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SEE - Q3 2012 Sealed Air Earnings Conference Call

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OVERVIEW:

Management discussed 3Q12 results. Guidance was for 2012 adjusted EPS of $0.90-1.00 on reported or actual net sales of $7.7b.

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good morning everyone, and welcome to the Sealed Air conference call discussing the Company's third-quarter 2012 results. This call is being recorded. Leading the call today, we have William V. Hickey, Chairman and Chief Executive Officer; Jerome A. Peribere, President and Chief Operating Officer; and Carol P. Lowe, Senior Vice President and Chief Financial Officer. After Management's prepared comments they will be taking questions.

(Operator Instructions)

Now at this time I'd like to turn the call over to Amanda Butler, Executive Director of Investor Relations. Please go ahead, Ms. Butler.

Amanda Butler - *Sealed Air Corp - Executive Director, IR*

Thank you and good morning, everyone. Before we begin our call today, I'd like to note that we've provided a slide presentation to help guide our discussion. This presentation can be found on today's webcast. As well, It can also be downloaded from our IR website at sealedair.com.

I would like to remind you that statements made during this call stating Management's outlook or predictions for the future, are forward-looking statements. These statements are made solely on information that is now available to us. And 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 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 also on our website at sealedair.com.

We also discuss financial measures that do not conform to US GAAP. You may find important information on our use of these measures and their reconciliation to US GAAP in the financial tables that we've included in our earnings release. Lastly, we have used pro forma results for certain metrics in the quarter to aid in the comparison of our performance to historical combined metrics of Sealed Air and Diversey. These pro forma results are available as supplements on our website. Now I'll turn the call over to Bill Hickey, Bill?

William Hickey - *Sealed Air Corp - Chairman and CEO*

Thank you, Amanda. And good morning to everyone. Before we begin, our discussion on the quarter, I would like to really thank everyone for their flexibility in participating in our call today, which as you know, is outside of our normally scheduled date and time. In the wake of Hurricane Sandy and the aftermath that has disrupted a lot of people around the New York Metro area, we felt it was prudent to delay the release and earnings call for everyone's safety.

Additionally, it is with great pleasure that I welcome and introduce Jerome Peribere as Sealed Air's new President and Chief Operating Officer. As we previously announced, Jerome will succeed me as Sealed Air's Chief Executive Officer in March of next year. Jerome brings to us wealth of international experience gained from 35 years at the Dow Chemical Company. He has significant global experience, which is particularly important to Sealed Air today, where we have 60% plus of our business outside the United States.

Interesting, he also brings packaging experience as his first job at Dow Chemical in France was selling Ethafoam polyethylene foam, which is one of the products that we still sell today. And most importantly, he brings recent acquisition integration experience from Dow's Rohm and Haas acquisition where he led the integration of Rohm and Haas into the Dow Chemical Company. Jerome has been a quick understudy and in his first two months he has met a key Managers, met with employees on three continents and met with numerous customers of our Food, Protective and Diversey businesses. He is off to a great start.

On today's call, I will give a few opening comments, then Jerome will highlight our business unit performance. Carol Lowe, our CFO, will follow with a more detailed discussion on our consolidated results, liquidity, other key matters outlined in our press release, as well as our updated guidance. Following our prepared remarks, we will provide time for your questions. I plan to have Jerome and Carol address your questions, but of course I will be available as needed. As a reminder, all of our results outlined here today, reflect the announced sale of Diversey Japan and its classification as a discontinued operation.

Getting started on slide 2 of our presentation, the third quarter paced well with our assumptions and guidance for the second half of the year, despite uneven recovery in our end markets and a fair amount of caution expressed by our consumers and our customers during the quarter. We stay stayed focused on the goals we established at the beginning of this year, integrating Diversey, generating our synergies and accelerating our growth programs to increase market presence, EBITDA, and free cash flow. We did a shot solid job in the third quarter, which I will dive into a bit more in the next slide. We improved our profitability performance significantly over the second quarter, giving us good momentum going into the fourth quarter.

I do want to point out that our food packaging business operating margin recovered in the third order and improved 390 basis points by restarting up our production at our new plant in Brazil. As we indicated earlier, during the second quarter we shut down one of the production lines in Brazil to move it to our new facility 120 kilometers away. As a result of higher than projected customer demand, we had to import product from the US at a high freight and duty cost to continue to supply customers. I am pleased to tell you that last week when Jerome and I were in Brazil, I saw the production line installed and running salable product. Imports have stopped and you see the effect in our third-quarter operating results.

Additionally, early this week we announced the sale of Diversey Japan an asset that was identified as part of our strategic review and we expect to close that transaction in the fourth quarter. We plan to use the net proceeds to prepay debt which will enable us to exceed our 2012 net debt goal of $4.95 billion. Strategically, this allows us to invest in higher growth areas such as Asia and Latin America, where we are making strong inroads with Diversey constant dollar sales growth rates in those two areas at 13% and 9% respectively.

As I move to slide three, you will see a snapshot of our consolidated trends and you can see how we have achieved good year-over-year and sequential momentum across a number of key metrics including sales, profitability, margins, and synergies. We continue to make strong inroads toward meeting our strategic objectives. Achieving net sales gains to geographic expansion, achieving sales gains to ongoing and adoption of our new inventive solutions, sales gains to incremental $10 million of annualized synergies sales, and sales gains through new customer wins around the world.

Our profitability metrics improved on greater operational execution, lower raw material cost, increasing cost synergy benefits and seasonality. As I move to slide four, although Jerome and Carol will provide more detail into the components of these results, I will highlight that growth we have achieved leverage in our extensive 62-country footprint, which continues to give us leading reach and greater opportunity for international growth than our peers. Looking at the map on this slide 4, you can see that we maintained or grew organic growth rates in the third quarter compared with trending in the second quarter, largely lead by unit buying growth in Food and Protective Packaging business and through solid price generation in our Diversey segment.

North America was the only exception, with a modest decline to steady year-over-year performance, due to lower price mix in Protective Packaging. This lower price mix resulted from products mix shifts to more sustainable but more profitable film structures which yielded improved margins for this segment. Of course, the key drivers of our momentum in the quarter came through solid execution among our businesses which Jerome will now highlight. Jerome?

Jerome Peribere - *Sealed Air Corp - President and COO*

Thank you, Bill. And good morning, everyone, it's really great to be here with you today. As Bill mentioned, I'd like to start by discussing some the key drivers we saw over the quarter and highlight a few I'm most excited about as I look at the future of Sealed Air. Turning to slide 5 first, the key takeaway for Food Packaging is that the business is back on track. This is most evident by how we reestablished our third-quarter adjusted operating profit margin back to 13.6%. This compares to the 9.7% margin we reported in the second quarter.

Let's look first at the left side of the slide. Can you see, that a component of that margin improvement was volume growth. Food Packaging did a shoddy job driving 2% volume growth in the quarter versus last year with volumes up across all regions. Our growth was led by an 8% volume increase in Latin America, where our established footprint and strong market presence in Brazil allows us to benefit from the rising beef production rate in that country. Additionally, we saw 2% higher volume in Europe, Mid-East Africa on strength of new customer wins in the Middle East, strength in Central and Eastern Europe, as well as benefits from mix shifts in Western Europe that favors Food Packaging segment products.

These areas of strength upset a weak North American protein industry which continued to face supply constraint in the quarter with weighted average industry production rate down 2% versus last year. So I'm pleased to report that we tracked above industry production rates, generating a slight increase in volumes in North America primarily from new customer wins and customer adoptions of new solutions like our Cryovac Multi-Seal FoldLOK, reclosable package for retail shredded cheese packs. A new solution has just rolled out and by a new specialty grocery retail in the quarter and had a second phase of FoldLOK with a sponsoring cheese processor. Innovation and new solutions are the core of our Company advantage and remains the key factor in our ability to pace above industry production rate. This is especially the case in food packaging where 25% of our sales come from new solutions.

Looking now to the right of the slide, to profitability, food packaging margins were generally resilient year-over-year. They improved almost 400 points basis sequentially as we eliminated the unusual one-time item that we identified in the second quarter, and Bill had mention, made some comments, a few minutes ago, about that. And we significantly reduced our softer cost in North America and Brazil related to productivity considerations, as he also did mention. In Brazil, we accelerated its relocation and we achieved altogether this move a few months ahead of schedule, which will benefit fourth-quarter margin results.

Let's look at Food Solutions on slide 6. Although many of our customers, especially in Europe and North America are dealing with constrained protein supplies and price sensitive consumers at retail. Food Solutions achieved 2% volume growth in the quarter which out-paces protein industry production rate. Our volume performance was largely driven in fact by a 21% volume increase in our vertical pouch packaging solutions for fluid and semi-fluid product in North America, due to a record tomato crop this year and the right solutions to capitalize on these favorite trends.

And last but not least, I'd like to highlight that to which the 10% increase in volumes in Latin America due to the strength of global protein production, as well as new customer wins. This solid volume performance combined with our lower raw material costs, and solid management of expenses, yielded a very strong 12.8% adjusted operating profit margin which is up 170 basis points versus last year.

And now, looking to the Protective Packaging Segments, on slide 11 (sic - "slide 7"), as you can see on the left of the slide, Protective is doing a good job at holding on its 0.4% volume growth rate, consistent with the second-quarter trend. We achieved this despite a softening in the rate of global economic and ongoing weakness in Southern Europe and in China's export sector. Looking here, we are growth for the business with the

20%-plus global volume increasing E-commerce and fulfillment or [reintegration] that we achieved globally. The strong growth rate reflects both the rising usage of E-commerce as well as customer wins in this sector.

Additionally, Protective achieved a 2% volume growth in North America, reflecting modest growth in the industrial sector as well as new customer wins in the region. Europe Mid-East Africa remains the weakest region for Protective, with 2% lower volume largely stemming from persistent weakness Southern Europe, as customers continue to reduce the production volumes. And despite the modest volume improvement overall, and the lower price mix in the quarter, adjusted operating margin performance improved year-over-year and on a sequential basis, Which you can see to the right of this slide, which reflect tight control of expenses and the benefit of our most sustainable team structures, which required less resin contents.

And finally, to the Diversey Segment on slide 8. Looking to the left of the slide, on the pro forma basis, the segment generated 2% higher organic sales from 2% higher price mix and a modest 0.5% decline in volumes. This volume performance is considerably improved compared to the negative 3% to negative 4% rate noted in prior quarters. The key drivers for this improvement are 7% higher volume in this region. The apparent stabilization of demand in Northern Europe, which has 70% of Diversey's European mix revenue. Net gains in new customers and the ongoing expansion adoption of Best-in-Class solutions, like our TASKI floor-care equipment systems, along new and existing customers.

As you can see by our slide, two-thirds of Diversey's revenue increased on a year-over-year basis with Food and Beverage, Distributors, and Lodging, and [Shipping] over 4% organic growth. The areas of greatest weakness continue to persist in the same sectors noted in prior quarters due to lower reorder rates or cautious allocation of capital investment and equipment systems due to the economy. The key area of weakness unique to Diversey is the Consumer Brands business which accounts for approximately 25% of the year-to-year sales decline. So, overall, we are demonstrating resilience and making good progress expanding our market presence. Innovation remains in the core of our world strategy and there is a real momentum there.

At the recent ISSA Interclean Conference in North America, which was two weeks ago in Chicago, the team launched Crystal Shield, which is an innovating floor care system that combines the diamond abrasion and coating technology that offers more durability and requires less maintenance in a much-improved sustainable way. Additionally, the team continued to expand the launch of Suma Combi, which is a combined detergent and rinse aid for mechanical wear -- washing, that can clean, rinse and dry, now replacing what took three separate products before. This makes the operation easier, faster, and more sustainable for commercial kitchen users. And additionally, we are poised for more system launches in the fourth quarter, all the innovations will drive enhanced growth 2013.

Now looking to the right side of the slide, profitability in the Diversey Segment declined 17% on a reported basis. Against the challenging prior-year comparison as the 2011 profitability benefited from $10 million of reverse bonus accruals. We additionally had an unfavorable foreign exchange effect this year -- this quarter. But on a constant dollar basis, and excluding an unfavorable foreign exchange effect and the benefit of the lower volume statement in 2011, and looking at the business on a apples-to-apples operational basis profitability in fact rose a solid 42%.

And as you can see, by the operating profit bridge on the slide, the only real unfavorable year-on-year impact is our investment in headcount in high-growth regions which is using strong topline growth in the developing region and is expanding our presence in targeted areas in North America. We expect these investments to become accretive within 12 to 18 months. And now I will return to Carol -- the call over to Carol, our CFO, to discuss third-quarter financial results in more detail and highlight our outlook for the balance of the year.

Carol Lowe - *Sealed Air Corp - SVP, CFO*

Thank you, Jerome and good morning, everyone. Following along with your presentation, slide 9 highlights our integration and optimization program. Q3 benefited from $29 million in cost energy a $6 million increase over quarter two. Our year-to-date cost synergies totals $67 million. Our full-year 2012 benefit is now estimated at $97 million, $7 million higher than previously expected, due to timing of benefits. I should note that in addition, our cash costs for 2012 have declined $20 million to $105 million. We have moved this cash cost savings into 2013, and we'll continue to update you in future quarters on the amount and anticipated timing of our spending. We continue to hold the total program benefit at an estimated $195 million to $200 million through 2014 and total cash cost at $235 million over the life of the program.

Slide 10 summarizes our consolidated and adjusted EBITDA performance on both a pro forma and constant dollar basis. Year-over-year constant dollar adjusted EBITDA accrued 2% on cost synergies and a favorable price cost spread of $18 million, with Food Packaging representing more than one-third of the favorable spread. These impacts were partially offset by the resource investments in high-growth developing regions that Jerome just mentioned, as well as some unfavorable mix. While the year-over-year increase is meaningful in the light of the economic headwind, we continue to [fade].

The real improvement story is the 19% improvement and adjusted EBITDA from the second quarter. Adjusted EBITDA margin of 14.3% for Q3 improved from 11.4% in Q2 on seasonality, cost synergy, price cost spread, elimination of one-time item, and reduction of other charges that negatively impacted Q2, as both Bill and Jerome have highlighted so far their comments.

To bridge from the 2011 pro forma adjusted EBITDA, including the effect of currently, you need to first revise the 2011 amount down from the $281 million to $271 million to reflect the benefit of the bonus and other compensation reductions previously mentioned, that were recorded by Diversey in 2011. Now if you bridge from the $271 million, you add the $29 million in cost synergies and $18 million positive price cost spread. These benefits were offset by negative currency of $14 million. Approximately $17 million in mix and under absorption and $15 million higher SG&A, again on the increased resources to support growth in the developing regions.

Turning to slide 11, free cash flow for the quarter was $28 million and $139 million year to date. Changes in working capital items for Q3 resulted in a net use of $75 million in the quarter. The increase in receivables of $58 million is largely due to an increase in exchange rates used to value quarter-end receivables. For example, the euro was approximately $1.26 at the end of June versus $1.29 at the end of September. Also the seasonality of our Diversey Institutional Laundry business impacted the receivables balance as Diversey's Q3 sales are seasonally higher than Q2. And the payment terms for the Diversey Institutional and Laundry customers is slightly longer than our other businesses.

Cash and cash equivalents were $541 million at September 30, which is an increase of $37 million from the balance at June 30. During Q3 we paid $121 million of interest, which is more than one-third of the total $320 million that we anticipate paying during the year. Cash payments in the quarter also include $23 million for income taxes, $30 million in 2013 term loan payments, $18 million related to our integration and optimization program, and $25 million for our quarterly dividends.

Turning to slide 12, as of September 30, we had total cash and committed liquidity of $1.4 billion, and our net debt was $5.26 billion. Our net at debt year-end is estimated to be approximately $4.8 billion. The estimated $500 million reduction from Q3 net debt balance will be funded by free cash flow, plus approximately $300 million in proceeds from the sale of Diversey Japan. Achieving the $4.8 billion in net debt exceeds our stated goal of $4.95 billion by year-end. We were also well within our covenant compliance at the end of Q3.

As noted in our earnings release this morning, the Company has recorded a non-cash pretax charge of $1.2 billion for the impairment of goodwill and certain intangible assets. The impairment on our Diversey Segment resulted from lower growth rates and margin performance than anticipated a year ago, with the lower performance significantly impacted by negative macro-economic conditions and primarily in Europe. The goodwill impairment is subject to finalization as we complete step two of the analysis during the fourth quarter.

Slide 13 notes our full-year 2012 updated outlook that reflects the effect of discontinued operations from our Diversey Japan transaction, as well as the implied fourth-quarter estimates for four key guidance metrics. We expect reported or actual net sales of $7.7 billion with our business segments continuing to demonstrate the sequential and year-over-year top-line growth from seasonality and new customer wins. Adjusted EBITDA to be in the range of $995 million to $1.01 billion adjusted EPS in the range of $0.90 to $1 and free cash flow of $375 million to $400 million. Our free cash flow estimate reflects traditionally high seasonal contribution in the fourth quarter from inventory reductions.

During Q4, we expect to complete the sale of Diversey Japan, finalize our impairment analysis and move our financial reporting to reflect our new operating segment. For Q4, and the full-year 2012 reporting, our new segmentation will include Food and Beverage, Institutional and Laundry, Protective Packaging, and Other, which is mainly comprised of our Medical Application Segment. And now I'll turn the call back to Bill to lead the Q&A session.

William Hickey - *Sealed Air Corp - Chairman and CEO*

Okay. Thank you, Carol, and thank you, Jerome. As I indicated earlier, as your questions come in, I will ask Carol and Jerome to field them. And of course based on historical knowledge, I am here to help the two of them. So operator, can we open up the calls? Any questions?

QUESTIONS AND ANSWERS

Operator

Thank you very much.

(Operator Instructions).

Ghansham Panjabi, Roberts W. Baird.

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

Just on Diversey Japan, it seemed like a very, very profitable business compared to the rest of Diversey and it seems like a pretty strong franchise, just judging by the margins. Can you take us through the logic of selling this business, versus any other part of the portfolio, perhaps on the Legacy Sealed Air side?

William Hickey - *Sealed Air Corp - Chairman and CEO*

Yes, sure. This is the first one, I think we said we are reviewing our portfolio of both Sealed Air, legacy Sealed Air and legacy Diversey. The Japan situation is a profitable business. It's the number one franchise in Japan, but we've looked at it as a very slow-growth business. The Japanese economy, although strong, continues to have very, very slow growth. We have a leading market share, so we've seen very little opportunity to gain additional growth through share gains, as well as the Japanese economy, which we expect to continue to be.

We did a forecast out for Japan, a discounted cash flow, and looked at it and said if someone is willing to give us that value today or higher, it made sense. And actually it had been run pretty autonomously from the Diversey business. It had its own separate product offering for the Japanese market, had a number of products that were not consistent with our global portfolio, and when you looked at it all considered, if we could monetize the discounted cash flow, it made sense to do it.

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

Okay, and then perhaps a question for Jerome. Jerome, you are inheriting some very, very strong franchises but also some very big challenges, particularly the financial leverage of Sealed Air. Can you outline some early thoughts on how you see the strategy at Sealed Air evolving under your leadership? Thank you.

Jerome Peribere - *Sealed Air Corp - President and COO*

Now as I arrived two months ago, I have finally finishing travel around the world. Sometimes with Bill, sometimes without, and some very key highlights that I want to take out at this point of time. 2012 has been a year of transition, very good period. In my previous life, I have led the integration of the largest acquisition that Dow ever had made.

And in reality, the word, who moved my cheese, has to be present in everybody's mind, because you have a lot of employees who have been unsettled by this kind of acquisition, by any kind of acquisition. My approach is that I want to wrap the employees around our project. And our project is a growth project, is a growth project leveraging the equipment and the products we have into solutions which are absolutely unique.

And the commonality between the Diversey business that we have, and the [fewder] two business units that we have, is that we have equipment which complements products to end up with solutions. It is very true in our Diversey Industrial and Laundry business, for example, we have all kinds of machinery and equipment, like the TASKI machines themselves, which make us a global leader in [soul Flourishing] and this kind of thing. And when you look at our [acquired back] business, it is the same. When you look at our Protective Packaging business, it is the same. That's one commonality.

The second thing is that I want to accelerate the new Sealed Air into -- and put our investment where populations need more packaged food, more consumers putting where the a need for more food safety and sanitation and hospitality programs and where product production needs to be packaging higher-quality. So it really tells you where we are going to be investing, and actually if there's one thing which has been surprising me, already is that the amount of technology that we have in the pipeline. So that's where I'm going to be focusing my attention.

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

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

Operator

Scott Gaffner, Barclays.

Scott Gaffner - *Barclays Capital - Analyst*

Can you just talk a little bit about the trend in Food Packaging throughout the quarter? I think you had a slide out there, middle of the quarter talking about July up 6% to 7%, maybe it was 5% to 6%, but looks like Food Packaging came in at plus 2% organic and Food Solutions plus 1%. Can you just sort of walk us through the -- what sort of happened in it during the quarter?

Carol Lowe - *Sealed Air Corp - SVP, CFO*

Scott, just one thing before put Jerome on the phone with the trend. What you're looking at with Food Packaging and Food Solutions together, whereas for our quarterly -- wait, it is broken apart. I just wanted to highlight that for you.

Jerome Peribere - *Sealed Air Corp - President and COO*

So what have we observed in Food Packaging? First of all, is that when you exclude currency, I would say it has been going up 2% and our operating income has been going up Carol has said, 1%. We had, in fact, an unfavorable geographical mix. But we had some very interesting things happening. We had volumes increase overall 2% with 8% volume growth in Latin America, double-digit growth in Asia, and stable North America, with a negative product mix there, but we had also growth in Europe. That is for our Food Packaging business.

Sequentially, we had suffered from quite a few one-offs in the second quarter. So no surprise that we back on track with our historical profitability in that segment. And Food Solutions, we have been doing quite well and we have our volume growing North America by over 7%, or almost 8%. Latin America, double digit. Europe, slightly negative. But Asia-Mid East-Turkey has been growing 20%. So how did that happen?

Let me remind you that the Food Packaging is our traditional [protein] industrial packaging and our Food Solution is mostly our [cash ready], our Fluid high-barrier pouches, our microwavable type of products are more consumer-driven. In North America, we have benefited from very good

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growth in our Pouches business for an exceptionally favorable tomato crop. But this is a very good new solution, which is a very stronger [turn-key] with lots of customer benefits versus canned and for tomato, for example.

So that's a very good type of new growth which has been accelerated by a good agriculture tomato crop, but it's just a solution which is importing itself. In Latin America, we taking pricing action in Brazil and in Argentina. The only negative spot is in Australia and New Zealand, actually in Australia, where we have the loss of rigid thermoforming tops and we lost [two-eight] on price also against competition.

So, generally speaking, this Food Packaging sector is tied to -- is somewhat tied to what's going on in the meat market, and again we could go on and talk about the red fresh meat, versus poultry and versus pork, but also we have innovation in different sectors. And this goes through a [fifty] type of products which we are working strongly on, FreshNet, Case-Ready, [medical pads], new consumer benefit packaging which is our full lock, as I mentioned earlier in, as you would, specialty retail which is actually pretty successful and high-power reported.

I think that this is going well, and what I would like to mention is that our people internally are now working by leveraging these food packaging presents with our hygiene solutions where we have lower synergies and we're starting to see some benefit there of the former Diversey business in sanitation.

Scott Gaffner - *Barclays Capital - Analyst*

Okay. I appreciate all the color. So did growth actually slow in the quarter, though? On the combined businesses?

Jerome Peribere - *Sealed Air Corp - President and COO*

I did not hear you well.

Carol Lowe - *Sealed Air Corp - SVP, CFO*

First asked what we reported at the conference slide that you are referring to, for the combined businesses, we were reporting year over year on a average daily sales basis and they weren't quite as strong through the balance two months versus August. Correct.

Jerome Peribere - *Sealed Air Corp - President and COO*

Now let me say this, let me say something which is interesting. If you look at the Q3 volume in Food Packaging and Food Solutions, versus the year to date volume, pace is accelerate. The Q3 volume in Food Packaging has been 2%. The Q3 volume in Food Solutions has been 2.3%. And when you look at the year to date, with just like it, 1% on Food Packaging and just like around 0.5% in the Food Solutions. When I look at Q3 in volume, compared to the year to date, I'm seeing a focused trend there.

Scott Gaffner - *Barclays Capital - Analyst*

Great. Thank you. I appreciate it.

Operator

George Staphos, Bank of America.

George Staphos - *BofA Merrill Lynch - Analyst*

First of all, there were a number of operating issues within Food Packaging back in the last quarter. Do you feel comfortable that you are on the path to resolving those by the end of the year, which is what I remember being the last --

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Carol Lowe - *Sealed Air Corp - SVP, CFO*

Okay, George, I'll go ahead and respond to that and Bill can add a little bit of color, because he was recently in Brazil, which is where a lot of the operating issues were highlighted for Q2. But yes, we feel like definitely the one-time items were one-time, and we have seen significant operational improvement, which is noted in the adjusted operating margin for the Food Packaging. So, I'll let Bill, he can comment specifically with the bag line, what he saw in Brazil.

William Hickey - *Sealed Air Corp - Chairman and CEO*

I think as we mentioned, one of the big items in Q2 was, we moved the production line from our downtown Sao Paulo plant out to our new plant which is about 120 kilometers away, which has a lower cost structure and more room for expansion. And we took down one of our major extrusion lines and we believe we built up enough inventory because we've tried to pick a slow time of the year. Customer demand just picked up. That line was down, I think as we mentioned on Q2, we had to bring in the product from the US freight and duty. That line has moved.

As I said earlier, Jerome and I were in Brazil last week. I actually said I wanted to see this line operating. It's up. It's installed in the new plant. It's producing product at a lower cost. And we put the 390 basis points back on the Food Packaging up operating margin. We are not completely moved. There will be a phase two sometime either early next year, with the ultimate goal of moving the second and third extrusion lines out, but right now we're back on track.

Carol Lowe - *Sealed Air Corp - SVP, CFO*

And George, we would expect our exit rate out of Q4 for Food Packaging to be around 13% margin, as opposed to the 12% that we discussed in our Q2 call.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay. Thanks for that, Carol. That's great. Let me ask one more question, because I remember you typically have two-question limit. And this is a bigger-picture question. I realize it may be a bit more difficult to answer, but this quarter you took $1 billion to goodwill impairment for Diversey. You have to do what you have to do, that's on top of what's been $100 million or so of restructuring charges for the business this year.

So one could argue that in terms of the relative level of investment, perhaps the value of prescribed to Diversey initially was may $1.3 billion too high. And if you look back at Diversey, where do you think the miscalibration, if you agree with that, came from? Did it have anything to do with perhaps --

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William Hickey - *Sealed Air Corp - Chairman and CEO*

I wouldn't call it a miscalibration. I'd call it a change in time. If you remember the numbers we were looking at 18 months ago, when we went through the acquisition analysis, the euro was in the high $1.40s. That's delivered a lot of dollars to the earnings model and to the valuation. And also the European economy until March of '11 was holding up reasonably well. So we were looking at, one, continued growth coming out of Europe; and two, bringing those euros back to dollars at $1.48.

I think when we updated our model that the accountants require us to do once a year, is you now take a lower earnings stream and you reduce the currency effect and you end up with a different value than you did a year ago. That's not an out-of-line situation and I would venture to say that two years from now you'd come up with a different number. It's probably be higher but the accountants won't let you put it back.

George Staphos - *BofA Merrill Lynch - Analyst*

Well, we look forward to that. But what you're saying is it's more the market and not the actual underlying performance or as it was presented to you.

William Hickey - *Sealed Air Corp - Chairman and CEO*

Well, If we do say -- the performance is less than our initial analysis showed 18 months ago. But they've been primarily from factors outside the business.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay. That's what I was getting it. Okay, I thank you and I'll turn it over.

Jerome Peribere - *Sealed Air Corp - President and COO*

Let me add that, [I'll give you an opportunity for that,] you can imagine that I'm spending a lot of time looking at this product, the business, and when you look at the overall numbers for Europe in the third quarter they are not very impressive. Having said that, you need to remember that we have some components of the business which are equipment-driven and what we have observed, for example, in Europe, Southern Europe, is that our equipment sales are dramatically low. [When who needs to be] in Spain or in Portugal today, will be buying equipment.

So that sub-segment has suffered to a certain extent. Another segment which has suffered is been in our resale granted business, generally speaking. And that is one other thing. What is important to me to see -- are we retreating in the core of our businesses in chemical and business capital, et cetera, etcetera. And actually, I am quite pleased with the fact that we are starting to see a few very interesting things coming up. I'm pleased to see that our French business is doing quite well, or is not retreating. I'm pleased to see that our East European business is growing double digits. I'm pleased to see that our Asian business and our Latin American business is growing double digits.

And this is not only on the quarter, but it is year to date, so you take our Chinese business which has been growing 22% in this quarter and year to date very nice additional numbers. What is important to me is where are the pocket [corp sub-net] and when I look at this quarter, for example, for the European Union business, more than 80% of our negative growth is coming from, guess where? Italy, Portugal and Spain. So am I pleased that we are retreating? Absolutely not. But I can understand that it is not market share [office] and on the country versus what is the local situation turning negative.

Operator

Rosemarie Morbelli, Gabelli.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Could you give us a little more detail on the Diversey business, both in Europe and North America? You have focused on a couple of areas, but if you look at the (inaudible), do you see any changes in market trends, in your market share? Do you have -- and could you give us an update, actually, on the progress on the F&B category?

Jerome Peribere - *Sealed Air Corp - President and COO*

Okay, you've got F&B and then you've got our I&L, or Diversey in general. I just talk about a lot about it. We are growing faster than competition in where we really are seeing the future of our business. And that is extremely reassuring to me. When I see that we are growing double digit in Turkey, I'm pleased. When I'm seeing that we growing in South Asia double digits, I'm pleased.

When I'm seeing that Hong Kong -- that in India we growing over 15% and I'm not talking necessarily only in the quarter, but also year to date. I'm saying that in the areas where there is a very big crisis, we are coming down. When there is very specific investment issue, equipment I just mentioned, we coming down. Where there is potential for growth, we are [flighting].

On our North European business, it is hard trough and it is stable. I'm going to give you just one country, which is Greece, where you would expect that they give our business, but you know what, year to date we've been 11% down. Quarter -- the third quarter, 1% down. So things are stabilizing here in North America, which in some sub-segment has been a weak spot, is improvement, or making good inroads in healthcare. We're making good inroads in hospitality. And you're going to hear some more about it pretty soon.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

And if I may, raw material costs have come down, in general, and they have held your margins to a certain degree. Do you feel that this next quarter you are going to have to start giving back pricing?

William Hickey - *Sealed Air Corp - Chairman and CEO*

Carol?

Carol Lowe - *Sealed Air Corp - SVP, CFO*

Actually we expect the raw materials on whole to stay flat. We are not expecting to give up much in terms of pricing. There may be some modest offset based on the decline, which means so far in raw material costs, especially if we have some customers on contract but not a significant impact.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Okay. Thank you.

Operator

Chris Manuel, Wells Fargo Securities.

Gabe Hady - *Wells Fargo Securities - Analyst*

This is actually [Gabe Hady] on for Chris. You guys have referenced lower equipment sales, I think once in a press release or the presentation and your remarks. Can you talk about the relationship with the consumable products for that business? And maybe looking out in 2013, could that have a negative impact on that business?

William Hickey - *Sealed Air Corp - Chairman and CEO*

Yes, let me just give you a little background here. Usually, as Jerome very eloquently indicated earlier, as our business is built on the solution where the equipment provides the vehicle for the customers to use are consumables. And that historically, it's about $10 of equipment sales for $100 of consumer sales. So it's a little about 10% of the mix. But it does generate a fair amount of consumer sales.

We have looked at equipment placement as an indicator of future consumable sales but I would not necessarily make any particular conclusion about the comments that we made on the Diversey side because equipment placements on the Protective business are still holding up quite well and on the Food business, they are holding up reasonably well.

So I would not necessarily draw a conclusion, but I think it's a good point to keep in mind that positive equipment sales generally drive future consumer sales and slower equipment sales, generally mean slower consumer sales growth. But remember, the ones that are installed out there become an annuity year after year.

Gabe Hady - *Wells Fargo Securities - Analyst*

That's helpful. And I think there is commentary about $500 million of asset sales, or potential asset sales. Can you comment around the portfolio evaluation, whether or not you guys are done or still looking?

Carol Lowe - *Sealed Air Corp - SVP, CFO*

There are additional assets that we are looking at and across geographies, across the businesses. So we will continue to work that through the balance of the year and into 2013. But as I comment on the up to $500 million with over 12 month period, so we are still looking for opportunities where we have certain, either lines of business or product models and things that just don't fit for the long-term strategy.

Jerome Peribere - *Sealed Air Corp - President and COO*

Having said that, we just went through the big --.

Carol Lowe - *Sealed Air Corp - SVP, CFO*

Absolutely.

Operator

This should come from Phil Gresh.

Phil Gresh - *JPMorgan - Analyst*

I guess the first question is on the asset sales as a follow-up and I apologize if someone already asked this. Just tell me. But would you say that a sale of the size you just completed was contemplated in the $500 million target that you gave before, or was that kind of --

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Carol Lowe - *Sealed Air Corp - SVP, CFO*

Yes it was.

Phil Gresh - *JPMorgan - Analyst*

Okay. Got it. And then, if you talked about this, the outlook for the food businesses in 2013, how you're thinking about volume trends there, given the lower slider rates.

Jerome Peribere - *Sealed Air Corp - President and COO*

Well, you know, when you look at the trends, the fresh red meat market in North America is trending negatively. In Latin America, across various types of meat, the fresh meats or the smoke and process meats, the poultry, all of this is trending positively, and also slightly negatively in Europe. Having said that, altogether, we seeing a slight positive trend, call it 1% or so, that is where we see it at this point in time.

Operator

Al Kabili, Credit Suisse.

Al Kabili - *Credit Suisse - Analyst*

Just a question on the free cash flow reduction in the guidance. If you could just address what drove that. And also the working capital seasonally just seems to be performing less. It was a bigger use of cash seasonally that what we're used to, and if you could address that as well. Thanks.

Carol Lowe - *Sealed Air Corp - SVP, CFO*

Well, in my comments originally I talked about the working capital, that the biggest impact was the increase in receivables and the biggest portion of that $59 million increase, as we moved forward in the quarter, was because of the exchange rate. So a higher exchange rate, primarily on our European receivables at the end of September versus the end of June, and how they are valued on the balance sheet, that accounted for approximately $30 million of the $59 million increase in receivables.

Also seasonally, we have higher sales within our Diversey Institutional and Laundry business. And in Q3 versus Q2, that also utilized receivables, extended them because those customers tend to have longer payment terms than the rest of our businesses. So that is the biggest driver on working capital. And I also commented about the cash flow for the quarter. We had a large portion of the interest payment that we anticipate making for the full-year, was made in Q3, so more than half of it. So that was a big drain on the cash flow, as well.

Al Kabili - *Credit Suisse - Analyst*

And the reduction in the outlook, is that largely working cap and currency? Or is it in the divestiture? Or is there anything else that drives that reduction versus your --

Carol Lowe - *Sealed Air Corp - SVP, CFO*

The reduction is that we are not performing quite at the level we had estimated previously. Some of it is currency. Actually a big portion of it is, as well as just managing the overall working capital. We do expect a meaningful reduction in inventories in Q4, but we just have not hit the levels that we were originally planning.

Al Kabili - *Credit Suisse - Analyst*

Okay. All right. That helps. And just a follow-up on that Diversey sale. How will you handle this from a branding perspective? There's a lot of established brands but how are you going to handle this globally, now that you've got an outside party in Japan with those brands? And can you comment if the portfolio review would include additional pieces of Diversey? Thank you.

William Hickey - *Sealed Air Corp - Chairman and CEO*

Let me comment on the branding because it was an item that came up during the negotiations. We have entered into a brand license agreement with the buyers for the Japan business which runs for a number of years and they will pay us and ongoing royalty. They will be a distributor for our TASKI systems as well as license the Diversey brand. And they will even keep the Diversey name for a period of time. So those matters are all been worked out as part of the sale process.

And the second part of your question is, as Carol indicated earlier, the portfolio review covers our entire business, not just Diversey but as legacy Sealed Air and really I'm not in a position to comment what, if any, pieces of what businesses are being discussed until we have an opportunity to say it at the right time.

Al Kabili - *Credit Suisse - Analyst*

Okay. I appreciate it. Good luck in the upcoming quarter. Thanks.

Operator

George Staphos, Bank of America.

George Staphos - *BofA Merrill Lynch - Analyst*

Thanks. One more question. Jerome, what are your initial impressions of Sealed Air? And what, if anything, from your time at Dow, with Rohm and Haas, is relevant to Sealed Air?

Jerome Peribere - *Sealed Air Corp - President and COO*

My first impression is that this is a company which is in transition in 2012, as I said earlier and that it has potential. And that's the main reason. You might wonder why an EVP of Dow would just come and take the lead at Sealed Air, and the reason is exactly that. That after the due diligence I have done is that I believe that this company has great potential. As a result of that, I jumped. So the similarity between Dow, though, and us, so quoting Dow advancement too, and there are many and more than one might think.

Number one, any integration is a delicate process. It's a process where, on one side you go for the cost synergies because you have to, and on the other side, you need to look at the gross synergy and all of this is enabled by employees. So either you go and build a project, or you don't. If you build a project, you're going to engage employees. And if you don't, you're are going to have them look somewhere else and away from what you're trying to do.

That's what I have done for three years at Dow advancement, too, and that's what I am spending most of my efforts, not most of them, but a lot of efforts right now. I want to federate our employee population. We have 26,500 employees, those are people who look for the project of Sealed Air. And I have to tell you I very, very strongly believe that the right people are the ones that companies need to build the company and build a project.

So the other similarities with Dow advancement too is that this is a specialty business. And in a specialty business is built stone by stone, brick by brick and it takes time. So it takes times, it takes efforts, it takes persistence and it takes employee engagement. That's what I am really looking at and working. So I'm not a miracle man. It does take time, but I do believe this company has strong potential.

William Hickey - *Sealed Air Corp - Chairman and CEO*

Thank you, George. Operator we have kind of run out of our allotted time. I know today's busy day for other calls and we've moved everyone to Friday. I would like to thank everyone for your participation. I think you see that our third-quarter results set the right tone and momentum going into the fourth quarter. Our pending sale of Diversey Japan accelerates our debt reduction and helps us to exceed our annual debt targets.

Innovation and New Solutions continue to be a key factor in our ability to differentiate Sealed Air from our competitors. And we have a number of new products that Jerome indicated we're truly excited about. In the meantime, we're going to continue to focus on executing our plan, integrating Diversey and maximizing free cash flow. Thank you again and have a great day.

Operator

Thank you very much. Ladies and gentlemen, that concludes your conference call for today. You may now disconnect. Thanks for joining. Have a very good day.
