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SEE - Q3 2017 Sealed Air Corp Earnings Call

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OVERVIEW:

Co. reported 3Q17 adjusted EPS from continuing operations of $0.46. Expects 2017 sales to be approx. $4.4b and adjusted EPS to be $1.75-1.80.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Sealed Air Third Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I'd like to introduce your host for today's conference, Ms. Lori Chaitman, Vice President of Investor Relations. Ma'am?

Lori C. Chaitman - *Sealed Air Corporation - VP of 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 statement. 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 reports on Form 10-Q and current reports on Form 8-K, which you can also find on our website at sealedair.com or at the SEC's website at sec.gov.

We will also discuss financial measures that do not conform to U.S. GAAP. You may find important information on our use of these measures and their reconciliation to U.S. GAAP in the financial tables that we've included in our earnings release. Included in today's presentation on Slide 3, you will find U.S. GAAP financial results that complement some of the non-U.S. GAAP measures used throughout the presentation.

Now I'll turn the call over to Jerome Peribere, President and CEO. Jerome?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

Thank you, Lori, and good morning, everyone. On our call today, we will cover our third quarter results, outlook for the year-end and provide an update on our capital allocation strategy post the close of the Diversey sale. You will have also the opportunity to hear from Ted Doheny, who will be taking over as CEO from me on January 1; and Bill Stiehl, our Acting Chief Financial Officer. But before all and relevant to my retirement, I take this opportunity to let you know that I ran my first New York -- my first marathon in New York last Sunday, thanks to my son, Alexi, and my friend, Allen. For those of you who are up to the challenge, you will be rewarded for life. But don't worry, I will not turn into Forrest Gump in my retirement.

Back to business. You can see that in the third quarter, net sales growth accelerated to 6% on an as-reported basis and 5% in constant dollars. Adjusted EBITDA margin was 19%. Our performance in the third quarter continued to improve compared to the first half of the year when we delivered 3% constant dollar top line growth and 18% margin. And this momentum is continuing into the fourth quarter, and we have been -- and we are delivering on our 2017 outlook as a result of our higher sales and our pricing and cost discipline. In fact, we are executing on our long-term profitable growth strategy that we outlined at the Analyst Day in June 2015. Remember, at that time, we set a 3-year sales growth target of 4% to 5% for each of those 2 divisions. We said that we expect sales growth to accelerate throughout the period of 2016 to 2018 and that this growth would be led by volume, thanks to our market maker innovative strategy.

In 2016, we didn't see much movement on the top line and exited the year with an increase of just 1% constant dollar sales growth. However, our growth have been improving each quarter since the fourth quarter of 2016. In the fourth quarter of last year, we started delivering one -- in constant currency 1% sales growth. In the first quarter of this year in constant dollars, we delivered 3% growth. In the second quarter, we delivered 4% growth, and now in the third quarter, we are reporting 5% constant currency sales growth. And should the temporary and incredibly steep PE resin cost increases of 13% or $0.10 per pound since August and $0.15 year-to-date not have surprised all our industry, those sales gains would've translated into the bottom line already. The good news is that I said temporary cost increases and also, that we have fully implemented our announced Product Care and Food Care price increases on September 1 and October 1, respectively. This is where our confidence comes in as we head into year-end. We are seeing rapid adoption of our game-changing solutions. We're seeing healthy end market demand, particularly in North America and Asia, and our now famous operational disciplines are taking hold.

On September 6, we closed the Diversey sale. When we announced the transaction in March 2017, we increased our share repurchase program, and we said that we would pay down debt, address stranded costs and target selective M&A that was aligned with our strategic direction. Through September 30, we repurchased approximately 15.5 million shares valued at $677 million through a combination of open-market and accelerated share repurchase programs, including an ASR that is currently ongoing. We paid down $1.1 billion in debt, bringing our total debt balance down to $3.3 billion. We have already made progress on our cost structure and we'll continue to do so heading into next year.

We also closed 2 acquisitions, a small strategic food packaging company in Brazil, Deltaplam, which closed in August. And then in October, we closed the Fagerdala acquisition, a Protective Packaging company based in Singapore that significantly expands our presence in Asia.

As all of you know, on September 9, I announced my retirement effective December 31, 2017. I have really enjoyed my time at Sealed Air, and I'm extremely proud of what we have become, thanks to the vision and determination of our management team and our 14,000 global employees, who I want to recognize here. We have built a winning culture, a culture that is obsessed with creating new value for our customers. We take the responsibility of being the industry leader and the market maker by creating new markets with disruptive innovations and instilling discipline throughout the industries we serve. Our long-term profitable growth strategy is well under way, and we continue to gain traction globally as you could see from our sales growth, focusing all of our efforts on some very key mega trends. Our journey as a knowledge-based company continues with many exciting opportunities ahead. And I am very confident that under Ted, Bill and the entire leadership team, the organization will continue to thrive and generate significant value for our customers, shareholders and employees.

Bill join Sealed Air in 2013 and has been on this journey alongside our senior leadership team. Ted and I continue to work closely together to ensure a seamless and successful transition. We have been spending time in Charlotte, North Carolina and have also -- and are also traveling around the world with our senior team to meet with customers and employees.

Let me now move back to our third quarter results in more detail and turning to Slide 6, where we highlight our results by region. We experienced constant dollar year-over-year growth across all regions. North America once again was our fastest-growing region at 7%, with sales up 9% in Food

Care and up 4% in Product Care. Sales in EMEA, Asia-Pacific and Latin America increased in the range of 2% to 3%. I want to highlight that Product Care sales in Asia-Pacific were up 15% in the third quarter led by volume growth.

On Slide 7, you can see our volume and price mix trends by division and by region. As we anticipated, top line performance was primarily driven by 5% volume growth with positive trends across all regions. Food Care volumes were up 5% with 9% growth in North America and positive trends in both Latin America and EMEA. Product Care volumes were up 6% driven by our largest regions: North America and EMEA increasing 4% and 7%, respectively. Overall price mix was relatively neutral to our top line results. Keep in mind that our pricing actions in Product Care went into effect as of September 1, and in Food Care for our non-formula customers effective October 1.

And now let's turn to Slide 8 and review Food Care results in more detail. Food Care sales were $716 million, and adjusted EBITDA was $158 million or 22% of sales. Sales were up 4% in constant dollars compared to last year due to higher volumes. Our margin compressed year-over-year primarily due to timing of raw material cost pass-throughs and higher input cost. It is important to note, however, that sequentially, EBITDA margin improved 60 basis points, as formula started to align better with higher input costs and we continued to focus our focus on expense management.

Our performance in North America, which accounted for 51% of Food Care sales, was driven by the ongoing adoption of our case-ready platform across all proteins, including seafood and higher equipment sales. We capitalize on end market demand in all protein segments led by an increase in slaughter rates of more than 5% in the beef sector. We expect our business in North America to continue outpacing the market in Q4, although keep in mind, we have tougher year-over-year comparables on volumes to come.

EMEA, which accounted for 22% of Food Care sales, was essentially flat compared with last year. We are continuing to see adoption of our new products in an environment where the protein market is growing modestly, but this was offset by timing of equipment sales. Heading into year-end, we anticipate improving top line trends with growing coming -- with growth coming from both equipment and new product sales.

APAC accounted for 15% of Food Care with Australia and New Zealand accounting for close to 70% of our sales in this region. Australia and New Zealand declined in the quarter as a result of further deterioration in the dairy market. But an encouraging data point to share is that for the first time in over a year, slaughter rates in Australia were relatively flat with prior year. The beef cycle is now near bottom, and we expect growth to return late 2018.

Latin America represented the remaining 12% of sales with Mexico, Brazil and Argentina accounting for approximately 80% of Food Care sales. Constant dollar sales were up 3% led by growth in Argentina and stabilizing trends in Brazil. This was offset by a temporary decline in Mexico, where our business was impacted by the earthquake late in the quarter. But heading into year-end, we anticipate improving trends in both Brazil and Mexico, albeit slow, with continued growth in Central America.

For the full year 2017, we expect Food Care to increase sales approximately 3.5% in constant dollars. Adjusted EBITDA margin are expected to be approximately 22%.

Slide 9 highlights results from our Product Care division. Product Care net sales were $415 million, and adjusted EBITDA was $87 million or 21% of net sales. You can see in the EBITDA bridge that compared to last year, higher volumes were offset by a negative mix and price/cost spread. Product Care margins improved sequentially by 100 basis points. This improvement was primarily related to higher volume, yield on our pricing actions and cost management.

North America and EMEA accounted for approximately 85% of Product Care sales and were up 4% and 7%, respectively. APAC had another strong quarter with 15% growth led by China and Japan. Our advanced product portfolio, including inflatable, I-Pack, sales wrap and FloWrap, continue to gain significant traction as our e-commerce and fulfillment customers optimize and automate their distribution channels. In Western Europe, I want to highlight that in the third quarter, we benefited from accelerated execution of automated solutions, volume growth of our consumables after record level of equipment installed over the last 12 months and pockets of strength across some of the industrial segments. With the acquisition of Fagerdala, we triple our manufacturing footprint in China and as you would expect, there are synergies to leverage and meaningful cross-selling opportunities.

For the full year of 2017, we expect Product Care to increase sales approximately 6% on a constant dollar basis, which would include $20 million in sales from Fagerdala.

Adjusted EBITDA margins are expected to be approximately 20%, and this implies a Q4 constant dollar year-over-year growth of approximately 10% and adjusted EBITDA margin of 21%.

Let me now turn the call over to Bill to review our overall sales and EBITDA bridges and outlook heading into year-end. Bill?

William Gregory Stiehl - *Sealed Air Corporation - Acting CFO, CAO & Controller*

Thank you, Jerome. Slides 11 and 12 provide the net sales and EBITDA bridges for Q3 and 9 months ending September 30. My comments will focus on Slide 11, which highlights our third quarter results from continuing operations on a year-over-year basis. You can see that our top line performance was primarily led by higher volumes of $55 million and favorable currency of $13 million. Adjusted EBITDA was $217 million or 19% of sales. Volume contributed $23 million in Q3, which was partially offset by unfavorable mix and price/cost spread of $16 million. Operating expenses decreased $10 million, and restructuring savings were $4 million. Currency had a favorable impact on adjusted EBITDA of $3 million.

Adjusted earnings per share from continuing operations were $0.46 in the third quarter compared to $0.41 in Q3 of 2016. Our adjusted tax rate for continuing operations was 31%.

On Slide 12, we present our sales and EBITDA bridges for the 9 months ending September 30. In the EBITDA bridge, we see that higher volumes were essentially offset by unfavorable mix and price/cost spread.

Turning to Slide 13. Free cash flow is presented on a consolidated basis, which includes the results from continuing and discontinued operations. For the 9 months ended September 30, consolidated free cash flow excluding payments related to the sale of Diversey was a source of cash of $267 million. CapEx was $127 million. Cash interest payments were $153 million, and restructuring costs were $49 million. Aligned with our typical free cash flow seasonality, working capital and other assets and liabilities were a use of cash of $70 million.

Turning to our outlook on Slide 14. For top line, we now expect sales to be approximately $4.4 billion, an increase of 6% on an as-reported basis. Favorable FX is expected to have an impact of approximately $40 million. Constant dollar growth is expected to be approximately 4.5%, including sales from Fagerdala of $20 million. Our major currency exposures include the euro, which was approximately 13% of net sales in Q3; the Australian dollar, 5%; and the Mexican peso, British pound, Canadian dollar and Brazilian real were each approximately 3% of net sales. 2017 adjusted EBITDA from continuing operations is expected to be approximately $830 million, which includes $7 million from favorable FX. Corporate expenses are now estimated to be $115 million. Our net interest expense for 2017 is estimated at $185 million. Depreciation and amortization is forecasted to be $160 million. We now expect our adjusted tax rate to be 30% for the full year 2017.

Our outlook for adjusted earnings per share is unchanged at $1.75 to $1.80. Our adjusted EPS outlook is based on 190 million shares, which reflects the weighted average full year effect of share repurchases through September 30.

Let's now turn to Slide 15 and review our free cash flow outlook. As a reminder, we present free cash flow on a consolidated basis, which includes our outlook for continuing operations and results from discontinued operations. We continue to expect free cash flow to be approximately $400 million. This forecast excludes cash payments related to the sale of Diversey. To calculate our free cash flow outlook, we start with an estimated consolidated adjusted EBITDA of approximately $1 billion, which includes our full year 2017 outlook from continuing operations of $830 million. We anticipate cash interest payments to be $200 million and cash tax payments to be $160 million. Restructuring cash costs, excluding efforts dedicated to reducing separation-related costs, are estimated to be $55 million. Capital expenditures are forecasted to be $175 million, of which $165 million represents Sealed Air continuing operations. Restructuring-related CapEx is expected to be $20 million in 2017 and is included in the $175 million CapEx estimate. Working capital and other assets and liabilities is now expected to be a use of cash of approximately $40 million as compared to our previous guidance of a use of cash of $65 million. As you know, a large portion of our free cash flow is typically generated in the second half of the year with the fourth quarter being our strongest quarter for cash generation.

I would like to now pass the call over to Ted, who will provide us with early insights and thoughts on our future opportunities and strategic direction. On behalf of the senior leadership team and our employees, we would like to welcome you to Sealed Air and congratulate you on your new role.

Edward L. Doheny - *Sealed Air Corporation - COO & Director*

Thank you, Bill. As Jerome indicated, I started at Sealed Air mid-September, and my short story is that I like the company even more looking inside than I did analyzing it from the outside. I've been traveling the world to meet with employees and customers and have also had the opportunity to visit some of our facilities, including spending time with the talented team from Fagerdala in China.

My previous experience has been with 2 iconic and market-leading companies in the equipment, service and solution space. When I was approached about the opportunity with Sealed Air, I saw another iconic company that has successfully transformed over these past 5 years from a product-driven to a market-driven company.

As I learn more about Sealed Air, I see that we have an exciting opportunity to now move from being a leading company in the packaging industry to being a world-class company solving the most complex challenges in packaging with automated solutions. Sealed Air's reputation of being a true innovative leader within the global packaging segment is impressive, and our pipeline of automation in both Product Care and Food Care is creating even more opportunity to further reimagine the business and think outside the box and maybe even outside the package. In 2018, we'll build off our sales growth in 2017 and gain share in the markets we serve. We will execute our strategy with both sales and profit growth as well as operational excellence that will demonstrate incremental margin improvement over 2017.

We'll continue to allocate capital as we outlined with share buybacks and strategic M&A. With $1.4 billion remaining under the authorized share buyback program, we'll continue to be active in the market with open market and accelerated share repurchases. On M&A, we'll focus on companies that expand our market presence geographically and take our innovations to adjacent markets. We'll look for technology and automation companies that further enhance our Food Care and Product Care businesses that solve our customers' toughest packaging challenges. Our organic growth, M&A strategy and focus on operational excellence will take our business to the next level of performance.

We plan on sharing our 2018 and long-term profitable growth plans with you in the coming months, including an Investor Day later next year.

Before we open up the call for questions, I'd like to remind you our first fourth quarter earnings call is tentatively scheduled for Thursday, February 8.

So with that, Vince, that concludes our prepared remarks. Please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Scott Gaffner of Barclays.

Scott Louis Gaffner - *Barclays PLC, Research Division - Director and Senior Analyst*

Congratulations, Jerome, not only on the retirement, but the marathon. And congrats to Ted and Bill as well.

William Gregory Stiehl - *Sealed Air Corporation - Acting CFO, CAO & Controller*

Thank you.

Scott Louis Gaffner - *Barclays PLC, Research Division - Director and Senior Analyst*

My question was, Jerome, really, if I look at -- to your point, you've had this significant margin pressure related to resin prices year-to-date. So if I look at Slide 12 in the deck, there's $54 million of mix and price/cost spread. So can you help us sort of parse that mix versus price/cost spread out so that we can sort of think about this on a go-forward basis if and when resin prices start to decline?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

Okay. So you -- first of all, you have seen with all our competitors that everybody in the industry has been surprised by the pace of the cost increase in resin and the number. So let me remind you, $0.15 since the beginning of the year, that's almost 20%. And $0.10 since August 1, that's about 13%. And here, we're talking about PE. I'm not talking about nylon, I'm not talking about other raw materials, which went up in a very steep way. So this is in light of us having in Food Care a sizable part of our business which is formula driven. And remember also that in the month of July and before, we were thinking -- and not only us, everybody was thinking that because of the capacity additions coming on stream, prices were not going to go up. They were going to come down. So yes, we did have margin squeezed. I would call it margin compression. And as I said in my prepared remarks, we are seeing that this is temporary and that as a result of that, we are going to do what we have done in the last round when resin prices went down, we are going to recoup our -- the quality of our business. So I'm really not worried. And we are going to start seeing this in my mind, definitely in 2018, depending on the pace again at which resins are going to be coming down.

Operator

Your next question is from Brian Maguire of Goldman Sachs.

Brian P. Maguire - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

I'll also add my congratulations to everybody on their new roles, including you, Jerome. My question is sort of really on price mix and just sort of the lack of lift there. I guess, I would've thought by now, we'd start to see some of the formula-based pricing from earlier in the year when resin started to move up, kick in. I'm just wondering if there's some offsetting factors on there on the mix side of things. And maybe you could just comment on the overall pricing environment outside of the moves in resin. We've heard from a couple of other guys in the industry about some pricing pressure just in response to weak end demand in some other food-related products, weak customer margins. Are you seeing any pressure to pass through some of that deflation that we're seeing in food these days? And these price increases that you've announced for September 1 and October 1, are you getting any significant customer pushback to those so far?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

So let me start with the last part of your question. Our September 1 Product Care price increase went through fully. Our October non-formula pricing, Food Care price increase went in fully. Why? Because we had PE margins and nylon and so on, margin compression and we also had other type of inflation, including freight. And for those of you who don't know that post Harvey had consequences on freight cost, availability of trucks needed to -- needing to buy resins on the spot market and all of those kind of things because our priority #1 was to delight our customers who were in difficult times for supplies and sellers, et cetera. And we did not spare any efforts nor any money in making sure that we would have absolutely no disruption. Did that cost money? Absolutely. But what is absolutely important to understand is what I said exactly 5 years ago or in January in 2012 when I said we are the market leader. The market leader has a responsibility, and the responsibility for the market leader is to be disciplined and to lead on price. Yes, we do need to be leading on price. We have led on price, which is why we stood extraordinarily firm. Yes, we did hear that some competitors were not as disciplined. That's their problem. We -- in order to keep investing, the amount of money we're investing in innovation in order to bring them, our customers, the revolutionary solutions that we're bringing them and surprise them by adding value, tremendous new value to them, we need to be able to have the funds and the resources and, therefore, keep investing at the pace we're investing and, by the way, accelerating to bring those solutions in automation, in new product, et cetera, et cetera. So that is the context. Next to that, you do have -- and this is why we are already slightly improving on our margins compared to the first half of the year as a result of having the September

1 price increase in Product Care (inaudible). So do we have competition? Yes, we do have competition. But you have customers who are price-driven customers, which are not the ones we want. And you have customers who are value customers, which is those we want. And we are absolutely committed to continue, thanks to our solutions, to add new additional and much higher value than they could get from a slight price concession. Do we have market skirmishes here and there? Of course, but not very much more than before, depending on the country, including the U.S. we have some competitors who are a bit desperate in taking business, but this is normal.

Operator

Our next question is from George Staphos of Bank of America Merrill Lynch.

George Leon Staphos - *BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research*

Again, congratulations to everybody and welcome, and also thanks to Carol for all her efforts last couple of years. I wanted to come back to the margin question a little bit differently. Can you tell us maybe in rank order priority what gives you confidence that in 2018, that you'll be able to leverage the very, very good volume growth to date and presumably positive volume growth into 2018 into stronger EBITDA? Will it be more from the pricing? Will it be more from the formula lags turning more favorably? And what, Ted, do you think at this juncture can operational excellence add to the margin picture for 2018?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

Good. Thanks, George. I'll start and Ted will continue. George, all of the above ends our innovation, which means that you saw that we have renewed with constant currency growth in the fourth quarter of 2016 and since then, it's been on and on and accelerating. The comparables are going to get a little bit tougher, but it is our innovation, which is fueling all of this. The success of the strategy that we have embarked into in Product Care moving to automation, the very successful B+ acquisition of August of 2015 continues at a fast pace. The deployment of those automation technologies in Japan, in China, in Europe and in North America adds a tremendous success. And also, our automation in Food Care with Cogni Link (sic) [CogniPRO Link] and Cogni Link PRO; and on the other end, our case-ready, which is really starting to take hold. So we're very confident that we are exactly on the pace to do and execute on what we said back in June of 2015 when we gave the '16 to 2018 look during our Analyst Day. It is actually amazing to see how what we said at that time is happening. Going back to your question on margin, we have formulas in Food Care, and they've been a little bit slower to kick in because they would have kicked in -- they were supposed to kick in from the third quarter as resins were coming down and as formulas was coming up, leading to margin expansion. And as resins came up, you see that this phenomenon is slightly delayed. And we have proven to you in the past that in an environment like the one we're going to live through, probably through the end of this year and into early next year, we are going to restore our margins. You had a quick follow-up, but Ted, on the operational excellence, maybe?

George Leon Staphos - *BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research*

Yes, so just in terms of what you've just discussed, just quickly, what's the most important? Is it the innovation? Is it the price? Or is it the formula? So I just want, again, kind of stack rank if that's possible. If not, I understand.

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

I can't stack because I don't have the details of every single numbers there. But it is all of the above. We do have a tremendous pull from our innovation. And you know that depending on the division, some of those kick in faster than some others. Darfresh On Tray needs to be approved by the retailer. This is done through and we talked about this on the cycle of innovation. And in some Product Care, it comes faster, and we're seeing all of those benefits. But there is discipline in these things. The good thing about Sealed Air is that we say what we do and we do what we say. And we are a disciplined organization. We are executing on it, and we demand value from our customers because we know we are bringing them tremendous value in the total cost to serve operations that they run.

George Leon Staphos - *BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research*

And on op excellence?

Edward L. Doheny - *Sealed Air Corporation - COO & Director*

Yes. Well, let me segue those 2 going into 3 because you're talking about '18. And internally, that's the one that I'm possessive about. On the pricing, just to make a comment, Jerome has just done a tremendous job. And one thing I just want to let you, George, and everybody know that I'll be taking over as the Chief Pricing Officer from Jerome. So -- and feel comfortable with that, some of the pricing opportunities we have I think are in the business that we need to look at and push pricing for certain options, other things that are there. So we have some pricing opportunity going forward. On the innovations side, as Jerome highlighted, that's been really exciting for me in just my first 6 weeks to see how we're at the table, not with itty-bitty but with the big players. Jerome's introduced me. I got to meet some of the major players, and we're there talking about their biggest problems. If we stay in that commodity base where some of our competitors are, then we have to live with the pricing, and that will bring up operational excellence. We got to continue to drive our cost down. But with these innovations, for instance, the statistics on flat screen TVs going through the Internet. Over half of them are being shipped. The number one problem this major e-commerce customers are having is damage. How can we fix that? We're at the table to do that. The second problem is making it easy and environmentally friendly for where it shows up. So we're on conversation, not what is the price of your product, can you help us solve this problem, bring that solution across. And we have some really cool innovative technology that we're talking about the solution and there's no conversation what was widget A versus widget B last year. So that ties innovation into the pricing and the margin that you want to see. The third piece is the operational excellence, I think we have an opportunity to really drive the business to world-class level in operational excellence. We've had a huge disruption in the business with the sale of Diversey, really bringing the team together, looking at our facilities around the world. What can we do to bring some operational excellence to the bottom line in 2018. I think we have some opportunities there and it gives you bridgeable items. We're not giving any guidance on 2018, but just give you some thoughts on what we're looking at.

Operator

Our next question is from Ghansham Panjabi of Baird.

Matthew T. Krueger - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

This is actually Matt Krueger sitting in for Ghansham. Bill and Ted, congratulations. And Jerome, it's obviously been a pleasure working with you over the years, and on behalf of the team, good luck as you head into the future. So as for my question, given the significant improvement in 2017 and the related tougher comparison, what are your volume growth expectations for the North American Food Care business specifically kind of as we head into the end of the year and specifically as we think about 2018?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

So I'm not going to give you guidance for 2018. But in 2017 for the rest of the year, we have -- in my prepared remarks, I made a comment about that and we said that we are expecting about 3.5% [in Food Care] and [Total Company] 4%. Altogether, what do you say, 4%? Lori said 4.5%.

Lori C. Chaitman - *Sealed Air Corporation - VP of IR*

4.5%

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

4.5%, Lori said. And actually what does this mean? It means that the momentum keeps on. It means that we have the North American cycle in full swing. Exports are good and strong. The slaughter rate is good and strong and we are right now in the middle of the quarter, and there is nothing else to say than that. The -- we're also looking at other proteins. And the reason why we are -- and it is as successful and you'll hear about the beef cattle cycle at 5% slaughter rate increase. But you see our total business being very solid, and you know that our rates, our meats, our cattle, beef prices or beef products are only a part of the whole thing and we are having success with our case-ready solutions all over. And there is a change in the marketplaces, including in North America, with our case-ready solutions because the market is changing because of the need for sustainability because, for example, California having banned foam trays and those kind of things. And therefore, you have MAP, modifiable atmosphere packaging, and you have our Darfresh, which is kicking in very nicely. So we're confident. 2018, you're going to see that there is -- that the comparable there will be easier. But when Ted is going to give you guidance for the company and by businesses in February, this momentum is there. And this is not the commodity business. The momentum is there.

Operator

Our next question is from Chip Dillon of Vertical Research.

Clyde Alvin Dillon - *Vertical Research Partners, LLC - Partner*

Congratulations to all, and all the best to you, Jerome, as you move on to the next place, next phase. My question has to do with thinking about e-commerce. I know it's still relatively small, but growing very quickly and obviously, a big factor as we think about Product Care. And I know in the past it's tended to be in products that are growing, but yet have smaller margins. And I just didn't know as you think about, Ted, the future, how do you think that proportion will grow as a percentage of the total segment. And what do you think the ultimate margin impact will be from e-commerce?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

You will love the Investor Day when it comes. And you will get under the tent on our e-commerce 3PL solutions. Having said that, and let me stay with the present, Ted will talk about the future. But with regards to the present, we had a slight negative mix, which is being corrected. I can't say day after day, but month after month as we are introducing our automation solutions and innovation, which are not only automation solutions. There are some very big foreign companies who launch new products, and they have our solution as the product that in which their phones are packed to the Internet. And this is big business and it is this innovation, and it is this need for not only addressing dimensional weight, which is the #1 cash cost operation in the cost to serve of e-commerce, number one, is dimensional weight, which means freight cost; the number two is labor productivity, it's labor; number three damage when the items are fragile. Number one it is the cost of packaging. What we do is reducing freight costs, is improving labor productivity, eliminating damage and we do that with the little slowest, smallest cost component, which is our packaging costs and the solution, which adds total value to our customers. So yes, this e-commerce and 3PL business is growing much faster, and the margins are improving quarter after quarter as we address our -- as we introduce our innovation and our solution. So that's important to understand because it was an issue in 2016, a little bit in the beginning of 2017 and it is being gradually and nicely corrected. Ted, future of Product Care?

Edward L. Doheny - *Sealed Air Corporation - COO & Director*

Sure. And then to answer the question to tie into the operational excellence again, if we're going to commit to operating margin leverage consistent and reliable, that means the product portfolio has got to match. And if you look at e-commerce, not mentioning any customer names, but imagine one of the largest e-commerce company's buying a food company, it's going to bring us together pretty quickly. That means that we're going to be shipping most of this stuff and extending the shelf life that has made Food Care [a significant] player in the industry. Now the shelf life has to go to the truck life, to the plane life, and so they're having to solve these problems with us. So the problems that we're bringing in are actually in the solutions. In the Product Care, to the point of where we get e-commerce quickly because that's moving -- everybody sees these products showing up at their homes. You don't want to see the polystyrene or -- I'm being trained by Jerome, or the Styrofoam all over your house. It's a problem. You don't want to see these packages that you're unpacking. You can even hurt yourself. So we're working on some innovative designs and I mentioned the flat screen TV, over half are now being purchased on the Internet. So our solutions that we're working on when you pull it out-of-the-box, make it nice and pretty. Maybe do you really need the box? Do you need that Styrofoam that you're throwing away? So the margins, to answer your questions, have to be in line with our portfolio, higher than our portfolio as we bring these new innovations. How we're doing it? We're saving our customers a tremendous amount of money that's pulling the solution. So short answer, the new innovations for Product Care have to be at higher margins than the existing portfolio.

Operator

Our next question is from Jason Freuchtel of SunTrust.

Jason Alexander Freuchtel - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Fagerdala seems like an ideal acquisition target, given its exposure to Asian technology. Can you spend some time elaborating on the attractive aspects of Fagerdala? And are these aspects potentially telling of what you're looking for in future acquisitions?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

Thank you. I'll just start because I was intimately with Ken Chrisman in the early negotiations. And I'll tell you that most companies look at the products and they look at the segment in which the targets -- in which the target participate, et cetera. What I did really look at is quality of management. We all know that when you buy a Chinese company in China, you have to do your due diligence extremely tightly because you sometimes never know what you buy. We bought a single [Peruvian] company, which has operations and its major operations in China. So we bought quality, quality, quality. What we also bought is superb management. That is really very important. And on top of that, we bought an extraordinary efficient fabricator. And Ted has traveled with Ken to see their operations and will make comments and he -- this was a story that he was very impressed with what we intended to do. And remember, fabrication is not what we do, but we want to be Chinese in China. We are becoming Chinese in China and this is extremely important. Ted?

Edward L. Doheny - *Sealed Air Corporation - COO & Director*

That's a good summary. And as Jerome highlighted, in my 6 weeks, I got to spend a week in China looking at the operation and actually 2 full days with Ken and got to meet the Fagerdala team. And if we look at the product on why this makes sense strategically is, Jerome highlighted it's an integrated manufacturer. Instead of us selling the polyethylene to an integrator and letting them do that value add, this is what they do and they do really, really well. And as Jerome said, they win in China, and I got to witness this. I got to meet with their 3 largest customers who happen to be the 3 largest PC manufacturers in the world in China. So they're at the table. They're talking what they can do to be their committed supplier in these areas. And also, those suppliers are asking them, can we move that now to the other facilities around the world? So not only does it have geographic growth potential for integrated packaging, it also has the potential to go outside. The second piece on there is the China piece that being in China, I wish I didn't have so much experience on China, that you have to be in China, you have to be Chinese to win in China. And I was extremely impressed with their management team. Three full days from the top watching the people on the shop floor, seeing their facilities where they do things very, very different than we do. I think the complement there is going to be exciting for us, but they win in China. And the customers, these major PC manufacturers, they're asking, "Can we bring that solution outside of China as we grow this business?" So pretty exciting opportunity for us.

Operator

Our next question is from Tyler Langton of JPMorgan.

Tyler J. Langton - *JP Morgan Chase & Co, Research Division - Research Analyst*

Just had a question on corporate expense. I know you lowered the guidance to $1.15 from $1.25, so I was just kind of wondering what was driving that. And then also just to see if there's any change to your sort of the longer-term outlook, which I think was reducing unallocated by $25 million by 2018 and then reducing stranded cost by about half in 2 years.

William Gregory Stiehl - *Sealed Air Corporation - Acting CFO, CAO & Controller*

Yes. Thank you for your question. One of the things that I've noticed with the Sealed Air management team over the years of being here is our ability to quickly adapt to changing business conditions and also to contract spending when the conditions actually merit that action. This, along with our initial actions to reduce the unallocated and the stranded costs, is why we're now estimating our corporate expenses to be approximately $115 million for the full year 2017. Ted and I have actually been meeting quite a bit, working together on our specific plans to address these stranded costs as well as unallocated cost going forward, and we'll continue to support the growth initiatives while at the same time addressing stranded costs. Relative to the types of costs, we've said that we have $20 million of unallocated cost and they're actually going to be offset by transition services agreement revenue. That TSA revenue actually began September 6 when we closed the Diversey transaction, and they will go forward on a 12- to an 18-month period beginning in September of '17 and will also then give us time to specifically reduce those unallocated costs. Meanwhile, for the $20 million of stranded costs, we are absolutely on track and we're very confident that our 24-month target, which is 24 months since the separation, is achievable, and we will work towards that goal.

Operator

Our last question is from Edlain Rodriguez of UBS.

Edlain S. Rodriguez - *UBS Investment Bank, Research Division - Director and Equity Research Associate, Chemicals*

Welcome, Ted and Bill. And Jerome, good luck. Just one quick question on the timing of the share buyback, the remaining share buyback. What's going to determine how aggressive you are? I mean, in terms of what's remaining, should we expect over the next several quarters that is it going to be longer than that? Is it going to be like within a year? I just want to get a sense on what you're thinking there, Ted.

William Gregory Stiehl - *Sealed Air Corporation - Acting CFO, CAO & Controller*

Sure. We have $1.4 billion remaining on the share buyback program. As we stated, we used 190 million shares for the guidance that we gave for the balance of 2017. And we don't actually disclose specific plans, but you can actually expect us to be very active in the market for the balance of 2017 through our normal methods of ASRs and OMR plans.

Edward L. Doheny - *Sealed Air Corporation - COO & Director*

Yes, and just the -- for the capital allocation story there, to commit to the share buyback as we've announced. But also looking at that, what is the M&A -- strategic M&A opportunities that we're looking at. So not to give you a specific number, but we're going to be active in the market and follow up with our commitment there on the buybacks.

Lori C. Chaitman - *Sealed Air Corporation - VP of IR*

Operator. I want to thank everybody for your questions. But before we conclude the call, I'd like to pass the call back to Ted for some closing remarks. Ted?

Edward L. Doheny - *Sealed Air Corporation - COO & Director*

Great. Thanks, Lori. And as we wrap up, I would just like to take the opportunity to thank Jerome for his passion and commitment to creating significant value at Sealed Air. And for me personally, it's been a pleasure spending this time in the transition with Jerome and making an introduction to the people, our customers. And I just want to share with you in front of your investment friends a big thank you from me personally. So Vince, that concludes our call this morning. We look forward to speaking to all of you in the new year. Thanks, everyone.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect. Everyone, have a great day.