THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

SEE - Q1 2013 Sealed Air Earnings Conference Call

EVENT DATE/TIME: MAY 01, 2013 / 3:00PM GMT

OVERVIEW:

Co. reported 1Q13 results. Expects full-year 2013 net sales to be $7.7-7.9b and adjusted EPS to be $1.10-1.20.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Bill Thomas *Sealed Air Corp - Assistant Treasurer and Interim Director of IR*

Jerome Peribere *Sealed Air Corp - President and CEO*

Carol Lowe *Sealed Air Corp - SVP and CFO*

CONFERENCE CALL PARTICIPANTS

George Staphos *BofA Merrill Lynch - Analyst*

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

Anthony Pettinari *Citigroup - Analyst*

Scott Gaffner *Barclays Capital - Analyst*

Adam Josephson *KeyBanc Capital Markets - Analyst*

Phil Gresh *JPMorgan - Analyst*

John McNulty *Credit Suisse - Analyst*

Philip Ng *Jefferies & Company - Analyst*

PRESENTATION

Operator

Good morning, everyone and welcome to the Sealed Air conference call discussing the Company's first quarter 2013 results. This call is being recorded. Leading the call today, Jerome A. Peribere, President and Chief Executive Officer, and Carol P. Lowe, Senior Vice President and Chief Financial Officer. After management's prepared comments, they will be taking questions.

(Operator Instructions)

We ask that you limit yourself to one question and a brief related follow-up question per caller so that others will have a chance to participate. And now at this time, I'd like to turn the call over to Bill Thomas, Assistant Treasurer and Interim Director of Investor Relations. Please go ahead, Mr. Thomas.

Bill Thomas - *Sealed Air Corp - Assistant Treasurer and Interim Director 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 today. 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 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 this 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. Many of these factors are listed on our most recent annual report on Form 10-K which you can find on our website at sealedair.com. We also discuss financial measures that do not conform to US GAAP. You may find important information on our use of these measures and the 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 noon today with Q&A wrapping up by 11.55 AM. Now I'll turn the call over to Jerome Peribere, our President and CEO. Jerome?

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

Thank you, Bill. Good morning. Pleasure to talk to you about our first quarter results and let me just go and summarize by saying I believe we had a good quarter, actually a very good quarter. Not so much because of the financials which are in line with our expectations for the first quarter and in line with our guidance for the full year in terms of EBITDA, of improved cash flow in the first quarter compared to what we did last year, et cetera, but because we have made superb improvements in setting the stage for the new Sealed Air.

We have created a new vision, a new mission, new core values which will be introduced in detail in our September, at our September investor meeting. They are key to clarify who we are and confirm why we exist and they're based on three pillars -- performance, sustainability and cost competitiveness. Our employees are on fire. They [raise] a new extraordinary energy in this Company. We polled our 25,000 employees to a survey during the first quarter. We took the post and this allowed us to create employee engagement and alignment, which obviously will be pursued. I committed to make Sealed Air a thriving place to work, including through the future development of increased performance compensation -- performance-based compensation, alignment of equity among our heavy [dish] companies, and increased transparency.

We have started to better align our innovation to an intense dialogue with our key partners and customers and in order to improve also our return on our R&D dollars. We have and will continue to recruit externally or internally high, very high-caliber talent, as we did in January with our President of Institutional and Laundry, in April with our new General Counsel, and soon with a new CTO and a Communications VP. And we are building a more streamlined, efficient, accountable organization as a result of an announcement that I will make in a few minutes.

This was a very busy quarter. And now let me just go into the numbers. Despite strong economic challenges in our developed market, especially in Europe, we finished the quarter with an improved month in our total operating results. Excluding the impact of the Legacy Diversey Stock Appreciation Rights, or what is referred to as SARs, our adjusted EBITDA and our margin have improved. While it's a small step, it is one in the right direction.

As highlighted on slide 2 of our presentation, sales for the quarter were up 0.4% on 1% higher volume and 2% price mix, offset by 0.8% of earned favorable foreign exchange translation. We continue to achieve growth in developing regions, especially Latin America, where we achieved 12% growth in constant dollar and Asia, Mid-East, Africa and Turkey with an 8% constant dollar sales growth. The increase was achieved in the face of continuing challenges, particularly in Southern Europe, as well as certain supply challenges in North America and Europe. Sales in Europe actually declined approximately 3% on a reported and constant basis for the quarter, while North American sales were about flat with last year.

Our adjusted EBITDA was flat for the quarter versus prior year if you include the $18 million of expense from SARs. SARs expenses were $12 million last year in the first quarter, and our exposure to sales expense is a function of the value of our share price. And since our share price increased during the first quarter, our SARs expense increased as well. Excluding the impact of SARs though, first quarter adjusted EBITDA was $245 million, or 13.2% of sales as compared to $240 million, or 13% of sales for the first quarter of last year.

We continue to achieve positive momentum across a number of key metrics. We're achieving net sales growth for geographic expansion, developing new and expanded customer relationship and demonstrating the strength and the breadth of our sustainability value proposition to customers. We continue to recognize strong cost synergies. For the quarter, we benefited from $29 million in incremental cost synergies under our 2011 - 2014 Integration and Optimization Program compared with the first quarter of 2012. These synergies resulted from a mix of headcount reductions, elimination of redundant costs, planned consolidations, and procurement and logistic savings.

If you move to slide 3, our 62 country footprint continues to provide us with leading reach and great opportunity for international growth, better than our peers, and where we -- and in fact, we sell into 175 countries globally. And here we have a tale of two worlds. In Western Europe, we had very bad growth with -- Western Europe has been very bad for us, led by France, where our sales have gone down 10%. And you probably have noted through economic information that France was the worst country in the first quarter out of the four largest Western European countries. Spain was at minus 5% but our sales have been stabilizing in Italy. North America was flat for us but we had growth in I&L, Institutional and Laundry.

Eastern Europe was very strong with double-digit growth in UK, in Ukraine and Russia, for example; it was a little bit weak in Australia, weak in Japan because of devaluation, but very strong in Brazil, in Argentina, where we had double-digit growth in constant currencies, in Colombia. Very strong also in AMAT, with 13% growth in Turkey, 11% in China, India, Korea and so forth, so a tale of two worlds very clearly, where we are continuing to do extremely well in emerging countries and where Western European countries and especially 1,000 European countries where we are very exposed have been suffering very much from economic conditions.

Turning now on to slide 4, and you'll see Food & Beverage sales have increased 1.9% on a constant dollar basis, with 2.4% organic growth in hygiene solutions and 1.7% in food packaging solutions. Our deployment of new products continues to add to our top line. In North America, our Grip & Tear; Darfresh, Oven Ease, and In-the-Bag products are value-added for the consumer and continue to gain share. Additionally, we are rolling out many of these products in Latin America now and regionally, we experienced double-digit growth in AMAT and in Latin America, where our established footprint and strong market presence in Brazil enabled us to continue to benefit from rising beef production rates in the country.

Protein supplies in North America had negatively impacted our year-on-year performance. Whereas the North American beef production declined 2.8% in the first quarter following a 3.3% industry decline in Q4 of last year, our volumes to the US fresh red meat sector declined by less than 1% and we had pretty solid growth, non-US with growth, positive growth of 3.5%. We experienced strong equipment sales in Latin America and AMAT, but Southern Europe was a challenge due to the declining protein supply and demand. F&B sales in France declined, for example, 9%, and sales to Spain were down 1%.

The benefits of operating a global business were clearly demonstrated in the quarter, as we achieved strong sales performance for fresh red meat applications in Latin America and Japan and Australia and New Zealand. Central and Eastern Europe saw year-over-year growth improvements, particular in Russia, which contributed 9% organic growth. Overall, F&B adjusted EBITDA was 14.5%, or actually 15% if you exclude SARs, compared to 14.1%, or 14.4% if you exclude SARs for the first quarter of 2012.

Adjusted EBITDA margin benefited from higher volumes, operational efficiencies, and reduced expenses. And additionally, contractual pricing provisions in North America continued to cause us to lag raw material cost increases for some of our regions. And as a reminder, market prices for polyolefin in North America have increased 12% since January which obviously takes a little bit of time to pass through. And during our Q1, our F&B division implemented various pricing actions in response to these material cost increases, as well as rising inflation.

The range of our announced price increases varied by country and by products but we were not able to fully offset these increases during the first quarter but expect to do so by the end of the second quarter as our contracts reset and announced price increases are fully implemented. [Fast food] contracts are more commonly used in North America than in other regions and we continue to pursue opportunities with our customers to shorten the reset period or lag time, especially in light of this very steep polyolefin price increases that we suffer from. But we are also very pleased with our renewed discipline on prices.

Moving on to slide 5, that one highlights the results from our Institutional & Laundry division. As you know, I&L has the largest exposure to Europe of any of our divisions, with almost half of its sales generated in Europe. Obviously, the economic situation in Europe, particularly Southern Europe where we are fairly exposed, is offsetting the good news that we have in other parts of the world. As a whole, sales to Southern Europe were down 8%. Specifically, sales in Spain and France were both down 11% with sales to Italy down by 10% and sales growth was most significant in Latin America, with strong organic growth in Brazil, Argentina and Mexico. AMAT, particularly China and India, had double-digit organic growth in sales during the quarter. Volumes in North America also increased 2.5%.

Floor care machine sales were weak mainly in Europe, which accounts -- and heavily weaker, which accounts for two-thirds of global decline in machine sales as customers, particular in the public sector, continue to very carefully manage their cash spend. Nevertheless, the sales decline in the machine sector represent an improvement over the global 5% decline that we witnessed in 2012. Adjusted EBITDA was challenged due to sales expenses but also was impacted by negative customer mix, inflationary costs and the timing of certain expenses, which I'm not going to detail in here. During the first quarter, I&L implemented price increases in most of the geographies. These increases reflect the combination of lease price increases and where relevant, also specific customer-by-customer increases, generating a positive price cost in the quarter.

Moving now to Protective Packaging on slide 6, where we show sales that declined by 0.8% on a constant dollar basis, with essentially flat volumes offset by lower price mix and unfavorable currency translation. The unfavorable price mix is, in fact, attributable to increased sales to consumer-based customers as well as reduced sales of specialty foam products and the governmental projects. And the weakness in the industrial sector, because of industrial GDP lack of growth, is very obvious to our product mix.

We had our cushioning business went down 3% and our shrink business, which is partly consumer goods, went down 1%, but our packaging system, which is more attributable to our eCommerce business, has been up by 5%. So net sales for eCommerce and third-party logistics providers continue to grow very nicely but were offset, as I said, by the global manufacturing weakness. And again, once again, weak sales in Europe at minus 4% and North America was slightly positive at over 1%, plus 1%.

And in the end, adjusted EBITDA was 4.6% lower and was impacted by unfavorable customer mix and an unfavorable price cost spread. And during this first quarter, Protective Packaging like our other businesses announced price increases. Although some price increases were effective late in the first quarter, the majority took effect on April 1 because quite a lot of our sales in Protective Packaging are going through distribution and it takes quite a lot of time to be able to have all the SKUs from our sales and from the sales -- in the systems of our customers' distributors to be effective and implemented. So we anticipate a positive price cost spread for the remainder of 2013 despite some recent information that some competitors have been rescinding some of their original moves as they are trying to push volume.

And now turning to slide 7 and as I have been communicating since joining Sealed Air, we are committed to margin improvement and alignment of our cost structure. We have identified opportunities all -- across all of our divisions as well as in our corporate functions. As a result, we are announcing a new earnings quality improvement program, through which we expect to obtain annual savings of $80 million by the end of '15. Cumulative costs for the program are estimated in the range of about $180 million to $200 million and this program will implement much of the delayering I've been speaking about, resulting in a leaner organization structure, better aligned, more accountable to serve our customers and improve our earnings over time. The savings under this program will be minimal for 2013 and are incremental to the cost synergies under the 2011 - 2014 Integration and Optimization Program.

And finally, I'd like to note that we have set a date for our 2013 Investor Day. It will be on September 20 in New York City and the Sealed Air leadership team present to you a review of each of our divisions, provide a three-year forecast, and provide details on our strategic priorities and our long-term target. We will share additional details on location and timing as we get closer to the event. And now, I will turn the call over to Carol Lowe to discuss the first-quarter financial results in more detail and highlight our outlook for the remainder of 2013. Carol?

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

Thank you, Jerome, and good morning, everyone. If you are following along with your presentation, slide 8 provides a bridge for the change in our net sales from the first quarter 2012 to 2013. Volumes contributed $19 million year over year, with a small positive price mix from Food & Beverage and Institutional & Laundry, partially offset by unfavorable price mix for Protective Packaging. Overall, our price mix was $3 million positive. Currency translation was $14 million unfavorable, primarily driven by declines in Latin American currencies.

Moving to slide 9, this reflects the adjusted EBITDA bridge from the first quarter of 2012 to 2013. As Jerome discussed, we benefited from $29 million in incremental cost synergies during the first quarter of 2013. Volume contributed $7 million to EBITDA. SG&A costs were $17 million unfavorable year over year on increased compensation and benefit costs, Costs to support growth in developing regions and new business as well as the timing impact of certain expenses that were different than 2012. As we noted on the Q4 earnings call, the full-year effect of compensation and benefit increases is approximately $55 million to $60 million.

Highlighting once again, the SARs expense was $18 million during Q1, or $6 million higher versus Q1 2012. While the amount of the SARs expense is not linear and as most of you know, Black-Scholes is complicated, a change in the value of Sealed Air stock price based on the current amount of SARs outstanding, we estimate that for every $1 change in our stock price, it impacts EBITDA by approximately $2.5 million. As of mid-April, we had approximately $2.4 million in SARs outstanding in terms of the number of SARs.

Now turning to slide 10, please note that the first quarter is our seasonally lowest cash flow quarter. Free cash flow was a use of $65 million in Q1 2013. This is a very meaningful improvement over a use of $125 million in the first quarter of 2012. The $60 million improvement was due to higher net earnings and an increase in accounts payable, partially offset by a decrease in receivables. The Company has set several metrics around improvement in working capital. Our supply chain team has been making excellent progress in the management of our supplier payment terms.

In addition to Q1 being a seasonally low cash flow quarter, we typically use cash during the first half of the year. Most of our cash flow is generated during the last half of the year. During Q1, we make certain one-time annual payments, such as annual incentive compensation awards. We also pay semiannual interest on our two largest bonds and have a seasonal inventory build. As stated during our Q4 earnings call, we have programs in place to achieve working capital improvements in 2013 as part of our continued disciplined cash flow management focus, with reduced leverage as a key use for our cash.

Moving on to slide 11. Cash and cash equivalents were $626 million at March 31. As of March 31, we had total cash and committed liquidity of $1.5 billion. Our net debt was $4.9 billion at the end of March, an increase of approximately $92 million, mainly due to the seasonal cash flow needs I previously discussed. During Q1, we purchased our 7.875% Senior Notes due 2017. We were able to repurchase them with the proceeds of our new 5.25% 10-year Senior Notes. We have a manageable debt maturity schedule and we will continue to look to the market to opportunistically extend our maturity and/or reduce our interest rates. We continue to plan to use our excess cash flow to reduce our debt, pay our dividend and prudently invest in the business via a disciplined expenditure process.

Slide 12 highlights our outlook for the remainder of 2013. We are maintaining our full-year net sales to be in the range of $7.7 billion to $7.9 billion. Our adjusted EBITDA will be in the range of $1.01 billion to $1.03 billion, also in line with our prior guidance. Finally, we continue to forecast adjusted earnings per share in the range of $1.10 to $1.20. As a result of the cash costs associated with the earnings quality improvement program Jerome discussed, we are estimating our full-year free cash flow will now be in the range of $275 million to $325 million, which compares with $280 million for the year ended 2012. Cost reduction benefits under this new program will be minimal for 2013.

We are continuing with the review of our portfolio and will monetize non-strategic assets to fund our restructuring programs so not to negatively impact our ability to reduce our leverage. The first quarter of 2013 benefited from a core tax rate of 19.4% which compares with 22.3% for the first quarter of 2012. This represents approximately a $0.01 favorable impact year over year. We benefited in the US from the retroactive extension by Congress of certain items, including the R&D benefit. We expect our core tax rate to be between 25% and 26% for the full year. Interest expense for 2013 is expected to be approximately $355 million, which includes approximately $290 million of cash interest expense.

Before turning the call back to Jerome to lead the Q&A, I would like to note that we have included in the appendix of the presentation a summary of our first-quarter adjusted earnings per share calculation for your reference. We believe you'll find this schedule useful as you update your model to walk from adjusted EBITDA to adjusted earnings per share. Jerome, I'll now turn the call back to you for Q&A.

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

Okay, well, thank you, Carol. Operator, I'd like to open up the call up to any questions from the participants.

QUESTIONS AND ANSWERS

Operator

Thank you very much.

(Operator Instructions)

George Staphos with Bank of America.

George Staphos - *BofA Merrill Lynch - Analyst*

My first question is on pricing. Could you provide perhaps a bit more granularity on what you expect to achieve in net price cost in the second quarter? And considering the challenges that you have in I&L, from a European standpoint on the volume side, and the fact that it looks like, at least the market factors are making a little bit more difficult in Protective Packaging to put through pricing? And then I had a follow on.

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

Sure, so George, first of all, good morning and thank you for your question. The 12% Q1 polyolefin cost increase is not a small amount and what we have been doing is to recreate energy and focus on to our sales force. We have -- we're separating the function of sales from marketing and we're forcing a very much more diligent approach to our pricing. We need to get that done, you heard me say that and I'm going to continue and I'm -- very strongly within the Company in doing this, so then you look at our customer mix and you look as a result of the businesses in which we are.

Protective Packaging, as I said In my prepared remarks, are about distribution. There are lots, lots, lots of SKUs and as a result of that, it takes a little bit more time, but this is why we haven't announced -- we have announced our price increases but they have been implemented late in the Q -- in the first quarter and most of them going through in Q1, in April 1. In Q2 -- and then F&B is a different story, bigger customers and we have been making better inroads with regards to implementing what we needed to implement. Actually, I can see that right now in the gross profit to net sales.

Let me give you two numbers. In F&B, for the quarter, our gross profit to net sales improved by 20 basis points, but in March, our net profit -- our gross profit to net sales improved by 80 basis points, so it should tell you something. I'm not saying the whole thing is, by definition, pricing, but it is also pricing. On Protective Packaging, we have a lag for the reasons I told you. We lost 40 basis points for the quarter, but in March, we lost less than 30 basis points for the month of March. So here again, I don't want to mislead anybody but it is also about our pricing being implemented and being successful. We need to get that.

The demand is not there but the [olefin] cycle is there and therefore, I want to have our people very conscience of this because even if situations improve on a given month, the trend is not going to be a positive one until new polyolefin capacities come to the marketplace. And we know when they are going to come and therefore, we are, in the meantime, being diligent about those things. So clearly to your question, a new mindset and when do I expect this to happen? I'm expecting to recover everything and more by the end of the second quarter.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay, I appreciate the color on that, Jerome. Second question I had and I'll turn it over, obviously, switching gears to I&L, can you comment to the degree to which you are being able to service some of the new awards you've received, given that you may have some difference in the way that you go to market and service customers versus some of your more substantial competitors? Especially in light of the fact that we are obviously going to see more cost reductions within the business and within I&L, even though some of that's probably more centered in Europe. Help us understand your progress there. Thanks.

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

So you've got large contracts and you've got smaller contracts. For the larger contracts, we -- in the places where we don't have critical mass, we are selectively hiring to serve the customers and we are making pretty good progress in serving and converting those contracts there. That's working progress, there is, in this industry, a new word which I have learned because I didn't know it existed; those are called [prebates]. I didn't even know what that meant until I have been told that there were, in fact, invented by this industry.

And this is -- I'm not going to comment on this but this is crazy but that's the way it is. So in terms of accretion to sales, we're not seeing them or to our business, or our results. In fact, we're not seeing that right now in Q1 and Q2; it's going to take a little bit of time but the rollover and the change and the account by account is coming. And I'm getting monthly reports on how this is progressing and it is progressing according to our target, so things are fine in there.

It's not a question of region. As I said, we pragmatically, selectively deploy manpower when we have to deploy manpower but there are two trends again. We are going to staff appropriately the way we need to in the places where we're growing and I gave you examples of where we are growing. And we are doing absolutely fabulous in the regions where you would expect that we are doing fabulous except that we also are doing pretty nice and renewing re-growth which didn't happen for a long time in the Heritage Diversey, renewing with growth in the US. We had 2% -- over 2% growth in this quarter and this is serving us well, but we are double-digit in Eastern European countries.

We are growing very nicely over 15% -- actually 17% in China, 13% in India, in currency as the same apples with apples with last year. We're growing in Turkey very nicely, we're growing very well in Latin America and you can guess that we are staffing properly in those regions. Unfortunately, more than -- most half of our sales are in Western Europe and that's life. So there, the industry is in very bad shape and in -- we are right now suffering a little bit from some contracts which got lost under the previous administration. I can assure you that I am absolutely, very, very pleased with the leadership, new leadership in that division and with a renewed energy. And what we are going to be doing with the announcement of the plan that I have talked to you a few minutes ago and detailed by Carol, we are going to simplify this organization. We are going to delayer this organization; we're going to make it more cost efficient.

Operator

Ghansham Panjabi with Robert W. Baird.

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

Listen, on the management delayering, as you put it, can you give us a rough sense as to how that breaks down geographically? And is it scaled generally by the size of the business or is it more concentrated? And Carol, is the $65 million cash cost for the entirety of the program or just in 2013?

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

So, Ghansham, in terms of breaking down, I'll provide a little more color. We're going to be a bit sensitive in terms of where some of the costs are going to be because obviously, a meaningful portion is related to severance costs. We estimate approximately 400 to 500 reduction in employees that is contained in that total program. The $65 million is related to 2013. The remaining $135 million, we would expect approximately $100 million of that to be incurred in 2014. I'll also note that the spend and we highlighted this in the 8-K that was filed today, includes the $180 million to $200 million, includes $55 million to $70 million for capital expenditures associated with our supply chain network realignment to support our long-term strategic plan.

We would expect and this is included in the $65 million, somewhere around $10 million to $12 million for CapEx in 2013 and approximately $30 million to $35 million CapEx in 2014 with the remainder of it in the conclusion of the program. A larger portion will, in fact, be in Europe, as everyone would expect. Both the Food & Beverage and Institutional & Laundry businesses have a meaningful portion of the total program. I would say it's a little heavier for I&L than it is for F&B, so hopefully that will provide you some additional color.

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

Yes, it's certainly helpful. And then Jerome, as you think about various other cost buckets, how do you feel about your manufacturing capacity footprint globally as you look across the different businesses? Thank you.

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

Very different, Ghansham, business by business. We are going to be rationalizing in this program. We are going to be rationalizing also our footprint in some European countries and especially some are -- tend to be global plants like -- or if not global, very large plants. Like in F&B, some of us would tend to be local plants because of the value add of less -- of more commoditized Protective Packaging products, for example. Those, in some markets, where we believe that the recovery is not there and close to come and I'm referring to Southern Europe, we're going to be rationalizing our capacities.

Operator

Anthony Pettinari with Citigroup.

Anthony Pettinari - *Citigroup - Analyst*

I had a question on your cash flow guidance. When I think about the legacy Sealed Air generating $300 million, $400 million of cash, my question is, do you expect the I&L business to generate cash in 2013? Is it cash neutral or is it cash dilutive given some of the problems you're having in Europe? Or is there a way that we can think about the long-term cash generation power of I&L, given maybe we have a little bit better understanding of what the packaging businesses historically have done?

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

So I'll -- just and then if Jerome wants to add comments, just generally, we don't break out our cash flow separate for each of the segments. Obviously, you can look historically, based on what Sealed Air generated in the past, and note that the I&L business does not contribute as much from a cash flow standpoint with restructuring charges. That obviously impacts the free cash flow for I&L as well as F&B.

The other thing to keep in mind is we also have a lot of interest expense that is driven by the acquisition that affects the Company overall. As I referenced in my comments, we have $290 million in cash interest costs that we will incur in 2013. So that's a big impact versus what you would have historically seen more recently for the legacy Sealed Air business prior to the Diversey acquisition. But we obviously expect I&L to be positive from an EBITDA standpoint for the full year and positive EBITDA and positive cash flow.

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

But by definition, Anthony, to be generating a lot of cash, you need to generate a lot of profits. I made no mystery that I was fairly dissatisfied with the profit profile of this division and that's why there are lots of changes being implemented, so bear with us a little bit of time and you'll be satisfied.

Anthony Pettinari - *Citigroup - Analyst*

Okay, that's helpful. And then just a quick follow-up on CapEx. You have some regions where you're contracting and you have some regions where you're seeing impressive growth. When I think about the full-year CapEx guidance of $160 million, is that a decent benchmark maybe going into 2014 in terms of some of the capital needs you have to take to expand or could that go up or maybe comes off of it?

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

So we have set the bar fairly high for capital spending. We -- out of the $160 million at this minute, there is still some capital for [IS], and so as a result of restructuring and the integration of companies. That's probably a number which is a little bit low, but it's all about prioritization. And the way I look at CapEx is that it is a resource similar to R&D, and if you ask me how do I look at R&D, I'm saying probably a little bit too much given our productivity at this minute. So and CapEx, there's probably a little bit too little given the opportunities that we have in -- to expand in some parts of the world where -- and some product lines, where which are going to be needing a little bit of capital. So if you take those two buckets as sources of -- as use of cash, I would suggest that those things -- that some of the two are probably not going to be growing very much next year.

Operator

Scott Gaffner with Barclays.

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

I didn't capture who it was, sorry.

Scott Gaffner - *Barclays Capital - Analyst*

Hi, Jerome. It's Scott Gaffner over at Barclays.

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

Hi, Scott, how are you? Sorry about that.

Scott Gaffner - *Barclays Capital - Analyst*

No worries. I just wanted to go back to the pricing actions that you're taking. You did mention that you were trying to offset the escalating raw materials cost. My understanding was that they -- most of these raws were on, already on pass-through mechanisms. So my first question is can you just clarify on the pass-through mechanisms? And the second part of the question is really around, when do we -- do we need raw material prices to be flat in order to get real pricing for the value that you got for your customers? And also if it's just based off of raw material prices, do we then end up giving some of that back when raw materials start to decline?

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

So first of all, with regards to our contracts, in North America, there are more contracts which have an escalator depending on raw materials and then there is some which have a lag of several months, some of too many months, and some appropriately. But I don't think it is healthy to have contracts which have too much of a lag time. Don't understand why they were there, but I'm not satisfied with those things, so this is one kind of situation, but some of the contracts, mostly in North America and some other parts of the world is in negotiation. And therefore not automatically, but we're working -- I assure you that we are making a lot of progress in there.

And then the second is okay, so you patch your costs. Is that where your ambition lies? And my ambition doesn't lie there. My ambition is twofold. One is to get that done by definition, what I was talking about passing that by definition. Second is to get value for what we do and better value for the differentiation we create. Every single company has commodities and specialties. Every single company has products which -- on which they fight on price on a daily basis and some others on which they need to find better on the value that they're creating. And in one of our core values, which is called purposeful innovation, the word is the following -- is we delight our customers with revolutionary solutions which make them win and we share the value that we have created.

So it has several messages. Number one is that there is no room for [me-too] innovation. We've got to really focus on real differentiated innovation and the second thing is that we have to [rely] with companies which look forward, companies which really see that they need to differentiate or they need -- so if they differentiate their hard higher gross margins or if they can also differentiate to -- by us enabling them to reduce our costs. But it can't be all of -- all for us because otherwise, they won't adopt those solutions or for them.

So you can't do those things with everybody. You've got to have cultural fit and that -- these are the discussions I'm having with our customers. We are here to create value to them. We need to create value to us also. We had -- I'm deeply dissatisfied with our return on capital invested. I'm deeply dissatisfied with the technology that we have in relation to the margin. So we've got to -- we are working hard and I can assure you that it resonates with some type of customers who really want us to help them differentiate. And that's where we're going to get the most value.

Scott Gaffner - *Barclays Capital - Analyst*

Okay, great and then the follow-up is just around, Carol, on the SARs expense, what's included in the guidance for the year? And then looking further out, when would we expect these expenses to go away with the delayering in Europe, help to reduce those costs in the future?

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

So in terms of -- if some of the 400 to 500 that I referenced as part of the restructuring program, obviously, if any of those individuals have SARs, what would potentially the effect for their holdings would go away as part of their severance package, if that in fact happened. In terms of -- as long as they're outstanding, there will be volatility because they move with the value of the share price. Divesting of the 2.4 million units that I referenced it has approximately 12 months longer to run to be fully vested, but again, we will have that volatility as we move forward. So in terms of what's included in our guidance, we have not broken that out in the past. We do have an estimate in terms of cash flow and how that's impacted. The liability that we have on the books is approximately $40 million related to our SARs, but we haven't broken out previously the impact in the next month.

Operator

Adam Josephson with KeyBanc.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Two questions. One on cash flow, Carol. So you're spend -- planning to spend an additional $65 million on cash restructuring compared to your previous guidance, but the range for the year only declined by $25 million. So I'm just wondering what other moving parts are in there? Was working capital more beneficial than you expected or otherwise?

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

So, Adam, we're taking -- yes. We've made certain assumptions relative to working capital that it would be positive based on previous estimates that we had made from a comparison standpoint. So if you look at our EBITDA, look at the midpoint of the guidance that we've provided, deduct from that the cash interest of $290 million that I referenced. There's approximately $135 million for restructuring cash payments between the original Integration and Optimization Program as well as the $65 million for the new restructuring program, the $160 million for capital expenditures and then deferred taxes and potentially what we may pay out in SARs. That would get you down to that new range that we're providing for the free cash flow plus the improvement in working capital performance.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Thanks for that, Carol, and Jerome, one for you on pricing. How do you expect the nature and magnitude of your pricing initiatives to differ next year compared to this year?

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

On -- as you heard me just say before to Scott, there was the two elements of these and the one, the discipline and I don't know. I don't want to anticipate what polyolefin or other related raw materials are going to be, and the other one, it is depending on our innovation and on our culture. I am expecting our people to be more forceful at getting value from the services that they provided today and don't get value out of this. If you want one example, we are reengineering plans for some of our customers because we are a big equipment manufacturer and seller. While there are one can pretend that this engineering is included in some of the prices for our [including it for] fumes, et cetera, et cetera, or not but I want a more rigorous approach. Again, this Company can do better. That's my view.

Operator

Phil Gresh with JPMorgan.

Phil Gresh - *JPMorgan - Analyst*

So first question, Carol, you talked about potentially monetizing non-strategic assets. Obviously, you had the Diversey Japan transaction, but just wondering how you're thinking about that? Is the target still $500 million or as a result of this increased restructuring program, might you guys get more aggressive on this front?

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

So the -- we have not set any new target, Phil. Previous communication was that it could be up to $500 million as we continue to look at the assets, the portfolios, different regions. We'll review that number as we go forward. We've also been very clear that we're not looking to have a fire sale on anything. We want to approach this very disciplined and we have to get the right valuation, but the message we want everyone to take away today is that we are committed to reducing the leverage for the Company.

And we're going to be very prudent in terms of making sure we can fund these restructuring programs. And we'll look to move forward on certain assets. But I wouldn't feel comfortable targeting a certain amount right now because we also -- we're not going to walk away from something that's adding value to the business if we can't get the right valuation for it. We will then look to potentially slow down the timing of some of the cash outflow relative to the restructuring cost to make sure we have a proper balance.

Phil Gresh - *JPMorgan - Analyst*

Okay, and then just one follow-up question on pricing. Sorry for beating a dead horse here but just asking it a slightly different way. To what extent does the competitive response impact, Jerome, how you might think about the pricing initiatives? You gave the example of Protective, so just more broadly, if you were to start to see that in other areas, between pricing versus restructuring, et cetera, maybe just how you think about that? Thanks.

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

The way I think about that is that I don't care very much what our competitors are doing. The reason why I'm saying this is that, as I said before, there are some product lines of which I am deeply dissatisfied with our return on capital invested. Those don't return capital. If our competitors want to destroy economic value, that's their problem. No problem for me. What I want is that we, in a disciplined way, move to the targets that we have and that includes getting a proper return on capital investment and some of that. So in some product lines, we are seeing that we're along fine.

At the end of the day, a product line which has a lower EBITDA, it has a lower EBITDA because we haven't done our homework, because it has commoditized, et cetera, et cetera, or well -- it [says or]. And we haven't done our homework, it means can be on differentiation, can be on being forceful, not forceful enough on our pricing discipline, et cetera, or because it's a [dog], right? Well in that case you select the type of customers you want to work with. You select those who value your differentiation, your brand, your portfolio, et cetera, and then find -- and those who just go for volume, well let them go for volume. I -- this Company is more focused than it was in the past on value versus volume. And I don't want to make it an obsession. I probably have talked much too much about all of this, but this is internally a very clear message.

Operator

John McNulty with Credit Suisse.

John McNulty - *Credit Suisse - Analyst*

Jerome, I know you've been digging through the packaging businesses for awhile now, just to figure out where the real value is. Can you give us your thoughts on how much of your packaging-related portfolio is either truly specialty or has a lock-and-type system to it? And how much of it might be viewed as more commodity?

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

Well, again, you've got to look at this division by division. In some of our divisions, the name is a warranty for a certain quality. If I would take our most iconic brand, which is bubble wrap, you can have plastics encapsulated bubbles or bubbles encapsulated in plastic films, et cetera, from wherever you want. And our people have led me to understand that bubble wrap is not bubble wrap, that you've got bubble wrap and that you've got generic bubble wrap and that you can compare because they deflate, they do this, they do this, et cetera, et cetera. So some products are heavily commoditized. Some others not.

Some product lines, people think that they are but they're not and in some, the brand equity is very large. So I can't embark in to taking one on one, every single division and every single product line and tell you this is a commodity because there are shades of gray. You have products which are clear commodities. I would call thin foam a clear commodity and then next to that, you have products which are -- that still have brand equity at but are less differentiated than they were in the past. And then you have some products which are clearly second to none and they are unmatched.

We are growing the category. In food packaging, we have lots of those things; in Protective Packaging, we have some Fill-Air lines; and in Shrink Packaging, we have an extraordinary differentiated product which is making a killing right now. And our shrink film business has been a commodity business and is going to move, I can assure you, over the next three years, into a very strong specialty.

And the value proposition that we bring to our customers here is that we are having 25% to 50% less gauge at equal performance and equal clarity. So these are kind of the shrink film for consumer goods. You take two bottles of shampoo, they are bundled under shrink film and I can assure you that there's a lot of value for our customers and a lot of value for ourselves.

John McNulty - *Credit Suisse - Analyst*

Okay, great. Just one last question. In I&L, you announced a pretty big contract win last quarter. Are you fully staffed for the service needed on those contracts yet or is there still more cost to be laid in just to at least meet that contract specifically?

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

We are -- and I don't know. We have hired a few people here and there, but I don't know whether we have hired everyone we wanted to hire by now, et cetera. Those contracts are a ramp-up phasing, on a ramp-up phase. They take a little bit of time to implement and as a result of that, it's working progress. But as I said earlier, I am satisfied. I'm following that up closely, just like you can imagine that I'm following up the win and the losses here and there. I'm satisfied with the ratio and -- but I'm very dissatisfied with what's happening in Western Europe and our exposure to Southern Europe. I do understand what's going on.

I am dissatisfied because I would like to have better growth. We are having fabulous growth in some places, but -- and not in Southern Europe. As a result of some heritage business losses, which I can assure you would not happen today, and also because the market sucks in some of those countries. As a French man, I can tell you I'm very concerned about the French economy. It's been moving towards spend in Italy instead of moving towards Germany and it shows in our equipment business, equipment and tools business. People who can make their big [tack] machine run a little bit longer, they just go and do it.

Operator

Philip Ng with Jefferies.

Philip Ng - *Jefferies & Company - Analyst*

I know Q1 is seasonally a smaller quarter for you for I&L. I just want to get a sense going forward, on both better pricing. How should we think about the profitability of this business from a cadence standpoint in the next few quarters?

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

A work in progress. It is -- those things don't get turned around on a quarterly basis. What I can assure you is that there is a lot of energy, a lot of energy in this business. We have growth in our 2013 plan and we're going to make it happen. And I'm very encouraged by some of those things and I'm not going to come back on what I just said a second ago, but I do not expect much improvement in Western Europe in the very short term. Having said that, we're having some fabulous success stories here and there in some emerging markets. And we're seeing growth in North America, which was not the case 12 months ago, so all of this is moving in the right direction. And I know that with what we're doing, it's going to get better. (multiple speakers) Give us a little bit of time Give it a little bit of time.

Philip Ng - *Jefferies & Company - Analyst*

Got you, and then a question for Carol. What's the long-term net leverage target, including grace, that you're targeting over long term before -- the focus is obviously debt paydown now but what target do you want to reach before it would open the door if we do -- be more strategic with that cash flow?

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

Okay, so Phil, what we communicated is we definitely want to get under 4 times. We're going to take a step back and look at what's going on from a macroeconomic standpoint, where we are at with cash flow generation, what are the strategic priorities of the Company. But definitely some moving towards that 3.5 to 4 times and then reassessing. We want to make sure we're always prudent in our capital management for the Company, so it will be fluid but you can rest assure there is a commitment from this management team to reduce the leverage.

Philip Ng - *Jefferies & Company - Analyst*

Okay, thanks guys.

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

Number one, number two, number three priority is to deleverage this Company, and that's going to keep us busy for the next 12 months. And then depending on the world economy, we are going to be satisfied with a given ratio, which is going to be a higher ratio if the economy looks really on the right track and we are going to keep on if it really looks iffy.

Operator

This is all the time we have for questions. Mr. Peribere, I will turn the conference back over to you for any additional or closing remarks.

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

All right. Well, thank you all for your questions and thank you for being here with us in announcing these first-quarter results. In closing, as we have communicated, the process of transforming Sealed Air is going to take time but I am pleased with what I said. I started this call by telling you some of all the very great things that we're doing. We're doing many, many, many things at the very same time. And actually, I am proud of the energy that I'm seeing from our leadership but also from all of our employees who are seeing this project and believe in the project, so this is great.

We have a clear direction and we have -- are determined to see the stop of the declining margins this year and starting to grow it again. To our new earnings quality improvement program that we have announced, we will begin the alignment of our cost structure and footprint with the growth and profit strategy of the Company. And we are in the process of becoming a more nimble, focused Company that delights our customer.

This is why we exist, and I look forward to leading our employees who are creating a better way for life, which is our new vision, while providing value to our shareholders. Thank you very much. Have a good day. We'll have another earnings call before our Investor Day on September 20. And I look forward to being able to explain to you and show you our senior management in action, talking to you about our mid-term strategy on September 20. Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation. Everyone may now disconnect and have a great day.
