FINAL TRANSCRIPT

Thomson StreetEvents℠

SEE - Q2 2011 Sealed Air Corp Earnings Conference Call

Event Date/Time: Jul. 27. 2011 / 3:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Amanda Butler
Sealed Air Corp - IR Director

Bill Hickey
Sealed Air Corp - President, CEO, Director

Dave Kelsey
Sealed Air Corp - SVP and CFO

CONFERENCE CALL PARTICIPANTS

George Staphos
BofA Merrill Lynch - Analyst

Philip Ng
Jefferies & Company - Analyst

Matt Wooten
Robert W. Baird & Company, Inc. - Analyst

Peter Ruschmeier
Barclays Capital - Analyst

Rosemarie Morbelli
Gabelli & Company - Analyst

Chip Dillon
Vertical Research Partners - Analyst

Gilbert Alexander
Darfil Associates - Analyst

Mark Wilde
Deutsche Bank - Analyst

PRESENTATION

Operator

Good morning, everyone. Welcome to the Sealed Air conference call discussing the Company's second quarter 2011 results. This call is being recorded. Leading the call today we have William B. Hickey, President and Chief Executive Officer, and David H. Kelsey, Senior Vice President and Chief Financial Officer. After management's prepared comments, they will be taking questions.

(Operator Instructions)

We ask you that you limit yourself to 1 question and a brief related follow-up question per caller so that others will have a chance to participate. Additionally, we will be accepting text questions, which can be submitted on the webcast page. At this time, I would like to turn the call over to Amanda Butler, Director of Investor Relations. Please go ahead, Miss Butler.

Amanda Butler - *Sealed Air Corp - IR Director*

Good morning, everyone. Before we begin our call today, 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 made solely on information is that 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 the call.

Additionally, our future performance may be different due to a number of factors, and many of these factors are listed in our most recent annual report on Form 10-K, which you can find on our website at sealedair.com. We also discuss financial measures that do not confirm 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. Now I will turn the call to Bill Hickey, our CEO.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

During today's call, I would like to discuss our second quarter 2011 business performance, have David Kelsey detail a few financial items, and then come back and touch upon our pending acquisition of the Diversey Holding Company. Once Dave and I have concluded our prepared remarks, we will be happy to take any questions from both the audience and those coming in over the webcast.

Earlier this morning, we reported our second quarter 2011 earnings per share of $0.37, which compares to a reported second quarter 2010 earnings of $0.38. Excluding acquisition expenses related to the proposed Diversey acquisition, which we announced late in the second quarter, our adjusted earnings per share were $0.40 per share.

This 14% increase in our adjusted EPS performance on a year-over-year basis reflected the benefits of favorable foreign exchange, higher sales volumes, favorable price mix, all of which were partially offset by the continued unfavorable impact of the timing of recovery of higher raw material and freight costs.

We have used a multi-pronged approach to address the raw material inflation, which you have seen this year. This generated relatively stable operating profit margins in the quarter on an adjusted basis versus the prior period.

The combination of approximately $30 million in positive price mix, $10 million of productivity improvements, and improved operating leverage from higher volume and favorable foreign exchange helped to largely offset the estimated $45 million in higher resin and freight costs in the second quarter.

We were pleased with our margin performance as we navigated through peak resin prices in this quarter, which nearly crested at 2000's peak level in the month of May but then subsided modestly in June. This is consistent with the outlook we gave you on our first-quarter call where we believed resin prices would peak in the second quarter, which they did, and then gradually subside through the summer months.

Overall, the fundamentals of our business remain very solid in the quarter, despite an uneven and uncertain pace of economic growth and recovery that appeared to slow as the quarter ended and making more challenging year-over-year comparisons for protective packaging segment. Our consolidated net sales increased 11% to $1.2 billion.

On a constant-dollar basis, which excluded foreign currency translation, sales increased 5%, which is in line with our guidance range and consistent with our first-quarter performance. Showing consistent momentum from the first quarter, we generated 3% higher unit volumes in the second quarter.

Unlike the first quarter, where North America and Europe led the Company's growth, in the second quarter we saw a mix between a relatively strong Europe and strengthening results in our developing regions, excluding Brazil. In Brazil, the ongoing currency appreciation of the Brazilian currency continues to limit beef exports and animal production rates in that country, which has unfavorably impacted our core Food Packaging business.

Ranking volume growth by geography, Europe and Asia led the volume increase where all of our businesses experienced positive growth in both regions. In Europe, volumes increased 6% in the quarter, led by a 10% volume increase in our Food Solutions segment. This growth was primarily due to equipment sales to new customers in two of their case-ready growth programs, Darfresh and BDF for whole poultry.

Additionally growth in the Mirabella case-ready format and in trays contributed to Europe's strong volume growth as well. Our Food Packaging segment also realized solid equipment volume growth in Europe across a wide range of customers, reflecting ongoing investment by customers to automate and modernize operations to yield superior performance, reduce labor costs, and lower total operating costs.

This is also supported by ongoing growth in our service base solutions such as our PakFormance and system integration offerings. In Asia we generated approximately 15% volume growth led by a 13% increase in protective packaging, largely from our new inflatable materials and equipment systems, such as our Cyclone inflatable system.

While our North American volumes rose 1%, I'd like to highlight strength in key areas. In Food Packaging, volumes rose 4% in the US, driven by expanded customer relationships which were largely established in mid-2010 and a slight average increase in animal production volumes as processors brought more protein to market and in face of higher feed costs, primarily the price of corn.

In Protective Packaging, volumes increased 4% in the United States, driven by 1, strength in our Instapak foam-in-place installations with year-to-date installations well ahead of last year's install amounts. Secondly, solid growth in inflatable materials and equipment systems among existing customers in the eCommerce and fulfillments base with new customers.

And 3, strength in our new I.B. Express inflatable bubble system with new, larger film dimensions that are expanding opportunities and customer relationships, and that product line increased approximately 45% in the quarter.

I'm pleased to announce that one of our core Protective Packaging products, our Instapak product line, which is a very good product for us, actually had 5% to 6% unit volume growth in the second quarter.

These gains helped to offset some weaknesses experienced in the North American region that were primarily due to factors that include approximately $5 million volume lost in case-ready in Food Solutions, which we've talked about previously as resulting from a case-ready format change by a major retailer in mid-2010. A portion of this new format is now being provided by our Food Packaging segment and is included in their results.

Additionally, I would like to note that the Food Solutions team is actively pursuing pilots with other large North American supermarket chains to re-establish growth in case-ready in North America and that we are hopeful that we will shift into a growth mode on a year-over-year basis in the second half of the year. Secondly, there was unfavorable volume in Canada in our Food Packaging segment reflecting a small account loss.

Touching upon Developing Regions, where we report sales basis versus by volume, Developing Region sales increased 12%, or 5% on a constant-dollar basis, which excludes the impact of foreign currency translation. Excluding Brazil, due to the high foreign exchange currency issues facing that country, our Developing Region sales grew 16% on a reported basis, or 10% on a constant-dollar basis.

I raise this point as this pace of constant-dollar sales growth is much more representative of the double-digit increases we saw in countries like Russia, Poland, and China.

By business area, approximately 55% of our volume growth was from our industrial businesses, Protective Packaging and Specialty Materials, driven largely by the volume drivers I previously mentioned regarding Protective Packaging, as well as a

9% volume growth rate in Specialty Materials. Additionally, another 20% of consolidated volume growth was from Food Solutions, which our consequence of that business is ongoing growth programs.

As we noted last quarter and in our press release earlier today, Food Packaging volumes have been negatively impacted by the impact of the foreign currency appreciation in both the Brazilian and Australian currencies, which continues to weaken demand for those regions' meat products in other parts of the world.

Moving to price mix and productivity benefits, we achieved 3% favorable price mix, or approximately $30 million in the quarter. These benefits were led by approximately 6% higher price mix in our 2 food businesses in North America. This solid increase was due to a combination of contract price adjustments and prior pricing action implemented in 2011 among noncontract customers.

We also generated good results across our European pricing actions as we sought to recover rising resin costs in that region. I should note that our business is expected to continue to recognize in increasing pricing benefits in the second half this year from our earlier 2011 pricing actions and the implementation of new pricing actions effective late in the second quarter, which we expect to benefit the third and fourth quarters. We continue to anticipate that we will achieve price cost parody in the third quarter for that period.

Shifting to productivity improvements, our numerous supply chain programs remain on track and generated approximately $10 million of productivity improvement in the quarter, and we expect to sustain this quarterly improvement rate for the balance for the year.

Shifting to our EPS guidance and outlook for the balance of the year, we were maintaining our full-year 2011 EPS guidance of $1.75 to $1.85 per share, which does not include any effects of the proposed Diversey acquisition.

We continue to expect volumes will continue to show moderate growth on year-over-year basis and track in line with growth rate seen in the first half of the year. This volume growth is based on expectations for modest year-over-year growth rates in animal production, a strong equipment book, and expanding customer relationships in many businesses and regions. We do expect these benefits to be slightly offset by more challenging year-over-year comparisons.

Looking at price mix, we expect to generate ongoing price mix benefits from our pricing action and favorable formula-based adjustments, which we are anticipating will generate a full-year average 3% increase in price mix. While resin prices presumably peaked in the second quarter and are now expected to decline modestly, we anticipate stable though slightly rising resin prices through the balance of the year.

We continue to feel our estimated full-year average resin costs increase will be in the low-teen percent range, although we feel that is appropriate and representative of ours resin cost dynamics.

As mentioned in our press release, we continue to offset raw material inflation through a diverse program that includes not only pricing action with our customers but productivity improvements, reformulations of our products, diversification of our materials streams, and a higher mix of new and differentiated solutions. In the quarter, we achieved measurable benefits from all of these factors, helping to sustain operating margins in a relatively tight band.

Foreign exchange translation provided a favorable effect to our results in the quarter which were largely realized in the month of May as the euro, for example, climbed from $1.23 per euro in June of 2010, to $1.43 in June of 2011. We continue to expect the favorable foreign exchange rate to yield a few percentage points of benefits on our full-year net sales and as we continue to assume ongoing strength in the euro and currencies like the Australian dollar and Brazilian real relative to the US dollar.

As volume seasonality improves in the second half of the year, price mix benefits and favorable foreign currency translations will help us achieve greater earnings performance in the third and fourth quarter, which will enable us to achieve our full-year EPS guidance.

As noted in our release, we have adjusted our assumptions on capital expenditures and free cash flow for the year. Based on the uncertain progress of the recovery, we have lowered our initial capital expenditure guidance by $25 million to reflect changes to the timing of projects and productivity improvements yielding incremental capacity.

As such, we are now projecting capital expenditures to be approximately $100 million to $125 million, which compares to our earlier guidance of $125 million to $150 million.

Looking at free cash flow, we have adjusted our guidance and now assume free cash flow to approximately $225 million to $275 million to reflect the unfavorable foreign exchange impact on working capital items and reduction in capital expenditures.

This reduction in cash flow primary results from the translation of working capital items, particularly inventory and accounts receivable, at higher foreign exchange rates, resulting in higher US dollar amounts shown on our balance sheet, and when the financial organization takes the higher inventory and compares it to the prior year, it appears as a use of cash. From real cash dollars, we stated higher inventories to the end of this period. The underlying business fundamentals have not changed.

And to reiterate our press release, our earnings guidance excludes the payments of the W. R. Grace settlement as the timing of this settlement continues to be unknown; however, the proceedings continue to move ahead and are currently in process in the district court of Delaware. The latest update is that oral arguments were heard before the district court on June 28 and June 29, and the court took matters under advisement and did not render a decision at the hearings.

Additionally, our earnings guidance excludes any operating gains or losses due to currency fluctuations in Venezuela or any transaction cost directly related to the proposed Diversey acquisition, which I will speak to following Dave's more detailed discussion of second-quarter items. And now I will now turn the call over to David Kelsey to review details of our financial performance and our liquidity position.

Dave Kelsey - *Sealed Air Corp - SVP and CFO*

As Bill has covered, foreign currency was a big factor in our second-quarter results. In addition to providing additional detail on this impact of foreign currency, I will also address details of our operating expenses, operating income, key balance sheet statistics, free cash flow, and liquidity items, and then I will turn the call back to Bill.

Since we are US-domiciled Company, we translate our foreign currency denominated financial results into US dollars. Due to changes in the value of foreign currencies relative to the US dollar, translating our results from foreign currencies into dollars may result in favorable or unfavorable impacts. Clearly, so far this year with the weakness in the dollar we have seen predominantly favorable currency translation.

In the second quarter compared to the same period last year, not only the euro strengthened against the dollar, but also other currencies, such as the Australian dollar and Brazilian real, recorded double-digit increases in value against the US dollar. Around 55% of our sales occur outside of the US, with approximately 20% of sales denominated in euros. The appreciation of the euro and these other currencies in the second quarter resulted in $64 million favorable impact on our sales and had a significant impact on our operating profit in free cash flow results.

Moving on to expenses, our marketing, administrative and development expenses through he second quarter increased $17 million to $189 million, but they remained relatively flat as percentage of sales. $9 million of the increase was due to unfavorable

THOMSON REUTERS

foreign exchange, and $5 million of the increase was attributable to the incremental sales and marketing costs we incurred to support our sales growth.

Our operating profit in the second quarter was $6 million higher than last year excluding the cost related to our proposed acquisition of Diversey. This result includes approximately $7 million of favorable foreign currency translation contributing approximately $0.03 to her earnings per share. Rounding out my P&L comments, our interest expense was $4 million less in the second quarter of 2011 compared with 2010 which is due to our December 2010 redemption of $150 million of our 12% senior notes.

Now, I'd like to turn your attention to some key balance sheet, free cash flow, and liquidity items. Cash and cash equivalents were $705 million at June 30, up $9 million from March 31. During the quarter we paid dividends of $21 million. Our receivables increased $35 million to $732 million on a reported basis during the quarter.

Excluding the increase attributable to foreign currency translation, our receivables would have increased $30 million or 5%. As Bill commented, our underlying performance in receivables and inventory was relatively unchanged when backing out the impact of foreign currency translation so our day sale outstanding, a key metric in measuring the health of our receivables, was essentially unchanged as receivables growth was in line with revenue growth in the quarter.

Inventory investment increased $43 million on a reported basis during the quarter. Excluding the increase attributable to foreign currency translation, our inventories would have increased $36 million or 6% in the quarter.

At June 30, inventory levels were higher in North America and Europe mainly in our food businesses, reflecting peak resin costs in May and a buildup of inventories in anticipation of increased sales volumes from normal seasonality in these 2 food businesses.

We expect our inventory balance to decline over the second half of the year in line with the pattern of past years. Inventory days on hand, again a key metric in measuring the health of our inventory, was unchanged at June 30 compared to March 31 of this year.

Free cash flow was $8 million in the second quarter, primarily due to the net usage of cash from working capital items, which we have covered. Looking at our liquidity position, our debt, net of cash and cash equivalents, at June 30, was $709 million, down $8 million from March 31. In addition, we had no amounts outstanding under any of our committed credit facilities at any time during the year. Our available committed borrowing capacity was approximately $780 million at June 30.

In summary, we remain well positioned to fund day-to-day operations and the pending W.R. Grace settlement. Although, as Bill indicated, we still have no date certain when we will contribute our funds. Now, I will turn the call back to Bill.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Now, if I could spend a few minutes on our future and our growth strategies, I would like to touch upon the pending Diversey acquisition which we announced on June 1. We are all very excited about the acquisition which brings together 2 industry-leading organizations with a shared vision that leverage a strong heritage of innovating new market spaces and developing unique solutions that generate measurable value for our customers.

We believe the acquisition will act as a catalyst to the work we have been undertaking in our Food Solutions segment to broaden our reach in the Food Processing industry beyond the solid foundation we have achieved in fresh proteins. This acquisition leverages our current R&D investments in food safety and hygiene and broadens growth initiatives providing end-to-end solutions for the Food Processing and Food Service industries.

Ultimately, the goal of eliminating contamination maximizes the shelf life and the freshness of food and minimizes unnecessary waste, key and critical factors in today's world of limited and costly resources. And lastly, Diversey's extensive feet on the street and established relationships in developing parts of the world will enhance our own growth programs and broaden opportunities in countries like India where Diversey is approximately 8 times our size in that particular country.

Following our announcement, we issued an incremental 8K on June 8 outlining pro forma 2013 estimates and the anticipated value creation we expect from the new combined Company. Dave and I then embarked on an extensive road show to discuss our strategies and help our investors and analysts learn about Diversey together with Diversey CEO and President, Ed Lonergan, and CFO, Norman Clubb.

I believe that many of those whom we met during that road show are on the call today, and I'd like to extend my thanks to everyone that gave us the time and opportunity to continue the discussions.

Since that time, we have kicked off our integration planning process, spearheaded by integration steering committee, and have assigned leaders in each of the respective functions. I am pleased to report that as we meet, we continue to understand how the organization can generate incremental synergies and unique opportunities, and the vision for the new organization are reinforced by positive feedback from both our food and industrial customers.

In the near term, we were continuing to focus on adding Diversey as its own reporting segment to minimize integration risk and maximize each organization's success in achieving their own 2013 growth program.

Looking at the approval process, we have been granted early termination of the US Hart-Scott-Rodino antitrust review, and we are already in the process of gaining foreign regulatory approval from the European Union, China, and a few other foreign jurisdictions. At this time, we continue to expect the close the transaction in the fourth quarter and are also continuing to progress on financing for the transaction.

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

QUESTIONS AND ANSWERS

Operator

Thank you very much.

(Operator Instructions)

Once again, as a reminder, we ask that you limit yourself to one question and a brief, related follow-up question so that others will have a chance to ask their questions today. George Staphos, Bank of America.

George Staphos - *BofA Merrill Lynch - Analyst*

Thanks. Hi, guys. Good morning. I wanted to take my first 2 questions and use them to explore Diversey again. Obviously, the products that both Diversey and Sealed Air within Food Packaging sells are very R&D driven. You're obviously selling to the same customer base.

Bill, what's your vision over time in terms how you will ultimately be able to integrate the sales approach for both businesses? Do you ultimately see, depending on the market, that will be effectively 1 sales person who is selling both products? How do you see that panning out? And then I had a follow-on.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Okay. George, we are in the process of the integration now, and one of the key items the integration team is focusing on is how to go to market. So I will say, if you could hold that question for a quarter or so, we might be able to tell you a little more later.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay. But, you should have had at least some view on how you might integrate it. What were your initial expectations, Bill, do you think?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

I said I think I'd rather wait until next quarter, George. We are looking at ways on how best to -- and it's different in different markets and different parts of the world. I mean, if you use my example in terms of India -- India, where Diversey is substantially larger and more established than we are, there may be a way to piggy-back on their organization. In North America, where we are much better positioned with the food industry, particularly food processing industry, they will piggy-back on us. And so, we are working our way region by region, product by product at how best to go to market.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay. I appreciate your patience there, Bill. The other question I had, more for Dave. Dave, has your view -- or have your views at all in terms how you will finance Diversey changed either in terms of capital structure or audience for your financing, given -- obviously would have been somewhat challenging and changing debt markets, given the environment we are in right now. Thanks.

Dave Kelsey - *Sealed Air Corp - SVP and CFO*

As you know, we've disclosed, at the time of the announcement of the transaction, that we had a bank commitment in place for $4.5 billion. That's going to be provided by Citibank, an outfit called Bank of America Merrill Lynch -- which I think you're familiar with -- RBS, and BNP. We are in a position through those commitments to have 100% of the funds necessary to close the purchase. We'll be updating the capital structure at the time of the closing, but really are not in position at this point to discuss it in any greater detail.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay. Thanks, Dave. I'll turn it over.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

George, the only thing else I can say is, we have our debt ceiling, we are just waiting for Washington to get theirs.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay. Understand. Thank you.

Operator

Philip Ng, Jefferies.

Philip Ng - *Jefferies & Company - Analyst*

Good morning, guys. One of your largest competitors just reported today on the flexible packaging side, and it sounds like their anticipation for volumes are going to slow down with their customers raising price. Doesn't seem like you seeing the same impact. I just want to get a sense of what's the disconnect?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Yes, I mean, I wouldn't say there is a big disconnect. We have a better geographic footprint. I mean, you saw our business. We are much bigger in Europe, where we are still seeing some growth, much bigger in Asia. Our numbers in China were up 14% for the quarter. So, I would say part of it is geographic.

Also, I think, what we see is, we are very more exposed to the protein component of the market; and with high corn prices, high feed prices, we are actually seeing there will be an increase in animals brought to market in the second half of the year, rather than feed them $7, $8 corn. So, that is a factor. That will take a little from 2012; there isn't any doubt about that. But it does mean there will be a little more than the seasonal pick up. And the other part is, we have a very healthy equipment business. Remember, we have $200 million, $300 million equipment business and, by selling the whole solution, we think we have an advantage in the marketplace.

Philip Ng - *Jefferies & Company - Analyst*

Okay. And then, as for your Protective Packaging business, which is a little more economically sensitive, if I heard you correctly, volumes slowed down during the quarter. I just want to get a sense how it was tracking during late part of 2Q and early 3Q.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

It's been pretty the same. I will say the industrial side of our business is more uncertain to the economy than the food side. And I think a lot of our customers are saying that they are waiting to see what Washington does before they make commitments. They are playing inventories very low. They are buying on a week-to-week basis. What we've typically seen is, we've typically seen orders slow through the middle of the month as customers are cautious; and then if they run low, generally, the last 3 or 4 days of the month, we see a pretty big ramp up.

So, I would say the industrial side is more concerned about the overall macro situation with the economy. But, again, geographically we have a great footprint. We are still seeing up in China our Instapak business, which if you know Sealed Air, is one of our bellwether products and one of our premier products. We actually saw 5% plus, 5% to 6% unit volume growth in the second quarter. Inflatables are up 31%. So, although the economy is slow, our folks are doing a terrific job in finding those customers that have a need. And, I think a lot will depend what comes out of Washington over the next couple of days.

Philip Ng - *Jefferies & Company - Analyst*

Okay, Bill. That's great, thanks.

Operator

Ghansham Panjabi, Robert W. Baird.

Matt Wooten - *Robert W. Baird & Company, Inc. - Analyst*

Good morning. It's Matt Wooten sitting in for Ghansham today. I was hoping that you could talk about the increasing equipment sales contribution this quarter and how we should think about that in the second half, given conservative commentary from many of your customers and the potential for reduced CapEx by your customers in the second half of this year.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Well, you know, it's interesting. Equipment usually is a good indicator of the health of the economy; and, surprisingly, when uncertain economies, customers are slower to invest in equipment. But, we saw a 12% constant dollar increase, and on -- overall with a 16% constant dollar increase on the protective side and a 45% increase in constant dollar on the food side. And I think what a lot of that is, is we are showing cost savings, productivity savings, labor reduction. And I think the returns our customers are seeing from those, that in times of their uncertainty about the future and their own profitability, it's a compelling argument to invest in new equipment and reduce their cost. Of course, they are getting 1- to2-year paybacks on some of this equipment.

Matt Wooten - *Robert W. Baird & Company, Inc. - Analyst*

Okay, thank you. As a quick follow-up question, I was hoping you could give us some color on inter-quarter volume trajectories. Has volume been consistent throughout the 3 months? And any indication of July trends would be helpful.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Well, I will tell you it's been pretty stable. I looked at -- this morning before the call, I looked at yesterday's sales, and they are about the same range we have been running -- that low, mid-single digits in the US and little bit higher outside of the US.

Matt Wooten - *Robert W. Baird & Company, Inc. - Analyst*

Perfect. Thank you.

Operator

Peter Ruschmeier, Barclays Capital.

Peter Ruschmeier - *Barclays Capital - Analyst*

Thank you, and good morning.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Good morning.

Peter Ruschmeier - *Barclays Capital - Analyst*

Bill, I was curious on Diversey, if perhaps you could remind us the method of product distribution for Diversey and Sealed Air, and how might we think about ways of gaining logistical cost savings? Or asked differently, do you anticipate realizing per-unit freight cost savings going forward, just at a high level?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

I think we touched on some of that on our road show in terms of -- Diversey serves the food business primarily on a direct basis, very similar to the way Sealed Air serves the food industry. In Diversey, the nonfood component of it -- the building service contractors, the laundry, and some of those other items -- they go through a distribution channel, which is made up of a lot of the major distribution companies around the world, such as the Bunzls and the Unisources and Xpedxes, and these are the same channels used by Sealed Air in the nonfood industrial segments. So, we've got both direct channels through the food industry and indirect distribution channels through a lot of the same distributors on the nonfood aspects of our business

Logistics opportunities, we talked about that on the road show -- Diversey sells heavyweight chemicals that generally fill the first 3 feet of a truck, and Sealed Air sells light roles of Bubble Wrap that would very neatly stack out on a truck. So, I think as we said on our road show, although I hope our protective packaging guys get carried away with it, but the bubble wrap rides free.

Peter Ruschmeier - *Barclays Capital - Analyst*

Okay. That's helpful. And just a quick one, and I will turn it over. Can you comment at all as you think about the price mix spread as you look sequentially into 3Q and then into 4Q, based on the progression of -- in timing of your price increases and the cost side of things, do you anticipate a bigger sequential contribution from price mix in 3Q or 4Q?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

I think 3 would probably be the peak. I mean, there is always a question, if you look at history of the industry, they generally -- the supplier side, our suppliers, if you look at it, you generally -- they generally try for a price increase in the fourth quarter. So, although a lot of the projections are sort of stable out through July through December, my own sort of personal view is, there is likely to be another fourth quarter attempt to get prices up, as has been the case the last couple of years.

Peter Ruschmeier - *Barclays Capital - Analyst*

Very helpful. Thank you.

Operator

Rosemarie Morbelli, Gabelli, Inc.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Good morning, all. Bill, going back to your equipment sales, could you give us a better feel as to how much was in North America and how much was in Asia Pacific, and Europe, for that matter?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

I'm not sure I have that relative. I've got it by business, Rosemarie. I've got it by business. I've got it by food -- yes, we do run our business on a global basis. I can tell you that I know just on the back and looking at it quickly, there is -- about $3 million of the increase is in Food Solutions in Europe, which is kind of Darfresh lines, BDF lines for whole birds, and now we are doing a major installation of an automation line in Saudi Arabia for poultry.

We've seen about a $3 million increase in the US on the protective side, primarily on new Cyclone equipment. We are also seeing some in Japan. So, it's pretty well spread, although I would say Food Solutions, Europe, is probably the biggest piece of it. And then it goes across the industrial business and comes up at the end with the basic core Food Packaging business.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

And so, now, based on your experience in the past -- and these are the razors, how much revenues from the razor blades can we expect being derived from the installation all of that new equipment?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

We generally look at, on the industrial side, 3 to 4 times volume as the sales price of the value of the equipment that goes in. That's kind of a number that we need. On the food side, it probably tends to be less than that, more in the 1 to 2 times, on an annual basis.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Okay. And if I may ask one more question regarding the margins. When you say that you are closing the gap, are you talking about the fact that by Q3, gross margin can be above that of last year, or are you talking mainly sequentially?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

What we are saying, we closed the gap, Rosemarie, is that of the 45 -- actually it's over $100 million in resin increases from January 1, we will have gotten all of that back.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Okay. So you are closing the gap in dollars, but the margin is still going to be down, then, versus the prior year?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

That's because of the math works, because the numerator and denominator are both higher.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Oh, yes. Sure. No, I understand. But sequentially it should be higher, however?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Yes, sequentially it should be higher, yes.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Okay. Thanks.

Operator

Chip Dillon, Vertical Research Partners.

Chip Dillon - *Vertical Research Partners - Analyst*

Good morning. When you look at the Food Packaging segment, it looks like the volume comparisons in the second half are quite a bit tougher than the first half. First half being up just under 2 and the second half -- or should I say last year, you were comparing with just over 2, and now the second half you are going to be comparing with an average closer to 5. With that being said, how do you view, just as a half of a year, the volume potential in Food Packaging in 2011 second half?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

I think what you are looking at is, one, we've actually looked at -- if you look at our numbers, our Australia and Brazil numbers are low in the first half of the year -- are low in the first half of the year as both of those currencies have been -- in Australia first by drought, second by currency, and Brazil first by price and second by currency. And we were actually seeing slight improvement in Brazil at the end of the quarter into July.

We are hopeful for improvement in Australia, but we haven't seen it yet. And both of those will give us volume we didn't have in the first half of the year. And, as I mentioned earlier, we were also looking at a pick-up in North America, cattle coming to market because of the record high corn prices, although some of that may rob from 2012. There's a lot of parts of the country where feed prices are high and grazing pastures are dry because of lack of rain, and that's causing some of the ranchers and cattle raisers to bring more animals to market earlier. But it's still in the single-digit range.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. And then, this is a quick follow-up. Could you just remind us how -- let's assume Diversey closes in the fourth quarter as planned. When do you think your balance sheet would be in a position where you would feel comfortable either with a large share buyback or with making another large scale acquisition like Diversey is?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Well, I think we have to clean up our balance sheet first. We have to, first, pay down debt. That's the important thing to do is bring that debt down. Our goal, if you look at our projections, was to bring our debt down to under 3 by 2013.

THOMSON REUTERS

We don't see any major acquisitions on the horizon. There may be a few smaller tuck-ins that will complement the Diversey business, but those will very clearly be modest in size. And, at some point, as we get more comfortable with our balance sheet and the economic outlook becomes clearer, we will probably put our toe back in the water on some share buyback.

Chip Dillon - *Vertical Research Partners - Analyst*

Thank you.

Operator

Gilbert Alexander, Darfil Associates.

Gilbert Alexander - *Darfil Associates - Analyst*

Good morning.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Hi, Gil.

Gilbert Alexander - *Darfil Associates - Analyst*

Basically, on your resin cost, you are saying that you hope you won't have -- that they peak and that you won't have the volatility that you've had in the past year.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Well, you know, hope breathes eternal. Was it John Milton or Alexander that said that? One of the two. But the stars seemed to be lined. Oil is stable. One thing about uncertainty in the economy, it does keep resin prices stable. I guess the only -- the real hope is that we have a pretty mild hurricane season or at least it doesn't hit the Louisiana-Texas coast.

Gilbert Alexander - *Darfil Associates - Analyst*

Right. And basically on your operating profit margins, is it going to be tough getting them much higher than last year?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

I'm sorry, you faded out there, Gil. Could you repeat that, please?

Gilbert Alexander - *Darfil Associates - Analyst*

Excuse me. As you look on operating margins, it is going to be tough for you to improve them much over the last year's results.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

No. We will work on improving operating margin. That's clear. It should -- if you look at it, we hit peak resin prices in Q2, and if you look at where we expect to be, that speaks to a modest pick-up in operating margin.

Gilbert Alexander - *Darfil Associates - Analyst*

For the year.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

For the year, and for Q3 and 4.

Gilbert Alexander - *Darfil Associates - Analyst*

I thank you. And what's the probability of Grace being finalized by year end?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Gil, if I knew, I would go to Las Vegas or Atlantic City.

Gilbert Alexander - *Darfil Associates - Analyst*

Okay. I thank you. Good luck. Thank you.

Operator

Mark Wilde, Deutsche Bank.

Mark Wilde - *Deutsche Bank - Analyst*

Good morning, Bill.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Good morning.

Mark Wilde - *Deutsche Bank - Analyst*

I wondered -- just a couple of questions, and you will have to pardon me if these were asked earlier, I'm jumping between calls here. But, in Food Solutions, you talked about this 10% increase in volumes in Europe, and I wondered if we could get a little color on that?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Sure. We did touch on it very briefly. One, equipment is a component. Equipment is a component, and Europe, as I said answering the last question, Food Solutions Europe equipment sales are up 45%. And that includes several new lines which we have sold and are installing. We are, for example -- have a line for whole birds. We have some Darfresh lines for case ready.

And we've also seen positive growth in Russia, which is pretty good. The Russian business has come back nicely, hold back nicely, and I would say those are the key components -- and, of course, trays which go into the poultry market that underlie the package. So, you take whole bird packaging, the BDF, the Darfresh, and the equipment business, you account for the sales growth. And the Food Solutions folks have a pretty aggressive growth program that they are really executing well on.

Mark Wilde - *Deutsche Bank - Analyst*

Okay. And then, in Protective Packaging, you mentioned a new, lighter weight film that sounds like it had probably hit -- meant lower sales even if the square footage was the same. Can you talk a little about that?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

You hit that right on. We can get the same square footage with 30% less plastic. We have been talking about that for a year now. It's CT-301, which is a true 30-gauge shrink film, which takes a fair amount of the plastic out of the material. It performs in 80% plus of the applications customers have, with no difference in outcome. And, because it's less plastic and it's thinner, it does have a slightly lower price point.

But, one, it's environmentally sound, because it reduces amount of packaging; two, it significantly lowers our cost; and, three, it runs well on the equipment. So, it hits well on everything, and now we are doing the same thing on the Fill-Air product line. We've just introduced a new film there called R5, which, again, brings the gauge of that film back. If you open up packages from some of the e-Tailers you see these inflatable pillows in them.

Mark Wilde - *Deutsche Bank - Analyst*

Yes, sure.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Starting soon you will see -- you may not notice it, but you may -- you will start to feel that pillow is a little bit thinner plastic. And that's also part of our cost reductions, sustainability, giving our customers a value proposition.

Mark Wilde - *Deutsche Bank - Analyst*

So, it's a lower price. But what does that mean in terms of margins for you?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Actually, the way the math works, it's a higher percentage margin, not necessarily a significantly higher dollar margin.

Mark Wilde - *Deutsche Bank - Analyst*

Okay. Very good. And finally, just any thoughts -- there has been some concern about maybe China and some of the other Asian economies slowing down. Have you got any visibility into that in any of your businesses over there?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

You know, I kind of share that concern, but I look at our numbers in China for the quarter, up 14%. I do know from our folks in China, they are concerned about the real estate bubble. China has been raising interest rates. But on the fundamentals from 2 years ago when I walked into one of our Chinese customers and found that two-thirds of their factory was shut down because exports to the US and Europe dried up as we went through the financial crisis, those people are back now cranking out increases of 14%. So, I give the Chinese a lot of credit for managing their economy. Whether there is a bubble or not, only time will tell.

Mark Wilde - *Deutsche Bank - Analyst*

Very good. That's helpful. Good luck in the third quarter.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Thanks. Any questions on the Internet, or do we have a couple more, operator?

Operator

We do have a follow-up question from the line of George Staphos, Bank of America.

George Staphos - *BofA Merrill Lynch - Analyst*

Thanks. Hi, Bill. Two quick ones. In the past, the shrink-fill market has been, at times, a very competitive market. One of your major competitors over the years was acquired a number of years ago, and one of the other competitors seems to have somewhat vanished. Maybe that's an incorrect statement.

But what's been the pace of competition in that market? And then, more broadly, within Protective Packaging, your price mix was up a point or so less than what you are seeing in food. How much of that variance, or said differently, what impact did the CT-301 film introduction have on your mix? In other words, what would your price mix have been ex that new product launch? Thanks.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Let me go back and say, the protective industry continues to be among the more competitive industries that we play in. And actually, even within protective, it's more certain classes of products. On the shrink side, what we have done is, we have introduced a number of new products. We now have CT-301, 501, and 701. They do substantially reduce the amount of plastic in the product. And, as I responded to the question earlier just before this, is it does have a lower price point. I know it has a negative effect on the price mix; so will the R5 on the Fill-Air have a negative effect on the price mix. I just don't have that particular number, what it would be without it at this time, George, but I can tell you that the thinning of our products does have a negative effect on the price mix, although it has a positive effect on the margin and our cost.

George Staphos - *BofA Merrill Lynch - Analyst*

And competition in shrink, has that gotten worse? Has it stabilized over the last, call it, 5 years? How would you frame that for us?

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

I would say interesting. If you look at the competitive landscape, you are right in that one disappeared; they haven't really disappeared, they just probably experienced their own challenges. I don't think it's gotten any worse, but on the other hand it hasn't gotten better. It's like an industry that has competitive dynamics, and the player who comes out with the best product wins. And that's what our goal is.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay. Clearly. Thanks. I'll turn it over.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Okay, one more question? Operator, I think we have one more question in the queue?

Operator

Yes, we do have another follow-up question from the line of Rosemarie Morbelli.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Just quickly, Bill, if you anticipate -- you have seen resin prices coming down, your price increases are coming through, and you didn't change your guidance. Is that because now you think that you might be closer to the high end than the low end? Otherwise one would anticipate that you would have better results than you thought before.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Rosemarie, I think we give our guidance in a range because there is a lot of moving parts, a lot of moving pieces, and I don't think I would want to go where in that range we may end up. So, I will just leave it at that.

Rosemarie Morbelli - *Gabelli & Company - Analyst*

Okay. Thanks.

Bill Hickey - *Sealed Air Corp - President, CEO, Director*

Okay. I would like to wrap up the call. I want to thank everybody for participating. I do want to hit one message clearly. As I think the quarter, we are executing the plan. That's basically the message the organization has and is following, is we have a plan. We know where we want to go. We know what we have to do to get there, and we are executing it step by step.

In the meantime, the integration team with Diversey is focusing on identifying delivering incremental value from the transaction and really speeding up the time line to the extent possible. We do look forward to continuing to speak with you, share our vision, demonstrate the value we create with this new combined approach to the marketplace. We want to remain an innovator, a thought leader, and a pioneer in our space. We have a history of creating new markets, new solutions that yield premium prices and drive value for our stake holders. We intend to do that with the Diversey acquisition. We believe it's the right long-term investment for future value creation.

And, that's why I am still proud to be a Sealed Air shareholder. Thanks for taking the time to listen.

Operator

Ladies and gentlemen, this concludes today's presentation. We would like to thank you for your participation. You may now disconnect, and have a great day.