THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

SEE - Q3 2015 Sealed Air Corp Earnings Call

EVENT DATE/TIME: OCTOBER 27, 2015 / 2:00PM GMT

OVERVIEW:

Co. reported 3Q15 net sales of $1.75b and as-reported net earnings of $87m or $0.42 per share. Expects 2015 net sales to be approx. $7b and adjusted EPS to be approx. $2.32.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Lori Chaitman *Sealed Air Corporation - VP of IR*

Jerome Peribere *Sealed Air Corporation - President & CEO*

Carol Lowe *Sealed Air Corporation - SVP & CFO*

Karl Deily *Sealed Air Corporation - President, Food Care*

CONFERENCE CALL PARTICIPANTS

George Staphos *BofA Merrill Lynch - Analyst*

John McNulty *Credit Suisse - Analyst*

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

Chris Manuel *Wells Fargo Securities, LLC - Analyst*

Scott Gaffner *Barclays Capital - Analyst*

Chip Dillon *Vertical Research Partners - Analyst*

Rosemarie Morbelli *Gabelli & Co. - Analyst*

Mark Wilde *BMO Capital Markets - Analyst*

Philip Ng *Jefferies LLC - Analyst*

Adam Josephson *KeyBanc Capital Markets - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q3 2015 Sealed Air earnings conference call. My name is Latoya and I will be your operator for today. At this time, all participants are in a listen-only mode. Later, we will conduct the question-and-answer session.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to the Vice President of Investors Relations, Ms. Lori Chaitman. Please proceed.

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

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

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

Additionally, our future performance may differ due to a number of factors. Many of these factors are listed in our most recent Annual Report on Form 10-K, and as revised and updated on our quarterly reports on Form 10-Q, which you can also find on our website. We also discuss financial measures that do not conform to US GAAP.

You may find important information on our use of these measures and their reconciliation to US GAAP in the financial tables that we have included in our earnings release. Please note that we will end the call by 11 AM today.

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

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

Thank you, Lori, and good morning, everyone. I'm sure that you have had the chance to review our press release and earnings results for the third quarter. And I'm very pleased with our performance across all divisions, despite the significant currency headwinds and slowdown in emerging markets.

Net sales of $1.75 billion increased 2.7% on an organic basis, which excludes both FX and the impacts from the North American trays and pads divestiture. We experienced organic or constant dollar sales growth in each of our regions in both Food Care and Diversey Care. Adjusted EBITDA was $300 million or 17.2% of net sale, essentially unchanged on an as-reported dollar basis, and an increase of approximately 16% in an organic basis.

We delivered 190 basis points of adjusted EBITDA margin expansion, with improvements across each of our three divisions. And free cash flow for the first nine months of the year was $331 million. And as we head into year-end, we will continue to focus on growth opportunities within our divisions and regions, while at the same time stayed very disciplined on our pricing strategies and cost management to offset currency headwinds.

Before I pass the call on to Carol and Karl Deily, President of Food Care, for more details on the quarter and outlook, I want to briefly highlight a few items. As we have communicated many times, we are very committed to a disciplined approach to portfolio management with a focus on innovation and becoming a knowledge-based company. To further solidify our position in the growing e-commerce market, we acquired B+ Equipment in early August, a startup company headquartered in France that designs, manufactures and services revolutionary automated packaging systems for order fulfillment operations. With this acquisition, we will add B+'s flagship I-Pack system and its recently introduced e-Cube system to our industry-leading portfolio of packaging solutions focused on cube optimization and fulfillment velocity.

More recently, we completed the sale of our European trays business, a non-core asset within our Food Care division. Similar to our comments around the North American trays and pads business, the European trays business has commoditized and was also facing competitive pricing pressure. This business generated $71 million in sales in 2014 and $44 million in the first nine months of 2015. With that, let's get started with an overview of our financial results. Carol?

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

Thank you, Jerome. On slide 4, we present our performance by region for the third quarter. Europe, Middle East and Africa or EMEA was our fastest-growing region with 4% constant dollar growth. Latin America and Asia Pacific both delivered 3% growth. And on an organic basis, North America was up just over 1%.

In EMEA, we continue to see strong constant dollar growth in Russia and Turkey with 39% and 10% growth respectively. In Western Europe, we delivered 7% growth in Spain and approximately 3% to 4% growth in Italy and Holland. France, Germany and the UK were flat compared to last year. These eight countries in our EMEA region account for approximately 23% of our total net sales.

In Latin America, we had strong constant dollar performance in Mexico and Argentina with 17% growth and nearly 30% growth, respectively. These growth trends were offset by expected weakness in Brazil, which declined 7%, as well as the region being impacted by the collapse of Venezuela. Asia-Pacific was led by 6% growth in Australia and 3% growth in New Zealand. As we anticipated, China, which accounts for approximately 3% of net total sales, was soft and declined by 1%. In North America, Diversey Care delivered 8% followed by 2% in Food Care and a decline of 4% in Product Care.

In [Diversey] Care, more than 4% of the growth in the quarter was due to increased demand while the remaining growth came from sales into our distribution channel, which we believe to be a partial pull-forward from the fourth quarter. In Product Care, sales were impacted primarily from our rationalization efforts and pockets of weakness throughout the industrial sectors.

Turning to slide 5, let me walk you through our net sales bridge for the quarter. Favorable price/mix was 2.1% or $42 million on volumes that were up $11 million. Unfavorable currency translation had an impact on net sales of $230 million or 12%, mostly due to year-over-year declines in the euro, Australian dollar, Brazilian real, Russian ruble, and the Canadian dollar. Net sales on an organic basis were up 2.7%. And on an as-reported basis, net sales declined 11.6%.

On slide 6, we outline our price/mix, volume, and sales trends on a constant dollar and organic basis. As you can see from the slide, we had favorable price/mix in every division and in every region. Volume trends were up nicely in Diversey Care and essentially flat in Food Care. Excluding rationalization efforts in Product Care, volumes would have also been flat as compared to last year's performance. By region, volume was up in EMEA and Asia Pacific, flat in North America, and down nearly 9% in Latin America.

On slide 7, you can see our adjusted EBITDA performance for the quarter and first nine months of the year. For the quarter, adjusted EBITDA of $300 million or 17.2% of net sales was essentially unchanged on an as-reported basis compared to our performance in the third quarter of 2014. However, excluding $39 million in unfavorable currency and the impact from the divestiture, adjusted EBITDA increased 15.6%. This increase was largely due to favorable mix and price cost spread of $36 million and cost synergies of $11 million. We are pleased to have delivered 190 basis point improvement in adjusted EBITDA margin compared to last year despite unfavorable currency and the impact of the divestiture.

Karl will highlight the adjusted EBITDA performance by division. But I want to mention that our medical business had a strong performance in the quarter and was the primary driver behind the year-over-year improvement in the net expense of medical and corporate, which is categorized as other in our adjusted EBITDA financial table.

For the full year, we now expect medical and corporate to be a net expense of approximately $70 million. Adjusted net earnings of $143 million or $0.70 per share compares to adjusted net earnings of $112 million or $0.53 in the third quarter last year.

Currency negatively impacted adjusted EPS in the third quarter 2015 by $0.12. Unfavorable FX was offset by higher earnings from operations, lower interest expense, a lower core tax rate and share repurchases. The core tax rate for Q3 2015 was 18.8%, as compared with 28% for Q3 2014, which on a year-over-year basis, positively impacted 2015 adjusted EPS in the third quarter by $0.08. The lower core tax rate in the quarter was related to the recording of net foreign tax credit. Year-to-date, our core tax rate was 24.3% and we still anticipate our full year tax rate to be approximately 25%.

On an as-reported basis, net earnings in the third quarter were $87 million, or $0.42 per share. Net earnings include $57 million of special items, primarily consisting of restructuring and other associated costs, as well as the tax reserve recorded in relation to the $235 million tax refund we received earlier in the year. The net tax reserve recorded in the quarter was $16 million, which reflects the tax reserve on the refund, offset by the release of certain tax reserves recorded at the time of the Diversey Care acquisition.

In the third quarter, we repurchased approximately 11.3 million shares, for a total value of approximately $576 million, using a combination of open market and ASR. Share repurchases had a year-over-year favorable impact on adjusted EPS of $0.03. Year-to-date, we repurchased a total of 14.5 million shares for a total value of $726 million.

I will now turn the call over to Karl, who will provide you with a more detailed review of Food Care, as well as highlight the performance of Diversey Care and Product Care.

Karl Deily - *Sealed Air Corporation - President, Food Care*

Thanks, Carol. So, let's turn our attention to slide 8, which highlights results for our Food Care division. In the third quarter, Food Care sales increased 3.1% on an organic basis, with growth across all regions. Favorable price/mix was 2.8% on essentially flat volumes. We had favorable price/mix trends and, more importantly, positive volume trends in every region except Latin America where volume was negatively impacted by general political and economic conditions in Brazil and Venezuela. Excluding Latin America, volume would have been up approximately 2% to 3% globally.

Our results in price/mix demonstrate our global pricing disciplines, as well as our success managing pricing in countries where currency devaluations have occurred. Europe, Middle East, Africa, or EMEA, delivered 5% constant-dollar growth. Russia continues to be our fastest-growing country due to the strength of penetration of the protein markets, as well as adoption of our advanced packaging solutions. Our business in Western Europe is benefiting from a slowly recovering economy where demand for beef is increasing. In addition, we are experiencing strong acceptance of our new products, particularly our Darfresh on Tray and some of our new advanced ready-meal solutions.

In Latin America, sales were up 3.4% in constant dollars. Double-digit constant dollar growth in Mexico and Argentina more than offset expected weaknesses in Brazil and Venezuela. In Brazil, our business has been negatively impacted by the decline in local beef consumption due to the economic environment, the decline in the export market and the fact that cattle producers have recently started to rebuild their herds in light of the current market conditions. Also, the sociopolitical factors in Venezuela are having a very significant impact on our business.

Despite these short-term challenges, we strongly believe that over the long-term Latin America and specifically Brazil, where the herd sizes double the size of North America is a solid growth opportunity for Food Care. Asia-Pacific was up 4% in constant dollars as a result of 6% growth in Australia and 5% growth in New Zealand. Since the second quarter of 2014, on average, we have been experiencing high-single-digit growth in Australia where slaughter rates have been at unsustainably high levels. As we previously indicated, we are now seeing the Australian cattle producers start to rebuild their herds after nearly three years of drought-induced liquidation.

Consequently, we are planning for weaker sales trends in Australia in the upcoming quarters. In New Zealand, we have been experiencing above-market growth. However, we believe this growth is not sustainable due to the impact of the depressed global dairy markets.

In North America, despite continued mid-single-digit declines in the cattle market, we delivered 2% organic sales growth with nearly 1% volume growth in favorable price/mix. This quarter, our growth in North America was predominantly driven by strength in poultry, smoked and processed meats and fluid-based packaging as a result of a very strong tomato season in California.

Fresh red meat was relatively flat due to continued adoptions of our advanced product portfolio. It's worth noting that the broad acceptance of these new products is driving our above-market growth in North America. I also want to mention that cattle producers continue to rebuild their herds as evidenced by the continued heifer retention. While we continue to anticipate the cattle market to be weak in quarter four and the first half of 2016, there is a strong indication that the cycle is on track to turn positive in mid 2016.

Our global hygiene business delivered solid growth in APAC and EMEA with improved profitability. This growth was partially offset by weaknesses in Latin American market.

Turning to Food Care's adjusted EBITDA performance, Food Care delivered adjusted EBITDA of $168 million, a 7% increase on an as reported basis and a 10% increase on an organic basis. Currency and the divestiture had a $30 million unfavorable impact on adjusted EBITDA in the quarter. Margins of 20.1% were up 170 basis points, largely due to improved mix of our premium products, global pricing disciplines, and lower input costs. These were partially offset by transactional FX and the divestiture.

As we head into year-end, we expect further adoption of our new products on a global basis, and we will continue on focusing on adding value-added selling to our customers. However, this will be partially offset by negative formula pricing, particularly in North America, currency headwinds and other external factors. Some of these external factors include ongoing economic challenges in Brazil, Venezuela and the slowdown in Australia where slaughter rates have been at unsustainable levels.

In quarter four, as reported, adjusted EBITDA in absolute dollars will be down on a year-over-year basis. However, adjusted EBITDA on an organic basis, which excludes FX and the divestiture, is expected to increase in the high single-digits. Given our performance year-to-date and the outlook for quarter four, we are clearly on track to deliver a strong EBITDA growth and margin expansion for the full year 2015.

So I'd like to turn our attention now to slide 9, which highlights the results from our Diversey Care division. Diversey Care net sales on a constant dollar basis were up approximately 4% in the third quarter. Volume increased 2.5%, with favorable trends in every region, except for Latin America where volume was negatively impacted by weakness in Brazil. Price/mix was favorable 1.4%, primarily driven by pricing initiatives. As Carol indicated earlier, our strongest region in Diversey Care was North America. Our recent customer wins are ramping up nicely and we are continuing to see solid growth in our infection prevention solutions.

We also had a strong performance in EMEA and APAC with constant dollar sales growth of 3% in the quarter. EMEA accounts for approximately 50% of our net sales. We have made significant progress and are seeing stabilizing trends throughout our largest markets in Western Europe. Among our largest customers in EMEA, we're experiencing double-digit growth in Turkey and positive sales in France, Italy, Holland, Germany and Spain. In APAC, we experienced high single-digit growth in India and a slight uptick in China, but all other emerging markets declined.

Latin America sales on a constant dollar basis were essentially unchanged compared to last year's performance. For the second consecutive quarter, performance in Latin America was driven by growth in Argentina and Chile, partially offset by high single-digit decline in Brazil. Strength in Argentina and Chile is a result of recent customer wins, growth in equipment sales and increased volume from our distribution partners.

On the new product front and solutions front, we launched the SURE product line, which is a vegetable-based formula, which is 100% biodegradable and requires no classifications from a regulatory standpoint. We highlighted this at our Analyst Day and we are excited to have it commercially available in the market. Diversey Care delivered adjusted EBITDA of $66 million or 13.2% of net sales in the quarter. Currency translation negatively impacted our performance in the quarter and on a reported basis.

Adjusted EBITDA declined 5%. In constant dollars, however, adjusted EBITDA was up 12% compared to last year. This growth was driven by higher volumes, cost synergies, lower SG&A, partially offset by the impact of transactional FX, the Intellibot acquisition, and the significant deterioration of the economic conditions in Venezuela and Brazil. In Q4, we expect continued organic growth in sales and adjusted EBITDA, but to a lesser extent as compared to quarter three.

Now let's look at slide 10 which highlights the results of our Product Care division. Net sales were down 1.7% on a constant dollar basis with volume declines of 2.5%, more than offsetting favorable price/mix of 0.8%. Third quarter volume was impacted by rationalization efforts in Latin America and, to a lesser extent, North America. Our rationalization efforts are focused on our global packaging solutions and should be mostly behind us by mid 2016.

As Carol highlighted earlier, volume was also impacted by weakness in the industrial sectors in North America. Favorable price/mix continues to be driven by our pricing disciplines across both the global packaging - performance packaging and general packaging sectors. On a regional basis, North America net sales were down nearly 4% in constant dollars, of which half of the decline is attributable to rationalization. Unfavorable trends in the industrial sector, particularly manufacturing and transportation were partially offset by double-digit growth in e-commerce and third-party logistics.

We expect strength in e-commerce and 3PLs to continue in the year-end, which will help offset rationalization and the softer trends in the industrial market. EMEA was up approximately 3% due to increased demand in France and Italy. And it's worth noting that China was up 4%. Performance in China reflects our new leadership in APAC and our renewed targeted efforts to increase market penetration.

We are seeing strong interest across the globe in our newly acquired B+ portfolio, and we are excited to have the team on board. Both B+ and our recently introduced automatic mailer, or flow wrap, are designed to deliver cube optimization and efficiency savings for the rapidly growing e-commerce and fulfillment markets. The flow wrap solution, which is specifically designed for the e-commerce apparel market, is further evidence of our robust development pipeline of automated solutions.

Let's turn to adjusted EBITDA. Product Care delivered adjusted EBITDA of $81 million, a 9% increase on an as-reported basis and a 16% in constant dollars. Adjusted EBITDA margin of 21.1% expanded 340 basis points compared to last year's results.

This increase was a result of pricing disciplines associated with our value-selling initiatives, an increase of mix of our global performance packaging solutions and lower input costs. For the remainder of the year, we anticipate continued EBITDA growth and margin expansion.

Now, let me pass the call back to Carol to review our cash flow and our outlook. Carol?

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

Thank you, Karl. Turning to slide 11, free cash flow was a source of $331 million for the first nine months of the year, excluding the $235 million tax refund. This compares to a source of $371 million for the nine months ending 2014. The year-over-year decline was primarily attributable to less cash generated from working capital, the payment of 2014 bonuses, and unfavorable currency. CapEx was $112 million and cash restructuring costs were $72 million for the nine months ending September 30, 2015.

Our updated outlook for 2015 is presented on slide 12. We now expect net sales to be approximately $7 billion. Unfavorable currency is expected to be approximately 10% or $800 million.

Excluding the impact of the North America trays and pads divesture and currency, we anticipate an organic growth rate of approximately 3%. Adjusted EBITDA for the full year 2015 is now expected to be approximately $1.165 billion which is in the midpoint of our previously provided guidance. This reflects our strong performance in the first nine months of 2015 and our outlook into year-end.

We will continue to face currency challenges and are estimating FX to have a negative impact on full year adjusted EBITDA of approximately $125 million. Keep in mind that in Q3 2014, the euro was at $1.34 and in Q4 2014 the euro was at $1.26. Our year-end forecast assumes that in Q4 2015, the euro remains in line with the Q3 rate of approximately $1.10. Other currencies that have experienced devaluation in recent months and as compared to last year's rates, includes the Russian ruble, the Brazilian real, the Australian dollar and the Canadian dollar.

Our interest expense for 2015 is estimated at $235 million. Depreciation and amortization is forecast to be approximately $290 million. Adjusted earnings per share is expected to be approximately $2.32.

The adjusted EPS impact from currency is expected to be approximately $0.36. Our previous guidance for adjusted EPS in 2015 was in the range of $2.24 to $2.28. In 2014, we reported adjusted EPS of $1.86.

As I highlighted earlier, we repurchased a total of 14.5 million shares year-to-date. Our adjusted EPS outlook for 2015 is based on 207 million shares, which reflects the weighted average full-year effect of the share repurchases completed year-to-date. Please note that the divestiture of the European trays business is expected to close in early November.

For now, the full-year financial estimates for this business are included in our 2015 outlook. Full-year 2015 sales from the European trays are expected to be approximately $55 million. Similar to the North America trays and pads business, this disposition does not qualify for discontinued operations. Therefore, prior year in the first 10 months of 2015 financials will include results from our European trays business.

We are revising our free cash flow guidance to $560 million from $585 million. Our free cash flow outlook excludes the $235 million tax refund. Cash interest payments are expected to be $230 million and cash tax payments are estimated at $110 million. We are lowering our capital expenditures from $210 million to $190 million and our cash restructuring payments from $120 million to $110 million.

Working capital will still be a source of cash, but not at the level we had originally anticipated, largely due to proactive inventory management. We are maintaining higher-than-originally-anticipated inventory levels into year end to support on-time delivery for our customers in order to meet their service requirements.

In closing, we've made significant progress in 2015, and we will continue to focus on operational improvements and [to trend] to mitigate FX and pockets of economic weakness. When we look beyond 2015, our focus is on new product introductions and investing in innovative technologies that will drive sustainable and profitable growth.

Before I open the call to questions, I would like to remind you that our fourth quarter and full year earnings call is tentatively scheduled for Wednesday, February 10, at 10 AM. With that, Operator, can we please open the call for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from George Staphos with Bank of America Merrill Lynch. Please proceed.

George Staphos - *BofA Merrill Lynch - Analyst*

Good morning, thanks for the details. I guess my first question, Carol, just housekeeping on the tray business. If I understood your comments correctly, it is still included in your guidance for the year.

And the reason I ask, the footnote on slide 12, it says it's in there for only the first quarter, which would imply it wasn't for the rest of the year. So, I'm just trying to reconcile that. And if you could comment how much EBITDA you'll ultimately lose on an annualized basis from that divestiture?

And then Karl, good to have you on the call, just could you give us any kind of trajectory on the ability for EBITDA to grow in Food in the first half of the year? Obviously, second half you'll get the benefit from the cattle cycle turning, but how you feel about your ability to grow given -- and tougher comparisons on pricing, you've obviously had a lot of benefit beginning of the year -- in 2015? Thank you.

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

Thank you, and good morning, George. So I'll start with the question.

So, the reference for Q1 2015, that relates to our North America trays and pads business. And the reference about the 10 months is the European trays business. So they're two separate transactions with two different buyers as we noted.

And we have broken out the EBITDA for the North America trays and pads business that was sold at the beginning of Q2 2015. That's broken out in our bridge. You can see that within the Food Care EBITDA bridge.

The European business had a similar margin. But what's important to know, as we've highlighted and Karl commented as well, that business has been -- was deteriorating, becoming commoditized, both North America and Europe, and Europe even more so. So, the margins were quickly headed below 10%, as well as the product not meeting some of our sustainability requirements.

Karl?

Karl Deily - *Sealed Air Corporation - President, Food Care*

Okay. So, thank you for the question.

We obviously strategically have plans to continue to improve our EBITDA. I mean, we made a significant improvement to the 20.1% level we're at today. We continue to introduce new products that positively impact our EBITDA.

We continue to clean up our portfolio, as just evidenced from the tray discussion. We continue to reduce some levels of liters. We've had significant improvement in the profitability of our Hygiene business in regions for the world. We continue to manage our expenses.

So, our outlook is to continue to improve and grow our EBITDA.

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

Operator, next question, please.

Operator

Your next question comes from John McNulty with Credit Suisse. Please proceed.

John McNulty - *Credit Suisse - Analyst*

Yes, good morning. Thanks for taking my question.

So, a question, I guess, on the cash flow side. It sounds like you're building up inventories, but it almost sounds like you may have been -- maybe -- but you had overcut because you're kind of implying like you're trying to build them back up so you can meet your customers' needs. Is that the case or am I misreading that?

And then, I guess the second thing is, as you look into 2016, can we expect further improvements in working capital? And how should we be thinking about some of the puts and takes in 2016, like the restructuring costs starting to wind down, et cetera? Thanks.

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

Okay. Thank you, John.

I guess it's not really that we have been too aggressive in reducing inventory. An important piece of the build that we think we need to do -- or really not build, but maintaining into Q4, is because we do have a go-live for SAP within our Diversey Care business in North America. And anyone who has been through an SAP implementation and go-live will know that it's very prudent to make sure you maintain appropriate inventory levels.

It's a great enterprise platform that we'll get a lot of benefit out of that we want to make sure we're cautious and conservative and can meet all of our customer expectations. So, that's one of the key drivers. And we've just taken that decision as we head towards the end of the year with an early Q1 go-live.

In terms of thinking about color for 2016, we do expect to have a positive impact from working capital and it to be a source of cash in 2016. However, it's important to note, when Jerome and I and the rest of the management team really started focusing on working capital, beginning in 2013, there were some obvious things we could do that would accrue to our benefit from a cash flow standpoint quicker.

As we're moving forward, there's less of those obvious steps to take and the move towards the day-in, day-out proper management of working capital to sustain the business. We anticipate growth going forward into 2016. And as such, that will impact working capital. But again, that bottom line, we will expect to see positive source of cash for working capital.

If we think about EBITDA for 2016, we're still focusing extremely on profitable growth, driving towards our 2018 target of 18% margin that we shared at the Analyst Day in June. Our CapEx for 2016 is still estimated at $275 million. Restructuring, excluding the CapEx restructuring, which is included in the $275 million I shared, is still estimated $110 million to $120 million for 2016.

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

Operator, next question, please.

Operator

Your next question comes from Ghansham Panjabi with Robert W. Baird. Please proceed.

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

Hey, guys. Good morning.

I guess, a question on Diversey and the volume improvement you showed in the quarter. Is that coming at the expense of lower mix in any way? I guess, I'm asking because of the $5 million lower price cost/mix you're showing for that segment in your EBITDA waterfall.

And just separately, Carol, can you quantify what you expect for working capital for 2015 now versus your original guidance? Thanks.

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

So, I'll take the working capital first, Ghansham. And if you just do the math and you do a walk from the EBITDA and you pick up the interest payments -- and the EBITDA of $1.165 billion; interest payments of $230 million; cash payments, $110 million; restructuring, $110 million.

We've shared previously that SARs are $20 million and the CapEx of $190 million, to get to the $560 million would imply a favorable impact from working capital and other at $55 million. And we had previously estimated that to be somewhere between $100 million and $110 million.

With respect to the Diversey Care, I guess, for that, when we look at the cost synergies, I mean, that's the $5 million positive that's ongoing benefit that has helped the business in the quarter. With respect to mix and price/cost spread, we do have a meaningful impact from transactional FX that hits Diversey because of different imports of products based on where the demand is at. We had a particularly negative impact in the UK for their business and all driven largely because of transactional FX.

So, we're not seeing anything that's concerning us from a deterioration in margin driven by mix. And actually, as I highlighted and Karl commented, for North America, we're seeing very positive performance relative to mix as we drive expansion of our North America business, add new customers, and especially with our product as it supports healthcare.

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

Actually, this quarter has shown a very nice confirmation of the turnaround of this division. We are firmly into growth now. And we're making inroads where we want to make inroads.

Our large business, which is in EMEA, is starting to grow. Our North American business is growing, and the emerging market situation is, whatever it is in terms of environment, but we are very well positioned. There is a very firm, nice turnaround, which is ongoing and which is starting to show its fruits here.

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

Operator, next question please.

Operator

Your next question comes from Chris Manuel with Wells Fargo. Please proceed.

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

Good morning, and congratulations on a strong quarter.

Actually, that's kind of along those lines is where I wanted to start with respect to volumes and such. I mean, it looks like when you laid things out at Analyst Day, you talked about 3% to 4% organic volume growth through 2018, I think another point or two from price, and then there were some offsets. And I recognize it's early days, but it seems as though you're doing -- still continuing to push pretty hard on the price meter here in the near-term.

As you look forward to next year in 2016, do you think that's when we start to see the inflection on the organic volume side to see it begin to pick up? Or given what you're doing in new product development as such, how do you envision that kind of playing out, Jerome?

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

Great question, Chris. First of all, thank you for congratulating us on this quarter.

Very frankly, I'm very proud of it. And I'm very proud of it because remember the guidance, we gave you a guidance at the beginning of the year in terms of EBITDA and EPS.

We raised it in July. We raised that guidance in July. We then in September, at John's Credit Suisse Conference, we said, watch it, there's an additional headwind of $15 million of currency, and it's going to be really hard to mitigate it. And what are we doing today? We're confirming the July guidance.

So, I take this as the first time we're increasing -- as the second time we're increasing our guidance. And I'm very pleased with what's going on in an environment which, in emerging countries, because of commodity pricing, ag commodities or mineral pricing, and because of oil and gas prices, et cetera, so -- in all -- in many emerging countries with, but including Australia, Canada, et cetera, are countries where the environment is not easy.

And remember that in that environment, we have -- we are increasing our EBITDA. And at the very same time, we are suffering in Q3 only $236 million of transactions in sales and $39 million of EBITDA.

So, that context is making things good. Your point is very good, which is, we haven't gotten very much volume growth, but we have given a guidance for the next three years at having a 4% to 5% growth. And I firmly believe we're going to have that, and it's going to be less on pricing, more on volume.

And yes, mix is helping, thanks to our innovation products. Every single division is extremely excited about all of this. You should have gone, I don't know if you have, but you should have gone to PACK EXPO for where we were having a huge booth, which was packed like no tomorrow, in Las Vegas a few weeks ago. You should have gone to the ISSA, where we got lots of awards for our innovation, et cetera.

And you should, and Karl, maybe you might want to make some comments with regards to our innovation on our best new products, which are making pretty good inroads in Europe in the thing. So, yes, more volume in 2016, and a little bit of less price. But if we have had 3% or if we're under - about 3% growth year-to-date or so, I have really zero problem with the 4% to 5% over the mid-term.

Karl Deily - *Sealed Air Corporation - President, Food Care*

Yes. Absolutely, Jerome. So, just a few quick comments.

Obviously, if you back out Brazil and Venezuela, we're growing 2% to 3%. We had 3.1% organic growth. And basically, around the world, we're excited with the introduction of a variety of new products.

We're showing significant above-market growth in Europe, especially Western Europe, heavily being driven by introduction of things like our Darfresh on Tray, as I mentioned, some of our new solutions in the ready meals market. And so, those, coupled with some of the adjacent markets we've had, starting to gain traction and acceptance of our new aseptic technologies with the sale of a couple of new systems in three different regions of the world.

So, a lot of positive things going on in light of all the negative economic impacts as well.

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

Our e-commerce business is going to be very nicely growing. We're a package -- a protective packaging supplier. And we're moving, thanks to the B+ acquisition and our new flow wrap equipments, we are moving now into a solutions provider, which allows us to help our customers to improve the pace at packaging. And that is what is of tremendous value.

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

Operator, next question please.

Operator

Your next question comes from Scott Gaffner with Barclays. Please proceed.

Scott Gaffner - *Barclays Capital - Analyst*

Thank you. Good morning.

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

Hi, Scott.

Scott Gaffner - *Barclays Capital - Analyst*

Hi, Jerome, Carol, Lori.

Just following up on that discussion around the longer-term guidance and the shift towards volume growth from price/mix, year-to-date price-cost mix is about $144 million, and the longer-term guidance is for about $150 million. Just, does that combine with Karl's commentary?

It sounded as if there was maybe some slowdown in growth coming in Food Care. As we walk into 2016, especially in the first half, I mean, is it going to be hard to put up any significant EBITDA expansion in the first half of 2016 if volumes are a little bit weak and price cost starts to slow a little bit?

And then, Carol, one follow-up on the $55 million of working capital. How much of that is coming from the impact of lower resin prices? Thanks.

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

So, in terms of -- I don't know Karl, do you want to talk about the Food Care and just remind everybody the outlook for 2016 that the growth is really coming later in 2016?

Karl Deily - *Sealed Air Corporation - President, Food Care*

Yes. I mean, obviously, we have some tough comps, and we have FX continuing to impact in some vagaries in the markets of when certain markets may drop off and other markets may strengthen.

But overall, in 2016, we're very positive that we'll provide solid top-line performance with leverage to the bottom line to escalate the EBITDA as well. I mean, we have a lot of very positive things going on in each region, and you can just look at some of the regions where we are getting some positive increase in the animal numbers or significant penetrations in the market. We're getting very nice growth. We're getting very nice growth in a very mature market like the UK, and we're getting significant penetration growth, near doubling of the business in countries like Russia.

So, I think while we manage some of the downturns, we have a lot of exciting things going on in a variety of mature markets, as well as emerging markets as well. We'll just see kind of a transition of where that business is, with Australia potentially dropping off sooner than North America escalating, we just work through those in the first half. But long term, there's a lot to be excited about around the world.

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

Thanks.

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

So, I guess, the question was really towards the short term. And the question is on the timing on Australia coming down and the pickup of the other countries and how bad is Brazil going to get.

And so, we're not negative. There are cycles.

The beef cycle in Australia is showing its trend down. September was showing the strong decline in beef production. But we've been - it's been about a double-digit decline in beef production and we had been - we had growth.

And in Brazil, we don't believe that it's going to go further down. We want to be careful because things are fairly unstable overall in the world, in emerging countries, et cetera.

Having said that, I'm not pessimistic, whatsoever. And if we're talking about a quarter versus another one, that's one thing. But look at what we have delivered in the third quarter in fairly adverse conditions at this point in time.

And look at what we're delivering in the year despite -- so we're delivering EBITDA growth despite the overall situation, which is pretty difficult altogether in the global market. So, I'm not negative whatsoever into what's going on right now.

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

Operator, next question please.

Operator

Your next question comes from Chip Dillon with Vertical Research Partners. Please proceed.

Chip Dillon - *Vertical Research Partners - Analyst*

Yes. And good morning, everyone. First of all, just - could you just confirm that the European trays business, was in -- that was in Food Care, is that right?

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

That's correct.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. And I guess the key question I had is, just thinking about your comments about the inventory situation.

If I look at the free cash flow guide, it's down $25 million, and if you sort of think of the net CapEx depreciation change, that's about $10 million, as well as restructuring is another $10 million. So, add all that up and it's a $45 million swing. Is that about the degree to which inventories are going to be higher?

And then as a follow-up to that, is this something that's more transitory, or is this sort of a new permanent level that you think inventories need to remain at?

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

So, Chip, it's largely - and your math is approximately, it's correct. Because what we had guided to in the $585 million of free cash flow was somewhere $100 million to $110 million positive impact from working capital and other assets, other liabilities. And we're now saying, just the math would tell you that amount is approximately $55 million in total.

We don't think that we have to maintain higher inventories as a percent of sale on a permanent go-forward basis. But we do think as we move into Q4, it's prudent for us to have a higher level to be able to support our customers at the right service level they've come to expect for on-time delivery.

In addition to that, some of our restructuring costs is to support addressing the supply chain footprint. The Senior Vice President for Supply Chain, Emile Chammas, and his team, are very focused on making sure we have proper alignment of where we produce, where we have our distribution centers, and how they support the organization. And there are some moving parts in there that are part of that restructuring. So, we also take that into consideration when we think about the inventory levels that will help us have the business operate at the optimal level through Q4 and into the first quarter of 2016.

I also will take this opportunity to remind everyone that our 2018 free cash flow guidance is $775 million as we shared at Analyst Day, and we feel very good about that. It's a great healthy number and we're committed to be able to deliver.

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

Operator next question please.

Operator

Your next question comes from Rosemarie Morbelli with Gabelli & Company. Please proceed.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Thank you. Good morning everyone.

Jerome or Karl, I was wondering if you could comment on recent articles saying that red meat and processed food are creating health hazard, cancer in particular? And what kind of an impact this could have on your operations? And whether you have had discussions already with customers, and can you help us understand what this could do if it has an impact on the marketplace?

Karl Deily - *Sealed Air Corporation - President, Food Care*

Okay.

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

Karl will answer. But welcome to the club of carcinogenic products. This is one more out of 478 carcinogenic food items.

Karl Deily - *Sealed Air Corporation - President, Food Care*

Yes.

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

There is no way we're going to be able to eat anything pretty soon. Anyway, go ahead.

Karl Deily - *Sealed Air Corporation - President, Food Care*

So basically, Rosemarie, it's very simple. Obviously, we're involved in a number of trade organizations that support the fresh meat and smoked and processed meat industries and they've had their pulse on this for a while. There is no doubt that with the growing middle class as well as the expanding global population, the demand for proteins is going to increase, and we're sure seeing that in the market.

It'll take a while. This report was just released yesterday for all the dust to settle. I'm sure it'll gain a lot of media attention for a short period of time.

But I don't think there's anything in it that is new, but obviously we support the industries we serve. And there's no doubt that we continue to help our customers provide safe, wholesome products to the market.

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

Operator, next question, please.

Operator

Your next question comes from Mark Wilde with BMO Capital Markets. Please proceed.

Mark Wilde - *BMO Capital Markets - Analyst*

Good morning.

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

Good morning, Mark.

Mark Wilde - *BMO Capital Markets - Analyst*

Carol, I wondered if you could just help us with kind of the puts and takes on the food packaging business, particularly in places like Brazil, like Argentina, like Australia, when we get these big currency moves? Because logically, you'd expect that the weaker reals would start to push up meat exports out of Brazil. And as I've always understood it, you make it more on the packaging that goes into the export markets, rather than the domestic market?

And then as a follow-on, I wondered if you could just also comment on the signs that some of your competitors in the meat packaging business are expanding capacity here in North America?

Karl Deily - *Sealed Air Corporation - President, Food Care*

Sure, Mark. Let me take the first one first.

And it would be intuitive that with the drop of the real, the export market should be increasing. However, there are multiple inputs on those type of issues. And Brazil's primary export customers are Russia, Venezuela, China; all of which have depressed buying due to their social economic issues, as well as Russia becoming more focused on self-manufacture.

In addition, Russia has also banned imports from 10 different Brazilian plants. So, a lot of that is politically driven, but it still is what it is. And so, those have truncated export sales. What Brazil continues to do is look at developing an export market to North America, to Asia, all of those support long-term trends for them.

In regards -- I can't really comment on our competitors' adding capacity. We obviously believe we have proprietary position, proprietary products, and continue to look at evolving our business as well.

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

So, your point, too, is very strong, is very good with regards to Brazil. It takes a little bit of time to create and to make ways for new markets.

But I was referring exactly to that when I said that I think that the Brazilian market has bottomed. And yes, we do have more value-add in our product for exports than for the local domestic markets, which tends to be frozen.

Karl Deily - *Sealed Air Corporation - President, Food Care*

Especially when they go from frozen to fresh --

THOMSON REUTERS

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

Exactly right.

Karl Deily - *Sealed Air Corporation - President, Food Care*

-- it's very, very impactful.

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

Operator, I think we have time for one or two more questions, possibly.

Operator

Your next question comes from Philip Ng with Jefferies. Please proceed.

Philip Ng - *Jefferies LLC - Analyst*

Hey. Good morning, guys.

In your Protective business -- or I'm sorry, Product Care business, you saw a deceleration of volumes. Was that mostly due to the industrial economy slowing that you called out, or is that -- and as you lap the product pruning next year, do you expect volumes to actually grow next year? And how much of a lift should we expect price/mix as well as you kind of make inroads for some of your new products? Thanks.

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

So -- exactly right, Jeff. This is the -- Phil, this is the right analysis.

We are now looking very deep and organized by business sectors. And general manufacturing has gone down in the mid- to high-single-digits because of softening of exports and a dramatic slowdown in the oil and gas market where we have some specialty products there. And for your information, we pack valves, pumps and fittings in that sector, and that has gone seriously down.

The second sector which has suffered is the electronics market. You have noted that there are less -- negative sales growth in tablets, in laptops, in desktops. That has affected our market also.

And a little bit in the transportation sector, transportation for us being aviation and automobiles. The spare parts markets, specifically for exports, has been going slightly down. All of those negative trends have been compensated by a very strong e-commerce business where we have very, very good value-add solutions.

China is up, and it is not up because of industrial GDP, which is fairly muted, but it is up because of our solutions. And we're focused on value-add type of products there.

We have had this negative growth as a result of heavy rationalization in Latin America and a little bit in North America also. Europe is doing okay, and we are expecting definitely volume growth into next year.

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

Operator, we'll take our last question, please?

Operator

Your final question comes from Adam Josephson with KeyBanc. Please proceed.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Thanks. Thanks for taking my question, everyone.

Just back to next year for a second. Can you give us some sense of whether you expect volume, price/mix or cost savings to contribute the bulk of your EBITDA growth next year and why?

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

Well, we'll talk a lot about that when we give our guidance in early February. So, I'd rather stay focused in this discussion with regards to this year and the rest of the year. But unless you want to add something, Carol -- but she's telling me no.

So, very frankly, we are - we're not done with what we want to achieve in terms of quality of our business with our existing portfolio. We have clearly segregated this business into commodities and specialties in every single of the divisions.

It's not that I don't like commodities, because you can make very nice money with commodities, provided you have best-in-class manufacturing costs, which was not the case in trays, by the way; and provided your investments and your cost to serve is highly competitive. When they're not, when you don't have those two conditions, you need to be very careful because you are going to spend a disproportionate amount of time on those commodities compared to serving the markets with our specialty products or specialty solutions. So, that's why we're very focused.

Our Medical business, by the way, is doing wonderful, absolutely wonderful. It is small, but it was not performing at the levels we needed to see it performing. And it really is now doing extremely well.

So, all in all, I want to thank you all. This has been what I call a very strong quarter. This is an outstanding year for us.

And remember where we started, we had a guidance originally on EPS at $2.18, if I remember well. We have now an estimate at $2.32, including $0.36 of negative currency. I just call that fabulous.

We are improving our EBITDA despite year-to-date $96 million of negative EBITDA compared to last year. I just call that extraordinary.

And we are doing this because we're very firmly believing that we have room to grow, that there is time for being very firm on our strategy with regards to Get Fit. And we are making great progress, for those of you who were in our Investor Day in June, you have seen what we have in our Change the Game. And I -- we will update you in time as to how we're doing in each of those major solutions and products. But we're making very good inroads in each of the three divisions.

So, thank you again.

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

Operator?

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's presentation. You may now disconnect. Have a great day.