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SEE - Q4 2013 Sealed Air Earnings Conference Call

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OVERVIEW:

SEE reported FY13 YoverY net sales growth of 2% and 4Q13 YoverY net sales growth of 3%. Expects full-Year 2014 net sales to be approx. $7.7b and adjusted EPS (excluding SARs) to be $1.50-1.60.

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CORPORATE PARTICIPANTS

Lori Chaitman *Sealed Air Corporation - VP, IR*

Jerome Peribere *Sealed Air Corporation - President and CEO*

Carol Lowe *Sealed Air Corporation - SVP and CFO*

CONFERENCE CALL PARTICIPANTS

George Staphos *BofA Merrill Lynch - Analyst*

Usha Guntupalli *Goldman Sachs - Analyst*

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

Anthony Pettinari *Citigroup - Analyst*

John McNulty *Credit Suisse - Analyst*

Adam Josephson *KeyBanc Capital Markets - Analyst*

Al Kabili *Macquarie Research Equities - Analyst*

Christopher Manuel *Wells Fargo Securities, LLC - Analyst*

Scott Gaffner *Barclays Capital - Analyst*

Rosemarie Morbelli *Gabelli & Co. - Analyst*

Chip Dillon *Vertical Research Partners - Analyst*

Scott Hendrickson *- Private Investor*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the quarter four 2013 Sealed Air earnings conference call. My name is Matthew and I will be your operator for today. At this time all participants are in listen-only mode. We will conduct a question and answer session toward the end of this conference. (Operator Instructions). As a reminder, this call is being recorded for replay purposes. And now I would like to turn the call over to Lori Chaitman, Vice President of Investor Relations. Please proceed, ma'am.

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

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. This presentation can be found on today's webcast and can be downloaded from our IR website at SealedAir.com.

I would like to remind you that statements made during this call stating management's outlook or predictions for the future are forward-looking statements. These statements are based solely on information that is now available to us. We encourage you to review the information in the section entitled forward-looking statements in our earnings release, which applies to this call.

Additionally, our future performance may differ due to a number of factors. Many of these factors are listed in our most recent Annual Report on Form 10-K and as revised and updated on our quarterly report on Form 10-Q, which you can also find out our website at SealedAir.com.

We also discuss financial measures that do not conform to US GAAP. You may find important information on our use of these measures and their reconciliation to US GAAP in the financial tables that we have included in our earnings release. Please note that we will end the call by 11 AM today. Now, I will turn the call over to Jerome Peribere, our President and CEO. Jerome?

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

Thank you, Lori, and good morning, everyone. 2013 was a solid year for Sealed Air. We made significant progress on our Get Fit strategy. We increased EBITDA, excluding SARs, on a year-over-year basis by 7% in 2013, and this is only the second time the Company has delivered EBITDA margin growth in 11 years and that should speak for this leadership team.

I'm also very pleased that we held firm on our pricing initiatives, reinforced our efforts in the fourth quarter. And in the fourth quarter, we delivered favorable price/mix trends in every division in every region.

Our free cash flow performance was outstanding. In addition to our focus on reducing working capital as the Grace settlement became more likely, we put forth a tremendous effort over the last few months of 2013 to generate cash. We generated $509 million of free cash flow. The Grace settlement is a significant development, and what I would call a major milestone. It brings closure to an important legal matter after more than a decade. We will no longer incur interest on the settlement liability and we anticipate meaningful cash tax benefits. This will provide us with additional financial flexibility and cash generation in future years.

And we're very happy with what we have accomplished in 2013. Not only have we started to change our go-to-market strategy, but we also rebranded the Company, reorganized Diversey Care, reengaged our employees, and set the foundation to re-imagine the Company. Along the way, we are improving the delivery on our objectives. Since we started this journey, we have -- you have heard us back -- talk about a more disciplined pricing strategy and passing on our raw material cost increases. We started that initiative in Q1 and Q2 with moderate success, but fully executed in Q4 with our price increase in North America, effective as of November 1.

You can count on us to continue to be very disciplined on this in the future and in light of the recent and announced cost increases in benzene, propane and polyolefin.

Let's now turn to our performance by region for the quarter and the year, which you will see on slide 4 and 5 of our presentation for a quick look at our fourth-quarter and year-end performance. In the quarter, we continued to see solid sales growth in AMAT and Latin America with constant dollar growth of 8% and 7%, respectively. Developing regions in total increased 9% in the quarter, accounting for approximately 26% of our sales.

Sales in North America increased by 4% in constant dollar, which was mostly from our Food Care and Product Care divisions. Trends in developing regions have been consistent all year. North America performance has also performed relatively well.

In Europe and Japan, Australia, and New Zealand, or JANZ, we experienced more positive trends in the fourth quarter compared to the first nine months of the year. In Europe, constant dollar sales increased 3%, led by 5% growth in both France and Spain and 2% growth in the UK. Holland was essentially flat; Germany declined very slightly; and Italy declined by 5%. But these six countries combined accounted for approximately 22% of the fourth-quarter sales, and sales in JANZ increased 3%, which was led by a 5% increase in New Zealand.

Slide 6 outlines our price/mix and volume trends for the quarter and for the year. Overall, as I said earlier, we delivered positive price/mix and increased volumes in Q4 for the whole year.

Let me now take you to some more details by division. And turning to slide 7, Food Care sales increased 4% in constant dollars with approximately 4% growth in packaging and nearly 5% growth in hygiene. We reported growth in all regions, led by 11% in AMAT and 7% in Latin America, as these volumes continue to increase in the high single-digit, low double-digit levels in this region.

In North America and Europe, we increased sales approximately 4% and 3%, respectively, despite the ongoing single-digit declines in beef production. And JANZ also increased sales by 2%, with 11% growth in New Zealand. On a global basis, we are seeing strong growth in the fresh red meat and smoked and processed market segment, primarily driven by an increasing demand for our case ready, QuickRip and easy-open solutions.

In hygiene, we delivered 4% growth driven by strength in emerging markets with our Clean in Place solution, and in beverage and brewing, despite the overall market conditions. The trends we experienced and the fourth quarter and for the full year on a regional basis and market basis were very similar, with the exception of Europe and JANZ. For the year, Europe was essentially flat on a constant currency basis but delivered positive growth trends in the fourth quarter.

Despite continuing negative trends in certain European countries, we gained share in the quarter and increased demand for our advanced product solutions, and started to see a more stable economic environment. JANZ was also flat for the year but delivered positive trends in Q4 as growth in New Zealand accelerated from Q3 to Q4.

Our favorable price/mix performance was -- of just over 3% in the quarter was attributable to our focus on driving pricing discipline within Sealed Air and our continued shift toward a more favorable product mix. For 2014, we expect beef production in Latin America and AMAT to continue at a similar growth rate that we experienced in 2013. This is expected to be offset by expected single-digit declines in North America and Europe.

As it relates to our food care business in the developing regions, we will continue to benefit from not only rising beef production but also increasing hygiene standards and demand from our innovative solutions. With the protein market expected to decline again in 2014 in North America and Europe, our growth in these regions will continue to depend on driving demand for our value-added services, including integration of systems, automations, advanced food safety solutions, and new products that provide convenience and drive consumption.

I wanted to briefly highlight the EBITDA margin performance that Food Care delivered in the quarter. While unfavorable supply chain costs and catch-up on incentive compensation for strong full-year performance negatively impacted adjusted EBITDA margin for the quarter, Food Care adjusted EBITDA, excluding SARs, increased by 8% for the full-year 2013 and full-year margin improved to 15.2% from 14.3% last year. The year before, in 2012.

Slide 8 highlights the results from our Diversey Care division. Diversey Care net sales on a constant currency basis were up 3%, driven by another strong performance in the developing regions and growth in all of our core sectors, led by building care services. On a regional basis, constant currency sales growth in Q4 was up by approximately 13% in Eastern Europe, 8% in Latin America, and 6% in AMAT. We have experienced similar growth trends in developing regions throughout the year. In Europe, constant dollar sales increased 3%, led by double-digit growth in France, Spain, and Sweden. And this is our first quarter in 2013 where we saw positive trends in Europe, and while the recovery is fragile, this performance is worth noting.

As we anticipated, volumes in North America improved from the decline we experienced last quarter and sales were essentially flat in Q4 on a year-over-year basis. For the full year, and for the first time in 10 years, Diversey Care in North America delivered topline growth. As we anticipated, volumes in North America improved from the decline we experienced last quarter and sales were essentially flat in the fourth quarter. For the full year, again, we have experienced this topline growth.

This performance was attributable to growth across all core sectors as a result of new customer wins and product launches. On a year-over-year basis, adjusted EBITDA, excluding SARs, increased 10% in the quarter and 6% for the full year. Adjusted EBITDA margin in the quarter and for the full year was just north of 10%. This improvement was primarily driven by a more favorable mix and price cost spread, realization of cost synergies, and our rightsizing initiatives.

Looking forward now for Diversey Care, we believe that we will continue to deliver strong performance in developing regions, albeit at a slower base to the currency devaluations in many of these countries relative to 2013, and see more stability throughout Europe. As it relates to our strategy for Europe, we will continue to focus on bottom-line improvements and eliminate business that is not aligned with our profit expectations. Our growth in North America will be driven by our ability to successfully execute on our targeted growth strategy.

I want to reiterate what we said last quarter, which is that we are very focused on improving the earnings or quality of this division, including the ongoing cost savings initiative and eliminating customer and portfolio bleeders.

Turning to slide 9, Product Care delivered 5% constant currency sales growth, with 5% growth in North America and approximately 2% growth in Europe. We had mid-single-digit growth in the UK and Italy, and Germany was essentially flat but France declined by 2%. These year-over-year trends in Europe are an improvement from last quarter, again. We are encouraging -- but at the very same time the recovery is slow and we are planning appropriately.

In terms of pricing and product mix, I am pleased to report a positive impact of 1.7% in the quarter on a global basis. This is a direct result of our decision to hold firm on pricing, walk away from low-margin businesses, and focus on growing our packaging systems and cushioning business, which is benefiting from our focus on the e-commerce markets.

I also want to point out that US Product Care delivered 3% in favorable pricing in the quarter despite our price increases being effective as of November 1. And I'm very pleased with this performance and reaffirm our result as we face new resin and raw material increases in the first quarter.

The decline in adjusted EBITDA margin on a year-over-year basis for the year was primarily due to raw material cost increases not fully offset by price increases, unfavorable product mix, and higher supply chain costs. This suggests that we still have a lot of opportunity to improve on each of the items that I just mentioned.

And now I'll turn over the call to Carol to provide additional comments in the first quarter and our outlook for 2014.

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

Thank you, Jerome, and good morning, everyone. If you are following along with our presentation, slide 10 provides a bridge for net sales growth on a year-over-year basis for the quarter and full year. We delivered 3% growth in the fourth quarter and 2% growth for the full year. Currency had a 1% unfavorable impact on the quarter and full year 2013, primarily due to declines in Latin American currencies, most notably in Argentina and Brazil.

For the quarter, volumes contributed $27 million and price/mix was $52 million positive, driven by favorable trends in all divisions and in all regions. For the year, volumes contributed $114 million and price/mix was $94 million positive, primarily due to favorable trends for Food Care and Diversey Care.

Slide 11 reflects the adjusted EBITDA bridge, excluding SARs, for the fourth quarter and full year 2013. For the quarter, adjusted EBITDA was essentially flat compared to last year. Favorable mix and price/cost spread of $26 million and cost synergies of $28 million were largely offset by $31 million in unfavorable supply chain costs and $17 million in performance-based compensation. The unfavorable supply chain costs were primarily related to $12 million of nonmaterial inflation, $8 million of LIFO adjustments, and $4 million for timing of inventory adjustments.

We recorded additional performance-based compensation of $17 million in the fourth quarter. This is in recognition of our strong year-over-year performance for the full year 2013 in the areas of adjusted EBITDA, working capital management and other key financial metrics.

For the year, adjusted EBITDA, excluding SARs, increased to $1.07 billion from $1 billion in 2012. The 7% increase in EBITDA was attributable to $112 million of cost synergies, $41 million of favorable mix and price/cost spread, and $40 million in volume. These increases were partially offset by $25 million in performance-based compensation, $34 million in selling, general and administrative expenses, and $61 million in the other category you see on the bridge. The other category includes $46 million of unfavorable supply chain costs primarily related to nonmaterial inflation.

As a reminder, we have previously communicated that our annual salary, wage, and benefit inflation is approximately $55 million to $60 million. The increase in SG&A expense and approximately $25 million of the unfavorable supply chain costs are related to this compensation inflation.

In 2013, SARs expense was $38 million as compared to $18 million in 2012. As of December 31, we had $1.3 million SARs outstanding, which compares to $1.9 million I shared with you on the October earnings call for Q3. Of the $1.3 million SARs outstanding, $800,000 are unvested. In 2014, $500,000 will vest with the remaining $300,000 vesting in the first quarter of 2015. Based on our recent experience, we expect SARs to be exercised within a few months of their vesting date.

Now, turning to slide 12, we generated $509 million of free cash flow, a $238 million improvement over 2012. As Jerome indicated earlier, we put forth a tremendous effort in the last few months of the year to accelerate cash generation in preparation of the Grace settlement. The year-over-year increase in free cash flow is primarily due to higher net earnings and significant net working capital improvements.

We made meaningful progress on collection of customer past-dues, and we reduced our day sales outstanding by more than three days. We also reduced our days on hand inventory by four days and increased our days payable by two days. Our simple working capital as a percent of net trade sales improved from 19% at the end of 2012 to 17% at the end of 2013. We are confident that we can not only maintain this improvement but can continue to leverage improvement in our investment in working capital.

Cash restructuring payments were $107 million in 2013, which was less than the $140 million we guided to an our October conference call. As we have shared in the past, timing of execution of certain restructuring activities can be uncertain, especially in Europe. Our CapEx in 2013 was $116 million compared to $123 million in 2012. SARs cash payments totaled $46 million for the full-year 2013 as compared with $24 million in the prior year. Looking forward, our primary use for free cash flow generation continues to be focused on reducing leverage.

Our outlook for the full year 2014 is summarized on slide 13. Net sales are expected to be approximately $7.7 billion, with organic growth of approximately 3% to 4%, which is due to positive trends in both price and volume. This will be offset by product rationalization of approximately 1% to 2% and an estimated unfavorable impact of more than 2% from foreign currency translation.

Going forward, we will provide our outlook with a few changes from past practices. For adjusted EBITDA, we will include the non-cash profit-sharing expense in our guidance as it is an actual expense for the Company, and it's estimated to be approximately $40 million in 2014. Additionally, we are providing guidance for adjusted EBITDA and earnings per share excluding the impact of SARs. We anticipate adjusted EBITDA, excluding SARs and including profit-sharing expense, to be in the range of $1.05 billion to $1.07 billion. This compares to $1.038 billion in 2013, or an increase of 1% to 3% on flat top line.

We expect adjusted EBITDA to improve in each of our three core divisions. We expect depreciation and amortization to increase to approximately $315 million from $307 million in 2013. This increase is due primarily to bringing our long-term incentive compensation in line with market. We are committed to align our employee with our shareholders, and this includes providing market competitive share-based compensation.

Now that Grace is behind us, we estimate interest expense to be approximately $295 million. The core tax rate for 2014 is expected to be approximately 25%. We estimate adjusted earnings per share, excluding SARs, to be in the range of $1.50 to $1.60, an increase of 8% to 15% as compared to 2013 adjusted earnings per share of $1.39, also excluding SARs. Please note that our guidance for earnings per share has always been net of profit-sharing expense.

Now let's turn to our guidance for free cash flow. We anticipate 2014 free cash flow to be approximately $410 million. CapEx is estimated at $170 million. Our restructuring payments are estimated at $150 million. We expect cash interest to be approximately $280 million. Cash taxes are estimated at approximately $100 million.

To wrap up, I want to say that we have made a lot of progress in our financial performance and disciplines in 2013. The entire Company is committed to continuous improvements and we very much look forward to the year ahead.

And now, operator, can you please open the call for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). George Staphos, Bank of America Merrill Lynch.

George Staphos - *BofA Merrill Lynch - Analyst*

A two-part question (technical difficulty).

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

Hello? Operator, we can't hear George.

Operator

(Operator Instructions).

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

Operator, if need be, you can move to the next question, then we can go back to George.

Operator

Alex Ovshey, Goldman Sachs.

Usha Guntupalli - *Goldman Sachs - Analyst*

It's actually Usha Guntupalli on behalf of Alex. A quick question on the pricing growth. Could you remind us how much pricing growth is factored in your 2014 EBITDA guidance?

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

The amount we gave for the organic growth, it's slightly more on pricing than it is on volume, but we will benefit top line for both price as well as volume. But, again, that is being offset by currency, negative currency impact, as well as very intended product, customer, and geographical rationalization to improve the quality of the business. So, again, we said 3% to 4% organic growth with that more heavily weighted on pricing.

Usha Guntupalli - *Goldman Sachs - Analyst*

Got it. And is your target to mostly offset resin inflation? Or is your target to get pricing over and above resin inflation?

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

The minimum is resin inflation, but we also have inflation above just our resin costs. We have other nonmaterial inflation, whether it's utilities and things like that, and our expectation is to be more than whole so we see margin expansion. Jerome, I don't know if you have --.

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

Let me repeat what I said a year ago and not wavering an inch on this. We have in Sealed Air, we have a very clear and determined left brain and a very clear and determined right brain. The left brain is about discipline and Get Fit. A very clear element of the Get Fit component is to start by recouping our cost increases. And you heard in my prepared remarks that we had not been very successful in Q1 and Q2 with our price increases compared to our cost increases.

Remember that in the US, resin prices went up by $0.12 in January of last year. And we have implemented those price increases but not fully. I was dissatisfied throughout the year as to the rate of implementation, and I must clearly say that I was quite happy with our resolve, determination, and the systems that we had put in place with regards to our October announcement, effective November 1.

And there is all kinds of things, including a cultural change that we needed to make sure was happening in our various markets. And I must admit that our people saw that it was possible. And we're not here in the business of absorbing those costs, so we need to make sure that our people start by understanding that very clearly that we are not in the business of absorbing it completely or partially.

And for 2014, we're going to continue to do this. The resin suppliers have announced $0.04 for February. There is a very large supplier who is announced $0.06 for March and we're not going to be waiting. You are going to see very soon that we are announcing officially price increases to cover for those costs, because we can do that. So that's the left brain or that's a part of our Get Fit, which belongs to left brain.

The right brain is about changing the game, and this is where we are also determined to improve and change our go-to-market strategy where we are going to -- and where we're starting to make progress in charging our customers for the value that we create. That is, if you have attended our investor day in September, you saw two arrows.

There was a dark one starting very dark and lightning up with our Get Fit, because we will have achieved the disciplined -- the cost control, et cetera, et cetera, over the years. And there's another arrow which was starting light in the shade and going darker and darker for our Change the Game.

This means that as we become very, very focused, industry by industry, as we here to add value to our customers, we are then going to be able to charge for the value we create. If you want just one example -- in the meat business, I was last week at a conference with a very large meat producer and I told him that, in essence, we are in the business of helping them value their meat more expensive.

This goes through better shelf life, through better hygiene, through improved packaging. That's what we are in the business of. And they say, if you can do that, we are on board. We are on board because we're going to make sure that we are going to be -- that as we add value to them, we're going to be able to add value to ourselves.

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

Operator, next question, please.

Operator

George Staphos, Bank of America Merrill Lynch.

George Staphos - *BofA Merrill Lynch - Analyst*

Real just brass tacks kind of question here, in two parts. You I think said your adjusted earnings will, pre-SARS, is $1.39 for the year that just passed. I think in the past the benefit of Grace would be something in the low teens from an earnings per share standpoint, and realizing that's a full-year number, but we'll use it to start. If I just add the two together, I get into the low end of your guidance range for the year.

And, Jerome, with the notion of the Company to continue to improve margin over time, I'm just wondering what else is in that guidance and what offsets you're expecting, since you are improving margin and you are seeing some traction on your plans.

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

George, you are correct that the positive benefit for Grace that we'll realize because of the interest is $0.11 to $0.12 specific for Grace, so that does -- if you add that to the $1.39, that does get you up to the low-end. We will have benefit on cost savings that we're estimating additional synergy costs. Those -- we have factored in approximately $80 million that will benefit in 2014. However, a lot of that is utilized by that $55 million to $60 million in annual inflationary costs that we see.

Now, a lot of you would say, Carol, you told us last year was $55 million to $60 million, why is it still $55 million to $60 million when we've had headcount reductions? One of the challenges that we face is that we do have a pretty large employee base and some highly inflationary economies, specifically in Latin America. And that has created a drag where we're not realizing quite as much of a reduction in that annual compensation increase.

What our forecast represents in total is we've conducted a very detailed, bottom-up forecast that our divisions have put together. They believe in they have high confidence in. We've always said that this new management team for Sealed Air, we're going to be very prudent in our expectations. Please rest assured we clearly have internal stretch goals, but what we're presenting to you is something we feel very confident about.

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

So, let me add just a little bit of flavor here. We've been taken back by what you have heard in the last four weeks with regards to emerging countries. You've seen two things. Number one, that the economies in those countries were trailing -- trending towards lower growth. And number two, currency devaluations. We are exposed to currency devaluations and, as a result of that, we want to be a little bit prudent. You need to know, and I guess by now you know this management team, we are awfully pragmatic people and we go at the jugular. And you can count on us to continue doing this.

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

Operator, next question, please.

Operator

Ghansham Panjabi, Robert W Baird.

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

Just given the increase in Europe from a volume perspective, understanding that comps are easy. Jerome, should we start to expect that the next leg of pricing for the Company starts to focus on that region? I assume that raw material prices could start to park higher if the recovery there is sustainable. Thanks.

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

The pricing, the cost of raw materials increases right now are fairly widespread, but depending on the region and depending on the raw material. Benzene prices have been shooting very high, and this is affecting MDI and this is affecting the propylene chain. So our Instapak business is affected and we are announcing price increases. We have announced price increases in Europe and we are announcing price increases in North America to that effect.

The polyolefin business, prices are mostly coming for -- in North America, and the market is somewhat softer in Europe, but we also have announced some price increases in our films and polyethylene-based products. Bearing in mind also there are some price increases affecting the nylon bag. So, the reality is that the raw materials are increasing in different areas at different levels, but what has been a very clear trend is that the benzene prices have been very firm and this is -- and therefore we need to react quickly in that.

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

Operator, next question, please.

Operator

Anthony Pettinari, Citigroup.

Anthony Pettinari - *Citigroup - Analyst*

At your Analyst Day in September, you guided to 2016 sales of I think roughly $8.3 billion to $8.5 billion. And when I think about sales guidance for 2013 being basically flat and that topline growth guidance maybe being back-end loaded to 2015, 2016, I'm just wondering how we should think about that. Is 2014 just really impacted by the FX headwinds? Or are you expecting some sort of contribution from emerging markets or price that you expect to really accelerate in 2015, 2016?

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

So, two points here. One is that you need to compare at equal company perimeter, Anthony, and we have sold our medical business or Rigid Medical business in the meantime. And the second, yes, there is a currency effect that we have not impacted there.

I think the important takeaway for you here when you look at the next two and three years is a sentence you remember I said, we will be a 16% EBITDA company before being a $10 billion EBITDA company. If there is one thing that I would've done faster in 2013 in retrospect is go stronger at the low quality businesses.

We need to continue and we will this year continue to streamline for bleeders or for low-return customers. This is applying to every single of our product line in every single of our three divisions. So, I want growth, but I first want quality growth. And to have quality growth, you need first to have a streamlined and clean portfolio. And that's going to continue in 2014, which is affecting our topline growth in general.

So, we really take at heart this Get Fit. We're taking it very, very seriously because it is our disciplined approach which is going to make a different company.

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

Operator?

Operator

John McNulty, Credit Suisse.

John McNulty - *Credit Suisse - Analyst*

A question on working capital, or maybe two related questions on it. The first is, it looks like you took a really serious, serious push on working capital, especially in the fourth quarter. I'm wondering on the inventory side or on inventory reduction side if that reduction had any operating issues or resulted in any operating issues, where maybe you didn't run at optimal rates across your normal platform. And if that had any impact on, say, the margins.

And then just as a follow-up, how should we think about working capital improvements and the potential for that in 2014? Because it did seem you had some really, really big improvements in the fourth quarter in 2013 overall. Thanks.

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

John, great questions. In terms of on unabsorbed overhead, which is what we would have experienced if we had a lot of inefficiencies, in total for the Company, no, on a collective basis we did not. The negative impact that we did see is the LIFO adjustment that I referenced, because specifically for our Product Care business, as we reduced some inventory levels and because of the way LIFO works, we ate back into levels as far back as a basis to 1994.

And because of that, we have that negative LIFO impact. So, that's really the main, obvious thing that we saw. We're very confident about our ability to continue to monetize working capital to create good cash flow for the Company. One thing we were able to push really hard on the last couple of months of the year was accelerating collection of past-dues. We've shared publicly in Q3 that our past-dues were approximately $200 million. We still have $160 million of past-dues, so we still have opportunity.

Our cash flow that we're forecasting -- if you do the walk, you'll see that the primary difference going from the $509 million for 2013 to the $410 million that we're forecasting for 2013 to $410 million for 2014 -- is driven by the increase in restructuring charges to $150 million, as well as the increase in CapEx. So those are the two primary drivers for the decrease.

We do believe we have additional opportunity in working capital, and that will be part of our stretch goal internally.

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

So, remember what short-term incentive compensation is based for our people, it's based on EBITDA, and we almost reach our objectives there; on productivity improvement, which is measured as expense to gross profit; and on working capital as a percentage of net sales.

As Carol said in the prepared remarks, we have improved 200 basis points, from 19% to 17% and we're going to continue to improve. We can do that. Have we put a very strong stretch goal in Q4 internally? The answer is yes, and it is yes because the Grace settlement was coming and we wanted to come with a lower debt situation. So there's been a very strong push, but we are organizing this improvement and our internal goal for this working capital to net sales is to improve over the 17%. And that's a pretty nice thing.

You mentioned also the quality of our business in Q4. At the end of the day, there are two things which have affected our cost base there. Number one is that our incentive compensation in 2012 was slightly below 70% for the incentive compensation -- was paid at slightly below 70%. And, in 2013, it has been very slightly above 100%. So there's been some catch-up and which generated $17 million in there. And then the elements of inventory reduction and all of those things have played a small part in it also.

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

Operator, next question, please.

Operator

Adam Josephson, KeyBanc.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Back to -- a follow up on George's question earlier about your guidance. So, EBITDA was up about 8% last year, you are guiding to up about 2% this year, and I just want to make sure I understand the puts and takes. So FX was about a 1% drag on sales last year. This year it will be 1% to 2%. $30 million lower cost savings this year compared to last year. And anything in terms of price over costs that you are assuming in 2014?

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

Adam, the currency impact is actually more than 2%, not 1% to 2%, on the top line. And the impact on the bottom line on the EBITDA as well. We do -- again, I've referenced the salary and comp and benefit inflation. We obviously have expansion of margin, which is what we're forecasting.

We do have to have positive mix and price/cost spread and that's factored in our EBITDA as well. And I also talked about the approximately $80 million in cost synergies, and we'll also have volume growth that will positively impact. But we will have, in addition to the salary, labor wages, and benefits cost increases, we will have some other nonmaterial inflationary costs also.

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

You see, the currency things here will depend on, at the end of the day altogether, as to what the euro is doing. We had an Australian dollar, peso, real, Canadian dollar, and a UK pound devaluation in 2013 compared to 2012, but this has been partially offset by a slight strengthening of the euro when you compare it to 2012 and 2013.

We are -- you have seen all of these emerging country's devaluations happen in the last 4 to 5 weeks, or even less than that. But we don't anticipate that the euro is going to revalue compared to the US dollar. And therefore we are a little bit prudent in that sense.

What are we doing? Well, in the emerging countries, where we can move to -- when we can move to a dollar base, we are moving to a dollar base. In several countries in Latin America we are moving to dollar-based pricing. And when we can't move to officially dollar-based pricing, we are implementing major price increases.

This is what has happened in Q4 in our Brazilian market, for example, where we went for major, major price increases in real in order to offset this kind of situation.

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

Operator?

Operator

Al Kabili, Macquarie.

Al Kabili - *Macquarie Research Equities - Analyst*

Just wanted to clarify, Carol, on the 2014 outlook how you are thinking about pension expense, because I would think that's a tailwind there. And so with the tailwind, I'm trying to understand what other offset might be to that?

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

Okay. So, Al, I'm going to look real quick; I don't have the number right in front of me, but it's pretty much in line. It was a just not even a noticeable increase when we put together our 2014 plan.

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

Do you have another question, Al?

Al Kabili - *Macquarie Research Equities - Analyst*

Pension expense is going to be flattish. And then are you -- as far as incentive comp, which was a big headwind in the fourth quarter, how are you thinking about incentive comp for 2014 versus 2013? Is that a headwind, flattish, in the base guidance? Thanks.

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

So, if we perform to plan, which we have shared with you, it would be flat, because -- but we were just slightly above 100% payout factor for 2013, and we expect and plan to be no less than 100%. So, in terms of the numbers we've shared with you, it would be about flat.

Al Kabili - *Macquarie Research Equities - Analyst*

Okay. And target is -- and the target in incentive comp, the target bogey is the EBITDA that you communicated?

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

(Multiple speakers) we don't communicate that.

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

Our plan that we've communicated in the past, it's weighted. A portion on EBITDA, and as Jerome talked about, a portion on working capital improvement, and a portion on a support expense as compared to gross profit.

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

So we're going to keep having the same three criteria, which are EBITDA to our internal plan, which is -- and then our productivity improvements, as measured by expense to gross profit ratios, and our working capital as a percentage of net sales improvements. Same criteria as last year.

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

Operator, next question.

Operator

Christopher Manuel, Wells Fargo.

Christopher Manuel - *Wells Fargo Securities, LLC - Analyst*

Congratulations on a strong cash year and getting Grace behind you.

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

Thank you.

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

Thank you, Chris.

Christopher Manuel - *Wells Fargo Securities, LLC - Analyst*

I kind of want to come back to the same -- I am still I think missing a couple elements when I think about the EBITDA bridge, 2013 to 2014. If I start at the $1.04 billion that you did this year, and I look at the movement to next year, it's kind of in that $12 million to $32 million of higher EBITDA.

And if I start from the earlier comment you made that price would be more of a component of the organic revenue growth on a year-over-year basis, if you have a couple of points of price within there, that could be upwards of $150 million of improvement. The $80 million of cost savings. I get something that should be in the low/mid $200 millions is where you could improve.

And I recognize you have the offsets of -- you've talked about $60 million of inflation, et cetera. But there's still, Carol, seems to be a gap that I'm having difficulty bridging. Could you maybe give us a little more --?

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

I think you're a little high on the mix and price/cost spread that you are looking at.

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

The one thing is the price; the other thing is price/cost spread.

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

Yes, because it has to fall down.

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

We are anticipating where some cost increases, again, for resin and other type of raw materials. So that is the situation. So, the first question in the Q&A was about margin expansion, and one is pricing discipline to recoup our cost increases. Number two is margin expansion through what I talked about. So we are anticipating price and -- but not very much margin expansion. That's one.

The second thing is that you have seen that we are talking about product rationalization. And in product rationalization you are -- we are going to be weeding some product lines or some products and, as a result of that, our overall volume projection is not very large.

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

Operator, next question.

Operator

Scott Gaffner, Barclays.

Scott Gaffner - *Barclays Capital - Analyst*

Just going back to the guidance here for a minute. If I look at the EBITDA growth year-over-year on a percentage basis, it looks like your -- you think you'll grow at 30 basis points year over year. But if you continue to do that in 2015 and 2016, it does like you'll come up short of the 14.5% to 15.3% EBITDA margin that you outlined for (multiple speakers).

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

One thing, Scott -- and it's a good point, but remember we have $150 million in restructuring items that we are looking at that we'll start getting additional benefit for that as we move forward. And we haven't realized all of that benefit at this point. We continue -- we'll have $80 million; we'll have additional benefit as we move forward in 2015 and 2016 that will also help us. But we are very confident in the 2016 numbers that we've provided. We wouldn't back off of those at all from a margin standpoint.

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

Operator?

Operator

Rosemarie Morbelli, Gabelli.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

If we look at the debt repayment, Carol, you paid down about $400 million in 2013. Could you give us a feel for how much you expect to repay in 2014 and the timing of the cash going into Grace's asbestos fund, as well as the tax credit in 2014?

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

So, the timing was that we actually funded on Monday. So that's this past Monday; that's when the funding went in for the Grace settlement. We have $150 million for the 12% bonds that are outstanding that we'll pay middle of this month; actually on February 14. So we'll make that payment with the cash flow generation -- the free cash flow of $410 million. And, again, principally all of that will be utilized to reduce debt. So it will be around that $400 million that we'll reduce debt in 2014.

As it relates to the tax refund, that actually will come in 2015 because we made the payment in 2014. It will be based when we file our 2014 tax return in early 2015, and we will get more than $200 million in 2015 that we'll also use for leverage reduction.

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

Operator, next question, please.

Operator

Chip Dillon.

Chip Dillon - *Vertical Research Partners - Analyst*

A couple of questions. Actually, to follow up on that one on the tax benefits, if you look at the total value of what you gave, $200 million would be certainly well below the corporate tax rate of 35%. So I'm wondering are there other less visible benefits, whether you're paying less in estimated taxes in 2014, or less in cash taxes than you otherwise would?

And then on a separate basis, that was a great rundown on the SARs, and it would seem like this year -- let's say 800,000 were actually exercised. Would that be roughly about a $40 million guesstimate as to what that number could be for this year?

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

So, Chip, as it relates to the taxes -- and we have said it's more than $200 million. Part of the challenge is, in terms of how much we'll carry back versus carry forward, we have to take into consideration where we are at on certain foreign tax credits, how those have been treated.

And our tax department does a phenomenal job of making sure they get the most benefit for us that they can. So, as we move forward and when we file the 2014 return, they'll look at our position for all of those. So that's why we are saying more than $200 million. We've previously communicated it could be up to $250 million. Again, it's going to depend on our position on other tax credits and certain tax initiatives.

With respect to the 25% tax rate that we are guiding to for 2014 versus where we are at for the 22% for 2013, one thing that's impacting that right now is that the US Congress has not approved certain things such as the R&D credit and look-throughs for intercompany transactions. We expect them to go back and do that retroactive, but right now we have no assurances, so that's also negatively impacting our core tax rate that we are presenting. So you see a little bit of that happening as well.

And then the second part of the question -- remind me, Chip, again what you are asking. I'm sorry, I got set going on taxes so much, I forgot the second part.

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

Operator, can you unmute Chip, please?

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

Okay. We'll put you back in the queue. My apologies.

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

Operator, next question.

Operator

John McNulty, Credit Suisse.

John McNulty - *Credit Suisse - Analyst*

Yes, just one follow-up question on the shares that you're transferring over as part of the -- or transferred over as part of the settlement or trust with Grace. Is there any lockup period on those? Or can those hit the market at any specific point? Are there any restrictions on how quickly those can be transferred out of the trust? Can you give us some color on that?

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

John, it's 90 days. 60 days, I'm sorry, that there'll be a lock on that. They have to be registered and everything. So they've transferred and issued, and they've always been in our outstanding share count. So it's not a negative impact from that standpoint, but it will be 60 days.

John McNulty - *Credit Suisse - Analyst*

Great, thanks very much.

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

Operator?

Operator

Chip Dillon.

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

Okay, good. Sorry about that, Chip.

Chip Dillon - *Vertical Research Partners - Analyst*

No worries at all. It was great the rundown on the SARs, and it looks like that's going to finally be behind to you in a year or so. But I think you mentioned, Carol, that about 800,000 would likely vest this year. And if we guessed -- is the way to think about it is would we just take that number if they were all exercised and multiply it times the stock price? Or just kind of remind us. Because if I did that, I would get to about $40 million in expense this year.

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

So, it wouldn't be expensed. That would be -- your math is correct, but that's the cash impact, because they're converted to cash when they're exercised. They don't actually get Sealed Air equity; it's cash settled.

The expense is already recorded up to the current stock value. There is a slight discounting we do for any unvested shares because some shares end up being forfeited if people leave and what have you. But, generally, the way to think about it is whatever shares are there for the SARs, it's the change in the share price that impacts our expense.

Chip Dillon - *Vertical Research Partners - Analyst*

That's what I thought. Thank you, very helpful.

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

Operator, we have time for one more question.

Operator

Investor Scott Hendrickson.

Scott Hendrickson - - *Private Investor*

With strong free cash flow generation and balance sheet deleveraging gives you more options for capital allocation over the coming years? My question is with shares trading at a low teens multiple on cash EPS, how do you weigh buybacks versus dividends versus further deleveraging, both philosophically and in terms of timing?

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

So, priority number one is deleveraging. And when we will achieve the ratios we have talked about previously, then we -- then the Board will decide how much of share buyback and how much of dividend distribution.

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

And, as a reminder, it's that 3.5 to 4 times that we feel comfortable -- that we would be able to look at options to return value to shareholders.

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

Operator?

Scott Hendrickson - - *Private Investor*

Okay, thank you.

Operator

Thank you. Do you have time for one more question?

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

No.

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

No, operator, we're going to move to Jerome closing out, please.

Operator

Okay. Thank you. Ladies and gentlemen, thank you for that. Thank you for your questions. I'll now hand over the call to Jerome for the closing remarks.

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

Well, thank you very much to all of you for your very active and very insightful questions. I'd like to conclude by thanking our customers and our shareholders for their ongoing supports. I would also like to thank our employees around the world for their commitment to improving the operating and financial performance of Sealed Air.

And the progress we made in 2013 was no short of being remarkable, but there's still a lot of work to be done. Confidence that our plan to improve Sealed Air's quality of earnings is well underway and we expect to see continuous improvement throughout 2014 and the future years.

2013 performance is a true testament to our leadership team and their commitment. We have very clear direction for our business and we are very confident that we have the right strategy in place: focus on providing significant value and innovative solutions to our customers, becoming more nimble, and in the end, creating a better way for life.

We look forward to speaking with you on our next meeting call, currently planned for April 30 of this year. Thank you so much and have a great day. Bye-bye.

Operator

Thank you for joining today's conference, ladies and gentlemen. This concludes the presentation. You may now disconnect. Thank you.
