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SEE - Q2 2013 Sealed Air Earnings Conference Call

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OVERVIEW:

SEE reported 2Q13 YoverY sales growth as reported of 1.9%. Expects 2013 full-year net sales to be \$7.7-7.9b.



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PRESENTATION

Operator

Good morning, everyone, and welcome to the Sealed Air conference call discussing the Company's second-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 remarks, they will be taking questions. (Operator Instructions) We ask that you limit yourself to one question per caller, so that others will have the chance to participate.

And now, at this time, I'd like to turn the call over to Lori Chaitman, Vice President of Investor Relations. Please go ahead, Ms. Chaitman.

Lori Chaitman - Sealed Air Corporation - VP of IR

Thank you, and good morning, everyone. Before we begin our call today, I'd like to note that we have provided a slide presentation to help guide our discussion. This presentation can be found on today's webcast, and can be downloaded from our IR site at sealedair.com. I'd like to remind you that statements made during this call stating management's outlook or predictions for the future are forward-looking statements. These statements are based solely on information that is now available to us. We encourage you to review the information in the section titled Forward-looking Statements in our earnings release, which applies to this call. Additionally, our future performance may differ due to a number of factors. Many of these factors are listed in our most recent Annual Report on Form 10-K, which you can also find on our website.

We also discuss financial measures that do not conform to US GAAP. You may find important information on our use of these measures and the reconciliation to US GAAP from the financial tables that we have included in our earnings release. Please note that we'll end the call by noon today.



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

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

Thank you, Lori, and welcome to our first earnings call as our IR VP, and good morning to everyone. We are pleased with our second-quarter financial results and operational performance across a number of key metrics. Before I get into the detailed results, I think it is important to mention that I have been at Sealed Air for 11 months exactly now, and the change from where we were when I got here to where we are today is night and day.

Our second-quarter performance is a true testament to the progress we have made. And our employees are engaged, and I want to thank all 25,000 of them for their commitment. And I know that, like me, they are eager to keep it up because there is still a lot to be done.

With that said, let's start with slide number 2. On slide number 2, we highlight our top line and adjusted EBITDA results for the quarter. Sales were up 1.9% on an as-reported basis, and up 3.2% on a constant currency basis. All our divisions reported net sales growth on a year-over-year basis despite the continued challenge in the macroeconomy. Our adjusted EBITDA margin of 14.1% increased 27%, excluding the impact of Stock Appreciation Rights, or SARs. The increase in EBITDA was driven by margin expansion in both our Food & Beverage and Institutional & Laundry divisions.

We are seeing the benefits of operational improvement programs across the organization, which include manufacturing efficiencies, cost-containment, and synergies. On the pricing front, we are making progress in the marketplace in each of the divisions. And we'll discuss these initiatives later in the call.

Slide 3 of our presentation highlights the top line results by region. We continue to see solid growth in Latin America where we achieved 12% constant dollar sales growth, and in AMAT -- standing for Asia, Mid-East, Africa, and Turkey -- where we had 11% constant sales growth. Developing regions in total increased 9% and accounted for approximately 26% of our total sales. The team is doing a great job penetrating the marketplace and growing our business with existing customers, in addition to building a new customer base locally. Brazil, Turkey, and China delivered double-digit sales growth on a constant currency basis.

While we had strong growth in China in the first half of the year, we are closely monitoring the economy, as recent trends have indicated some deceleration. In North America, we increased sales 2% with low single digit growth in the United States, and almost 9% growth in Canada. In Europe, where our business is being impacted by weak economies, sales were essentially flat on a constant currency basis. To be more specific, Germany and UK increased modestly, but France was down in the high single digits, and Italy was down by more than 10%. These four countries combined make up approximately 15% of our total sales. And in Japan and ANZ, where sales were slightly down, Australia was flat, and New Zealand declined by almost 10% due to weakness, particularly in the Food & Beverage Division, mostly from droughts and its impact on the dairy market.

Turning to slide 4 and moving to the businesses, Food & Beverage sales increased 4% on a constant dollar basis. Regionally, we continue to experience above-market growth in AMAT and in Latin America, where we benefit from not only rising beef production prices, but also our breadth of innovative solution products and sanitation solutions in Food & Beverage. Constant currency sales increased 18% in AMAT and 13% in Latin America. China increased by more than 30%. Africa was up 8%, and Brazil was up 13%. In Argentina, we achieved 35% constant currency growth or 15% on an as-reported basis.

In North America and Europe, our more mature markets, where we are currently in a down cycle for beef production, our growth is driven by our ability to provide our customers with value-added services and new applications. Examples of value-added services include helping our customers -- our customers minimize operation's downtime and increase automation. Examples of new applications include those for fresh red meat such as Darfresh, Grip & Tear, Simple Steps and Oven-Ease. These innovative applications are driving stronger equipment sales and a more favorable product mix.

So while beef production in North America increased approximately 1%, and Europe declined by approximately 1%, we increased sales in North America by just over 2%, and Europe was relatively flat. Constant currency sales increased 12% in Germany and 5% in the UK, but were offset by continued economic weakness in France, Italy, and Spain.

I want to briefly highlight the progress we're making on our new pricing discipline and the EBITDA margin performance that F&B delivered in the quarter. EBITDA margins increased to 14.7% from 11.9% last year, excluding the impact of SARs. The margin expansion was primarily driven by a more favorable product mix, higher volume, and one-time manufacturing costs included in 2012. Our new pricing discipline F&B is progressing, but it is still a work-in-progress, as we have some customers on formula. As we have discussed for many months now, our sales efforts are focused on bringing value-added solutions to our customers and selling higher-performance products, such as the products I previously mentioned. We remain steadfast on our commitment to more than recover material costs.

Slide 5 highlights the results from our Institutional & Laundry Division. I&L net sales on a constant currency basis were up 3%. In Q2, we saw strong growth across most countries and sectors in AMAT and Latin America, resulting in double-digit constant currency sales growth. India increased 13%; and Turkey, Brazil, and China grew approximately 8% to 9%. Argentina performed well with constant currency growth of 35%, or 15% on a reported basis. In North America, we were pleased to see another quarter with positive volume growth. This was due to the combination of new customer wins in healthcare, increased billing care chemical sales in the retail sector, and the product launch of our FlowCare equipments.

In Europe, which accounts for almost half of the I&L sales, we reported a 1.2% decline in constant currency, which was slightly better than recent quarters. And our business is still challenging Southern Europe, with declines in the mid-single-digit range. But this decline was partially offset by positive trends in Eastern Europe. Adjusted EBITDA margins improved to 12.4% from 9.6% last year, excluding the impact of SARs. And the key driver behind the margin expansion was increased sales and some cost containments and synergies. As a reminder, Q2 tends to be a seasonally very strong quarter for us. And given the fixed cost structure of this division, which is heavy manpower-intensive, you can see the leverage.

Turning now to slide 6. Our Protective Packaging Division delivered a 0.9% increase in sales on a reported basis, and an increase of nearly 2% on a constant dollar basis. From a regional perspective, sales in North America increased approximately 3%, partially offset by a slight decline in Europe. Sales in the UK, Germany, and Italy were flat to up 1%, while France again declined by more than 10%.

Not surprisingly, this business is highly sensitive to the global industrial economy, and we experienced decelerating trends throughout the quarter. In the US, we had unfavorable product mix with continued growth in eCommerce and retail, and also suffered from distribution de-stocking and inventory.

We held firm on price, and walked away from low-quality businesses, particularly in Europe. And on a global basis, we are getting better pricing across a full product portfolio. And as a result, gross margin increased 20 basis points compared to last year. While this is encouraging, gross margins did not improve enough to offset increased expenses. And we're making some progress on price, but there's still some work to do.

And now, I will turn the call over to Carol to further discuss our second-quarter financial results, and highlight our outlook for the remainder of 2013.

Carol Lowe - Sealed Air Corporation - SVP and CFO

Thank you, Jerome, and good morning, everyone. If you're following along with our presentation, slide 7 provides a bridge for the 2% year-over-year net sales growth. Volumes contributed \$46 million. Price mix was \$15 million positive, driven by favorable trends in F&B and I&L. Currency translation was \$23 million unfavorable, primarily driven by declines in Latin America currency.

Slide 8 reflects the adjusted EBITDA bridge from second-quarter 2012 to second-quarter 2013. Volume contributed \$18 million, and mix and price cost spread contributed \$4 million to the improvement in adjusted EBITDA. Cost synergies were \$20 million in the quarter. The favorable \$17 million for SG&A and Other includes approximately \$9 million related to the net impact of plant consolidations and relocation projects in the Food & Beverage Division that negatively impacted results in the second quarter of 2012, as Jerome previously mentioned.

SARs expense was immaterial this quarter. But in the second quarter last year, SARs was actually \$9 million positive. While the amount of SARs expense is not linear with the change in the value of Sealed Air's stock price, based on the current number of SARs outstanding, we estimate that every \$1 change in our stock price impacts EBITDA by approximately \$2 million. As of the end of June, we had \$1.9 million SARs outstanding. Obviously, as this number of outstanding changes, so does the impact on EBITDA.



Now turning to slide 9, in the six months ending June 30, free cash flow was a source of \$12 million. This is \$140 million improvement over the first six months of 2012. The significant improvement in free cash flow was primarily due to higher net earnings and lower CapEx. CapEx in the first six months of 2013 was \$51 million compared to \$66 million for the same period a year ago. Our primary use for free cash flow generation remains focused on reducing leverage.

Our outlook for the remainder of 2013 is summarized on slide 10. We're maintaining our full-year 2013 net sales to be in the range of \$7.7 billion to \$7.9 billion. Our adjusted EBITDA is tracking toward the high end of the guidance we previously provided of \$1.01 billion to \$1.03 billion. We are also tracking toward the high end of our previously forecasted range for earnings per share of \$1.10 to \$1.20. We continue to expect our full-year free cash flow to be in the range of \$275 million to \$325 million, which compares with \$280 million for the year ended 2012. This may seem modest, given our performance in the first half. However, we still expect capital expenditures to be \$160 million, and cash restructuring to be \$135 million for the full-year 2013. And both of those spends are more heavily loaded towards the second half of the year. We are also assuming higher cash SARs payments in 2013 than in 2012.

Our core tax rate for the second quarter 2013 was 23.8%. This compares with 27.1% for the second quarter last year. We expect our core tax rate to be approximately 25% for the full year. Interest expense for this year, full-year, is expected to be approximately \$355 million. This includes \$290 million of cash interest expense.

Before turning the call back to Jerome to lead the Q&A, I'd like to note that we've included in the Appendix of the Presentation a summary of our second-quarter adjusted earnings per share calculation. We believe you will find the schedule useful to understand the math, as you move from adjusted EBITDA to adjusted earnings per share.

Jerome?

Jerome Peribere - Sealed Air Corporation - President, CEO and Director

Thank you. Before we open the call up for questions, I'd like to remind you that our Analyst Day will be held on September 20 in New York City. It will be a half-day event starting at 8 a.m. at the Sofitel Hotel. The Sealed Air leadership team will present to you a review of each of our divisions, provide a mid-term outlook, and share our strategic priorities outlining our long-term goals.

Operator, I'd like to open up the call for any questions from the participants.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Phil Ng, Jefferies.

Phil Ng - Jefferies & Company - Analyst

Great quarter. Margins in I&L was a little stronger than we would have expected. It looks like the synergies are really flowing through during the quarter. And volumes obviously helped. But how should we be thinking about the cadence of the margins in the coming quarters? And should we expect synergies to pick up a little bit here? And I do understand there's some seasonality with the business.



Carol Lowe - Sealed Air Corporation - SVP and CFO

Good morning, Phil. Thank you. Yes, we -- I mean, we had good leverage. We've communicated previously that this business does have a fixed -- high fixed cost structure because it's very service-intensive. Also, as Jerome noted, our second quarter is very seasonally strong. And, because of that, you do see the benefit of that leverage we talk about.

We also have the benefit of cost savings that have helped to partially offset inflationary costs. However, with that, there is some caution related to the economy. Europe, China deceleration; Jerome highlighted that France has been down significantly. Tourism in France is down 10%. You've got the issues in Turkey with Taksim Square, and everyone is well aware of what's going on in Egypt. And a lot of this business, especially through the summer months, is driven by tourism.

So, based on that, and the fact that we've also highlighted while we're working on our new Earnings Quality Improvement Program. And that will benefit the Institutional & Laundry business, especially beginning in 2014. We won't see any savings from the Earnings Quality Improvement Program for 2013, because we have to go to a lot of Works Councils and have those negotiations. So, we feel really good about the performance for I&L, but because of some of the headwinds at a top line basis, we feel like we need to be modest as we look towards the balance of the year.

Phil Ng - Jefferies & Company - Analyst

So should we expect margins to step down a little bit in Q3?

Carol Lowe - Sealed Air Corporation - SVP and CFO

Well, I guess we don't really provide margin guidance by any of the divisions specifically. We provide EBITDA for full-year, but we don't give margins.

Phil Ng - Jefferies & Company - Analyst

Got you. And then on pricing, for across-the-board, it seems like it's a little stronger than expected. But if you look at F&B, your margins were kind of in line with expectations. When should we really start seeing real net pricing? I guess it's more of a 2014 event. But can you kind of handicap what the leverage that could be, going down the road?

Jerome Peribere - Sealed Air Corporation - President, CEO and Director

So we are seeing a very good effect already on our margin, because pricing has two components. One thing is the raw materials that you pass or you don't. And this also depends on how strong we are seeing those materials go up. We have seen also margin expansion. So this is, for us, the important thing. And it is, of course, not across-the-board and not across the regions.

Let me start with the bad news. We're seeing it, for example, in F&B, that in Western Europe, our pricing margin expansion has not been good, because the situation is extremely difficult there. But we've seen, selectively, some good progress in some specific countries, and very good results also on low-margin products. But when we don't have pricing success, we are going back. And this is across-the-board. What I just mentioned here was F&B.

In North America, we are seeing progress in theirs, again, selectively. But we're seeing that we have had some selective progress there, because on some product plans, we have quite a lot of business on formula. And the formulas are starting to kick in since May and June, depending on the product line. Some other regions have been showing very nice growth in pricing. For example, in Latin America, where we've seen substantial progress on our pricing actions and so on.

On Protective Packaging, we have not pushed sales because we voluntarily went out of some product lines or some products where we had low margins. So, when we look at the sales growth in Q2 of our Protective Packaging business, we have -- I'm actually not looking at it very much,

because I have pushed our people to show determination in our pricing situation. So, this is what we have observed as a result of this. We have had some sales down in Europe, but we have seen also some nice margin expansions because of our initiatives.

Lori Chaitman - Sealed Air Corporation - VP of IR

Operator, next question, please?

Operator

Al Kabili, Macquarie.

Al Kabili - Macquarie Research Equities - Analyst

Congratulations on a great quarter. I just wanted to circle up on the I&L business. And to what degree do you think the -- that price cost spread that you saw in the second quarter is, [the] \$5 million is sustainable throughout the remainder of the year?

Carol Lowe - Sealed Air Corporation - SVP and CFO

So, Al, it sort of goes along with the comments that I provided just on the first question. We do expect that we will continue to see improved performance in I&L as we move forward, based on a lot of changes that are happening -- taking place. And the year-over-year comps will be favorable from that standpoint, in terms of some of the challenges that were faced in the prior year. But again, we do have some slight caution, because this business is so driven by top line because of that cost structure. So, it's going to be very dependent on the sales and what they maintain for the balance of the year. And there are some concerns out there with what's going on in Western Europe.

Jerome Peribere - Sealed Air Corporation - President, CEO and Director

Let me add a little bit of flavor here. Number one, you know the seasonality of this business, which is heavily loaded towards Q2. Second, we are going to be slightly negatively impacted by our currency -- by the changing currency and by a few selective events in countries which are important to us. The -- Turkey is an important country. And what we had seen is that, as the events were developing in June on Taksim Square, we had our customers load some business or load some product in order to prevent any disruption. And, as a result and what we have seen also, is that the tourism in Istanbul and in some parts of Turkey have suffered since then from quite a few cancellations.

We have seen the same events or situation in Egypt, where our month of June has been strong in anticipation for preventing product delivery disruptions. And I don't know to which extent you know that, but tourism right now in Egypt is a complete disaster. And in Western Europe, the season is not very good because of all the Latin countries are actually doing very poorly in this kind of business altogether.

So, I think that we've got to take things as they are. We are very pleased with the initiatives that Ilham has taken. Very pleased. She has announced just two weeks ago internally a reorganization of her business. And this organization is around simplifying it, with -- in order to ensure clarity, simplicity and affordability. We are going to see, over time, the benefits of these initiatives. And she's taking out also bleeders, and this is going to have an impact on our top-line, but over time, a positive impact on our bottom-line.

Al Kabili - Macquarie Research Equities - Analyst

Okay, that's helpful. Just a -- and the follow-up question is, you highlighted conservatism on some of these items you noted. Can you just tell or talk to us about how July volume trends are going across each of the segments so far? Thanks.



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

Well, we just don't give guidance specifically, but I gave you a flavor on the I&L business, which is in there. And overall, we are -- well, again, I don't want to give a specific guidance to -- onto 2Q, but the seasonality is in there, and we have a slight currency impact for the second half of the year. We believe that this might have, if these currencies stay at the levels where they are, this is going to have about a \$10 million negative impact on the second half of the year. So, when you do \$1 million -- \$1 billion of EBITDA, you'll have 1% which just [one-off] there.

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

Operator, next question, please.

Operator

Phil Gresh, JPMorgan.

Phil Gresh - *JPMorgan - Analyst*

Just on Protective Packaging, you talked about walking away from some business there, as well as just some of the price progress you're looking to make. I guess what I was wondering was, there are some headwinds on the SG&A, et cetera. So I was wondering how you're thinking about some of the cost-containment initiatives and the potential around those, as we progress through the rest of the year.

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

So, we are -- yes, we had slightly higher expenses in Protective Packaging. And the reason is that we are investing in one specific segment, which is that eCommerce segment. That's one. We are, on the other side, taking notice of the clear trends with regards to Europe, we are reorganizing our business in Europe, and taking costs out once again. Given the labor unions, given the overall work environment, we -- this takes a little bit of time. But that's for the expense part.

With regards to the pricing, we have -- we determined -- we are moving from some of our product lines with determination here. We're seeing more price actions across the whole portfolio that we have seen in a very long time. And we're implementing more price increases in the second half to address the raw material inflation, and the lag that we have had in our pricing in the first half. Not enough. Still work to do. But overall, we are very clear with where we want to go in this.

This is an industry which is fairly undisciplined, but we are doing what we have to do. We have lost some accounts. In some of our producing business, we have lost some accounts. And on shrink film, also we have implemented our price increases, we lost some accounts. But -- and in some cases, we have not recovered our cost increases and we'll go back.

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

Operator, next question, please.

Operator

Ghansham Panjabi, Robert W. Baird.

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

Hey, Jerome, just want to kind of figure out Protective Packaging. Because it sounds like you walked away from some business, but volumes were still very, very good in the context of some of the broader economic weakness that a lot of the peer group has called out during the quarter. I know that the international markets were quite strong for that business. So can you help us understand what exactly is happening -- I know you called out eCommerce et cetera, but -- how does the margin profile for the international portion of that business compare to the North American portion?

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

So, in -- first of all, the segments. We are -- we're more selective than we were in the past. And you know, that I want to change the profile of those businesses. Traditionally, the eCommerce business is very price-driven, and generally speaking, slightly lower margin business. That is our existing business. I will take that business towards more value-add systems, because we have lots of technologies which can add tremendous value to the fulfillment operations of our customers and 3PL. But our mailers business, our bubble business, et cetera, are traditionally low-margin businesses there.

In Europe, we've seen a lot of weakness. The auto industry has been extremely weak. And the auto industry for us was traditionally -- is traditionally a strong high-value type of business, because there's a lot of cushioning there. May has been very weak. June has been a little bit better in Europe, but the economies are -- what you know what they are.

In our shrink business, we're making a lot of progress because we are much more selective in our customer approach, and we have new technologies. And we intend to extract the value of those businesses. Our general use business, which is our packaging systems, where there is equipment and where we have a Sealed Air type of products, it's been doing quite well in North America, in the US. Our sales there have been going 5% up, which is pretty good. But as I said before, we are more selective because I'm determined to take this business to higher-quality businesses.

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

Okay. And just -- in terms of Institutional & Laundry, just as a clarification, were you basically saying that a portion of that business benefited from a pre-buy based on the events in Turkey and Egypt? And can you sort of put some financial primers around that? Thanks so much.

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

Thank you. What we have seen is, in some of those countries, we've seen a little bit of this -- which is very understandable, because of what -- of the people not knowing, and the businesses not knowing how the events were going to be developing. So, you've got some -- but these are selective. What we are seeing is that in China, there's not been pre-buying, but what was clearly double digit. We've got pretty nice I&L growth in Asia, but the difference is that that growth has gone -- has decelerated in a country like China, for example. But it was nicely, if I remember well, it was 17% in the first quarter. And we were at about 9% in the second quarter.

We have some great parts. India has been doing very nice. Africa has been doing very well. But as I said, the pace in China has been slightly lower in I&L.

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

Operator, next question, please?

Operator

Alex Wang, Bank of America Merrill Lynch.



Alex Wang - *BofA Merrill Lynch - Analyst*

Thanks for taking the question. Sitting in for George Staphos today. (multiple speakers) Can you just talk about maybe your learnings on some recent awards for diversity? Maybe more specifically, what field there is doing well and what needs to be done better?

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

Well, I think what we have been doing well is that we have reorganized this business to simplify it. It was a little bit convoluted, and Ilham Kadri has announced her reorganization, as I said, two weeks ago. That's one.

Number two, she has been addressing very seriously our bleeders. And therefore, we are -- there are some businesses which where -- or some customers which we are having absolutely unacceptable returns. And we're just walking away from those kind of businesses. We're not renewing them. We are, every time, negotiating our contracts in a better way than we were before.

So, all of this goes to clarity. It goes to affordability. And it goes to simplification. And all of this is going to be a work-in-progress.

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

Operator, next question, please.

Operator

Scott Gaffner, Barclays.

Scott Gaffner - *Barclays Capital - Analyst*

Just wanted to talk about I&L here for a minute. You mentioned in the slides new customer wins and account penetration in Latin America and AMAT. I was just hoping you could give us a little bit more color, first on the new customer wins. What market segments that's coming from, whether that's retail lodging, healthcare, et cetera. And can you talk a little bit more about this account penetration? I'm assuming that that's existing accounts. Sort of how that's progressing. Is that -- I remember you added salespeople in order to do that. Is that -- is this the beginning of that program? And how much longer could we see some benefits from that?

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

So we are -- we're keeping a track on our customer wins and customer losses, et cetera. And let me assure you that we're very happy about that. And of course, customer wins and losses, you get them from and to everyone in the industry.

In North America, our new customer wins are specifically in healthcare and increased building care chemical sales in the retail business. We also have been launching -- you know that our tasking machines were mostly European-based. You know that we have suffered because of lack of investments in our customer base in Europe. We have suffered from lowering sales in that part of the world. But it's the opposite in US, because we have launched those machines last year, and we're seeing a very, very good pickup.

Those equipment are superior equipment compared to what is existing in the industry. And when I say superior, is that those equipment are -- I would say they are Swiss-made; they are Swiss-made. But they are very, very high quality with very low maintenance costs, with lower water and longer battery life than our competitors. And our customer -- it's a great value proposition for our customers. So we're having very nice momentum and we're gaining traction on this business, which is having growth.



In the European markets, we are having some nice customer wins. Every time we're taking this, these customers, we're taking them at higher margins. We -- having single-digit EBITDA in this business is clearly -- clearly -- unacceptable. So, every single contract that we're taking is at higher margins. You don't take -- you renew contracts on a three or five years' basis, et cetera, and we are working on this. And our value proposition is about the value created to our customers. It is not about the prepaids. It is not about those kind of things. And that's the way we're targeting this business.

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

Operator, next question, please.

Operator

Chris Manuel, Wells Fargo.

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

Good morning and congratulations on a very strong quarter.

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

Thank you, Chris.

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

Thank you, Chris.

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

Couple -- Two questions for you. One on cash flow, one on the pricing initiatives you've undertaken. First, on the pricing initiatives, recognizing, as you just said, that some of these are couple-year contracts. And, aside from the adjustments that are happening mechanically, the up-and-down materials pieces, if you're in the process of going through and raising prices, could you handicap or maybe give us a sense of where you are in the process? What portion of your contracts have you been able to address or portion of your portfolio have you been able to address? And has there been any response from the competitive landscape thus far? Is it just (multiple speakers) --?

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

We are -- it's difficult to answer your question, Chris, because we have three very different businesses. We have a Foods business, which itself is about hygiene and sanitation, with contracts which are on our 3 to 5 years. Then we have Packaging -- Food Packaging business, which is on -- some of which is on pricing formulas, some of which is negotiated. And then we have the Diversey I&L business, which is also contracts and I already talked about this.

What I want to assure you about is that, as quoted by the financial leader of the Protective Packaging Division two days ago, when we were reviewing our July SNOP, there is -- there's never been as much attention and push towards improving the quality of our business through margin expansion. We saw 20 basis points. Am I happy with 20 basis points at the gross profit level? Absolute -- improvement? Absolutely not. But this was an organization which was looking at volume.



It was almost forbidden to lose an order. That is not the case any more. We are -- we have some bleeders, as I said. We have some product lines which are by far not getting the return on capital invested, and we are working on those. So, you have some price formulas. They are going to be favorable to us unless our polyethylene suppliers jack up the price again in the rest of the year. But we should recoup some of that in margins later in the year in the -- hopefully, in the third quarter.

The -- some of these are just negotiations. When we have negotiations, our people are by definition seeing resistance. I've never seen a purchaser tell me that our products are too cheap. But they understand. Because it's not only about price. It is about quality. It is about the value we create to them, et cetera. So, there is a cultural shift. It is going to take time, but we are seeing some good attention and movements.

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

Chris, you had a question also on cash flow?

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

My follow-up question was regarding cash flows. As we look at this year, you've talked about \$135 million of cash out for restructuring, \$160 million of CapEx. As these programs wind down, maybe could you talk to us a little bit about -- I recognize you're probably going to give more of this on your Analyst Day in a few weeks, but how that looks the next couple of years. Are you largely done restructuring at this point? Will that -- some of that continue in the next -- maybe the direction of each of those the next couple of years?

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

Okay. So we had announced two programs. One was the original Integration and Optimization Program. That was part of the Diversy acquisition. That program, the total cash cost was provided at \$235 million, \$70 million of which we will have this year. That makes up part of that total \$135 million. The savings for that total program is \$195 million to \$200 million.

We've indicated that we would expect to have approximately \$90 million in savings for the full-year 2013. That program is largely done at the end of this year. The new Earnings Quality Improvement Program that we announced with our first-quarter earnings call, the total cost of that program was in the range of \$180 million to \$200 million, with total savings of about \$80 million by the end of 2015.

The cash costs for 2013, \$65 million. Savings that we will realize in 2013 are zero to negligible, largely because the biggest portion of this new program is related to Europe, and getting our cost structure correct there across all three of the primary businesses. So, we'll reach that run rate of \$80 million by the end of 2015. If you want to look at that \$80 million, you would say slightly more than half should be realized in 2014.

We don't, right now, have additional programs. We have indicated it's not our intent to be a serial restructuring. We want to get a steady-state business, and then focus on improvement of the business each and every day. However, it doesn't mean if we don't have large opportunities and meaningful opportunities to improve the cost structure for the business, that we won't take advantage of them.

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

Operator, next question, please?

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

Yes, a quick one here. A quick add-up here. We -- on our CapEx of \$160 million, we have been prudent. We didn't know at the beginning of the year how the year was going to unfold. So the instructions that Carol and I gave were extremely clear. We'll go slow into our spending, because what is spent is spent. So we have been very slow in the first half on our capital spending. And, as a result of that, because we have to do what we



have to do in our plans, we are going to be spending more in the second half. And this is why -- this is one of the main reasons, other than the ones Carol talked to you about, for not increasing our guidance in our cash flow for the total year.

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

Thanks, Jerome. Operator?

Operator

Mark Wilde, Deutsche Bank.

Mark Wilde - *Deutsche Bank - Analyst*

Good morning, Jerome; good morning, Carol. Congratulations on a good quarter. I know you guys don't like to provide guidance, but since these are new segments, can you give us just some kind of a ballpark for how you think about margins in each of these segments if we look out three to five years?

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

Well, Mark, we will have more color when we have our Investor Day. That's when we'll have a little more detail by division. So we look forward to seeing you in September.

Mark Wilde - *Deutsche Bank - Analyst*

Okay. (laughter) We'll wait for that then. I just wondered as a follow-on, Jerome, it sounds like your view of the second half is that your biggest challenges are still uncertainty around volume. Can you just confirm that?

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

Well, seasonality -- I'm looking at -- now I can imagine that many of you are saying this is being sent back and those guys have \$0.35 sent back in the second half. Now, we want to be credible. I would summarize by saying we've got \$10 million. Unless the dollar is devalued, we've got \$10 million at the EBITDA level here to take into account because of change of currency.

We've got seasonality. We've got some few things here and there on the I&L business because of the countries I talked to you about. And this economy is not strong. I was listening to NPR this morning in the car coming to the office, and somebody was making the comment saying that we're in the fourth year of the recovery, and it doesn't feel like a recovery. Because it's the first time ever that things -- four years within a recovery are feeling so iffy.

So, when our Protective business is heavily dependent -- we're talking about 15% to 20% being on eCommerce -- it means that 80% to 85% is based on industry. Well, industry is not doing well. And we're seeing that in our Protective Packaging in China, for example. It's not doing well. And we do have a few nice spots, but we've got to be reasonable here. And when I look at our EBITDA in the first half, and when I look at how we've been doing as a percentage of our total EBITDA or our total sales, in the first half compared to the second half from a historical perspective, I'm reinforcing the guidance.

Lori Chaitman - Sealed Air Corporation - VP of IR

Operator, next question, please?

Operator

Alex Ovshey, Goldman Sachs.

Alex Ovshey - Goldman Sachs - Analyst

On the Food & Beverage segment, of course, saw a very meaningful \$27 million improvement in EBITDA year-over-year -- would you be able to help us parse that out, and talk about how much of the EBITDA improvement was in the Hygiene sales segment, and how much was in the Packaging Solutions subsegment?

Carol Lowe - Sealed Air Corporation - SVP and CFO

Yes, we provided the information at the top line in terms of the sales piece of it, but we're not breaking out the EBITDA between those two components -- proportionately, the Food Packaging side of it is much larger than the Hygiene piece of it. So we would see more impact from what happens within that business.

Jerome Peribere - Sealed Air Corporation - President, CEO and Director

And having said that, we are -- our store region is AMAT and Latin America, in that respect, our hygiene business is kicking butt there and we're doing really well.

Alex Ovshey - Goldman Sachs - Analyst

Okay, that's helpful. Maybe if I can just ask the question slightly differently. Just historically, what was the normal margin on that Hygiene piece of the business on the historical basis? Can you just comment on that?

Carol Lowe - Sealed Air Corporation - SVP and CFO

Mid-single digits.

Alex Ovshey - Goldman Sachs - Analyst

Mid-single digits? Okay, thank you. And then just last question from me. Is there any update from you on the W.R. Grace situation?

Carol Lowe - Sealed Air Corporation - SVP and CFO

Yes. So just a quick update. The Third Circuit Court of Appeals, they held -- heard oral arguments on June 17 on their side pending appeals. On July 24, the Court entered an opinion and judgment relating to Garlock's appeal. And they affirmed the District Court's decision, and they overruled Garlock on the settlement plan. The Court has yet to rule on the other outstanding appeal. We don't know when the Third Circuit Court may or may not rule on those, so we are kind of wait-and-see until that happens.



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

Operator, next question, please?

Operator

Adam Josephson, KeyBanc.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Jerome, perhaps you plan to address this at the Investor Day, but where do you expect most of your longer-term margin improvement to come from? Pricing and access of cost inflation? Writing yourself up on profitable business? Cost reductions, volume growth or some combination of the above? And which do you think will be the biggest factor or two factors? I know some of these might go hand-in-hand, but just wanted to hear how you think about the issue.

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

You answered. (laughter) You answered, Adam. I am determined to lead this Company towards a higher-quality Company. As I said several times, this Company is going to be -- is going to have a 16% EBITDA level before it gets -- it becomes a \$10 billion company. And I, for this, will need to change the culture of this organization. We need to make people more hungry to gain quality business; more selective. We need to accept that there is some product lines which have aged and that we are not interested in.

So, this is why you have seen our productivity ratio of expense to gross profit be so front and center here. Commodities can have a good return, provided they utilize less resources than other product lines. So, it's going to come from moving this Company towards a simpler, less structured, more efficient and more accountable organization. And for the details, you're welcome in New York at the Sofitel Hotel on the morning of September 20th.

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

Operator, next question, please?

Operator

Chip Dillon, Vertical Research Partners.

Chip Dillon - *Vertical Research Partners - Analyst*

I guess I can now say good afternoon. One thing -- coming through the release this morning, there were two items that you called out as unusual. The total \$10.8 million -- \$3.5 million was on cost of sales; \$7.3 million was on SG&A. And in the write-up, you said \$5.5 million of that \$10.8 million was a write-down in the other segment, but that leaves you with \$5.3 million, and we have no idea how that would be split among the segments.

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

Well, yes, Chip, to do the math of that, we maybe ought to take it off-line. With respect to the other segment, that write-down, it wasn't specific to the medical business. It was some R&D type product lines that the Company had been testing for several years, and we just didn't feel like we were going to reach the growth or margin levels that we would find acceptable. So we had some asset investments that we wrote off. And that's the



piece that you're seeing for the Medical and Other. But again, I'd like to reiterate, it has nothing to do with the medical business specifically, though. (multiple speakers)

Chip Dillon - Vertical Research Partners - Analyst

Oh, okay. And just as a quick follow-up -- you know, most of that Other is tied to, I guess, the -- both programs, the EQIP and the Integration Optimization Program. But as you know, you take charges, and then -- but you have a separate line for costs. And I understood that you would take the charge and then the cost would not flow through the P&L, since they're in the charges. Why would they be separate? I'm just curious. Is this because things come up that you incur on a current basis that aren't part of prior charges? Or maybe you could help us there.

Carol Lowe - Sealed Air Corporation - SVP and CFO

Yes. Chip, I guess, it's going to be a lot of detail to walk through all of the numbers, so maybe we would take that off-line. But I guess we're not -- I'm not sure I understand what you're saying about Other versus the restructuring. We clearly call out what are the restructuring pieces and how they impact. We actually have a reconciliation within the attachments to the earnings release. And it's those Integration and Optimization Program and the Quality Improvement Program, they're not in Other.

Jerome Peribere - Sealed Air Corporation - President, CEO and Director

Other, you need to consider Other is Medical and New Ventures type of things. And that's a kind of small potpourri of quite a few things.

Lori Chaitman - Sealed Air Corporation - VP of IR

Chip, do you have another question related to something else?

Chip Dillon - Vertical Research Partners - Analyst

As you mentioned, short of interest expense looks like it's going down, which is great, as we -- based on your full-year guidance. And as you pay off debt in 2014 and 2015, how should we think about that going down? In other words, do you have higher cost debt that you can buy in or call in? Or would it tend to be short-term debt that isn't as costly?

Carol Lowe - Sealed Air Corporation - SVP and CFO

So we do have some higher cost debt that will mature in February of next year. That's the 12% debt. It's \$150 million. So we will be paying that off. And so we'll address that. In terms of looking at the balance of our debt, the next maturity that we would have after that is -- it's in an 8% senior note that's due in September of 2019. Their first call date is September 2015. In addition, we've got a term loan B, which has a final maturity October 2018. Its current balance is about -- almost \$800 million. It's got a [\$101 million] soft call and it expires in November -- that soft call expires in November.

So, we have some opportunity to look at our total capital structure. And we'll do that as it best suits the cost structure for the Company.

Lori Chaitman - Sealed Air Corporation - VP of IR

Operator, we'll take our last question now, please.

Operator

Your last question comes from the line of John McNulty with Credit Suisse. Please proceed.

John McNulty - Credit Suisse - Analyst

Just two questions. First of all, you had indicated that, in some cases on the Protective Packaging side, you were walking away from business and/or customers just weren't willing to pay, so they essentially were walking away. I guess -- and my question is on the pricing negotiations that you've had in the Food Packaging portion of the business, have you seen any similar movements from customers where that business is just, because of an unwillingness to meet your pricing, has just walked away? Or is that not the case yet?

Jerome Peribere - Sealed Air Corporation - President, CEO and Director

No. The nature of those two businesses are very, very different. We have -- we gain and lose customers much more easily in Protective Packaging compared to Food & Beverage businesses. Because there is, in some cases, a lot of technology in our Foods Packaging business, et cetera.

As I said before, some of our businesses are in Food Packaging or in Formula; some others are in strict negotiations. You know, we are by far the technology leader in Food Packaging. We are by far the big dog in the Protective Packaging industry. We are not having -- we're not having highly tense conversations. It's not always about just price. It is about the value that you create to your customers.

So, when we tell our customers that next round when their business is going to continue growing, they will ask for new volume and additional volume, and that when we run at capacity, we are not going to be able to supply them because we don't have reinvestment economics. They understand. They don't like it, but they understand.

It is about this equation of cost competitiveness and performance. And so we need price increases. We have had our Food Packaging business, which has had -- which was, 10 years ago, much higher quality than it is today. It has constantly been going down and that is not acceptable.

So, we need to have this partnership dialogue with our customers and we do have that. And they understand. So, that's what's going on. Plus we have some incredibly innovative products. I mentioned some -- the Simple Steps, the Oven-Ease, the -- or et cetera, et cetera. Our products that create a lot of value to our customers.

Operator

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

Jerome Peribere - Sealed Air Corporation - President, CEO and Director

So, well, let me thank you all for your participation on the call today. The confidence that our plan to improve Sealed Air quality of earnings is underway, is there. We have people who are really pleased with the progress we have in this Company. We are -- our employee force is highly motivated. They're seeing that we have a project. They're adhering to these projects, and they are proud of what we're doing. That is the cement that is the foundation of our future success.

Our second-quarter performance is also a true testament to our leadership team, and all of our employees and their commitment to continue progressing. The second half is -- we have given you guidance in there, and it is a reasonable guidance, given the external factors that are impacting our business. Latin Europe is problematic. They -- our sales have suffered, and we should not hide our sales studies; it's going to be many years before the EU 27 countries will have a 2% GDP growth. It's not there; it's far from there. And it is disappointing, but it is the reality.

We have suffered from major currency devaluations in Latin America. The real is at about [2.28, 2.29] today, and it was at [2.04] at the beginning of last quarter -- of this -- yes, of second quarter. The Argentinean peso has also dramatically devaluated. We're seeing decelerating growth -- nice growth but decelerating growth trends in China.

But despite those macroeconomics, there is a very clear direction for our business. We have pricing discipline, which is beginning to gain traction. We are pleased with this -- very pleased with the momentum, internal momentum, and understanding from our people, and with some of our customers' reactions I already talked to you about. We focus on providing significant value and innovative solutions to our customers, and we're becoming more nimble. So therefore, we are creating a better way for life, which is the vision of Sealed Air.

Thank you very much. Have a great day. Bye bye.

Operator

Thank you for joining today's conference. That concludes the presentation. You may now disconnect and have a great day.

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