Sealed Air Corporation

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Nathan Schubert: Good morning, everyone. Thank you for joining us this year at the J.P. Morgan High Yield Leveraged Finance Conference. Unfortunately, this is a virtual conference. We're not in Miami this year. For those of you that don't know me, I'm Nate Schubert. I'm the High Yield Paper and Packaging Analyst here at J.P. Morgan.

It's my pleasure today to introduce the team from Sealed Air. With us, we have Brian Sullivan, the Assistant Treasurer, Lori Chaitman, the Head of Investor Relations, and Alessandra Faccin, the Treasurer. With that, I'll turn it over to Alessandra.

Alessandra Faccin: Hi, Nate, good morning. Good morning, everyone. Sealed Air is a global leader in automated packaging solutions and high performance packaging materials for fresh proteins, foods, liquids, beverages, and for protecting goods that are shipped around the globe. Our purpose to make our world better than we found it is centered around automation, digital, and sustainability growth strategy.

Moving to Slide 4. You can see our broad portfolio, diverse in markets, and iconic brands. [inaudible] our new solutions are on this slide, and the play button in the center. It is to encourage you to visit our website where we can find customer success stories and videos.

We design our packaging solutions to minimize waste, maximize food safety, and protect goods that shipped around the globe. We are a global organization. About 65 percent of our sales are in America, 20 percent in Europe, Middle East, and Africa, and the remaining 15 percent are in Asia-Pacific.

Our global scale and reach have allowed us to meet the evolving changes in our end markets. We have flexed our manufacturing network to meet demand surges, which has proven to be a competitive advantage, especially in the environment we're living in today.

As I mentioned, our growth strategy, it is centered around automation, digital, and sustainability, which was spent a little bit more time during our conversation today. On Slide 5, we want to point out our strong 2020 results. We delivered over one billion in EBITDA and nearly five billion in sales. Our top line increased four percent in constant dollars.

We have an industry-leading EBITDA margins at 21 percent, with an operating leverage of 77 percent. We convert more than half of our EBITDA dollars into free cash flow, generated 556 million in 2020, and an OIC of 15 percent.

We serve a stable market that grows at around one to three percent a year, and we are driving our business towards a three to five percent organic growth. How are we going to get there? First, our innovation and our focus in sustainability.

It is expected to deliver above market growth rates, and we'll get us to two to four percent sales growth. Then the additional 100 basis points. It is expected to come from our automation strategy, which we'll talk a little bit more about today.

Our reinvent business transformation, it is becoming our continuous improvement program that will drive annual productivity gains. Beyond 2021, we are driving towards an operating model that is expected to deliver over 30 percent operating leverage. There was growth between three to five percent.

Nate, let me stop here, and I will turn it over to you for questions.

Nathan: Thank you. For those of you on the line, if you have a question to ask, feel free to submit it via the J.P. Morgan MetaMeetings website. I'll fill it and ask it accordingly.

The way this is going to run is we're going to ask a bunch of questions, I have a bunch of prepared questions and the team from Sealed is going to answer them. I'll start off. Let's talk about automation. There's clearly a heavy focus on automation across your business segments. Which segments are you dedicating the most capital spend?

Alessandra: That's a good question, Nate. Let me start with Slide 6. We'll talk about our automation strategy, and then I will give examples on the specific segments for proteins and for e-commerce.

Slide 6. Our value proposition for our C automation. It is to solve our customer needs for safety, productivity, and labor shortages with an automated equipment, services, and high performance materials. We are prioritizing projects to those that create less than a three-year payback for our customers.

On this chart, if you look at the right-hand side, you can see that we expect equipment to grow more than 15 percent in 2021 to over $250 million. Then, when you include spare parts and services, the sales are expected to be approximately $425 million in 2021.

Our pipeline for automated equipment and services continue to strengthen, and we are confident in our organic target to over $500 million by 2025 for equipment, and including spare parts and services, the sales are expected to be over $750 million by 2025.

We're modeling over a three times solution multiplier, which would result in a five billion-plus potential opportunity over the 10 years equipment lifecycle. Let me go to the segments now. On Slide 7, we will talk about the protein automation example.

Slide 7. Our meat packaging customers have always focused on maximizing safe conditions for their employee, driving productivity gains, and addressing labor shortages. In today's environment, these challenges have amplified.

Our automated solutions are bringing more robotics, more automation, more digital technologies, and this will address our customers' labor and productivity needs. Across the globe, our meat processing customers, they are upgrading aged assets and investing in automation. We have customers that are increasing capacity to support growth in retail formats, as well as these exports.

Now let me turn to Slide 8. We will talk about a two e-commerce fulfillment examples here. One on the top are for high throughput e-commerce fulfillment, and then on the bottom is one for work cell environment. Automation, as you can see here on the metrics, is top of my priority e-commerce fulfillment customers.

Growth in e-commerce, it is driving the need to increase the speed to pack, and especially in an environment where there are labor challenges and social distance requirements, our automated solutions are designed to address labor shortages, increase the throughput, and maximize protection, while at the same time minimizing waste.

Nathan: Thank you. Can you talk about e-commerce as it relates to the performance, and in protective, do you expect that to continue in the current trend, or how should we think about that going forward?

Alessandra: We saw a lot of that happening last year. Through the pandemic, consumers were forced to shift their buying behavior to online. Even though the population is starting to get vaccinated, there is a strong belief and in statistics they have shown that once a consumer starts shopping online, they typically stay online.

We recognize that the growth view normalized in e-commerce, but if you think beyond 2021, there are strong secular growth drivers for e-commerce fulfillment packaging, especially for automation.

We have a broad portfolio of automated solutions that are designed to increase throughput first, address labor shortages, and then at the same time minimizing waste, while we are driving plastic circularity and reducing carbon footprint.

Nathan: Can you talk about the growth you expect to realize due to automation between now and 2025? I know you've highlighted $500 million by 2025. Talk about the cadence between now and then. I know you expect to realize $250 million of that 500 by the end of this year.

Alessandra: Yeah. You highlighted our target role for equipment. I just talked through some of those examples that will be driving our growth. Let me highlight now how we are thinking about the packaging sector more broadly. The packaging sector has interesting times ahead with secular growth opportunities that will hit their sweet spot.

First, we see an increased demand for packaged foods in mature and emerging markets. Second, continued growth in e-commerce online shopping that I just talked about. Third, the need to address labor shortages and protein packaging plants and at fulfillment centers with automation. Of course, let's not forget the demand on minimizing waste and driving our circular economy.

Nathan: What kind of role do you expect automation to play when food service demand picks up after vaccinations and that sort of thing?

Alessandra: Yeah, good question, Nate. Labor shortages are not new to the meat packaging industry. The pandemic has amplified this challenge, highlighting the need to upgrade aged assets and bring in more automation. Our protein automation solutions are helping our customers drive efficiencies in their plants with sustainability always top of mind.

We are seeing meaningful capacity expansions to support the growth in the market. In North America and Western Europe, retail formats, ready meals, meal kits, and all proteins, including plant-based and seafood, all packaged meats, cheese are experiencing increased demand.

In South America, as an example, local protein consumption and export strength continues to drive demand. In Asia and Eastern Europe, countries are increasing domestic production of multiple types of proteins and packaging those proteins.

Time will tell how quickly the food service industry will rebound and normalize where the imbalance between retail and food service returns to normal. In the meantime, the packaging plants are working very hard to meet increased demand for retail formats as well as exports.

Nathan: How long do you think the five-billion dollar life cycle opportunity for automation will take to mature?

Alessandra: On slide six, on the right hand side, we show a chart. On this chart, what we are modeling, it is more than three times solution multiplier over the 10-year life cycle of equipment. Keep in mind that today, around eight percent of our sales is from equipment, spare parts, and services.

By 2025, we estimate that this 8 percent will grow to approximately 12 percent of our sales. That is because our equipment sales will drive growth. Growth on equipment sales will drive growth on high-performance materials over the life cycle of the solutions.

Looking at food, in food, the life cycle for some of our equipment could be as high as 20 years. Protecting the life cycle of some of our equipment could be five years. It varies by solutions. It's just an example looking at on average. We're excited about our automation strategy. Our customers are recognizing the value.

We are created by integrating our full system of equipment, services, and high-performance materials. We have been bringing new solutions to the market and will continue to do that for both our customers and as well as our own operations.

Nathan: Moving on to sustainability, can you discuss what you're doing with sustainability and where you are now versus where you were 2, 5, 10 years ago? How much of this customer-driven demand for more sustainable solutions? How has that grown over time?

Lori Chaitman: Nate, I'll take on the sustainability and give Alessandra a little bit of a breather. I'll ask the audience to jump over to slide nine, which is our sustainability slide. Sustainability is built into everything we do. It's the foundation of our growth strategy, as Alessandra mentioned.

If you look at slide nine, you can see a handful of our solutions that meet recyclability requirements for our own operations and also all of our customer operations and for consumers, including think about the use of recycled or renewable content minimizing carbon emissions.

We continue to optimize formulations for our own films, and packaging materials, and solutions to meet the recyclability requirements in different regions, countries, and all the markets that we're serving.

Sealed Air prides ourselves on being material-agnostic. We have centered our innovations on material science where we're making our materials as sustainable as possible but also ensuring the highest performance in terms of shelf-life extension, food safety, product safety, and minimal waste.

Today, the solutions that you see on this slide account for roughly 30 to 35 percent of our sales. They're targeted to reach over 50 percent of the next three years or so. Many of these solutions that you see on this slide are some of our fastest-growing solutions.

For example, if you look at that top left corner, you'll see our Cryovac barrier bag. We're making them more recyclable. We're optimizing the materials and the process of how we make this multi-layer film. We're maintaining those industry-leading standards as far as food preservation and food safety, which is very important for our customers and consumers.

Other examples on this slide that you see in food, think about our Cryovac Darfresh brand, which is just underneath the Cryovac barrier bags. It's the picture of the meat on the tray with the lid.

What's great about that retail format is that it's a zero-scrap manufacturing process for our customers. It reduces the number of trucks on the road because there's the ability to put more of each package per box. You get more of the packages in every box, which puts less trucks on the road, [laughs] sorry, during transit.

Also, it's designed for consumer recyclability. Many times when a consumer buys this format in a store, that tray will be 100 percent recyclable, which is great.

For liquids and fluids, we actually have an automated solution that disrupts the rigid containers. We've expanded our bag and box offerings. Our fluids and liquids is for soups, sauces, condiments, and beverages. We've done some really nice innovations on the food side.

On the protective side, which you can see a lot of solutions on this slide as well, we manufacture recycled, automated, and discreet mailers. We have bubble wrap now that is made out of 90 percent-plus recycled content. We offer 100 percent-recycled specialty foam for some of our more heavyweight goods that get shipped around the world.

Don't forget that roughly 15 percent of our sales in protective is actually paper-based. Also, we made that really great acquisition, Automated Packaging Systems, over a year ago. Their materials have also all qualified for in-store drop-off recyclability.

Nathan: Great. Thank you. Why don't you talk about what the biggest structural impediments are that you see, as it relates to sustainability, particularly those that are outside of your control?

Lori: I don't know if I'd call it a structural impediment, Nate. All parties involved are working really hard to create a circular economy.

From the suppliers of the raw materials to the manufacturer of the film solutions to the retailers and even consumers, they are trying to put that effort into recycling or making things with recycled content, advancing the technology, and advancing all the innovations.

What makes it challenging, actually, is that regulations and waste management infrastructure around the world are inconsistent. Different countries, different states, different regions, it's tough. There's definitely different requirements to meet. Really, it's our job as the company making these innovations...

[crosstalk]

Lori: and making solutions available...I hear background noise, Nate. I don't think it's coming from me. I don't know if maybe you want to mute. Anyway, I'll keep going. [laughs] Sorry about that.

I was going to say that what makes it challenging is that there is inconsistencies around the world. It's our job to make sure we meet the different requirements in all the different markets that we're serving around the world, in the different regions that we're playing in.

We have made some really nice advancements. I just talked about a bunch of them. I also think one example worth highlighting, which is super-interesting, is the investment that we made in Plastic Energy for advanced recycling of a multi-layer film. I think it's interesting, so I'll just quickly give an example of how it works.

What happened is we partnered with, we invested in Plastic Energy. We partnered with SABIC, Bradburys Cheese, Tesco, where SABIC is the resin supplier. We manufacture the high-performance barrier film. We package Bradburys cheeses in this film. Tesco is selling this packaged cheese.

When a consumer buys this cheese, they're actually able to bring the plastic back to the store, drop it off. Plastic Energy picks up the plastic from Tesco, brings it into their laboratories.

They turn it back into oil, which then gets delivered back to SABIC, and the cycle starts all over again. That's a great example of plastic circularity. You'll continue to see more advancements like that. I think that does it, Nate. [laughs]

Nathan: Thank you. I got a question from online here. Hang on a sec here. Could you reiterate organic growth expectations? Is it about one percent per year, so about 500 million top-line growth per year?

Lori: We said our long-term operating model is driven...We'd like to get to that three to five percent organic sales growth number. In 2021, we said two and a half to four and a half percent organic growth. Constant dollar growth, I should say.

For 2021, we think that volume will be about one to two percent in food, two to three percent in protective, with favorable pricing in that one to two percent range. The longer-term operating model, Alessandra talked about a three to five percent number that we're going to be going after. We feel confident with that.

Our addressable market is growing at that one to three percent rate. We think that our innovations and sustainability will get us to that two to four percent rate with another 100 basis points coming from our automation strategy, Nate.

Nathan: Thank you. On February 23rd, you announced a goal to reach net-zero carbon emissions by 2040. Would you mind talking a bit about how you plan to reach that goal and the impact it will have on operations? What sorts of expenditures that it will require and which parts of the supply chain you're most focused on?

Lori: Sure, I'll take that one. One of our key focus areas, when we're thinking about carbon emissions, is energy sources and non-fossil fuel sources such as solar energy, which we actually put into a plant in California. Going really well. We also invested in wind power in Argentina. We're looking at both wind power and solar energy as different ways to get more efficient energy out of our plants.

We're looking in other facilities where we can do that. We've also made investments in LED lighting and energy-efficient air compression systems as well. We're exploring. We'd like to expand the use of these types of efficient energy sources around the globe. We'll continue to do that.

I know I can't answer your question directly, but from an investment perspective every single dollar we invest in Sealed Air, we're really looking to make sure that that investment will give us a return above our weighted average cost of capital with a minimum threshold of roughly 10 percent. In 2020 or ROIC was 15 percent.

We'll just continue to look at every single dollar we invest with that ROI in mind and make sure it's above that weighted average cost of capital.

Nathan: Great. Thanks. Moving on to Reinvent SEE, can you just summarize where you're currently at with the program and what you have left?

Lori: Sure, Alessandra?

Alessandra: I will take that. If you look at slide 11, let me start with our Reinvent SEE business transformation. Reinvent SEE, it is really transitioning away from the restructuring phase and into our continuous improvement business operating system that will deliver annual productivity gains.

What makes our Reinvent SEE business transformation different is that we have put capital behind it and focused our R&D spend to accelerate innovation, drive [inaudible] improvements, and support growth initiatives.

From a CapEx perspective, we are investing in our facilities to upgrade assets, and we are bringing in more automation also to our facilities to improve productivity and maximize efficiencies. We are expanding capacity in growth opportunities and investing in new breakthrough technologies.

We have a focus on our R&D spend to speed up the time that it takes to commercialize to market our new innovations, particularly on automation and advancing sustainable materials and process. Very important, we are driving an EVA model with an ROIC of 15 percent.

Nathan: Then what were some of the biggest lessons and/or takeaways that you learned over the last year following the onset of COVID? Operationally, that sort of thing.

Alessandra: If we looking at slide 10, you can see there some of our leadership actions that we have taken to successfully navigate through the pandemic. Our local, regional, and corporate crisis management teams remain proactive. Our business continuity plans are still in effect.

We have had several challenges to overcome, but the disruption to our operations has been very minimum, and our global scale mitigated the business continuity risks. We recognize that our new normal will be here for the foreseeable future, and we have been improving productivity across all of our geographies, and supply chain, and product portfolio.

Also, we are investing in digital capabilities and finding new ways to do business online and interact with our customers, being able to place online versus offline transactions.

Nathan: Thank you. Moving on to resins. What are you seeing with resin prices right now? How much do you think that the resin price movement is going to affect profitability, and how much of it can you pass along to customers, and then when do you see this cycle softening a little bit?

Alessandra: To help alleviate higher raw materials as well as freight cost, we have initiated market price increase in Q4, with more actions going to effect into the first quarter of this year.

Keep in mind that about 20 percent of our business is under contract pass-through that are typically on a six months lag, and are expected to turn favorable mid-year. Resins is our largest input cost, or roughly 30 percent of our cost of goods sold, but it certainly does not define us.

Short-term spikes in resins will not change the fact that we're leading the way in innovation with a focus on automation, digital, and sustainability. This gives us the ability to work with our customers to ensure that we are delivering the best solutions at the right price and making them sustainable.

With our global purchasing strategy, the Reinvent SEE efforts and our pricing actions coupled with the formulas turning favorable by mid-year. We are confident in our ability to manage it through this raw material environment and stay on track to deliver on our full-year EBITDA commitments.

Nathan: Thank you. On capital allocation, you've done a good job with the balance sheet. How are you thinking about excess-free cash flow in 2021? I'm assuming it's buybacks, internal growth, and potentially some tuck-in M&A.

Would you consider a transformative M&A, and if so, would you prefer to go upstream, downstream, horizontally? How should we think about that?

Alessandra: It's like 12. We outline our capital allocation strategy. We will continue to take a disciplined approach to maintain a strong balance sheet while driving continued attractive returns on invested capital.

We ended 2020 with a ROI SEE of approximately 15 percent, which is a top quartile in the packaging industry, and well above our weighted average of cost of capital. On share repurchase, at the end of 2020, we had $675 million remaining in our authorized plan, and we will continue to buy shares opportunistically in this market.

We are confident in our growth strategy and have been executing very well on our Reinvent SEE business transformation. We are also investing in capacity to support the secular growth opportunities in automation, digital, and sustainability. Around 40 percent of our organic CAPEX is focused on growth.

You see here in this slide as well, SEE ventures, which include selective minority investments in early stage technologies focused on automation, digital, and sustainability. These investments, they will help accelerate our strategy and complement our internal innovation efforts across [inaudible] .

For example, in Q4, we increased our investment to eight million in Plastic Energy, which is an industry-leading startup company with advanced recycling technology. In early 2018, we invested a similar amount in form of PAX, which is a leading e-commerce enablement platform.

By the way, we recorded a 15 million gain on this investment in Q4, and this gain was treated as a special item and excluded from adjusted EBITDA.

Nathan: Thank you. Moving on to capital markets, how do you think about the high yield credit market right now, where well-capitalized packaging issuers can issue debt in the sub 4 percent range with extensively looser covenants?

Do you think that access to cheap and flexible capital will drive sector M&A, and how does it alter your capital policy, if at all?

Alessandra: If we're looking at Slide 13, that slide highlights our net leverage, liquidity, and debt maturity profile. We ended the year with an unleveraged at 3.1 times on the actual adjusted EBITDA basis.

The 3.1 times, it is down from 3.6 times at the end of 2019, with a strong balance sheet and 1.7 billion of liquidity, and note that maturities until August of 2022. We have good flexibility to support the growth of our business. With respect to the markets, yes, you're right. They have been very attractive.

However, our capital allocation strategy are such that we will continue to maintain our strong balance sheet while delivering attractive returns on our invested capital, regardless of the market or business cycle we find ourselves in.

Nathan: With that, I see no questions online, and we're just about out of time. That works perfectly. Thank you very much, team. I appreciate you joining us this year, and to everyone online. Thank you for your attendance. Everyone have a great day.

Lori: Thank you, Nate.

Alessandra: Thanks, Nate. Thanks everyone.

Lori: Thanks everyone.

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