Sealed Air Corporation

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Neel Kumar: Hi, everybody. My name is Neel Kumar, paper and packaging analyst at Morgan Stanley. We're very happy to have Sealed Air with us. And with us from the company is Ted Doheny, CEO, Chris Stephens, CFO, and Lori Chaitman, from Investor Relations.

And just for your reference, there's a slide deck available on the Sealed Air website.

Before we begin, I need to read a disclaimer. For important disclosures, please see the Morgan Stanley Research Disclosures website, at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative.

So, to get started, Ted, maybe you can just spend a couple minutes giving us an overview of Sealed Air and what differentiates the company from other plastic packaging (inaudible).

Ted Doheny: Great. Neel, thank you, and it's a pleasure to be part of the Morgan Stanley industrial conference. And being the only packaging player at your conference is a big deal to us, especially as we're talking to investors in the automation equipment space which we're very comfortable and where we're driving the company. So, that's great.

Since you also had your disclaimer, I've got to make sure – we don't have our slides here, but I do have to reference our safe harbor. We will be referencing the material also on our piece what was in the public documents from our last earnings call in August. So, I just want to reference that.

But to your point, again, we are at the Morgan Stanley industrial conference, and where Sealed Air is going, is driving to be an automation digital and sustainable company. And I do want to start the big picture with our purpose statement. We're in the business to protect, to solve our customers' critical packaging challenges, but also make the world better than we found it, really driving the sustainability story.

And that leads to your question then, where you said "plastic packaging." We're much more. We're actually material-agnostic, and we have close to 20% of our portfolio growing extremely fast with paper and fibers and we're actually even looking at other materials.

But yes, going into how we're differentiating ourselves, what we're doing – and for those listening, if you reference what we call our "movie reel" slide, on Slide 6 – you can see what we're doing different than those packaging or plastic competitors, as you talked about, is we're really driving the world to automation. And right now, with COVID and all the other issues, really that's where the market is: how do you put stuff into packages, do it faster and safer? And we're leading with this touchless automation.

Also, on the sustainability side, which is extremely important, as we made our pledges for our plastic waste, carbon neutrality, how do we work with our customers to drive sustainability and again using automation to drive the cost down to solve those problems. So, actually make sustainability affordable.

And then, we have to always mention what gives us a seat at the table is our world-class materials: our CRYOVAC, the BUBBLE WRAP etc. So, when our customers think of packaging, they think of Sealed Air.

So, as far as separating from our plastic peers, we think we're making progress. Never enough; we are looking for more.

Neel Kumar: Great. It's a very helpful intro. And maybe just kind of diving in now to your growth expectations, going forward. you talked about Sealed Air being able to grow at 3% to 5%, versus the underlying markets at 1% to 3%, due to both automation and sustainability. Can you just discuss your high-level strategies there? And what's your confidence level that Sealed Air can outperform the industry?

Ted Doheny: Okay. Good. And again, doing it with slides. So, I'm talking here. But if you look at our slide deck, we laid this out very clearly so our investors can see where we're taking the business, what we're calling the Sealed Air Operating Model. And I'll even open it up. Chris will probably want to add on and mention that later on, as well.

But the operating model is pretty clear out there. It says that we're going to go drive growth above the market – the packaging market, a very stable market – but with innovations. And now what we think we actually can create growth with sustainability and driving automation, we could grow north of 3% to 5%. And actually, so far this year, we actually raised our guidance. You could see double-digit growth.

So, can we outperform with all the issues that I'm sure you're going to ask us later driving that growth and bringing us into a high-growth business with great margins. And again, these things that are pulling us along are automation, the digital, and the sustainability.

So, I think that is something that's quite doable on the 3% to 5%. Obviously, double digits this year. It's going to get obviously tougher as we go to more comparables for next year, but we think that's well in our sights. And driving the growth, we think we have lots of opportunities there.

Neel Kumar: Great. And maybe just starting with automation, could you talk about how the pandemic has impacted customers' demands for automated solutions, both in your food and protective businesses?

Ted Doheny: Sure. And again, starting with the pandemic, we were driving automation before the pandemic started, how can we help our customers with productivity. This labor shortage was probably the #1 issue, whether it's – and by the way, Neel, I'd kind of like to talk about our big markets more than just food and protective because it kind of gets hard to describe which is which. But take a look at all the markets, ecommerce is growing. Is ecommerce food or protective? It's both. But that's just exploding in the shop-from-home. Like, where you and I – well, I'm at the office, but you're at home, I assume. All those packaging materials are coming to the home. So, the pandemic has driven that at a much higher level.

Well, automation is what we're using: how do we get more products safer, more effective. And even bringing the digital in, how do we do it more effectively so you can track and trace, make the package more presentable? People are at home, and they don't want all that stuff coming out of their package. They want it very minimalistic. Some of our product lines are just – our (inaudible) BUBBLE WRAP – just one bubble, suspending the product, making the product beautiful, taking out instruction books and all the other stuff with our digital solutions. So, the pandemic has driven us to go faster.

And then to the factory, we're linking our automation that we're doing, how do we drive our costs down, how do we drive our performance up as we're automating our facilities, actually connecting that to our customers. In the pandemic we're doing a lot of remote visits with our customers, but we're still having some direct. So, they're getting to see what we're doing internally in automation and how can we now finish making the bag in their operations. Again, saving time, money, safety, etc.

So, we're using the pandemic and how do we even drive faster. But automation is the key for us to go internally faster and also driving the sustainability side, etc.

Neel Kumar: Right. And you've laid out plans to grow your equipment business from greater than $250 million this year to greater than $500 million in 2025. Recognizing that that's organic, can you just give us some more color by segment and by region? And could you just talk about the expected margin improvement on those equipment sales?

Ted Doheny: Sure. Big picture, we're looking at equipment. Our advantage is the equipment. It's not new for Sealed Air. Sealed Air has been in the equipment for a long time. On the food side, with CRYOVAC, we led with thermal forming equipment. But we focused on how do we form the film, form the bag around the product. Same thing with our BUBBLE WRAP. We had BUBBLE WRAP on demand and other different types of equipment in the product line.

So, looking at driving automation to a much higher level. And now with our purchase of APS, we said, "Hey, this is a $5 billion business. What should it be?" Well, APS, the $300 million business we bought, 15% of that was in equipment in the automation. So, applying some of those ratios we looked at very – we have very clear line of sight to that $500 million.

So, let's get that done in five years. Internally, it's much faster than that. And so, that needs a growth rate that we've got to be north of 25%, 30%. So, as you know, in our quarterly comments we keep telling you how we're growing that automation. We're growing automation at the same speed similar to some of those other companies that are presenting today. So, you'll see really high growth rates.

So, then the second part of your question, how are we doing it? By product, by market, and by geography, and through M&A. So, the M&A side of it is not necessarily do we have to buy, but how are we working with third parties; third parties that we're doing the automation. And you've seen some of our slides where you see robots, where you see some powered by some of the partners that are there today at your conference. That we find enough savings that we actually charge for all of that and then mark it up, and the savings pay for that. So, that's part of that growth.

Also, you mentioned the margins. This was breakeven before. We don't need to be breakeven. We think that our target is 15% just on the equipment. And how do we be world-class. So, we have clear line of sight. So, we think we can make that.

So, then the second part, by the product line. So, food right now is a huge focus for us, and it has to do with safety. You've seen those pictures in the pandemic of these major meat packers, which are our customers. We're at the table with our CRYOVAC. They're using our packaging. So, they have pulled us in to say, how do you automate this packaging where they can't even get people? The turnover rate at a meat packing plant is unbelievable, just having to rehire, retrain, not to mention the safety issue.

So, we are working with the major players on, how do we automate the meat packing beyond the thermal forming where you put the meat in the bag, but how do we put it in the bag, seal the bag, get it through the conveyor system, through the robotics, through the cobotics, the WMS systems, the whole thing. And that is driving at a much higher dollar amount.

And then, how do you pay for that to drive the margins? We focus on the savings. We're pretty public. We tell our customers three-year payback. So, you might pay a couple of cents more for that better bag that we're going to make better than the previous bag, and we're going to make it sustainable. You're going to pay a couple of pennies more, but we're going to save you millions in your operation.

The next sector that we talk a lot about of what's going on in the protective side are ecommerce. The ecommerce is just exploding with speed. So, again, where we are, with our materials – and we do have some equipment – we're looking at holistically of what we can do with their operation and their fulfillment centers. How can we bring automated shrink tunnels that are touchless? How do we drive the conveyance systems, etc.?

So, seeing the dollar amount go up significantly and then focusing again on the payback. As we've talked before, Neel, in the past, we would subsidize our material business with the equipment. We don't need to do that. Actually, to bring in world-class equipment, world-class solutions, world-class integration, we've got to find the savings and really be focused on that, and that's going to pull through those materials for those fulfillment centers. And it really covers all industries. Like our auto bag system, we're actually selling to the meat protein. So, it's really more than just food and protective.

The final piece is – I keep bringing it up: the automation, the digital, and the sustainability – is how do we now make sustainability affordable. So, whether our customers bring it to us, we bring it to them. And one of the big projects we're working with the meat plants is they literally buy – one of the largest plants uses – the number is staggering – close to 100,000 boxes of our bags. So, they, at our last meeting, which I was a part of, with their C-level, they had their ESG folks at the meeting. Very different today, where you have Purchasing, you have the head of Operations. But that's the level that you sell automation with. Very different. When you're talking to packaging folks, they're not going C-level to C-level. When you're talking about a multimillion-dollar conversion, they now have ESG at the table. So, ESG, we're talking and they're listening carefully. "You could eliminate 80,000 to 100,000 boxes, lower our carbon footprint?" And we say, "Yes. And actually, let's take that plastic back, and we could work on circular solutions for that." Having a unique conversation. And again, it's all focused on saving them money, providing sustainability, keeping people out of harm's way; I'm going back to that original question of how we differentiate. We think we're in an inimitable position there, and that's what we're excited about.

Neel Kumar: And that's good segue into the next topic, which is sustainability. Can you just talk about maybe some of the progress you're making on your 2025 sustainability pledges? And you've talked in the past about SEE Ventures. Can you just talk about some of the recent investments you're making through that vehicle?

Ted Doheny: Good. Well, I hope I've mentioned sustainability a few times already. Again and being repetitive with you, Neel, that what we're focused on: automation, digital, and sustainability. At next year's conference when we're finally live, I've got some cool stuff to talk to you about digital, but we'll wait for next year when we see you.

But on the sustainability, we signed a pledge, and that was a big deal, I mean, gosh, three years ago. The Alliance to End Plastic Waste, I'm on the board there. And how do we not – how do we attack this problem? So, we took it real. And actually, I went out in the ocean. I was there and I got to see what the plastic is like. It's a real issue. But the issue is, how do you prevent it? Let's not get the stuff in the ocean in the first place. How do we have a recyclable, reusable content? And that's the part that we've moved dramatically. Now, we had to debate with the team. We had to debate with our scientists, "could we do it?" And the question was not is it impossible; it was improbable.

But to your point of how are we doing, we are ahead of plan. We are ahead of the 2025. I'll get the team nervous if I start saying how far ahead we are, but we're beating each year, year by year. And a principle that we use in our operational excellence is "you get what you measure." And that's where it becomes really clear. Measure it, check on how you're doing, be accountable. And so, we're well on our way.

On the carbon neutrality, same thing. Everybody is signing up for 2050. And my issue was, 2050, my gosh, who's going to be around? And so, we moved that down, and we put the measurements. And we're looking year by year with that line on the carbon neutrality, and we're ahead. And that's what I feel good about. So, looking at those numbers.

And then the last issue – and just bringing it up how it's connected to automation; again, your conference – is to do all that, someone has got to pay for it. And so, we are upfront with our customers. Because guess what? They've signed up for these same pledges. They've signed up. They don't want to be a plastic contributor into the ocean. They want to hit their carbon neutrality. And they have to deal with the market that wants a better product at a better price. So, I'm going to keep bringing automation in the story, because that is what's enabling.

The digital, just to give you the tease, what's out there is how do we make it smarter so they know what to do with it, how do you track and trace.

And the final element, because you mentioned SEE ventures, we're doing something I think is pretty unique, that we put on our balance sheet, that we have to compete with the startups, we have to compete with private equity, we have to compete with this entrepreneurial behavior. And that's the culture that I'm responsible for: how do you drive a culture that moves at that pace.

So, we put on our balance sheet in SEE Ventures some really disruptive technologies and business models, both. And we have a collaboration with MIT. So, we get first look at in their industrial space of some interesting things. And we've made some mistakes, but the theme internally is we've got to fail faster, but we've got to move. And it's not to have – and put pressure on our research and development team for speed.

We just made an investment in the last month with Closed Loop, and we really liked what they were doing on getting into the circular supply chain. They do it to monetize it. They're not out there for public interest. They're there, "How do we get it back and have a real business?" We invested with Plastic Energy; again, a real company driving chemical recycling. We even have our own chemical recycling lab in our innovation center if you were here. So, we're actually working on other parts of that, but actually investing in SEE Ventures. In SEE Ventures, we've put close to $40 million, and Chris can give you the exact number. That has already almost doubled in appreciation.

Too long of an answer, because you've got to get Chris to talk here. So, I'll stop talking.

Neel Kumar: So, maybe we can just move to recent results. I was curious, in food you experienced 4% (inaudible) growth in the second quarter, with CRYOVAC, (inaudible), and bags and pouches returning to growth. How do you see the growth of food service retail in the back half of the year?

Ted Doheny: Do you want me to jump in there, Chris? Or do you want...

Chris Stephens: Sure. Why don't you go ahead and start, and I'll add some color.

Ted Doheny: Otherwise, Neel will be disappointed if I do all the talking.

Chris Stephens: Sure. So, what we've seen, especially in the second quarter, was that return on the food service side. Given the pandemic and, clearly, with the variant going on – and we're all hearing about the lockdowns reoccurring – we're being cautious as we look to the service side of food. Food retail continues to be strong for us. So, I think the comps year over year are going to be a little bit tough, but nothing to indicate that we're not going to be able to achieve what we set out for in the second quarter as we gave that second half guidance for the full year.

Ted Doheny: The only thing I would add in there on the growth numbers, you'll see on food – it was just a year ago or two years ago you were asking where the growth was on the protective side. And very strong. We need to get the food growth stronger. And one of the key catalysts for our food-grade growth is going to be automation, and we're going to give you more and more clarity how the automation is driving our growth. So, I think we have some exciting things that are in process right now.

Neel Kumar: And then I guess a somewhat similar question with protective. Volumes are up 14% year to date. You are approaching a little bit more difficult comps in the back half of the year. Do you still expect volume growth to be positive? And then, can you just talk about longer-term growth trends in both ecommerce and industrial applications?

Chris Stephens: Maybe I'll take the first part. So, yes, we do. I mean, we definitely still feel confident. But to your point, tougher comps in the second half of the year. Great performance on protective year to date. And then in this market and the volatility, given the material inflation and us pushing price, clearly, as well as additional productivity to help offset that price-cost spread, we're being very conscious of being able to retain that business and, in effect, try to grow share over time and trying to solve and just address some of the issues that our customers are facing, as well.

But the strength continues, and we – comps are going to get tougher. We're looking to get price. We'll drive productivity to offset that price-cost spread. But Neel, as you recall in our second quarter call, we're just trying to be as transparent as we can with investors on what we're facing, and it's almost every week you're facing something new.

Unfortunately, there's been more challenges than opportunities for us. But where, I guess, the difficult side of that is it at least engages us with customers to help understand their business and help grow with them over time.

Neel Kumar: Got it. And then just maybe just touching on resin a little bit more. So, I know you're now expecting price-cost headwinds of $25 million to $30 million for the full year. I mean, what are your expectations of resin prices from here, particularly given the recent impact from Hurricane Ida?

Chris Stephens: It's a little bit more volatility. So, I guess we do anticipate those more headwinds on the inflationary side, that we're just continuing to play the pricing playbook. So, that means we've got to continue to do a robust type of view of pricing to get that back over time. We don't necessarily get that back in the same month. We're trying to minimize that for the quarter.

But still, as we look to – and again, it's not just pricing. It's really driving productivity actions and really hunkering down on what we can do to minimize that, to be able to stay consistent with our EBITDA guidance for the full year. As you know, Neel, we don't give quarterly guidance. We did comment and reflect that we don't expect third quarter to be much more improved than the second quarter. We're still on that track. And then in the fourth quarter, we definitely expect price-cost spread to reverse itself and better pricing, and we're on track for that.

Ted Doheny: Neel, if I could just add, because Chris will jump in, because whenever you talk about resins I try to remind you this is an industrial conference from your chemical days.

The resins, definitely people predicted – some of your cohorts predicted, would turn in the third quarter. And then you have the hurricane season again. But the issue is that the rate of change on resins has definitely changed. Where do we see that curve? We don't see – we elect to plan for the worst and hope for the best. So, we don't see that turning.

The other problem on the cost side that Chris alluded to is there's a bow wave of other costs that are coming up. It is not just us. We went public on a price increase. That was just to send a message to our customers even more is coming. And the bow wave is, whether it's the industrial folks who are here at the conference today, they're going to be talking about chip shortage. Well, we're in equipment. We feel that as well.

So, huge supply chain pressure, inflationary pressure that we're just dealing with, and we will. So, where that moves, to Chris' point, into the third quarter, we're dealing with it. And I think we're dealing with it better than actually expected.

The other piece, though, just want to make sure we highlight because it ties into where we're growing – food and all of our business – again is to the automation. Where we're going is how do we help our customers with this price. Because we are going hard at price. So, we're at the table saying, "We've got to help you. How do we save you millions into your operations?" Because the inflationary pressure is real. Automation is a tremendous avenue for us to have that conversation, to be at the table. Because it's a tough conversation. "Hey, prices are going up continuously." And what I feel good about is we are there with our customers to help satisfy this really tremendous problem that we're all dealing with right now in this inflationary environment.

Neel Kumar: Great. That's very helpful. And just a reminder to the audience, if you have a question please enter it through the webcast, or you can email me directly.

So, maybe move on to the next topic, just Reinvent SEE. You're nearing the end of a multiyear initiative here which will result in about $355 million of total savings. Can you talk about how the program has kind of fared relative to your original expectations and what you've accomplished? And how should investors think about the ongoing opportunity for cost reductions following the conclusion of the program?

Chris Stephens: Sure. Why don't I take the beginning of that and ask that maybe Ted add some color. But being still relatively new to the organization, kind of coming in given my background and experience, I just – compliments to the team in terms of the initiation of the program when it launched in '18. The success and the track record clearly exceeding the expectations as early set out three years ago. So, it's progressing well.

And then what we've spent time on is this is a program that was really reinventing the company in terms of how we operate, how we do, the way we're structured, etc. Going forward, that becomes our SEE Operating Engine. I mean, that becomes our productivity backbone, if you will, to drive incremental improvement above inflation as we go.

Our intent is to expand margins, EBITDA margins, as we go each year. So, as we plan for 2022, thinking through – and not as a restructuring program, if you will. Not to say that we won't have restructuring in our mix, going forward, but not as a large program. It's we're going to drive productivity in everything. Yes, it may have some elements of restructuring. Don't consider the magnitude of it. But the intent is to move Sealed Air away from this kind of serial restructure, large restructuring programs, into just operating through our SEE Operating Engine, driving productivity each and every year above inflation, with the opportunities to expand margins.

Ted Doheny: The only thing that I would add – Chris did that well and Chris coming in seeing this – is that the name change is really important. So, you don't – Reinvent SEE picked up the connotation, oh, this is a restructuring program. No, it's fundamental redesign of the business.

Chris Stephens: Right.

Ted Doheny: And so, Chris has really been championing, "This is our SEE Operating Model." So, we've laid that out, being very transparent. We want investors to hold us accountable that we say what we do and we do it. And that's where the model is for the new investors who are listening. And at an industrial conference, what does that mean? And where I've used the term, if you look at our Slide 5, I think, it shows where we've been in the last three years and 14, 15 quarters of incremental earnings despite a lot of issues. We had to go through them, deal with it. A lot of issues, but driving that incremental earnings into the engine.

Well, you're looking at us now at a new low. We're a new low in stock price and where we're taking the business built on this engine. So, the "reinvent" language will be driven into our operating model. We're going to give you that sales target, what we're going to convert it to in earnings, what we're going to drive into EPS, and what it's going to drive to in cash, and how we use that to drive this engine for world-class performance. And so, it's going to be an ongoing engine, and we're going to be held accountable.

When we have issues – like, right now, input costs skyrocketing – we're still going to show you what is our conversion on that volume. And as Chris mentioned on the call, we're converting that at greater than our 30% target. And we're going to be held accountable and go do that. With the other side, with input costs going up, we've got to do a better job of getting price out there faster, and talk about it and go do it.

Neel Kumar: Got it. And since we're about running out of time, maybe I'll just finish off with a question on capital deployment. You recently authorized a new $1 billion buyback program. You increased your dividend by 25%. Can you talk about the cadence of buybacks from here? And how generally are you thinking about the trade-offs between buybacks and dividends?

Chris Stephens: Maybe, Ted, let me take that. I would raise it up. I would just talk about capital allocation. A disciplined approach to capital allocation. We are, first, investing in ourselves on the R&D side as well as the CapEx to drive growth where those opportunities lie. We don't starve capital. Where there's the opportunities to expand our operations globally and drive innovation, we're spending that money.

The second one, I would call it just the shareholder-friendly actions. As you mentioned, we have a dividend increase, we've been active buyback of our shares the first half of the year, and then the board authorized a new $1 billion program. So, we look at it as being opportunistic. Kind of going forward, we want to offset dilution from employee-based stock compensation, but then look to be incrementally opportunistic if other opportunities don't present itself.

Which gets into the M&A side. We have a healthy pipeline of M&A opportunities. We're building those relationships. We mentioned the APS acquisition as being a great success for the company, executing on that, given where we're going. There's others in the pipeline that we're actively, like I said, building relationships. Those are not managed necessarily under your own timeline. You've got to get the other side to agree with what you want to do. So, we're working that overtime.

But that's it. I guess I view it as the share buyback will be opportunistic when it presents itself. And then dividend, we did increase it 25%. So, the payout is better than 20%. If you think about a payout ratio of 20% to 30%, just depending on the year, I think we feel comfortable with that. I would suggest our board would feel comfortable that, as well.

Ted Doheny: Neel, just he said that well – and I know we're out of time – but I want to send the strategy that we're working on, and we'll take it personally, with Chris and I. We are the activists running the company. And there is nothing that we don't want to do if we have something that we see that the market may not see. And again for the investors who are listening, as we drive in the industrial environment we see opportunities at this new low to go do some things, and we've already spent $300 million in share buybacks as we drive this engine, going forward.

And it's really our message that we're pretty excited about where the business is going and take advantage of those ups and downs of the market. And more good things to come.

So, Neel, thank you for your time and being part of the industrial, and I'm glad to teach a chemical guy the industrial side. For us, we're at home. So, appreciate your time and letting us be a part of the conference. So, thank you.

Neel Kumar: Perfect. Thanks a lot, Ted and Chris. Appreciate it.

Chris Stephens: All right, guys. Thanks, Neel.