon a few additional highlights in each. In the Food Packaging segment, despite challenging protein trends associated with tight animal supplies and rising feed costs for breeders and processors, the team achieved 4% organic sales growth led, as I mentioned, by exceptional performance in Latin America. Additionally, new products such as our cook-in packages like Oven-Ease are doing well with new account penetration and increased number of trials. We are also recognized with the prestigious AmeriStar Award from the Institute of Packaging Professionals for our new Cryovac Next Generation Boneless Beef Bag which utilizes a new material formulation that features packaging optimization and sustainability benefits for our customers. We achieved this while continuing to transition into a new organization and aggressively pursuing cost and revenue synergies. I am also pleased to report that the team generated an additional $5 million of annualized synergy sales raising our annualized synergy sales to $15 million across customers in all regions globally. We are also currently engaged with over 100 additional accounts right now.

Our Food Solutions business held reasonably steady with tough year-over-year comparisons. Last year 2011 marked a record year for equipment sales for Food Solutions which we are working hard to match in 2012 based on continued strong demand for automation and cost efficiencies from our customers. Having said that, the unfavorable timing of equipment orders in the second quarter combined with the effects of a weakening European economy drove volumes lower by approximately 2%. Excluding the challenging equipment comparison, volumes would have been steady year over year. Two key highlights to point to are our North American results where organic sales were up 4% in the quarter from good volume and price mix performance. Looking at our product solutions, our vertical pouch packaging solutions showed a solid 7% gain due to ongoing market penetration, our case-ready business showed a 2% gain, and we continue to see strength for vertical pouch packaging and tomato applications for our fluid packaging business.

Moving onto Protective Packaging, this business held steady year over year and realized a 2% organic sales growth in North America from higher volumes. As a coincident indicator to the economy, we are seeing a slowing pace of growth from more industrial oriented applications but we are seeing excellent strength in e-commerce oriented solutions. In fact, our new solutions targeting e-commerce applications are up over 20% in the second quarter, maintaining a trend that we have been seeing in the last two quarters.

We experienced slight incremental weakness in our Diversey segment in the second quarter compared to the first quarter. Diversey's pro forma organic sales declined 1% in the second quarter, mainly due to greater weakness in the EMEA region from Europe's economic and fiscal challenges. In EMEA, organic sales declined 2% in the quarter compared with the growth of 1% achieved in the first quarter. This decline was largely attributable to the same end sectors as noted in earlier quarters -- the government education sector, the retail sector, and among our consumer branded products largely impacted by the economy. The food and beverage sector was a highlight achieving 2% organic growth in the quarter. Overall the Diversey segment achieved a net gain in customer penetration and market position in the region as we pursued our growth strategies. Developing regions continued their strong performance in Diversey with organic sales increasing 8% to 9% on a pro forma basis driven by the strong performance that I earlier noted in Asia.

Before I pass the call to Carol, I'd like to highlight some new actions we are taking as part of our 2011 to 2014 Integration & Optimization Program which we note on slide 6. With the pace of volume growth below our plan due to economic weaknesses and challenging in the protein sector, we are aggressively accelerating cost reduction programs in the second quarter which yielded $23 million of benefit in the second quarter. This is a step up from our pacing in the first quarter. $15 million of the $23 million is attributable to the Diversey segment. With our teams in place and moving ahead with their plans, we have further identified how to best align our platform and our service structure to an expected slower space of economic recovery and volume growth over the near-term to ensure improved profitability and cash flow generation. This recent exercise has identified $70 million of additional opportunities in a number of areas including the following areas noted on the slide. Lowering our cost to serve globally, improving alignment of marketing and business developments to our strategy, reducing administrative complexity to increase responsiveness and service levels, and realizing greater synergies from procurement in such areas as in services.

Having started in the second quarter, we are already actively and aggressively implementing changes in these areas which would allow us to recognize an additional $20 million of additional benefit in 2012 and an incremental benefit of $50 million in 2013. This increases our total program benefits to be achieved by 2013 to $185 million. This compares with our recent guidance of $115 million by 2013. And ultimately by 2014, we now expect to achieve a cumulative benefit of $195 million to $200 million. We have demonstrated that we have been able to execute quickly and efficiently in these programs and feel very confident that we can deliver these results.

In addition, we are continuing to review our entire portfolio, product business, and geography to ensure that we are investing in areas that are strategic to our core focus of protection, that they will offer attractive growth opportunities to our businesses and will provide value long-term. We are currently evaluating our strategic options and will provide updates as we make any material decisions. Ultimately these efforts will yield margin improvement and greater flexibility to accelerate debt repayment.

Now at this point I'd like to pass the call to Carol, our new CFO, to discuss second quarter financial results in more detail.

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

Thank you, Bill, and good morning, everyone. I will be providing comments on our second quarter operating profit and adjusted EBITDA results as well as address key cash flow components and liquidity. Slide 7 of our presentation deck highlights the second quarter adjusted operating margin performance for each of our business segments.

As Bill previously noted, our Food Packaging segment achieved organic growth of 4%. However, benefits of this growth were overshadowed by higher sales of lower margin products as well as a number of charges and expenses that are outside the norm for Food Packaging. In the quarter, we have reached a labor agreement in Argentina resulting in a charge and payment of $5.2 million. The upfront payment will save Food Packaging approximately $1.8 million annually beginning in 2013. As we continue to consolidate and leverage our global facility network, we temporarily incur additional expenses related to redundancies, employee training, startup inefficiencies, and freight. This was certainly the case for food products' operations in Brazil. Reduced volumes in Australia, primarily in their export markets, also contributed to the negative year-over-year performance on underabsorption of manufacturing costs. We are moving to respond to the fluctuations in demand by addressing variable costs in the near term as well as developing longer term solutions to our fixed cost structure for the region. We expect the Food Packaging segment to return to adjusted operating margin levels of approximately 12% by the end of the year on a constant dollar basis.

The 160-basis point improvement in adjusted operating margin for our Food Solutions business reflects strong price cost management as well as favorable product mix and absorption. Adjusted operating profit for Protective Packaging was lower year over year and includes the impact of unfavorable currency transaction costs associated with importing US dollar price products into regions with weakened currencies. Importing products such as films and Instapak chemical into the eurozone, Brazil, and other weaker currency countries resulted in a net negative cost variance for the segment of approximately $2 million in Q2.

Despite favorable price cost spread, cost synergies of $15 million and a $13 million benefit from stock appreciation rights, Diversey's Q2 2012 adjusted operating profit decreased $36 million as compared to pro forma Q2 2011. On a constant dollar basis, the decline was $29 million. Diversey's negative comparison includes the impact of a $23 million variable compensation benefit recorded in Q2 2011 and resource investments we have made in 2012 to support our double-digit growth in developing economies as well as strategic growth planned in North America. Higher year-over-year raw material costs and unfavorable absorption on reduced volumes negatively impacted adjusted operating profit.

Slide 8 summarizes our consolidated adjusted EBITDA performance on both a pro forma and a constant dollar basis. The 200 basis points decline in constant dollar adjusted EBITDA reflects that, while Sealed Air has favorable cost spread in the quarter and delivered synergies of $23 million, it was not enough to offset the negative drivers I previously commented on for each of our business segments. Turning to slide 9, free cash flow for the quarter was $102 million and $127 million year to date. Changes in working capital items which include the impact of foreign currency resulted in a net use of $22 million in Q2 as receivables increased by $29 million on higher sequential sales. Our receivables portfolio continued to perform well in spite of the economic challenges in Europe, and our day sales outstanding modestly improved sequentially to 51 days at June 30th. Our inventory days on hand was 74 days at the end of the second quarter. That's a two day improvement from the end of Q1.

Cash and cash equivalents were $504 million at June 30, down $35 million from the end of March -- as compared to March 2011. Cash payments in the quarter included $42 million of interest, $38 million for income taxes, $30 million in 2013 term loan prepayments, $14 million related to our Integration & Optimization Program, and $25 million for quarterly dividends. As we noted in the press release today, we have revised our 2012 annual free cash flow to $425 million to $455 million, reflecting our current assumptions of operating performance impacted by challenging macroeconomic conditions. Turning to slide 10, as of June 30, we have total cash and committed liquidity of $1.3 billion and our net debt was $5.3 billion. We continued to target the use of a substantial majority of our free cash flow for debt repayment after providing for our dividend payment and restructuring obligations.

Before turning the call back to Bill, I would like to note that our estimated effective tax rate has increased to approximately 30% for the full-year 2012 as challenging global economic conditions in Europe have minimized the benefit of our Diversey EPC structure as we have lower profits in the EPC than originally estimated. Our effective tax rate represents a composite of the rates in each of the countries in which we operate. Thus, the rate may vary based on the mix of earnings and or lawsuits by country. Because of our increased international footprint, there may be more variation in our effective tax rate than you've seen in the past.

And now, I'd like to turn the call back to Bill.

William Hickey - *Sealed Air Corp - President and CEO*

Thank you, Carol. Thank you, very well done. Based on the increasing macroeconomic concerns, we are revising our full year 2012 guidance. As you can see on slide 11, we expect that on a constant dollar basis we expect that sales and adjusted EBITDA performance to be essentially flat with pro forma 2011. Net sales are expected to be approximately $7.7 billion which includes a negative effect of approximately $400 million of foreign exchange translation currency. Adjusted EBITDA is expected to be approximately $1.05 billion to $1.075 billion which includes a negative impact of approximately $40 million due to foreign exchange. Our revised adjusted EBITDA target range suggests that we are pacing slightly above 90% to our original target levels.

We do expect second half results to show some acceleration over first half results from more modest favorable growth comparisons year over year, ongoing modest economic recovery in certain regions, the benefits of higher cost synergy benefits, as well as an expectation for positive price cost spread as raw materials continue to moderate in the third quarter in parts of our businesses. We do expect our Food business to show relatively consistent organic sales performance in the second half, while we expect our Protective and Diversey segments to track modestly higher based on favorable year over year comparisons and benefits from their ongoing growth programs. We have reduced our expected capital expenditures in the year by $50 million to reflect an expected slower pace of volume growth and a more stringent return hurdle on our capital investments. As such, we now expect our free cash flow to be approximately $425 million to $450 million which allows us to continue to prioritize our use of cash for debt reduction, dividend payments, and cash restructuring expenses. We expect to achieve a net debt target by year-end of $4.95 billion, approximately $50 million shy of our original goal of $4.9 billion.

Lastly, our adjusted EPS is now revised to $1 to $1.10, which compares with 2011 pro forma adjusted EPS of $0.88. We remain confident in a bright future for Sealed Air and have outlined a plan for a balanced approach for achieving our short-term objectives, aligning our cost structure for a slower pace of economic recovery than we initially anticipated, while still realizing the success of the longer term vision. We believe our balanced approach of focusing on our core strategy, insuring the successful integration of Diversey while managing expenses tightly and recalibrating our business profile for lower unit volume growth to maximize returns in cash flow, will position us well for when conditions improve.

And now, operator, I would like to open up the call to any questions from the participants, and we'll follow up with any text questions from our webcast participants as well.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

George Staphos, Bank of America Merrill Lynch.

George Staphos - *BofA Merrill Lynch - Analyst*

Appreciate the slide deck, some good touches there. A couple of questions on Diversey. So am I to understand that if not for the $23 million variable comp recorded in the second quarter of '11 that the pro forma reduction in EBIT of $36 million would have been a greater amount 2Q versus 2Q or would you treat it differently? The related question, by my estimate Diversey was dilutive to your earnings this year and just in this quarter by $0.15 to $0.20 when I include the share count. Would you agree with that treatment or would you have a different figure? And I had a question -- a follow-up question. Thanks.

William Hickey - *Sealed Air Corp - President and CEO*

Let me answer your first question first. The Diversey $23 million is a credit that was taken in Q2 '11 by the prior owners. That represented a -- I believe it was a 50% reduction in their incentive comp. The 2012 numbers do not include such a reduction. So the $36 million shortfall that you're referring to actually becomes less on a comparable basis if you kind of normalize the variable compensation. And if you take 7% exchange out of it, you essentially end up with a balance of closer to 6%.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay.

William Hickey - *Sealed Air Corp - President and CEO*

Because there's 7% exchange in that number, George.

George Staphos - *BofA Merrill Lynch - Analyst*

Understood.

William Hickey - *Sealed Air Corp - President and CEO*

As far as your EPS calculation, I have not done that but we will do it and we can compare notes offline.

George Staphos - *BofA Merrill Lynch - Analyst*

All right. My related follow-on is on free cash flow, what do you think the normalized level of free cash flow is from Diversey alone on an ongoing basis? My calculation would be this year that it's maybe $40 million or $50 million including the investment and the cash restructuring, if you will. Thanks. I'll turn it over.

William Hickey - *Sealed Air Corp - President and CEO*

Yes, that's -- we haven't looked at it that way. I don't know, Tod, do you have an observation? Because essentially it's fungible. We've essentially consolidated the back office, George.

George Staphos - *BofA Merrill Lynch - Analyst*

Yes.

William Hickey - *Sealed Air Corp - President and CEO*

So what you see is as Diversey is down to a contribution margin on a stand alone basis and then allocations. So I'm not sure that I could go back and look precisely at what the Diversey numbers are, but again, maybe that's another exercise we can take offline. But as I say, we kind of scramble the eggs a bit.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay. Just as a comment it would be helpful just so that you can track the progress because obviously you put a lot of capital into Diversey.

William Hickey - *Sealed Air Corp - President and CEO*

Okay.

Operator

Your next question comes from the line of Scott Gaffner representing Scott Gaffner.

Scott Gaffner - *Barclays Capital - Analyst*

Bill, you made a comment there near the end of your presentation, you said you're reviewing the portfolio looking at strategic options. I was wondering if you could maybe comment, and how often have you reviewed the portfolio maybe over the last year and just historically how often do you do that? Are you just looking at potentially underperforming assets or is this something more meaningful that we should be anticipating?

William Hickey - *Sealed Air Corp - President and CEO*

I think this is reasonably consistent with what I said. This is now the second quarter I've said it, and I also said it shortly after the Diversey acquisition. I think that given the size of the Company and the asset base as well as our debt, we are really evaluating and I think I used actually in my commentary -- products, geography, and businesses. So we are looking for what in our portfolio may not meet our criteria in any one of those categories, whether it's an operation in a particular part of the world, whether it's a product line in one of our core businesses that doesn't carry its weight, or whether it's one of our smaller sub businesses that we just might feel that those assets could be better put to use in the core business. So that's what we have in mind, any one of those three and I will keep people up to date, but obviously cannot say anything right now because we haven't got anything to report.

Scott Gaffner - *Barclays Capital - Analyst*

Understood. And then just going to the -- you mentioned that on a comparable basis, on a pro forma basis you expect sales to essentially be flat on a constant dollar basis, and yet the COGS, you have the COGS now you said are going to be 66% of sales up from 65% before. Can you just talk about whether the deleverage is coming from in the business to cause that slip in the gross margin line?

William Hickey - *Sealed Air Corp - President and CEO*

Yes, Carol?

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

I guess I'm not certain about what you mean by deleveraging, but obviously underabsorption is going to be a challenge for us throughout the balance of the year. And that's partly what you see hitting the operating margin and the cost of sales as a percent.

Scott Gaffner - *Barclays Capital - Analyst*

Right. And so what's driving that underabsorption?

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

Volume and the challenges that we are seeing especially with Europe and other economies as Bill discussed.

William Hickey - *Sealed Air Corp - President and CEO*

Right, right. I think in the underabsorption in a lot of parts of the world, not the United States, but Europe and Australia particularly, I think Carol mentioned during her comments. As the business experiences a slowdown in volume, most of your labor essentially is a reasonably fixed cost because it's not possible in many of these economies in Europe or Australia to flex your workforce as quickly as you're able to do it in the US, and I think as Carol said in Australia, that resulted in several million dollars of unabsorbed overhead as Australia production ran below plan. So that has the impact on COGS.

Scott Gaffner - *Barclays Capital - Analyst*

Okay, but you did mention that you thought volumes would pick up a little bit in the second half? Is that from the first half?

William Hickey - *Sealed Air Corp - President and CEO*

Right, and the business typically does. The business typically 48/52 or 47/53 on a seasonal basis, and that will happen ordinarily and we also expect to give that a little extra pinch with some of the things we are doing.

Operator

Ghansham Panjabi, Robert W. Baird.

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

On the Food Packaging business, I'm still trying to reconcile the 270 basis points and EBIT margin compression that you saw versus 2Q of last year. That's the lowest level you ever reported for that business at least according to our model. Carol, I know you called out some one-off issues such as Argentina. But can you quantify some of the other impacts like Australia for example?

William Hickey - *Sealed Air Corp - President and CEO*

Let me just give you an overview and then Carol can fill in the details because I do think it is an aberration, sort of the perfect storm as several things came together at one time. Coincidentally and I think you've heard me say this before, we bought a new factory in Brazil and we have been preparing to move into it on a gradual basis to have the least disruption to our process. We actually shut down the production lines in Brazil and are disassembling them to move them to the new site. We're importing semi-finished goods from the United States. We started importing them early in the second quarter. The Brazilian real has gone from $1.70 to $2.05, which is about a 21% cost increase to Brazil. We kept selling prices the same because as soon as those lines are reinstalled in the new factory and turned on, we'll be producing in Brazil. So we are incurring that cost and that goes through the P&L, and I don't have an audited number but it's in the millions of dollars. And that's part of the reason for the shortfall. The process of moving the production lines will run several months, so part of it will continue into Q3, but that's sort of a high level view as to why the numbers are as low as they are for the quarter. Carol can touch on some of the other products, some of the other items about Argentina and Australia. But Carol you want to fill it in?

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

Ghansham, for Australia, the number is about approximately $3 million.

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

Okay.

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

And now that's included in what will be approximately $9 million of underabsorption, manufacturing inefficiencies that include the items Bill discussed relative to Brazil. We also closed our Rochester plant and that was previously announced and covered in prior quarters, and while we did take some of those costs that were readily identifiable and add them back within our restructuring program, there are additional costs that linger for some time period relative to training and startup, just getting new workers trained, having the redundancies where prior workers come in and train the new workers so all of that together it creates a bucket of approximately $9 million. In addition, there's a lot of what we call rats and mice because it's a lot of individual smaller items such as we had approximately $2 million for a roof repair for our Iowa parts facility, items that they're $500,000 here and there. So it just kind of all adds up to equal that. But again, high confidence that as we work through the consolidation for the supply chain network that will be back at 12% adjusted operating margin by the end of the year.

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

So just to clarify, so from a year over year perspective, $9 million was total unabsorption including all the stuff you talked about, and then an additional $6 million was for Argentina?

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

The Argentina was $5 million.

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

$5 million, okay. But that's in addition to the $9 million, right?

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

Correct.

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

Okay. And then just on free cash flow, to hit the low end of your range that would imply roughly $150 million run rate for each quarter. How much of that, if any, is coming from lower working capital?

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

Tod, go ahead.

Tod Christie - *Sealed Air Corp - Treasurer*

Ghansham, this is Tod. A portion of that is coming from lower working capital and if -- I would point you to 2009 as an example where we were in a challenging environment and we were able to -- actually in that year we recorded record cash flow and part of that came from working capital, part of that came from reduced capital spending as we're anticipating for this year. And as I think you know, we're able to ramp up and ramp down our capital spending pretty quickly to reflect changes in business conditions because we don't have any one or two large products making up our spend.

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

So it's working capital, just to summarize, is it $50 million contribution?

Tod Christie - *Sealed Air Corp - Treasurer*

Yes, I think. For what period, Ghansham?

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

For the back half of the year.

Tod Christie - *Sealed Air Corp - Treasurer*

I think it's -- sorry I'm just looking for the number right now. Yes, it's probably -- yes, it's probably about half of that number.

Operator

Philip Ng, Jefferies.

Philip Ng - *Jefferies & Company - Analyst*

Just had few follow-up questions on the Food Packaging business. So if I heard you guys correctly, still some drag in Q3, but the 12% EBITDA margin target, is that a Q4 run rate full year? And you said constant currency so is it based off of the current euro? How should I be thinking about that?

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

Yes, it is constant currency. When we're referring to that we're talking about our end of July rates. So it is including that, and we do think it will be kind of a run rate. So that's why we are saying by -- we'll reach that by the end of the year because we will have to work through some of these inefficiencies.

Philip Ng - *Jefferies & Company - Analyst*

Okay. And then on Diversey, the business actually did better than I would have expected, so when I think about the back half and if I heard you correctly, Bill, July was a little better than the trends earlier. So would it be fair to assume that you could work off of 2Q number and adjust for seasonality and synergies and whatnot?

William Hickey - *Sealed Air Corp - President and CEO*

Yes, we actually saw -- actually July numbers are actually positive growth, and we believe -- we're pushing to keep that for the next six months.

Philip Ng - *Jefferies & Company - Analyst*

Okay. So that's a good number to work off of and adjust for synergies and -- okay. And then lastly price, it looks like price was pretty solid for Food Packaging and your Diversey business, some of the other segments at least from a year over year perspective faded a little bit. Did you get some pushback on your pricing initiative and how should we think about price costs in the back half?

William Hickey - *Sealed Air Corp - President and CEO*

Yes, let me tell you, I think we said quarter net price was about $35 million positive -- $16 million positive and we are seeing -- the last price increase we did in May was kind of tough. We have seen some pushback to be honest, we have seen some pushback, there hasn't been a lot of price concession.

Philip Ng - *Jefferies & Company - Analyst*

Okay.

William Hickey - *Sealed Air Corp - President and CEO*

And I think our good friends in the petrochemical industry have announced the price increase and that always lends support at least keeping our prices where they are and Amanda just showed me the $35 million number for price cost benefit in Q2 was the correct number.

Philip Ng - *Jefferies & Company - Analyst*

So when I think about price in the back half --

William Hickey - *Sealed Air Corp - President and CEO*

Price in the back half, right now we're pretty caught up.

Philip Ng - *Jefferies & Company - Analyst*

Okay.

William Hickey - *Sealed Air Corp - President and CEO*

If there is, it will be selective.

Philip Ng - *Jefferies & Company - Analyst*

But no leakage, right? Is that how I should be thinking about it? Like price stability is a good assumption?

William Hickey - *Sealed Air Corp - President and CEO*

We have a slight leakage assuming resin prices don't go up.

Philip Ng - *Jefferies & Company - Analyst*

Okay. Because typically you guys get to hang onto that for quite a bit. I guess the market environment is a little tougher than it was earlier.

William Hickey - *Sealed Air Corp - President and CEO*

Right.

Operator

Chip Dillon, Vertical Research Partners.

Chip Dillon - *Vertical Research Partners - Analyst*

If you look at page 3 of the press release, it mentioned that you guys had $15 million in incremental benefits in the second quarter from Diversey, and yet down in the table it suggests it was an incremental $23 million because you got actually $15 million in the first quarter. I just want to make sure which of those numbers is correct and did you really mean in the paragraph on Diversey to say that you got $23 million in the quarter?

William Hickey - *Sealed Air Corp - President and CEO*

Yes, there's $23 million in the quarter, $15 million is Diversey, $8 million are the other businesses some of which in Sealed Air. I think as both I said and Carol said, we closed the Rochester plant in the US so we've also have had some of the synergies have been costs taken out of the Sealed Air businesses and that's where the other eight comes from. It's $23 million in Q2, by segment $15 million is in the Diversey, and $8 million is spread across the others.

Chip Dillon - *Vertical Research Partners - Analyst*

Got you. So you're at a $23 million, let's say, per quarter rate in the second quarter. And if I assume it stayed at that level, which of course we hope it doesn't, then that would total $84 million, that is $38 million plus $23 million plus $23 million if my math is right, and so does that mean that we only should expect an incremental $6 million over the second half, say an average of $26 million per quarter? Am I reading that right?

William Hickey - *Sealed Air Corp - President and CEO*

That -- you are reading it right. The table at the bottom of page 3 gives our full-year estimate at $90 million which gives you the balance that we are going to pick up in the remaining two quarters.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. So that would suggest then if we get an average of -- so let's say we average at $26 million a quarter in the back half and maybe it's high 20s in the fourth quarter. If I read this right, if you get a total of $185 million next year, that would suggest you're going to have a pretty big step in the first part of next year, I would think since you would be averaging in the 40s for next year. Is there any one or two items you can tell us that you expect to really kick in next year, anything to be on the lookout for?

William Hickey - *Sealed Air Corp - President and CEO*

Well, basically it's been headcount. I did bring a sheet with me. If my numbers are right, there's about 900 plus people that will be out of the Company by the end of this year, and that is one of the principal drivers. There are some -- a couple of plant closings. We have announced a closing of a Diversey plant in France. We earlier told you about the Rochester plant, there's a couple of those going on. But my back of the envelope is 80% plus of those savings are from people.

Chip Dillon - *Vertical Research Partners - Analyst*

And then the last question, just looking at the proxy, I know a lot of people in your Company have their incentive competition, if I read this right, at risk if the EBITDA doesn't actually hit I think $963 million or so. And are you concerned if things do in the environment continue to be a bit more challenging than expected, are there other ways you can incentivize some of these managers if it looks like it will be tough to pay them?

William Hickey - *Sealed Air Corp - President and CEO*

Chip, I read your little blurb this morning, and we are going to hit the number.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay.

William Hickey - *Sealed Air Corp - President and CEO*

We are going to hit the threshold. We have to.

Chip Dillon - *Vertical Research Partners - Analyst*

Right. Threshold meaning the one for the other managers? The threshold meaning the one and I think $963 million or $968 million for the other management? Is that you're saying?

William Hickey - *Sealed Air Corp - President and CEO*

I'm hitting the 90% number if I have my way, Chip.

Chip Dillon - *Vertical Research Partners - Analyst*

Got you. Thank you. Good luck.

William Hickey - *Sealed Air Corp - President and CEO*

It will get tougher as we get closer.

Chip Dillon - *Vertical Research Partners - Analyst*

Good luck.

William Hickey - *Sealed Air Corp - President and CEO*

Thanks.

Operator

Adam Josephson, KeyBanc.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

To what extent are the difficulties you experienced in the quarter purely a result of macroeconomic weakness and FX fluctuations or were there any execution issues that affected performance in the quarter?

William Hickey - *Sealed Air Corp - President and CEO*

That's a tough question. I mean, I think the bulk of it is macro. Actually, currency is, as we explained, it's $10 million on translation on EBITDA. We figure it's somewhere in the, again, unaudited back of the envelope $5 million to $8 million on transportation of goods, particularly as we close plants and move goods around the network. Could we have executed that better? Probably we could. As far as the core plan, could we have closed accounts sooner? Probably we could. There's a couple of accounts I've been riding herd on to get closed that I know we're very close to getting a contract from a customer. But I would say the vast majority of what you saw in the second quarter, even Carol's list of rats and mice are either macro or decisions that we made such as the decision to take apart the equipment at the old plant in Brazil and move it to the new plant. I'd like to say we've done a great job. We probably haven't. But as far as execution, I think we've done reasonably well.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Thanks for that, Bill. You've said that Diversey's strongest quarters are typically 2Q and 3Q. Would you expect that break down to be any different this year because you'll have realized more cost savings in the back half of the year? Or would it be reasonable to expect adjusted EBITDA in 3Q roughly similar to what you earn in 2Q?

William Hickey - *Sealed Air Corp - President and CEO*

I expect Diversey's 3Q EBITDA to be better.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Because of cost savings or volume or other?

William Hickey - *Sealed Air Corp - President and CEO*

Both, both.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

And just lastly on the cost synergies, you've talked about $90 million in '12 and an additional $95 million next year. You had $38 million year to date, but those benefits seem to have been more than offset by the core -- the weakness in core business trends. How likely is it that we will be able to see those cost savings flow through the -- flow through to the bottom line in the second half and next year?

William Hickey - *Sealed Air Corp - President and CEO*

That's a good question. I sat down and I've basically when I looked at the numbers, I said I know we have $23 million in the second quarter, show me. And the manufacturing group and the financial group was able to come out and identify. We could pin down to the person, to the job, to the location. Unfortunately, what happened is when you have the decline in volumes, that underabsorption and some of those costs ate up in effect those synergies. And what we -- what we really do is we -- as we increase the synergies going forward, is basically not give them back to offset softness in the other part of the business. So we've got to keep our margins up. We've got to keep our sales up, and we've got to keep our manufacturing costs and processes under control. And then you will clearly see the synergies.

Operator

Rosemarie Morbelli, Gabelli and Company.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

I have two questions, one regarding Diversey. I understand the decline in volume in the EMEA areas. Could you give us a little more on what is -- why the volume is down in North America?

William Hickey - *Sealed Air Corp - President and CEO*

Yes, there's a couple of reasons that I think we've talked about on prior calls, but I tell you that one of the factors in Q2 because the first quarter item lapsed is a large retailer who is a large customer of ours in the Q1 had actually stocked up at the end of 2011 and they didn't order until late in Q1. In Q2 there was a company, a Diversey -- although it was a food company it was a bigger Diversey customer than it was a Sealed Air customer, a company called Beef Products International, BPI, and they essentially went out of business when the industry stopped using finely textured beef otherwise known as pink slime.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

The pink slime, right.

William Hickey - *Sealed Air Corp - President and CEO*

And that essentially put those Diversey sales out. It had an effect on the Sealed Air side, but as I said they were a much smaller customer of Sealed Air. And what actually happened in Q2, the North America decline was really 1.7% in North America versus something well over 4% in the first quarter. So the order patterns are much more -- much more balanced in North America going forward, and probably were it not for Beef Products International, it would probably be pretty close to flat.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Okay. And then talking about beef, the challenging protein market, what do you expect to see next year? The higher cost of feed stock, is that translating in smaller herds. Could you give us a better feel as to what to expect in that particular market?

William Hickey - *Sealed Air Corp - President and CEO*

Sure, interesting. I'm looking at a chart here which shows that beef slaughtered production has been down for the last three years. Herd size as you saw probably a number of people say is at its lowest level since 1956. We are -- so the year this year will be down probably close to 4% for the year and that's based on the USDA numbers. 2013 should be down another 2%, but then -- our projections go out to 2013, but you should start to pick up after 2013. So you're looking at a decline from $25 million -- I'm sorry -- $26.5 million and '10 to about $26.2 million in '11 to about 26 million in '12 and looking at another 2% decline in beef in 2013. Actually, beef consumption in the US has gone down about 17% in the last five years or so. Since Lehman -- I don't know whether Lehman had beef, but US consumption of beef is down 17% since the peak of the housing boom.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Do you see any pickup of that particular decline in the US by an increase in other regions where you have enough business so you can offset some of it?

William Hickey - *Sealed Air Corp - President and CEO*

Yes, I think where you are seeing is beef consumption picking up in China. I mean beef consumption has doubled and the numbers are still relatively small. I know it doubled in China from'95 to 2005 and you heard me mention during my geographical comment that our Food Packaging business is up in China. Now, China's primarily a pork market, but there is -- it is beef, although I would posit that the increase in China has been primarily in pork.

Operator

Mark Wilde, Deutsche Bank.

THOMSON REUTERS

Mark Wilde - *Deutsche Bank - Analyst*

Bill, I wanted to chase that protein thing a little further. It would seem like with these feed costs up that you might actually see farmers putting a lot of cattle to slaughter in the near-term and then we'd be dealing with smaller herd size a year out and higher meat prices both of which would cut into the market. What am I missing there?

William Hickey - *Sealed Air Corp - President and CEO*

We've had -- I had that discussion here two days ago in preparation for this call. The USDA numbers show a 4% decline for 2012 and actually show also a decline in the second half, but with $8 corn, you are very right, Mark, is that it is likely that there may be a short-term surge -- a short-term surge in bringing beef to market rather than feed it, which could make perhaps Q3 a little bit better, but essentially you're taking it out of the future.

Mark Wilde - *Deutsche Bank - Analyst*

Okay.

William Hickey - *Sealed Air Corp - President and CEO*

But you are right.

Mark Wilde - *Deutsche Bank - Analyst*

All right. Then just a follow-on. I wondered just to get a little more clarity on exactly what you're saying kind of going forward because I heard you say Diversey seemed to be doing better in July, but I also notice that in the release you were clear to highlight that things in Europe had definitely slowed down in the latter portion of the second quarter. So can you just kind of help reconcile some of that?

William Hickey - *Sealed Air Corp - President and CEO*

Yes sure, Mark. A lot of it is the comps. If you really go back in Europe, it really started in Europe in Q3 last year. So Diversey numbers were weak last Q3. I actually think we've probably come to a trough in terms of the Diversey numbers. So that you'll start out in Q3 '12 with a more favorable comp than Q2 '12. So I'm comparing to prior years. So I'm comparing to a number that was starting to slip last year.

Mark Wilde - *Deutsche Bank - Analyst*

Okay. And then the other businesses in Europe?

William Hickey - *Sealed Air Corp - President and CEO*

The Protective business is probably the second weakest business in Europe and that primarily serves the industrial sector. And the Protective business numbers here I think is about down 3% in Europe, and that's primarily to the industrial market. So it would suggest that, as we all know, the European economy is feeling the effect. The Food Solutions business was also down in Europe, and the Food Solutions business primarily serves the value added segment, particularly prepared meals, ready meals, and some of the more expensive case-ready products. And both that business and the industrial business did see declines in Q2 primarily in the European economy.

Mark Wilde - *Deutsche Bank - Analyst*

And then finally, you mentioned in the release also that looked like there was some Diversey investment going on in Asia-Pac and that, that may have had an effect on results. Is it quantified?

William Hickey - *Sealed Air Corp - President and CEO*

I think what we are saying is we actually -- we actually added net people in Diversey Asia. I think the number is running around $3 million of basically selling and service cost. And if you heard my commentary, the business in Diversey in Asia is actually, I think, hospitality was up 20% in Asia and the food and beverage component of Diversey was up 30% in Asia where we continue to service new hotels being built, hotel expansions and beverage plants. So we've actually had to add that cost to service the new customers, and as I say the 30% growth in food and beverage and the 20% growth in hospitality and lodging. And we just signed a meaningful food safety contract with a large multinational retailer that does business in China.

Mark Wilde - *Deutsche Bank - Analyst*

I guess what I was trying to understand, were costs though ahead of revenues just from a timing standpoint?

William Hickey - *Sealed Air Corp - President and CEO*

Yes. You actually had it right. When we -- for example, when we sign a contract with a hotel chain, you have a service level commitment to install our dispensers, to bring our chemicals in, usually have to take the competitors' chemicals out, and you need then to have the service people that are available to call on each of the hotels in that hotel chain and some of the service level agreements call it for once a month. So you have to have a person go once a month to maintain that account, check the inventory of chemicals, make sure all the dispensing equipments are operating properly. And so we're hiring and training these people to service these new account wins.

Mark Wilde - *Deutsche Bank - Analyst*

Okay, that's fine. And then finally, can you just tell us whether all of this exchange rate volatility has got you or the board thinking about sort of any changes in how hedge FX risk going forward?

William Hickey - *Sealed Air Corp - President and CEO*

Well, we keep thinking about it. Tod and I have talked about it for years, but I'll let Tod comment.

Tod Christie - *Sealed Air Corp - Treasurer*

Yes, I think what we are seeing in this last quarter and so far this year has been dollar strength against virtually every other currency in which we do business. So I think we're seeing a more pronounced effect this quarter than we typically have. We do hedge many of our exposures, but we do that gradually over time because we don't want to over-hedge exposures either so that does tend to leave some things unhedged but we continue to look at ways to improve that.

Operator

Chris Manuel, Wells Fargo. Mr. Manuel, your line is open.

William Hickey - *Sealed Air Corp - President and CEO*

Do you want to go onto the next one then, operator? Are you there?

Chris Manuel - *Wells Fargo Securities - Analyst*

I apologize, I didn't know if you could hear me. Welcome, Carol, and good morning.

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

Good morning.

Chris Manuel - *Wells Fargo Securities - Analyst*

Bill, if I'm looking at an old admittedly dated slide deck that a lot of things have changed since then, but I'm looking back at the -- from when you put the two businesses together or proposed putting the two businesses together and a $9 billion sales target, $1.6 billion EBITDA, different elements and I know a lot has changed since then. You've done -- identified a lot more in restructuring savings, you've had currency and economy work against you, but if you could take a stab at what you think the business is capable of maybe 2014-ish or so from a cash perspective and from some of the different elements perspective and that would be helpful. Could you maybe give us a sense as you look at it today, given a lot of these changes, what you think the business is capable of?

William Hickey - *Sealed Air Corp - President and CEO*

Chris, I think fundamentally the concepts from last year, it's only been a year ago, is if you go back to $1.42 euro the numbers would look a lot better. And so I think if you were to recast everything at constant dollars from June of 2011, you might see us a lot closer to where we were and where we said we would be. And I think that's -- I think that ought to give you good indication of where we can go. That's a big difference here when you're take a $1.42 to $1.22 on -- big piece of the business.

Chris Manuel - *Wells Fargo Securities - Analyst*

I recognize that, but clearly the economy has slowed a bit too and clearly, as we look at the pro forma of what's come through with Diversey, it's been half or slightly more than what may have been a historical pro forma. But okay, I'll take that under consideration. And then the second question is, actually two small housekeeping questions. One is, I know you're going to go back and begin to report to us through the new segment soon. Do you have an update as to when that might be?

William Hickey - *Sealed Air Corp - President and CEO*

Carol?

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

Yes, we're targeting the end of the year because -- so our Q4 and our 10-K will reflect the new segment. We have an obligation as we move towards managing the business that way to meet SEC requirements. So that's what we will be doing. And everybody will have a full picture of 12 months of Diversey stand alone within the business. We'll do the restatement and you'll see that in -- when we release in January.

Chris Manuel - *Wells Fargo Securities - Analyst*

That will be helpful. And the last little housekeeping item was, Bill, what are you seeing today in specialty resins? Any relative stability through the balance of the year? Is that what you've embedded in here or are you anticipating possibly some migration upward, downward?

William Hickey - *Sealed Air Corp - President and CEO*

I think relatively stable -- again, that assumes no hurricanes -- relatively stable. There's usually a seasonal uptick at the end of the year, and I think if you look at our guidance we said we might see a slight uptick in Q4 but less than the 3% to 5% that was in our original guidance.

Operator

Alex Ovshey, Goldman Sachs.

Alex Ovshey - *Goldman Sachs - Analyst*

Can you hear me? So a couple of questions for you. One, just on the EBITDA range that you have out there for the entire year, $1.05 billion to $1.075 billion, given the uncertainty in of the business I would have thought that would have been a little bit wider. Can you just talk about why it's only $25 million, whether perhaps you have better visibility into what the second half of the business will look like for you?

William Hickey - *Sealed Air Corp - President and CEO*

Carol?

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

I -- in terms of visibility, again we feel like we have confidence in the synergy programs as Bill has already outlined, and we do think from a comp basis with Diversey on a year-over-year basis things get better in the last half of the year. And we just, we put a lot of time and effort into developing the new number based on what we know at the -- new at the end of June and what we are seeing so far in 2011 and we just felt -- we felt comfortable with the range and where it's at.

Alex Ovshey - *Goldman Sachs - Analyst*

Okay, got it. Thanks, Carol. And then just on the dividend in the context of the weaker operating performance, any thoughts around any changes to the dividend going forward?

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

No, we have not -- there aren't any thoughts. We've made a strong commitment to our shareholders and we want to do our absolute best to deliver on it.

Alex Ovshey - *Goldman Sachs - Analyst*

Understood. Thank you.

William Hickey - *Sealed Air Corp - President and CEO*

Okay. Operator. Can I just -- I want to take a break here, we have some questions that have come in by text and I would just like to give the people who have taken the time to text in to get their questions answered. And I also understand that we have run over one hour so I would -- those who wish to stay on are clearly welcome to stay on. I would like to be responsive and answer everyone's questions, but I do realize we are over the schedule time. The first question coming from the text message -- text question is what is the rationale for reducing CapEx if the Company is concerned about preserving free cash flow? Would it be possible to lower the dividend as an additional measure? When are the next maturities for the debt? Tod, would you address that? Or Carol?

Tod Christie - *Sealed Air Corp - Treasurer*

Sure, I'll take that. I partially answered the capital question before I believe, but with a reduced growth outlook we are taking a careful look at our capital spending less than $100 million a year of our spending is for maintenance capital so there's an opportunity to delay some of the projects we might have otherwise planned. Also, while we are on the subject of free cash flow, just to clarify the response I gave to a question earlier, we are expecting working capital to contribute about $25 million for the full year which implies a higher contribution in the second half. That's through managing our inventory balances both through seasonal fluctuations as well as improving operating performance for the inventory investment, as well as some limited sequential improvement in day sales outstanding. And I think we just addressed the dividend question. As far as debt maturities, we have now paid our third quarter 2013 bank debt maturity, so we have nothing coming due on our bank debt until the fourth quarter of next year. The next big maturity we have is a bond that matures about a year from now which is $400 million.

William Hickey - *Sealed Air Corp - President and CEO*

Okay, next question is from the text. Please explain how legacy Diversey F&B business is perform when compared to Diversey I&L business year to date? What is your reasoning to keep the Diversey I&L business which is not strongly linked to the rest of Sealed Air? Just to give you a comparison, is in the second quarter the food and beverage business of Diversey is up about 4% in constant dollars where the I&L business is down 0.6% in constant dollars with the weakest part of the business being in government education, retail, and consumer brands. I think the fit of the Diversey business is one, a lot of the technology on the I&L business is shared technology with F&B and initially enough the channels of distribution for the I&L business are in common with the channels of distribution for Sealed Air's Protective Packaging business, industrial packaging. We all go through the same large distributors, the xpedx and the Unisource and the bundles of the world. So there's commonality in technology and there's commonality in route to market. And every factory in the country that buys a Sealed Air roll of Bubble Wrap or Instapak chemical also has a laundry and lunchroom and a facility to keep clean.

Let me take one more from the internet. I think I've answered this but just so -- I want to acknowledge that to the writers that comment on the drought in the US and how it will affect Food Packaging, I think I've explained that, that we may be a short-term pickup. What were the food volumes in the Food business relative to what they were in 2008? And I believe they are down somewhat but probably in the 1% range. I'm just looking at the statistic that US beef consumption has gone down on a per capita basis 17% since 2008. So that's correlate, but we can go look at the offline. But my estimate would be down in the 1% range.

How do I see Europe performing over the next six months as Europe seems to be a drag on overall sales performance? Also are you preparing yourself for a scenario where the breakup of the eurozone? My crystal ball for Europe isn't as good as Mario Draghi's or the ECB, but my own personal view is Europe is going to struggle along. They'll struggle along in kind of a flat, slightly down environment but not dramatically. And I do think there's a lot of pressure to keep the euro, and at least I don't think we'll see any change in that for at least the rest of next six months. Okay?

Let me go back to the phone operator if I could.

Operator

Al Kabili, CS.

Al Kabili - *Credit Suisse - Analyst*

Hi, thanks. Hi, Bill. Hi, Carol.

William Hickey - *Sealed Air Corp - President and CEO*

Yes, sorry to put you on a wait there, but I did want to address some of the questions that people have been waiting for on the text.

Al Kabili - *Credit Suisse - Analyst*

Okay. On the cost synergies, the incremental that you're seeing I think $90 million or $70 million, how much -- and you mentioned 85% of that is back -- or people. Can you just help us with this back office, where is this coming from? Is the sales impacted? What's -- to the extent that volumes do pick back up, do you -- would that -- with the cost that you're taking out, would you have to add some of this back in? What's the risk on that front?

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

Well there -- I mean, generally it's kind of across the board, but a portion of what's there, sales and marketing, making sure the structure for the new F&B and I&L businesses have the right infrastructure they need to support the growth. At a high level, we look to say that we think our businesses should run at certain percent cost to serve, and we want to optimize that so if there's growth that supports adding resources and it's profitable growth we'll certainly do that, but there have been cuts through the supply chain network as well as back office including within finance, really it's been across the board. I don't think there's any area of the Company that has not been impacted.

Al Kabili - *Credit Suisse - Analyst*

Okay. And then the split in terms of these cuts and the incremental cuts that you've identified, is this -- how does it split up between Diversey and the rest of the legacy business? Is it leaning more on the Diversey side or is this pretty spread out, this incremental $70 million you've identified, is it pretty spread out pretty equally across the whole new Sealed Air?

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

It's up -- as we've identified, year to date it was more on the Diversey side with them having $15 million versus the $8 million in the other businesses, but as we move forward and especially as we execute on having F&B and I&L businesses as opposed to legacy Sealed Air and legacy Diversey, it gets blended and all of the business units will be benefiting. And there won't be as much distinguish between the legacy entities.

Al Kabili - *Credit Suisse - Analyst*

Okay. So going forward, we're going to see more -- the cost savings. We are going to see on these cuts. And again, I'm talking about the incremental $70 million you talked about this morning. This incremental $70 million is going to be spread more evenly than the initial piece we've seen with Diversey, it sounds like?

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

Yes, correct.

Al Kabili - *Credit Suisse - Analyst*

Okay. And then just a follow-up on WR Grace settlement, and some of the recent comments they've had? And I wanted to see if you could give us an update on how you're thinking about the settlement?

William Hickey - *Sealed Air Corp - President and CEO*

Yes, we have a plan -- planned statement, but I don't know, Carol if you want to address the question.

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

I can read a legal statement and that's really what we would do right now, or I can just refer you to what's already been set forth in our filings and just tell you that because it's an ongoing legal proceeding, it's really not appropriate for us to comment further.

Al Kabili - *Credit Suisse - Analyst*

Okay, all right. I thought I'd try. All right, thank you.

Operator

Todd Wenning, Morningstar.

Todd Wenning - *Morningstar - Analyst*

How will you guys be thinking about R&D spending in the second half of the year relative to your historical average near 2% of sales and where will the R&D investments be focused for the rest of the year?

William Hickey - *Sealed Air Corp - President and CEO*

We had that discussion last week. We spend about 2%, we're looking at reallocating a lot of that R&D spend to where we can have the most impact on the top line. We've got several short-term opportunities that if we can apply more resources and we can bring some really new products to market a lot quicker. And we are -- we are in the process and our R&D leadership team is reallocating the resources as we speak to put focus on our near commercialization products. And I think that's what our program is for the rest of the year.

Todd Wenning - *Morningstar - Analyst*

Great, thanks. And have you seen any credit risks from customers in Europe? And how are you managing your cash in the region? For example, are you moving any of your cash in the area to more highly rated institutions?

William Hickey - *Sealed Air Corp - President and CEO*

Yes, let me -- I will tell you that we've seen three bankruptcy -- I recall three, two in Greece and one in France that are in our P&L numbers, they are in our P&L numbers. And it's probably a couple of million dollars that are bad debts coming out of Europe. Let me let Tod comment directly as where he stands on both the credit and the cash since they both report to Tod.

Tod Christie - *Sealed Air Corp - Treasurer*

Yes, so on the credit side, as Bill mentioned, we had a couple of bankruptcies actually not too far out of the norm for the size of the business that we have. The receivables performance is actually improved somewhat in Europe so far this year so our team there has done a great job of managing that exposure. On the cash side, we have a long standing policy with respect to counter party risk. We've tightened that up even beyond our normal policies based on some the exposures that you read about in the headlines. So we keep our cash only at the most highly rated institutions.

Operator

Mike Rybak, Ivory Capital.

Mike Rybak - *Ivory Capital - Analyst*

And Bill just to follow up, I think you mentioned that Diversey in Europe were kind of at the bottom now. I guess our expectations for volume growth to be positive from here on?

William Hickey - *Sealed Air Corp - President and CEO*

Yes, we -- I mean, I'm hopeful here -- predicting what happens in Europe tomorrow I think is a question that I'm not qualified to answer and I'm not sure many people are. But if you look at what we're seeing so far in July and our updated outlook for the rest of the year, the numbers are positive and one of the factors I think as I said in response to an earlier question is that the comp numbers to last year's Q3 and Q4, to put it simply, become easier. So what we've seen in July and what we outlook for the rest of the year compared to the prior year, we are looking at positive growth for the next two quarters.

Mike Rybak - *Ivory Capital - Analyst*

Okay. And just -- I know you've taken down guidance, but when you initially set the original guidance, was your expectation the same or were you expecting Diversey to be stronger second half of the year or weaker second half of the year compared to your outlook currently?

William Hickey - *Sealed Air Corp - President and CEO*

Sure. When we set our original guidance, one, it was based on a $1.40 euro, so that's -- you have to consider that's a factor. And our updated guidance is a $1.22 Euro, I think we were there that -- maybe it was $1.38. Our guidance was about the euro at $1.38, and we did the rest of the year out at $1.22. So that's a meaningful impact that you saw in our guidance. We estimate that's a $40 million impact upon EBITDA. We also felt that the European economies would hold up better than they have been. We were really looking at Diversey having slightly positive growth in the first half of the year rather than negative, but the expectation at the second half would be better is reasonably consistent, although it's starting now from a lower base.

Mike Rybak - *Ivory Capital - Analyst*

Okay, got it. And could you describe the competitive environment in Europe with respect to the market share shift between you and your biggest competitor there?

William Hickey - *Sealed Air Corp - President and CEO*

Yes, the competitive environment in Europe is pretty tough. In any declining economy everyone is looking for their share of a shrinking pie. I actually went through a list of gains and losses in Europe, and I also looked at the top 21 customers in Europe in the last day or two. And if I look at the net gains and losses we're slightly ahead. There have been something like 13 gains and 4 losses net to somewhere in the $2 million to $3 million net, but accounts shift around and you find customers now particularly with the economy continually want to reopen the RFP process to see if they will find someone who will give them a better deal. But no, European economy is tough as essentially the pie is a little bit smaller and everyone in the space is looking for a share of it.

Mike Rybak - *Ivory Capital - Analyst*

Okay, got it.

William Hickey - *Sealed Air Corp - President and CEO*

Okay, one more. We'll take one more, operator.

Operator

George Staphos, Bank of America.

William Hickey - *Sealed Air Corp - President and CEO*

Thanks, George. You're the last one, George.

George Staphos - *BofA Merrill Lynch - Analyst*

Thanks, Bill. Took me a long time to get my third question in. Look, bigger picture here, obviously you've been dealt a pretty difficult hand with the euro and with the economy, but kind of reflecting back on a number of past earnings calls that I've listened to for Sealed Air, a lot of topics remain the same. Some years the animals, they're the greater herd size, other years they're not. Actually per capita consumption of beef has been declining since the '70s in the US, it's not just since Lehman. We've had restructuring problems in the past, we've had global manufacturing, and at the end of the day over a long multiyear period, the returns probably haven't been where you would have expected them to be, they're down and certainly in a very volatile market. The stock is probably half of what it was a year ago when you announced the Diversey deal. So from here looking forward, what gives you the most confidence? What would you relate to your shareholders that they should be confident that the returns to them, their current equity should improve from here in '13 and '14? What do you feel you have the most control over number one. And number two, at one point in time you had I think a free cash flow goal for next year of $600 million. Is that still on the table or are all bets off just given the environment? Thanks and good luck in the quarter.

William Hickey - *Sealed Air Corp - President and CEO*

Yes, thanks, George. Good -- very good, good question and I think in terms of my own personal view and I like to think of myself as a shareholder too is that if we execute well, if we deliver on our commitments, and that's the whom management team and all 26,000 people in the Company,

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we'll put some pretty good numbers on the board. The headwinds have made it a challenge, the exchange rates are going to make the dollar amounts not as great as they could have been. But in terms of improving from where we are now, you've got a lot of people in this organization that are not happy with where we are today. And most of us all here are all shareholders, and it's our job now to make it work. As far as the cash flow goal let me let me let --

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

It was -- yes, George, that $600 million was definitely higher euro basis, so you'd have to adjust from a free cash flow. We also were expecting stronger growth within Europe executing plans, and obviously there's a lot of doubt about that happening and how long this current crisis is going to last. So there are some new unknowns that weren't there previously, but I mean we still feel very confident about generating strong cash flow as we move forward.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay. Well, best of luck. Talk to you soon.

William Hickey - *Sealed Air Corp - President and CEO*

Thanks, George. Let's just -- is there anyone left on the text message? I think we should -- we addressed the CapEx question already. We -- relating to FX and there's another question on FX -- okay. I think we're about out of time here. I know we've kept you all a lot longer than we had planned in terms of I think a couple more questions on capital expenditure, but I think Tod addressed those appropriately at his time. Okay, with that, I would like to thank you all for participating in the call and stay tuned. Thank you, bye bye.

Operator

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