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SEE - Q4 2017 Sealed Air Corp Earnings Call

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OVERVIEW:

SEE reported 2017 adjusted EPS of $1.81. 4Q17 net sales were $1.2b and adjusted EPS was $0.58. Expects 2018 net sales to be $4.75-4.80b and adjusted EPS to be $2.35-2.45.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Sealed Air Fourth Quarter 2017 Earnings Conference call. (Operator Instructions) And as a reminder, this conference may be recorded.

I would now like to turn the conference over to Ms. Lori Chaitman, Vice President of Investor Relations. Ma'am, you may begin.

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

Thank you, Sabrina. 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 periods 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 and slide presentation, which applies to this call. Additionally, our future performance may differ due to a number of factors. Many of these factors are listed in our most recent annual report on Form 10-K and as revised and updated on our quarterly reports on Form 10-Q and current reports on Form 8-K, which you can also find on our website at sealedair.com or on the SEC's website at sec.gov.

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

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

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

Thanks, Lori. I want to thank all of you for your interest in Sealed Air, and welcome to our 2017 fourth quarter and year-end conference call. I'll begin the call with a few brief comments then ask Bill to expand upon our press release and provide additional background on our financial results for the quarter and the year. I'll then provide you with our strategy and outlook for 2018 with a discussion around end-market growth and how we plan to further leverage our innovations. I'll also discuss actions we're taking to improve operational productivity across the globe. After our prepared remarks, we'll conduct a question-and-answer session.

To recap 2017 results, let's start with what went well. Our sales accelerated into year-end, resulting in a 9% constant dollar growth in the fourth quarter and 5% for the full year. Throughout the year, we capitalized on strong end-market trends within the protein and e-commerce sectors. We reported adjusted EBITDA and EPS of $833 million and $1.81 per share, respectively, slightly higher than guidance we provided on our last conference call. Free cash flow was above our expectations at $420 million due to working capital management.

We executed on our share repurchase program, returning $1.3 billion of capital since January 2017 through the use of open-market and accelerated share repurchase programs. We have more than $860 million currently remaining under our authorized share repurchase program.

What we would like to improve is our operating leverage, meaning how our year-over-year sales growth translates into earnings growth. In 2017, our operating leverage, or what we call our profit-to-growth ratio was only 10%. We expect this ratio to double in 2018 with planned cost reductions and higher sales of our market-leading solutions offsetting the expected rise of our input costs. Today, we are the premier specialty packaging company in the world. I'm excited to see the potential that we have within Sealed Air and our ability to take our performance to the next level.

I've been working closely with our leadership team to accelerate our strategy. We'll focus on growth from new innovations, drive operational excellence, recognize and promote talent and target strategic M&A, all of which will produce higher returns on invested capital and maximize free cash flow, taking us to world-class performance.

Let me now pass the call to Bill to provide more detail on our fourth quarter and year-end results. Bill?

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

Thank you, Ted. Turning to Slide 5, let's start with a review of our net sales by region. In the fourth quarter, we delivered $1.2 billion in net sales, an increase of 11% on a reported basis and 9% on a constant basis. All regions delivered constant dollar sales growth. Asia Pacific was our fastest-growing region at 17% growth, which includes sales from our recent Fagerdala acquisition in the integrated fabrication solutions space. Sales in North America were up 10% with Food Care delivering 10% growth and Product Care delivering 9%. Latin America was up 6% led by a strong rebound in the fresh red meat market coupled with new customer wins in Brazil. Europe, Middle East and Africa increased 5% with positive trends in France, the U.K. and Italy.

Slide 6 illustrates net sales by region for the full year. North America was our fastest-growing region followed by Asia Pacific. We are pleased to report that sales improved in EMEA and Latin America in the second half of the year, resulting in favorable sales trends in both regions.

Turning to Slide 7. Let me walk you through our fourth quarter net sales and adjusted EBITDA on a year-over-year basis. We delivered $1.2 billion in net sales. Volume contributed $55 million. Price/mix was $23 million favorable, and we reported $24 million in incremental sales from our Fagerdala acquisition. Currency translation was favorable, $25 million. Adjusted EBITDA was $238 million or 19.4% of net sales. Volume growth contributed $21 million, and mix and price/cost spread was $2 million favorable. The fourth quarter represents the first time in 2017 that we reported a positive mix and price/cost spread. Restructuring savings were $4 million. Operating costs, including acquisitions, increased $10 million. Currency was a favorable $5 million.

Adjusted earnings per share was $0.58 on an average diluted shares outstanding of 176 million. Our adjusted tax rate was 34% in the fourth quarter.

On Slide 8, we illustrate the same bridge for the full year. Our top line growth in 2017 was primarily driven by strong volume. Adjusted EBITDA performance was attributable to volume growth, partially offset by higher raw material cost, stranded costs related to the divestiture of the Diversey business and salary and wage inflation.

Adjusted earnings per share were $1.81 on an average diluted shares outstanding of 189 million. We exited the year with 168 million shares outstanding. Our adjusted tax rate for the full year 2017 was 30%, in line with our forecast.

Turning to Slide 9. We highlight the impact of the U.S. Tax Reform. In the fourth quarter, we reported a $36 million tax expense to the revaluation of our net deferred tax assets from 35% to 21%. The actual impact of the transition tax is still being evaluated, and we will record this in the first quarter 2018. For 2018, we estimate that our effective income tax rate will be approximately 29%. The benefit of the U.S. corporate rate reduction is largely offset for us by the base broadening provisions. Going forward, we will absolutely continue to evaluate opportunities to optimize our tax posture.

Let's turn to our free cash flow for the full year on Slide 10. 2017 free cash flow on a consolidated basis was a source of cash of $421 million. This compares to the guidance we provided on our last earnings call of approximately $400 million. The upside in consolidated free cash flow was driven by great working capital management. CapEx was $184 million, which includes $22 million related to other CapEx restructuring activities. Interest payments, net of interest income, were $186 million; and cash tax payments were $162 million.

Let me now pass the call back to Ted for more details on our divisions as well as our outlook.

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

Thank you, Bill. Turning to Slide 11, which highlights volume and price/mix trends by division and by region. On a global basis, volume trends were up 4% to 5% throughout the year. This compares to volume trends of 1% to 2% throughout 2016. In the fourth quarter 2017, we delivered favorable price/mix, which helped offset higher material cost. Our pricing actions in Product Care went into effect September 1 and in Food Care for our non-formula customers, effective October 1.

As we move forward, we'll continue to take price actions on rising input costs. We recognize that success of our value-capture pricing strategy is dependent on our ability to save our customers' money and solve their most critical packaging challenges. Through our highly differentiated products, services and solution, we'll do just that, save money and solve problems.

Let's turn to Slide 12 and review Food Care results. For the full year of 2017, Food Care delivered $2.8 billion in net sales or 4% constant dollar sales growth. Adjusted EBITDA was $608 million or 21.6% of net sales. On the top line, our business benefited from the continued adoption of our market-leading portfolio in the growing protein market, particularly in North America. However, the timing of formula pricing and rapidly increasing raw material cost put some pressure on our margins throughout the year.

As we look forward, I want to highlight the trends driving our profitable growth strategy in 2018. First, our case-ready platform, including both materials and systems, accounted for nearly 20% of our Food Care sales in 2017 and delivered high single-digit growth. We expect this level of growth to continue as we further penetrate global markets and introduce new sustainable solutions for the seafood and convenience segments. Second, in high-growth geographies, such as Brazil, Russia, China and Southeast Asia, we're well positioned to serve the increased demand for packaged proteins and drive the adaption of applications that extend shelf life and reduce shrink. And third, we expect continued growth in North America, yet at a more moderated rate as compared to 2017.

For the full year of 2018, we expect Food Care sales to increase 3% in constant dollars and adjusted EBITDA margins to be relatively in line with 2017. Similar to last year, we expect Q1 2018 to be our low point for EBITDA, primarily due to the timing of our contract pass-throughs and higher input cost.

Moving to Slide 13, where we highlight results from our Product Care division. For the first full year -- for the full year 2017, Product Care delivered $1.6 billion in net sales for a 8% constant dollar growth. Adjusted EBITDA was $332 million or 20.2% of sales.

We will continue to work our portfolio towards a higher mix of solutions and services that eliminate waste. These solutions include our growing portfolio of inflatables, our automated systems, such as I-Pack and StealthWrap, and our unique Korrvu platform. Inflatables, automated systems and Korrvu increased in excess of 15% and accounted for approximately 20% of our total sales in 2017.

Another highlight in 2017 is the positive trend we're seeing in Instapak business. Our business-to-business customers are under increasing pressures to modify their packaging for the small-parcel e-commerce fulfillment network, a trend called Ship in Own Container or SIOC. This aligns well with our pallet-to-parcel strategy. Sales of Instapak were up in the mid-single digits, and we expect this to continue into 2018.

With the addition of Fagerdala in the fourth quarter, we're now a leading provider of packaging solutions serving the electronics market. We keep finding additional synergies from these acquisitions where we can lever our broad -- leverage our broad solutions portfolio and global reach.

For the full year 2018, we anticipate year-over-year constant dollar sales to increase approximately 7%. We're seeing profitable growth from our recent acquisition of Fagerdala and expect it to contribute $95 million of Product Care sales. Even with the integration of costs associated with Fagerdala acquisition and a resilient raw material environment, we expect Product Care margins to be close to 20% level in 2018.

Turning to our total company 2018 outlook on Slide 14. Net sales are expected to be in the range of $4.75 billion to $4.8 billion with constant dollar growth of approximately 4.5%. Adjusted EBITDA is expected to be in the range of $890 million to $910 million, implying an EBITDA margin of 19%.

I would like to highlight that we're taking actions to realign our Corporate function. In 2018, we expect Corporate cost to be below $100 million compared to $107 million in 2017.

Adjusted earnings per share is expected to be in the range of $2.35 to $2.45. This forecast assumes no additional share repurchases in 2018.

We forecast free cash flow from continuing operations to be approximately $400 million, net of capital expenditures of $160 million. Our free cash flow forecast also includes a $45 million payment in lieu of certain royalty payments for patents to an outside engineering firm. Just before year-end, we entered into an agreement to pay $50 million, of which $5 million was paid in 2017 and the remaining was paid in late January. By taking design ownership in-house, we're expediting our organizational productivity initiatives. Keep in mind that the free cash flow of $421 million we reported in 2017 is on a consolidated basis. If you exclude the cash generated from Diversey in 2017, our free cash flow outlook in 2018 reflects a year-over-year increase.

To wrap up this call, I'd like to provide a brief discussion on our strategic directions, which you can see at a high level on Slide 15. First, we will focus on increasing sales from our highly differentiated, innovative, sustainable and profitable solutions that are in high demand in the market. We'll target incremental profitable growth opportunities in adjacent markets and expand our presence in high-growth geographies. And to reiterate what I said on our last earnings call regarding M&A, we're looking for technology, equipment and automation opportunities that enhance our business and are accretive to earnings.

Second, we'll optimize our cost structure by doing more with less and by investing and working smarter. This goes beyond our efforts to eliminate stranded costs related to the Diversey sale. We're creating a one Sealed Air culture that will drive productivity gains and eliminate redundancy. For instance, in January, we've expanded the responsibility of some of our most talented leaders to attack our biggest challenges. Karl Deily, in addition to his role as President of our Food Care, business is now also leading our innovations team for all of Sealed Air. We moved sustainability under innovation to accelerate our efforts, and sustainability is critical to our customers' success. Ken Chrisman, President of our Product Care division, is now also leading commercial excellence to strengthen the partnership with our global sales team to simplify our processes, lower our cost structure and offer exceptional customer service globally. And Marc Hamer, our CIO and Chief Digital Officer, is taking on the additional responsibility to lead our customer service team. This is in addition to the exciting digital work that Marc is already leading with our team on our smartly connected products and enabling our automated solutions. With Marc leading customer service, we'll invest in tools and technologies that better connects our team with our internal and external systems so that we get the right product in the right place at the right time.

Third, we'll maximize our operating leverage with the successful implementation of the Sealed Air Operating Excellence culture. We already have good systems in place, but we clearly have opportunities for improvement. For instance, we're upgrading assets to the latest technologies, investing in breakthrough production processes. We'll continue our efforts on SKU rationalization, simplify our supply chain and improve quality. Our operational discipline will apply not only internally, but also externally with our customers and future acquisitions to quickly capture synergies.

And lastly, we'll continue to develop sustainable solutions that leave our world, environment and communities better than we found them. We're always finding new ways to reduce our resource intensity and waste for ourselves and our customers. Addressing food waste, product damage and our environment are all priorities for us. By moving sustainability under innovation, it will be at the core of what we do and how we operate. Accelerating our efforts in sustainability will not only make us more profitable, it's the right thing to do. We are committed to creating value for our customers, shareholders and the communities where we live and work.

Before I open up the call for your questions, we ask that you please mark your calendars for Thursday, May 3, for our first quarter 2018 earnings call. Sabrina, we'd like to begin the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from the line of Ghansham Panjabi with Baird.

Ghansham Panjabi - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

So first off, you've seen a very nice acceleration in food volumes during the back half of '17 and up 5%. Pricing is also starting to flow through in that segment. I know you have tougher comps, but are you expecting a particular region to see a moderation of volumes in '18? I guess, I'm trying to reconcile the momentum you saw in back half of '17 versus your 3% core sales guidance for that segment for 2018.

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

This is Ted. The -- we're looking at basically continuing the volume of the fourth quarter. But if we break it up by region, continued strength of North America, but that will be tempered year-over-year as we highlighted. We do see some opportunity in Europe, moving up basically due to our equipment. Latin America was a pickup. We got some strong equipment sale, but we do think the pick up year-over-year will probably be tempered from what we saw in the fourth quarter.

Ghansham Panjabi - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Got it. And just as a follow-up question, on your EBITDA waterfall slide for fiscal year '17 and the $49 million in unfavorable price/cost, Ted, how should we sort of think about the recovery time line associated with that?

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

So the EBITDA on the bridge?

Ghansham Panjabi - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes.

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

Okay. Well, first of all, what you see highlighted the pricing issue that we were chasing in all of '17We saw some catch-up in the fourth quarter, but we're still behind on the catch-up for the price/cost mix. We think in the first quarter, we still have resins that could be working against us. We don't think we'll probably get ahead of that until maybe the second half of the year. So it looks like continued discipline on the pricing should help us stay ahead of it. I don't know, Bill, if you want ask anything more on this.

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

No, I think we're very happy about the fact that for the fourth quarter of '17, we saw a very positive price/cost spread. I mean, we did not have that luxury in the earlier part of '17, and we're very excited to have this go positive. And we think this is a good momentum going forward into 2018. Although as we indicated, our adjusted EBITDA as a percentage of sales is flat in total Food Care from '17 to '18.

Operator

And the next question will come from the line of Scott Gaffner with Barclays.

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

Just a follow-up on that real quick on the increased raw material pricing. I know it's early in your tenure at the company, but anything that you see so far around the ability for Sealed Air to maybe move more towards automatic pass-through resins on a go-forward basis? Are you comfortable with where the company stands today from a pricing perspective?

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

Yes. Good question, as being a price zealot in my past and building off of the good work that Jerome has done. If you look at that, what I've been looking and understanding is how the formula pricing works with our Food Care business, and I think that it works out well. The danger with that is the shocks that hit, looking at what happened with Harvey, is how quickly can recover. So don't like the fact that we can't catch up to that quickly. It does catch up over time, though we'd lag on that. On the Product Care side though, when we are connected to our customers, we should be able to respond more quickly and effectively on price. I think if we analyze last year on the pricing, I think we could've gone ahead of that sooner, quicker. And the team recognize and understand that. I think we're on top of that pricing going into '18. I think the real issue that I'd like to accelerate, I see it in the business and it's exciting and you hear us talk about value capture, is what we're doing in the marketplace. It's really saving our customers a significant amount of money with some of these new solutions. And then really, how do we share that savings? So I think we have some opportunity on value capture going forward. I think the discipline in the business is there. Shocks hurt us, so we got to find a way to get ahead of that quicker. But I think on the pricing side, there's some good things there. The opportunity as we drive more solutions, especially as we bring equipment becoming a larger part of our portfolio, is our customers' drive to automation. I think we have some pricing or value-capture opportunity going forward.

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

Okay. And you mentioned -- as a follow-up to that, you mentioned that you expected some drag from rising raw material prices in the first half of 2018. And Bill, I think you mentioned 20% EBITDA margin in Product Care. Where should we -- are we going to see that more -- the rising raw material, lingering raw material increases more in Food Care or more in Product Care as we move through 2018?

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

I'll go first, and let's see if Bill wants to add some color to that. As we mentioned, we see the raw material going up, and as we [lumped] it going into the fourth quarter, we saw more pressure for lots of different reasons, oil, et cetera, putting pressure on the raw material environment. So we think it's still going to be a resilient environment that we're going to have to manage through, through probably the whole first half of the year. So if we do see improvement, it'll be in the second half, but not through the first half. Our guidance is based on the resin environment being flat. So slightly up for the full year. And so if we see a benefit, we don't see it and it's -- we don't see any in our guidance until a little bit potentially in the second half of the year.

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

I think the original assumptions that a lot of folks have relative to 2018 would've been that we would've seen some quicker decreases in resin prices in '18 because of Harvey and the other factors that Ted has indicated. We haven't enjoyed that decrease, and we're actually planning on an increase in the resin cost as we go year-over-year moving forward. But it is something that we watch, and we're in constant communication with our supply chain team to assess the current impacts of any changes in resin prices on our total P&L, given our understanding of what percentage of our customers in Food Care versus Product Care are on formula pricing versus those that are not on formula pricing.

Operator

And the next question will come from the line of George Staphos with Bank of America.

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

I guess, the first question I had, just piggybacking on the last couple of questions from Scott and Ghansham on food. So on the one hand, your price increases in food and noncontract came a little bit later than Product Care, and it might be one of the reasons that you had less price/cost mix positive. It was a negative in last quarter versus positive in Product Care. Question one, are you out with any additional non-formula price increases in food or, for that matter, in Product Care? And should we assume for the time being that price/mix cost for Food Care is at least as negative, if not worse, through the first half? And then I had a question in operational excellence.

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

So the answer, yes, we're happy with price increase. But lately, George, we got the lead lag there, seeing the effect of that. So we're out there with the price increase where the formulas will have to wait. Where we don't have formulas, yes, we're out there with the price.

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

And we should assume at least a similar negative if not worse in price/cost mix for food through the first half as what you saw in the fourth quarter.

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

I would say slowly seeing that recovered through the year, and we're just not anticipating a gain until the second half.

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

Okay. And then the other question I had on operational excellence and some of the other initiatives that you're going to be building into Sealed Air. I mean, traditionally, Sealed Air, at least from our observation, was a pretty asset-light business to begin with. It tends to have a greater number of smaller facilities. That was one of the things that made it such a good cash generator. But that kind of disparate business model might not lend itself to benchmarking and the sorts of things that are usually involved in operational excellence. So tell me where I'm wrong there, if you can quantify what kind of uptick you see from this down the road. And maybe a 1 or 2 kind of, for instance, in terms of what some of practices you'll bring in.

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

Okay. Well, let me unpack a little bit here. And if I can correct one word, because the team had been working here closely, tremendous team. And so I don't want to call it an initiative, and the team is already working, and we're going to call it a culture because there's a lot of good things going on here. And I think you understand, it's not the program of the month. How do we drive this culture? So good question is looking at the business and as -- and unpacking and traveling the world, looking at our facilities, talking to our customers. Now being on the inside, I see a lot of manufacturing that, from the outside looking in, I didn't realize. So we didn't have a lot of manufacturing opportunities to bring this network together. But it's quite interesting. We buy close to 1 billion pounds of this thing called resin, and then we converted it into this really, really special products that we sell literally in billions. And our customers -- so you want to have a very concentrated, huge, extrusion lines to do that very effectively and efficiently, but we're still market-focused and so customer-focused, they want to buy those specialized bags 100 at a time. So how do you do that mix model, be connected around the world. We can't be everywhere at once. So that's the part of the operational excellence that I think we can do and make some impact. So let me unpack that a little bit. Let's talk about how we buy our resin. The supply chain team has done a really, really nice job of not being dependent on one. Now we haven't gotten totally where we need to be, but diversifying the supply base, so getting through there. Having multiple suppliers that we can work with so we can get the most effective cost and definitely the most effective cost compared to our competitors who serve that market. The next, linking that to our facilities and our -- not engineering, I apologize, I can't use engineering now that I came from this company because I'm dealing with scientists. Connecting the scientists on this very, very specialized product, how can we alter our formulas, alter what the facilities are actually producing and converting? Can we do it with a different process? So on the operational excellence side, linking those 2 tighter, I think we have some significant opportunities. Then also on the supply chain side, connecting how we buy it, how we convert it, and then it's how we sell it. So operational excellence on just a number of SKUs. There's a lot of good working going on there, but can we really analyze? Do we need all these different products? And if we had the right product in front of our customer or what we're able to sell quickly and efficiently, maybe they would buy that versus asking for a specialized product for those 10 bags to put in their turkey. So those are top 3 highlights that I've seen. I'm sure you'll have -- or there'll be follow-up questions on the capital allocation, what work we do with -- as with respect to operational excellence. But there's another piece here that's pretty exciting for me, coming in as the new guy taking over Jerome. There's a huge divestiture of this thing called Diversey. So one of the fundamental things we're changing with this one Sealed Air look is we had 3 fairly large divisions and 1 Corporate. So we're kind of looking at it differently, saying let's have 1 Corporate serving 2 divisions and acting as 1 company. So there's -- I think there's a lot of opportunity there with the resources focused on serving those 2 markets as 1 company.

Operator

And the next question comes from the line of Lars Kjellberg with Crédit Suisse.

Lars F. Kjellberg - *Crédit Suisse AG, Research Division - Research Analyst*

I just wanted to come back to costs. Could you share where you are on addressing the stranded costs? And also, if you want to progress through a bit about your thoughts about equipment installations and how that can drive your growth going forward. If that's going to be the incremental focus to drive that stronger growth and, in particular, that profit to growth doubling that you discussed in 2018?

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

So I'll address the stranded cost piece. And what we had said during last quarter's earnings call is that we have $20 million of unallocated costs that we were going to address throughout 2018. And that those unallocated costs would be offset by transition services revenue that we were going to get beginning September 6 associated with the Diversey separation. And as we look at our fourth quarter results, we saw just this occur that, that transition services revenue was able to offset those costs. And we also picked up momentum in terms of addressing our stranded costs. We're going to continue to have that transition services agreement revenue for 12 to 18 months after the close of the Diversey Care transaction. But we definitely picked up momentum in addressing stranded costs. You'll see that relative to our performance in the Corporate bucket in the fourth quarter of '17 being at $107 million versus what we had originally estimated at $115 million. And we also appear to have an increased momentum in the reduction of those stranded costs going forward, and we're highly motivated to make the decisions necessary to get our stranded costs under control and to be a New Sealed Air in terms of the Corporate cost structure that Ted indicates.

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

If I could piggyback on that with the Corporate cost. And you mentioned PG ratios, equipment. But to segue those 2 together, first of all, on the Corporate costs, we will returning that stranded cost into the fray of driving organizational productivity. How do we do more with less? By investing and working smarter. We will hit and exceed that stranded cost target. In -- your question in the equipment sales and PG ratio, we're using the PG ratio as a guide to the team. So as we get growth, we're looking to qualify growth. Growth -- good growth for us is -- means that we're going to call it profitable growth and drive that through our business, not just straight growth. So equipment sales, less than 10% of our business is equipment sales. So what do we do? We solve problems. So if you look at both markets, it's quite interesting if you look at Food Care and Product Care. What they do is solve problems. Now Food Care extending the way -- the shelf life of the product. But it was quite interesting. I've gotten now to visit 2 customers, but I was at the food show with Karl just last week, and I got to see our booth when we talk about automation. So I got to see chickens being loaded and set up and ready to go into our exclusive bag. But I saw automation on the front side, but then there's a lot a lot of people around actually then have -- doing dress it, getting it ready for the automation, where we seal it and protect it and use some of our exclusive processes. I was listening to customers watch this process, and I heard just incredible data going out. One of our largest customers shared -- I couldn't believe the number, but they have 42% absenteeism. So the more we can work on automation with our equipment helps solve that problem, significant opportunity. So we were looking at capturing the savings. We're going to slow down a little bit, say, hey, wait, we got a lot of things to sell you. We're going to say, what can we save you? In a huge amount of the waste, automation's a big deal, taking people out of harm's way. But another part of the waste, they just don't have the people right now. If you talk to manufacturers all over the world, getting the talent to go do this and also taking them out of harm's way, is a big element of waste. So how do we then bring that to profitable growth on the equipment? Now when we bring those solutions, how do we share those savings and bring our exclusive solution to the customer? I think we can drive some significant margin opportunity going forward.

Operator

And the next question will come from the line of Anojja Shah with BMO Capital Markets.

Anojja Shah

I wanted to go back to the 2 bridges on the segments. It's a pretty significant headwind in each segment from operating cost. Is that a reallocation of some of the unallocated cost back to the segments? Or just some explanation of what's going on in there and what the outlook is for that line in 2018.

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

We've included our stranded cost and any sort of Corporate cost not in our Food Care and our Product Care results. But your question relates to the Food Care and Product Care operating expense item on the bridge. And the strong driver of that negative item when you compare Q4 of '16 compared to Q4 of '17 is basically incentive compensation and other compensation-related costs. Remember that we're comparing what our compensation expense would be in the fourth quarter of '17 with the same period a year ago. The other point I will make is that Ted and I have certainly positioned ourselves well for our 2018 performance as we look at expediting certain actions, and those have already occurred in the fourth quarter of '17.

Anojja Shah

Thank you for all the detail on the operational excellence program, but is that going to require any capital spending? And if so, how much?

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

Well, how about we talk about yes in certain places. But part of our CapEx spending that we have will need some operational excellence if we have a new process in place to improve our facility. There'll definitely be some CapEx associated with that. We're guiding to $160 million of CapEx. We believe that's enough to accomplish it. The good news about operational excellence, some of it's process change and won't be as capital-intensive. Basically, simple process, and this is internally and externally; eliminate the waste; simplify the process; and then automate. But before we do the automation, we got to do those first steps, and there's a lot of money to be saved there. So but yes, we are looking at some interesting capital, capital to solve some problems. Can we solve some of the tough problems? Like even on the resin with our large extrusion lines to be more effective and efficient, so we're looking at that. Can we even work with our innovation team and different resins that we are actually producing for our products? Again, as we're driven to be a more sustainable organization, can we invest in capital that could change the resins that we use and drive to a higher sustainable business for us and for our customers? So there'll be capital deployed in that area as well.

Operator

The next question comes from the line of Brian Maguire with Goldman Sachs.

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

Ted, I want to come back to that profit-to-growth ratio you had mentioned earlier. I think you said it was at 10% last year. You hope to double it to 20%. I'm assuming you're talking about sort of incremental margins there on the business. And current margins are, in each segment, are already a little bit above 20%, so sort of consistent with the guidance you've got for segment margins to be maybe down a little bit. But just wondering where you think that, that number can go to over time, recognizing that you probably have some resin headwinds in '18, and all these operational improvements won't really be kicking in yet. But is there a number or a target that you sort of have in mind for where you can get that to over time? And how quickly do you think we can get there?

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

No, it's a great question. And so again, the profit-to-growth target, incremental, is I said we should be able to double that. But long term, where are we looking at? Well, what we're pointing to 25% on that. So basically, the incremental volume that we bring in, we want to see 25% of that drop to the bottom line. So that's going to take a little time. So -- but to do it in the first year, I think clearly, we can double it. How we can get there faster, we're going to focus on the cost pretty hard, as Bill highlighted. So the cost to -- we're going to take care of that. But the reason why it's important to put it out there, not for you and our investors to understand, but also for our people. So we're already changing the metrics internally, lots of work with our teams, changing our incentive systems. So to be fully aligned that the incremental business that we bring in is going to be targeting that 25%. So then the second part of your question, of the 25% of where we're going. If we're a 20% business, that's showing that we're pointing to that 25%. So what do we do? We benchmark our peers. We look to what else is out there. But it also gave -- the teams had a lot of good work. What is world class? And that's where I use that subtlety in the phrase of the team that let's -- we're pretty good in packaging, arguably the premier packaging business. I don't want to argue with the team. But the team pauses and says, are we world-class? So are we going to point higher than the 25% over time? Yes. But right now, our sights are let's go take this business to where it needs to be. And so that's going to be the guidelines of the growth that's coming in, and that's where we're going to commit to, to get to. First year, 20%, I mean, doubling it from where we were, I think we have clear line of sight to do that. Second part of your question, 25% is the internal target that we're going after.

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

Sorry. Just at the -- just on the EPS guide not including any more share repo. Just wondering if there's any change in the strategy there to pivot towards M&A? Or is that just for conservativism?

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

Yes. And we're just -- but it's part of our capital allocation. As we look at share repurchase, we just want to be very transparent. We want to have share that we could pivot off that if we see a better opportunity, a better return for the company. Both for the first -- or the questions were asked about operational excellence. If we see capital we can deploy internally, more valuable than buying our shares back, then yes. If we see an M&A opportunity that is more valuable than buying our own shares, then the answer is yes. But the other metric that we're really driving and trying to inculcate into the whole organization is return on invested capital. So that we're looking at all of our internal investments, whether it's CapEx, whether it's new products, new innovations, looking even to share repurchase. And that's what we're going to be focused on. The PG ratio on checking out what's coming in on the sales line and return on invested capital. So we're talking to you in the same language. We're talking internally in the same language, and that's what we're designing to. So yes, we have the ability to pivot on that share repurchase.

Operator

Comes from the line of Tyler Langton with JPMorgan.

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

Just had a question, I guess, a clarification on the growth outlook in '18 for Product Care. I think in the slides, you mentioned constant dollar growth of 7%, including Fagerdala. And I think the acquisition, I think you said it contributed $95 million, which seems to be 5% to 6% of that 7%. So I'm just trying to get a sense of your thoughts on organic volume growth for Product Care in '18.

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

Yes, if you pull the -- and by the way, the -- just highlighting the $95 million, we had -- I think we reported $24 million last year. So it's not incremental. It's going to be $95 million a year, so we're looking at Fagerdala to do that. So in just -- and underneath that with the Product Care, we think we'll still have reasonable volume in that less than 5% organically, if you pull out the Fagerdala in that 3% range, just in guidance. So there's opportunity there, but we see year-over-year decent growth for the market. We're going to go have to create it. But we're looking for profitable growth, and that's where we're actually guiding to and guiding the team as well, bringing profitable growth. And let's get that 3% on top of the acquisition that we made for Fagerdala.

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

Okay, that's helpful. And then, Bill, I guess, the operating cost we're kind of a -- I think you'd call it like a $10 million headwind in 4Q. And I know you talked about it before. But I guess, in '18, I mean, is that something where sort of given the actions that you're taking, the total really shouldn't be a drag in '18? Or should we expect some of the drag in the first quarter or 2?

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

No, we think that the year-over-year comparison that we're seeing in Q4 of '17 compared to Q4 of '16 is the most significant negative comparison we're going to have. We don't feel like we'll have those negative comps going forward relative to our operating expenses. And I had -- we'll also indicated that we're going to continue to focus on having the right amount of costs for the New Sealed Air, continue to reduce our stranded cost as we go forward and also to be totally dedicated to, as Ted indicates, the profitable growth ratio and that concept. And I will say that, that mindset has really already changed behaviors here at Sealed Air already. I mean, we had an executive committee meeting last week, and a large portion of that meeting was spent with the executive leaders speaking about what our specific actions in the first quarter and the second quarter are going to be and the impact on the PG ratio. So it does change behavior, and it does translate to the P&L. And we're very optimistic in terms of that comp going forward in '18.

Operator

The next question will come from the line of Anthony Pettinari with Citi.

Anthony James Pettinari - *Citigroup Inc, Research Division - VP and Paper, Packaging and Forest Products Analyst*

Ted, in your comments on M&A, I think you indicated technology and automation were areas of focus. Is it fair to say that might lend itself to the kind of smaller bolt-on acquisitions that are kind of maybe more consistent with what Sealed Air has done recently? And then just some of your public peers have done large acquisitions and have argued that boosting their purchase, their resin purchase scale is a competitive advantage. Not sure if you subscribe to that, but just wonder if you can give more color on M&A.

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

No, I think that it's a good question, and I'll just build off the guidance that was out there from Jerome even back in 2015, looking at that we're in that $400 million look, so building off of that size. The danger for just thinking you're buying a company because you can make a cost synergy to me doesn't sound strategic, because that's won year-over-year. We can have a -- I think that's an adder if we find a strategic acquisition that fits in our space, where we could leverage our supply chain excellence there, yes. But buying it just because we see a resin advantage, we really are probably looking more, is there a strategic advantage that we can have some technology, some competitive advantage to win in the marketplace. That said, the size we are looking at in our space if something is an opportunity for us above $400 million, that fits into our businesses, can drive our Food Care business, can drive our Product Care business and has a differentiating technology, then definitely, that would be something that would be interesting to was. I think bringing our operational excellence capability to those would then just be an exciting synergy that we could make that accretive quicker. So we're looking at it, yes. We think there's some purchasing power on resin if we were bigger. But our first look is, is it a strategic fit for us? And that's what we would be excited to go after.

Operator

And the next question comes from the line of Arun Viswanathan with RBC Capital Markets.

Arun Shankar Viswanathan - *RBC Capital Markets, LLC, Research Division - Analyst*

Just wanted to get your thoughts on your confidence level on the volume outlook. You faced some tough comps in North America food and Europe food as well. And Brazil, New Zealand, Australia, there's some fits and starts there. Maybe there's some stabilization. But what's your confidence that you will see some nice organic growth in Food Care?

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

We put that into our guidance. We -- the North America's been strong. North -- been a leading part of Food Care. We have that tempered growth rate into our guidance on North America, as we don't see that continuing at that rate. But last year's problem is this year's opportunity. So could we get some correction in Latin America? And could we get some correction in Europe? So to the guidance, just roughly, we see tempered volume for us, tempered on the acceleration of the volume of the fourth quarter in the guidance. But we still think we'll have nice growth from the product lines and specifically Food Care going into 2018.

Arun Shankar Viswanathan - *RBC Capital Markets, LLC, Research Division - Analyst*

And just my follow-up on price. What's your customers' level of acceptance on price increases? I mean, are you getting pushback? We're hearing price -- I mean, input cost pressures throughout the chain. So how willing are your customers to accept that price? And has it improved since resin hasn't gone down as much as you thought?

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

Okay. Well, I'm a couple of months' expert in a new industry. But I think since our customers are probably listening to the call right now, I don't think customers are really excited about raising prices. Matter of fact, I've already had experiences with -- directly with customers, no. So I mean, that's partly why we have to really move, and the business does a great job on the value capture. Can we save them more money, that's simply. Then it's not an issue of price to go capture that. Now as we mentioned though, as our input costs are going up, we will raise price. So how I would serve it for the customers living is that we're going to be with them, and we want to be at the table. What might be a little bit different going forward is we're going to ask them other questions. We're going to -- because they're going to say, for your bag to load our turkey, what's the price per bag? We might say, is there something else in your facility that we can help and save you money? They might be asking us on our Product Care as they'd be packaging a product. We might say, what are you repackaging? Can we take some of that cost out and crawl into it? So we'll be getting price in a little different area. But the direct question with our customers raising price in this environment, of course, it's very difficult. We will do it on rising cost, but we're going to be much more aggressive and creative on helping them to save money. And we think we have opportunities to increase our margins in that value-capture strategy and that's what we're going to be going after.

Operator

And our final question will come from the line of Edlain Rodriguez with UBS.

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

Just one follow-up on -- in terms of acquisitions. I mean, are there any regions in the world that's most attractive to you? Like where would you be invest in?

Edward L. Doheny - *Sealed Air Corporation - CEO, President & Director*

Good question. We're looking at the regions where we do business. Part of the Fagerdala acquisition that really helped us, giving us some presence in the Asia market. And that's because it's to help with our cost structure having presence there, that would be attractive to us. So -- but again, we want to be present where -- in the markets where our customers are closer, our customers does have attractiveness to us. So there is a geographic play, and we just have to look at it. Specifically, don't want to give any more clarity of things we're looking at, but we want to be next to our customers. We want to be also in adjacencies that we have some new technology that would help us get into markets. So what would an example be? We're pretty strong in the fresh meat market. We're exploring and getting into more of the seafood market. So those -- some of those adjacencies that makes sense. We have some pretty interesting technology in rigid containers. Can we get more into that space? So we're looking for adjacencies where we have an opportunity that, if we can't make it fast enough, maybe there might be a player or technology in those attractive spaces we can buy our way in quicker. But the divining rod that we're using is staying really connected to our technologist. When we're looking at all of our product development, can we accelerate that internally? Or is there a way to accelerate that faster with an M&A opportunity?

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

And one quick clarification on the share buyback. Is there a time frame that you want to complete what's left? Or is it like open-ended?

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

No, we typically don't disclose that. As we indicated, the guidance assumed 169 million shares. We will continue to be active in the market throughout 2018 with our typical methodologies with accelerated share repurchase and open-market repurchases. But we haven't indicated a specific time line at this stage.

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

Operator, that concludes our call today. Thank you, everybody, for joining. We look forward to speaking to you again in the near future. Sabrina?

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect. Everyone, have a wonderful day.