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SEE - Q2 2014 Sealed Air Earnings Conference Call

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OVERVIEW:

SEE reported 2Q14 adjusted EPS of $0.42. Expects full-year 2014 net sales to be approx. $7.75b and adjusted EPS to be $1.65-1.70.

CORPORATE PARTICIPANTS

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John McNulty *Credit Suisse - Analyst*

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Al Kabili *Macquarie Research Equities - Analyst*

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Chip Dillon *Vertical Research Partners - Analyst*

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q2 2014 Sealed Air earnings conference call. My name is Sue and I will be your operator for today.

(Operator Instructions)

As a reminder, this call is being recorded for replay purposes. I would like to turn the call over to Ms. Lori Chaitman, Vice President of Investor Relations. Please proceed, ma'am.

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 website 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 entitled forward-looking statements in our earnings release which applies to this call.

Additionally, our future performance may differ due to a number of factors. Many of these factors are listed in our most recent annual report on Form 10-K and as revised and updated on our quarterly reports on Form 10-Q, which you can also find on our website.

We also discuss financial measures that do not conform to US GAAP. You may find important information on our use of these measures and the reconciliations to the US GAAP in the financial tables that we have included in our earnings release.

Please note that we will end the call by 9:30 today. Now, I will turn the call over to Jerome Peribere, our President and CEO. Jerome?

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

Thank you, Lori, and good morning, everyone. At this point I'm sure you had a chance to carefully review our second-quarter earnings release. I must admit I'm happy to see how we are assembling the puzzle.

Our financial performance in the quarter is yet another data point that gives us confidence that our strategy is working. An important data point, as this is our best adjusted EBITDA quarter ever. We are improving the quality of earnings and continuously implementing new disciplines to expand margins and increase cash flow.

This strategy is not just about the financials. It is also about becoming a knowledge-based Company. It is about changing the culture, changing our go-to-market strategy, and ultimately delivering the most value-added and innovative solutions which make our customers win.

A significant step in making this happen is to create a stronger one-Company culture. As I shared with you last week, we announced plans to relocate our global headquarters to a state-of-the-art environmentally sustainable facility in Charlotte, North Carolina. We will be moving our three divisions, R&D facilities and our corporate offices into a single location.

Within three years we expect to have about 1,300 employees in our new global campus. This move should not be considered as an isolated initiative. It is part of our change-the-game puzzle that we continue to successfully assemble.

We have resolutely focused on the pricing and working capital initiatives that I first discussed with you back in the first quarter of 2013. We expected to see results towards the end of the year and we did.

At our Analyst Day in September of last year we talked about creating the one-Company culture. And with that objective in mind, we presented our new vision, mission, values and our new modern logo, the trillium. You would be surprised how this new culture is making inroads in the Company.

The move to the new campus must be seen in that light. A determined goal to unite our culture across divisions and functions, to dramatically increase innovation, new business models and collaboration, gain efficiencies and accelerate change. All of this for our customers, our employees and our shareholders.

Let me now focus on our discussion of the second-quarter results and outlook for the remainder of the year. At the conclusion at our prepared remarks, Carol and I will open up the call for your questions.

So, on slide four of our presentation, you can see our performance by region for the second quarter. I will highlight sales trends on a constant-dollar basis as compared to last year.

Latin America and AMAT continued to be our fastest growing regions with growth of 8% and 7% respectively. In Latin America the 8% growth did not compensate for the currency devaluation, as our raw material costs are priced in US dollar equivalent, and therefore we continuing our pricing efforts in the third and fourth quarter. Additionally, we lost 30% of our sales in Venezuela in second quarter, which should not be a surprise to many of you.

In AMAT China delivered 13% constant-currency sales growth, with both food care and product care reporting double-digit growth due to strong demand for our new products and increased market penetration. Diversey Care also had very solid performance with nearly double-digit growth as a result of our continued focus on food service and hospitality markets.

North America sales were up 3% with favorable price mix in each of our three divisions. In Europe we delivered a slight increase in sales. France reported a 2.5% growth. Spain was up slightly. And the UK and Holland were essentially unchanged.

This was offset by declines in Italy, Germany and Switzerland. Bear in mind that these seven countries I just referenced accounted for approximately 22% of second-quarter sales.

Russia and Poland delivered strong performance with 16% and 8% constant-currency growth respectively. Sales in Japan, Australia and New Zealand increased 2%, led by a 3% increase in Australia, partially offset by a 4% decline in New Zealand. This decline was due to our decision to weight it a low-margin business in the food care division.

On slide 5 we outline our price mix, volume trends and sales growth on a constant-dollar basis by division and by region. As you can see from this slide, we had constant-currency sales growth in every division and in every region.

We have made significant progress with our pricing initiatives and new disciplines across our division with a 4.6% positive price mix in food care, 1.9% in Diversey Care and 3% in product care. On a regional basis, we have favorable price mix in all regions except Europe, where unfavorable mix offset a positive price due to the subdued economy throughout Western Europe.

Turning to slide 6 and moving to food care, sales increased 4% in constant dollars with approximately 3% growth in packaging and 6% growth in hygiene. We have 10% growth in the developing regions. Latin America and AMAT continue to be our fastest growing regions, with strong demand for our innovative products and solutions. Japan, Australia and New Zealand sales were up approximately 2%, with almost 5% growth in Australia, offset by what I already talked about, which was the 3% decline in New Zealand.

In North America, cattle and hog slaughter rates were down approximately 5% each in the second quarter. We have seen signs of herd rebuilding in cattle due to declining feed stocks and favorable pastures. We anticipate beef production to continue declining into the second half of the year.

Third-quarter could potentially be the trough of the cycle, as evidenced with very recent publications of the July slaughter rates in the US. Keep in mind this trend is positive for the beef cycle over the long term.

And hog slaughters is also anticipated to continue declining in the coming months, with some industry experts suggesting that it will subside in the fourth quarter. Despite these unfavorable market trends in North America, we were able to out-perform the market and deliver just over 2% constant-currency sales growth with favorable price mix, better pricing and new product introductions.

In Europe, our constant dollar sales increased 2% on a year-over-year basis. Our business in Europe benefited from a 3% growth in the poultry market and a relatively flat beef and pork market.

The European economy appears to be stabilizing, but the lack of GDP growth and essentially flat protein market continues to make it a challenging business environment. With that said, we had again, favorable price mix cost spread in the quarter.

I want to highlight the EBITDA margin performance in the second quarter for food care. Adjusted EBITDA of $159 million, or 16.6% of net sales, increased 8% compared to last year. This increase was largely attributable to price increases and adoption of our innovative product portfolio.

Our focus on value-added selling has been and will continue to be a tremendous effort within food care. Despite the anticipated challenges in Q3 related to PD virus and cattle slaughter rates, we are still anticipating EBITDA growth and margin expansion for the full year.

On slide seven we highlight the results from our Diversey Care division. Diversey Care net sales on a constant-currency basis were up 3%.

The developing region increased 9% to 15% growth in Latin America, 10% growth in Eastern European countries and 6% growth in AMAT. We delivered low single-digit growth in Southern Europe. And while one quarter doesn't set a trend, I must admit that the performance in Southern Europe starts to become encouraging.

Despite a tough year-on-year comparable in North America, constant-currency sales were up 1% there, with growth in the US offset by a decline in Canada. And while we continued to focus our customer rationalization and realigning our cost structure, we're also making targeted investments in both sales and marketing and product development that will further differentiate Diversey Care in the marketplace.

Despite the targeted spend, we delivered 12.4% EBITDA margins in the second quarter. Going forward we still expect EBITDA margins expansion for the full year in 2014, as we continue to focus on improving the quality of this business and additional cost reductions that should positively impact the fourth quarter.

And now turning to slide 8, product care delivered 3% constant-currency sales growth, with variable price mix of 3% and on essentially flat volume. Constant-currency sales growth in North America increased 5% which was partially offset by a 2% decline in Europe.

Similar to last quarter, we continue to see an increase demand for our e-commerce and third-party logistic customers for our packaging systems and cushioning solutions. Growth in these higher-performance solutions was partially offset by a slight decline in general use. And sales in general use was impacted by rationalization and the lackluster economy environment in Europe.

Adjusted EBITDA increased 16% to $71 million or 17.3% of net sales. This is a 180 basis points improvement compared to last year. The margin improvement is a direct result of the repricing actions on some of our products, especially foams and bubbles and mailers in North America and Europe.

The product care teams continues to focus on pricing discipline and getting paid for the value that they deliver, to allow for reinvestment in the future growth opportunities and innovation. As we look ahead, volumes in product care will be negatively impacted by product rationalization. However, we expect to offset these declines with increased demand for our higher performance packaging solutions.

Our packaging systems and cushioning product portfolio I designed to minimize freight costs, reduce damage costs and improve the consumer experience. And now let me turn the call over to Carol to review our net sales and EBITDA bridges, cash flow and outlook. Carol?

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

Thank you, Jerome. Let me walk you through our net sales and adjusted EBITDA performance on a year-over-year basis. Starting with the net sales bridge on slide 9, positive price mix of $66 million in the quarter was offset by a slight decline in volume of $8 million. Unfavorable currency translations of $22 million was mostly due to currency weakness in Argentina, Brazil, Australia and Turkey.

Turning to slide 10 for the quarter, adjusted EBITDA increased 8% on a year-over-year basis to $284 million, or 14.4% of net sales. We delivered a 50 basis point improvement in gross profit margin and a 90 basis point improvement in EBITDA margin.

Within food care and product care we had both gross margin and EBITDA margin expansion. For the total Company the increase in adjusted EBITDA was due to a favorable mix and price cost spread of $37 million.

Cost synergies of $25 million were more than offset by $33 million of higher SG&A and other expenses. Adjusted EBITDA was also negatively impacted by $4 million of unfavorable currency.

Adjusted earnings per share for the quarter was $0.42 as compared to $0.35 in the second quarter last year. As anticipated, the tax rate of 29.5% increased compared to last year, primarily due to the lapse of certain US tax laws, including the research and development credit, as well as realizing greater earnings in the US and other jurisdictions with higher tax rates.

Now, turning to slide 11, let's look at our free cash flow. Free cash flow, excluding the $930 million payment under the Grace Settlement Agreement made in February, was a source of $112 million. This compares favorably to a source of $9 million in the six months ended June 30, 2013, partially due to higher earnings and an improvement in operating working capital management.

Our operating working capital as a percent of net sales improved from 20% at June 30, 2013 to 18% at June 30, 2014. Our CapEx was $55 million and cash restructuring costs were $50 million for the six-month period. Cash payments related to SARS were $17 million in the first six months of 2014, compared with $28 million same period last year.

Turning to slide 12, we have updated our debt maturity schedule post the recent refinancing of our credit facility. Last Friday we amended and restated our senior secured credit facilities, including repayment of the outstanding term loan B. The amended and restated facility provided for the refinancing of the term loan A, term loan B, and revolving facility.

The Company's new facilities, totaling $2.1 billion are comprised of $1.3 billion of term loan A facilities and $700 million of revolving commitments. The Company also established a new $100 million delay-draw term loan A facility. The amended and restated facility will provide approximately $15 million of annualized interest savings in addition to maturity extension, more covenant flexibility and an increase in our [restatement] payment basket.

Turning to slide 13, let's highlight our updated guidance for the year. Based on our performance in the first and second quarters and our outlook for the balance of the year, we are increasing our full-year 2014 guidance.

For net sales we estimate approximately $7.75 billion. This is a $50 million increase from previously provided guidance. It assumes an estimated unfavorable impact of approximately 1% from foreign currency translation.

Adjusted earnings per share is expected to be in the range of $1.65 to $1.70 as compared to the previously provided guidance of $1.50 to $1.60. The increased outlook for adjusted earnings per share is due to higher estimated adjusted EBITDA plus lower interest expense in the second half of the year and a reduction in our shares outstanding.

During the quarter we completed a share repurchase of $130 million or approximately 3.9 million shares. We are still estimating the full-year tax rate to be approximately 27%. Adjusted EBITDA is anticipated to be in the range of approximately $1.085 billion to $1.095 billion, an increase from our prior guidance of $1.05 billion to $1.07 billion.

We still expect full-year adjusted EBITDA to improve in each of our three divisions as compared to 2013. The other category, which includes our medical and new ventures business and our corporate and an unallocated cost, is now expected to be approximately $90 million of net costs, which is essentially in line with 2013.

Our estimate for depreciation and amortization of $315 million remains unchanged. We are increasing our free cash flow outlook to approximately $485 million from $425 million, reflecting our higher EBITDA range combined with lower CapEx, lower restructuring costs and reduced cash interest payments.

We are now estimating capital expenditures to be approximately $150 million due to the timing of certain projects moving from late Q4 into early 2015. For cash restructuring costs, we anticipate approximately $135 million as the timing of execution of certain programs can be uncertain. Cash interest payments are estimated to be approximately $7 million lower than our previous estimate of $280 million as a result of the savings from the amended and restated credit facilities.

As you know, we are extremely focused on free cash flow generation and have initiatives in place to drive sustainable improvements in working capital, earnings growth, and margin expansion. In our 2014 proxy we highlighted that the Board approved a special PSU award program targeted at supporting the generation of increased cash flow. This program includes executive officers and a broader group of employees.

For this especial PSU award we set a three-year cumulative free cash flow goal for 2014, 2015 and 2016 to exceed $1.7 billion. The $1.7 billion excludes the $200 million tax refund we expect to receive in mid 2015 related to the Grace Settlement. For the special PSU grant to be paid out we must achieve our free cash flow goal and meet other metrics, including minimum earnings-per-share, working capital levels and total shareholder return.

We continue to evaluate our total cost structure. And any additional cost reduction opportunities identified over the coming months are not expected to have a negative impact on our three-year cumulative free cash flow goal of exceeding $1.7 billion.

To conclude my remarks, I would like to reiterate Jerome's excitement regarding the opportunities ahead. We are delivering on our commitment and staying focused on driving financial and operational excellence.

We look forward to speaking with you again at our third-quarter earnings conference call, which is tentatively scheduled for October 29 at 8:30 AM. Operator, can you please open up the call for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

George Staphos, Bank of America.

George Staphos - *BofA Merrill Lynch - Analyst*

Thanks for the details. Sorry, I jumped on a little bit late. You might have mentioned this earlier. My question is a little bit more top-down and away from the businesses. It relates to the headquarters move.

How much in savings do you expect to accrue from the move to new headquarters from the other facilities? Why couldn't you have accomplished whatever goals you're trying to achieve with this move in Elmwood Park, which is a relatively new facility as well, guys? And what's the deeper mission associated with this move? Thanks.

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

Thanks, George. Good to hear you. You missed, as you said, the earlier comments, because I explained the rationale of this move as part of our initiatives. And it is not an isolated initiative. It's a whole plan to increase employee collaboration, to decrease the barriers between our divisions and our functions at -- more than reduced costs.

Today, you know very well, that our headquarter are in Elmwood Park, New Jersey; that we have one division, which is the product care division, in Mayhew, New Jersey; that we have our Diversey Care in Amsterdam; that we have our food care division in South Carolina. We don't have one Company here. We have, if I push it, we have three Companies. And when you bear in mind that you have R&D in their own facilities, and that we are scattered around the world some other parts of those divisions, then you understand that we can do much better.

What I want is to offer our employees growth opportunities across divisions, across functions. I want a very collaborative environment which is going to accelerate our Change the Game initiatives. So then the next question is, why North Carolina? Because North Carolina is a good place to work from. It has a good airport; it has a good climate; it has a young population; it has affordable cost of living; it has proper local taxes; it has a good talent pool; it has lots of young people. And that makes it a very good place for us.

We have had some support from the North Carolina government, and this has helped the decision. But it is the whole things which I just talked about, which are important. We need -- we are expecting cost synergies as a result of being all of us together. But it is not so much that; it is about being one. My theme inside the Company was the beginning of one Company. The power of one.

Operator

John McNulty, CS.

John McNulty - *Credit Suisse - Analyst*

With regard to pricing, you clearly are getting some solid traction. It looks like pricing, or price mix at least, accelerated in pretty much all the packaging businesses, and a little bit of -- on the Diversey side as well. Do you feel that there is more room to go? Or are we plateauing here in terms of extracting the value for your products from your customers? How should we think about that going forward?

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

I must admit I'm really pleased with this change in culture in the Company. We are making huge progress and there is a little bit of mix, but there's a lot of price. When you look at our product care division, we have said that North America we have 5% price mix growth when 4% of the 5% are price alone. This is with volume, which in size did not decline. Because we have a 10-basis-points volume reduction in North America. So you compare the 4% price and the 0.1% volume reduction in an environment where volume in general has not been very favorable, and you see here a very simple example of how we doing in pricing.

And we doing the same in every single region, because including in Europe, we had positive -- we had about 1% price alone in Europe in product care. So, it shows that it is about discipline. It is about who you want to be and it is about creating the real value for our customers, but being respected for the value that we create.

When you move to other type of businesses, Diversey Care is -- we have a little bit less of that, but it is still strong. And the reason why it's not like this is that what we are doing is that we are eliminating some bleeders and low-quality businesses, replacing them by better ones. But those are, generally speaking, contractors we have with our customers and it takes a little bit of time to do that.

On food care, food care is very strong. We talked about price mix in North America up 3.4% and the total price mix of 4.6% in the division. But just price in North America is 3%. And same for the rest of the world, where we have, in total, almost 4% price alone in that division. The volume in North America is slightly down, but much less down than the mega-trends that we have been observing with the PED virus and with the beef cycle. Actually, in the third quarter, we believe that the beef cycle is going to continue to be down. If I have further questions in the queue, I will elaborate on that.

Now the question is, what's next? Well, we're not done. We're not done. We believe that we need to continue to recoup some price mix. We've made major progresses. Well, I think we have made major progress when you look at this.

But we are going to be very attentive to optimize our pricing and we believe that we can do further progress. Over the midterm, you've seen how much we have accomplished in the past. We had 13% EBITDA -- 13.1% EBITDA in the first half of last year. We have 14% -- 14.1% EBITDA in the first half of this year, and we are intending to continue this progression in the future. And you have seen in our Investor Day our progress and our targets for 2015 or 2016. We're pretty dedicated to achieve those.

Operator

Ghansham Punjabi, Baird.

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

Jerome, on the sales guidance increase for 2014, can you give us some more color on the various components there? Are the beef and pork production issues less severe than you initially thought? Are you losing less market share than you perhaps thought you might, as part of your

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bleeder initiative, if you will? If you could also touch on the competitive behavior you're seeing both in food and protective care as a function of the price increases you're leading in the market.

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

Okay. So, the guidance is -- actually, for the rest of the year and therefore for the second half, is more guided towards the fourth quarter. Half of our division is food care. What we have seen from official data is that the slaughter rates in beef are just -- I don't know what adjective to use. Year to date, in beef, it is 6.8% down. The slaughter rates, week by week since the third week of June, are minus 7, minus 6, minus 11.8, minus 10. And last week was minus 11.6.

So it just shows you that the slaughter rate is worsening and this is why you heard in my prepared remarks that I believe that we're probably going to reach the trough -- not probably, I believe that we going to reach the trough in the third quarter. The pork rate -- slaughter rates are exactly the same. Year to date minus 4.7, and in the past few weeks we reached minus 8.8, minus 9, minus 8.9. So that again is why I talked about the trough.

So that's why -- in that environment we doing extremely well. We doing -- we're continuing to progress in food care; we're continuing to progress in every single of those divisions. In staying with food care, our poultry business is doing quite well, globally, including in the US.

When you move to product care, the packaging systems business is doing extremely well. And our general use is a little bit behind. The reason is that we've been taking some pretty steep actions on pricing. We intend to continue doing this, because some margins were just simply unacceptable. So, the important thing in product care is related to our dimension and weight opportunity. This change that has been announced by FedEx and by UPS in charging volume, cube and not only weight, is provoking reactions from our customers who are asking for new and different solutions.

And we have great solutions, so they are proactively working on this. We have lots of conversations with many customers. There might be some cannibalization out of some of our commodity type of product, lower value, to some more performance packaging products. We are working on this.

Operator

Al Kabili, Macquarie.

Al Kabili - *Macquarie Research Equities - Analyst*

Jerome, I wanted to follow on Ghansham's question on the outlook. It sounds like, from your outlook, that you see -- and it's good to see it raise, but it sounds like you see more moderate year-over-year EBITDA growth in the back half of the year versus what you experienced in the first half.

You mentioned some of the issues in North America on the food care side. But some of those issues were also still happening in the first half. Are you seeing anything else, incrementally, that tempers that growth that you see in the back half, from an earnings perspective? It sounds like there's a lot of things happening positively on the price and the cost side still.

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

The market is what it is. I consider that we're beating the market and we're leading where we have to lead. You're correct when you see that the first half EBITDA of last year was at 13.1% and we have delivered 14.1% in the first half of this year. The second half EBITDA was 13.9% and we are projecting 14.1% or so, or close to that. Therefore you see that the delta is less incremental. But you have to look at the comps. We had announced and implemented some steep price increases from November 1 last year, and we were very successful at those. So the comp is a little bit more difficult in there.

Having said that, the sales growth was 1.7% in the first half, and we're planning it at 1.2% in the second half. So, yes, we are a little bit prudent with what we seeing in the US PED virus and in the beef cycle slower rates for the third quarter. But we pretty confident in ending what I would call a pretty strong year above plan.

Carol might have something to add. Any comments, Carol?

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

Al, I think the relevant point, as Jerome highlighted, as we move into the back half, especially Q4, we do have some difficult year-over-year comps because of a lot of actions that were taken last year. The references to the growth that we're expecting on the organic side, we do expect to still see second-half growth. But we will continue to have some rationalization, especially with the keen focus with product care on some of the more general use-type products and switching our value investments and focus on the higher-value products.

But, we will continue. What we always say is a good measure of quality, of performance, is if your EBITDA growth rate is exceeding your top-line growth rate. We had strong performance in the first half for that, for 2014. And for the full -- for the second half and for the full year, our EBITDA growth rate will be significantly higher than our top-line growth rate.

Operator

[Gabe Hajdi], Wells Fargo.

Gabe Hajdi - *Wells Fargo Securities - Analyst*

This is Gabe on for Chris. First question revolves around the CapEx guidance. I appreciate that sometimes projects get pushed out. But can you talk about what level of spending that you think is necessary to support increased customer penetration or new product introduction, stuff like that? And if there's any spending incorporated into next year for the corporate move?

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

So, I'll address the corporate move first. Over a three-year period, the net cash outflow is expected to be less than $20 million. And so, it is not a material impact. And that's over a full three-year period. We do expect, on a net present-value basis, longer term, we will have net savings with this consolidation. That isn't really the driver, it's all the reasons that Jerome highlighted previously.

As a relates to the capital projects, what we have said is that, on average, if we're spending somewhere around that $170 million, $200 million -- or even the way we look at it is, our R&D investment and our CapEx investment together being approximately $300 million -- that is plenty to support our strategic plans, our growth initiatives, to make the right investments in the right regions and the right solutions, and to have the innovation level that we want. We're completely comfortable with that. And it will vary from year to year, how much is spent on R&D versus how much is spent from a CapEx standpoint.

The Diversey Care business is very low investment from a CapEx requirement. Our supply chain team continues to do a phenomenal job across all three of the divisions in managing the footprint and getting the right capital in the right places to support the growth of the business. So, we really are extremely comfortable, anywhere between that $150 million to $200 million from a CapEx standpoint, that we can sufficiently support the business and provide opportunity for growth.

Operator

Philip Ng, Jefferies.

Alex Hutter - *Jefferies & Company - Analyst*

This is Alex Hutter on for Phil. Congratulations on a nice quarter. In Diversey you saw good growth in volumes for tough comp and Europe seems to be recovering slowly. Price mix was a little bit less of a tailwind for the top line in the first quarter. Can you talk about the moving pieces in terms of mix and price in that segment as you shed the bleeders? Should we see price mix return to that 3% range you saw in the first quarter?

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

Diversey Care is a different animal in terms of the way you build contracts and things like this. So we need to be a little bit careful on this. We had a total price mix of 1.9%, 2% in the second quarter. That is slightly less than the 3.2% of last year. In North America, we had slightly more than that and we quite pleased with this. Again, we have several sectors down there in Diversey Care. We have VSC, food service, hospitality, healthcare, retail, channel and all of this. And, therefore, one size doesn't fit all.

What is very clear is that we very focused on eliminating low-quality customers. When we come to bidding, we just change. We're not hesitant to do that as it was the case before. I have no issue with losing customers, provided they don't contribute. We have seen some of that in the past. Actually every time we have lost one which had low return and passed that on to our competitors, we just went back and just took some other more value-add customers. That's the game.

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

Alex, if I could add to that. One thing that is important to note, we've emphasized with Diversey Care that in terms of right-sizing the support structure to match with the revenues and where our focus is at, it has a little bit more of a lag than the food care business and the product care business at times.

I would like to note, for the second quarter, that the Diversey Care team, they did a great job identifying certain businesses that they needed to exit because of the margins. And if you look specifically at the adjusted EBITDA bridge, you'll see that the volume reduction that we had on the top line actually, although slight, it did positively contribute to improved total EBITDA dollars for the division for the quarter.

So Ilham and the team, again, they continue to be focused on making sure we have the right match and cost structure and support. And that they can put a lot of their resources and investments towards innovation for the business.

And, as we've also noted, towards the latter half of 2014, we do expect to see the benefit of some of the cost-reduction activities that the division is taking. We're really pleased with the progress that they're making and the strategic plan that they have laid out for the entire business going forward.

Operator

Chip Dillon, Vertical Research.

Chip Dillon - *Vertical Research Partners - Analyst*

Good morning, and congratulations on a continued strong turnaround. I have a couple of questions that relate to the cash flow in the next few years. One is, if you look at where you started, how much more working capital cash squeeze do think you still have? What kind of opportunities do you have there?

Secondly, could you talk about the timing of when you're going to move the divisions from their various locations, including the headquarters, to the Charlotte campus? Is that next year or will that phase in over a few years?

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

Let me start with that and let me start, Chip, with your second question. So the timing thing of this move. First we're going to build the campus; that's going to take two years. We already have a nice party organized for the Christmas of 2016 in this campus. I want to celebrate that; I already invited the governor and our Board. Of course, first our employees, who are going to be unbearably proud.

In my career, I have seen what the benefits of a campus can be. And they are amazing. When you put everybody in functions and in businesses together, that's a huge difference with centralization, by the way. But when you put the key people who can benefit from collaboration together, you have collaboration. It's extraordinary to see.

So when is this going to happen? I said, in the new building, towards the third, fourth quarter of 2016. In the meantime, we're going to organize waves of people moving. And we already have determined waves. We're going to move into temporary offices. That's how it's going to be working.

With regards to cash flow, Carol made a comment on this special incentive, which is in the proxy that we published last April. Without too much details, but she gave you a number, $1.7 billion, is the threshold. If we reach $1.7 billion of free cash flow for the years 2014, 2015, and 2016, the payout is zero. So it is up from there that it starts to pay there. It is extremely important that we understand that. The reason why there is a special incentive is to stretch our people to go and do that.

We making huge progress on working capital as a percentage of net sales. Carol is going to give you some details, but we believe there is more. We moved from 20% in the first half of last year to 18%, and our goal is to continue making progress in there.

We are not tolerating past dues, we are not tolerating bad debts and those kind of things. We had $212 million at December of 2012 as past dues. I come from a culture where this is a no-no. We have a moral contract with our customers. This moral contract is -- I deliver on quality on time, you pay on time. There's nothing special about this kind of things.

Carol, you want to add something?

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

Chip, at the end of June this year, we still had $1.4 billion invested in working capital. Simple operating working capital, so your trade receivables, plus your inventory, less your payables. So, there's still opportunity. We've made great year-over-year improvement; our DSO is down three days versus June of 2013; our DPOs have improved by two days; inventory days on hand has improved by two days. However, we've made the improvement on the past dues, but we still have approximately $140 million past due outstanding at the end of June. So there's still opportunity there.

We have a lot of key initiatives underway with great focus, cross-functional focus, full business support in terms of sales and operations planning, SKU optimization, simplification. We feel like there's still very meaningful opportunity for us from a working capital standpoint. But the other thing to keep in mind is, while we're very focused on this and we believe that being at 18% working capital as a percent of net trade sales, we still got a long ways to go to get world class. And Sealed Air has that potential to have world-class working capital metrics.

The focus, in addition to working capital, we will continue to have quality of earnings. Which means expanding our EBITDA, expanding our EBITDA margin, that will also greatly contribute to free cash flow. So, we feel like we still have tremendous opportunity. The Board did set a stretch goal for the Company in exceeding $1.7 billion. But we're very focused on it because it benefits our ability to reinvest in the Company as well as return value to shareholders.

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

You see the interesting comment that Carol made here, is that when you compare us with many other companies, most companies today, after this global crisis in the last four years, are at peak margins. And that's not our case. We believe and we know that we are not at peak margins. We have proven that we are progressing, and I'm confirming that we have ways to go to improve our margins.

So, our cash flow is not going to only come from squeezing. It is going to come from eliminating the waste where we have waste, and we have made huge progress on this. But it is also going to come from improving our margins.

Operator

Alex Ovshey, Goldman Sachs.

Usha Guntupalli - *Goldman Sachs - Analyst*

Thank you, this is actually Usha Guntupalli on behalf of Alex. Most of my questions have been answered, but I have one quick one. Given your focus on pricing for some time now, have you seen competitor and/or customer behaviors toward price change materially? And, specifically, have you had any customers you lost initially because of price come back to you for your value proposition?

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

So, that is a very good question. Because what we -- there is always the gaining and losing of customers. Sometimes it is about price, sometimes it is about something else. Let me assure you that we are also gaining customers based on price, not because of we're reducing prices, but because of the value proposition. I can not repeat enough to you what I have been saying internally, is that our number one job, our number two job, our number three job, is to be obsessed with helping our customers win. That is, and I word the word obsessed because I want every single of our people to understand that this is our job and only our job.

But this does not mean that making our customers win should go through price reduction. Actually, I'm asking our people to make sure that we are respected by our customers for the value that we create to them. It is common practice, and obvious, to say that customers choose their suppliers, all right? What I'm telling our people internally also is, choose your customers.

You need to make sure that you are happy with your customer mix. That if you only deal with the pricing-driven customer you are never going to get there. Because for those of us who are pricing seekers, we are never satisfied. The minute we find a cheaper price we want another cheaper price. So I want our people to choose better their customers. We are achieving this. So, to cut the story short, are we losing business? Yes, we are. Are we winning business? Yes, we are. Are we losing business because of our pricing? Very little.

Look at what we have been doing in our product care division, which had the biggest pricing repositioning of recent time. North America, we had 4% price in the second quarter. Our volume in North America is minus 0.1%. I don't think the market has been positive in the whole of protective packaging world in the second quarter. As a result of that, it's just to prove that we can be respected for the value we create.

It's the same in the food care. I don't think that we have lost share. Actually, we might pretty well have gained share in all kind of packaging and also beverage businesses. And we doing pretty well. Because when you look at our volumes, again in North America, as an example, we have lost 1% in volume, but our pricing only in North America has been 3%. And, in Europe, we gained volume in food care and we gained price. So, I think this is just the proof of what's going on in the marketplace.

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

Operator, I think we have time for one more question.

Operator

John McNulty, CS.

John McNulty - *Credit Suisse - Analyst*

I had a question regarding your cash flow. Your cash flow looks like if you pull out the restructuring charges, you're pretty much already at your 2016 target. It looks like things are going well there. Can you walk us through, first of all, if you think there's upside to that target or if we plateau on the free cash flow generation here? And then also, how to think about the uses for that.

I know it sounds like you freed up some ability to buy back more stock around the credit refinancing. But maybe an update there as to how much you can buy back now. And then also, which pieces of debt you may be able to take out with some of the cash that you're generating over the next 12 months as well.

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

Thank you, John. Obviously, the $1.7 billion, exceeding that amount over that three-year period ending 2016, with our current outlook for 2014 at $485 million, it definitely would imply that the 2016 target that we shared of $600 million on our Analyst Day, that we would exceed that. We would need to exceed it. So you can estimate the math in between. We're not going to provide 2015 numbers now, or specifically update the 2016 amounts that we provided at Analyst Day. But, obviously, it has to be higher than $600 million for us to exceed $1.7 billion.

In terms of the uses for the cash, we've been really clear that we do have a goal of returning value to shareholders, which we have defined. In addition to the Company performing better, having higher earnings, making the right investments so we do have the quality growth for the Company that investors seek, we also want the opportunity as we move below 4 times leverage, that we look at our dividends as well as potential share repurchases.

We did have the Q2 share repurchase from the Grace Trust. Right now, with the refinancing of our credit facility, that was our limitation before, because we could only repurchase approximately $150 million worth under the restricted payment basket once we took out what we pay in dividends. With the refinancing of those facilities, they are no longer the limitation from a restricted payment basket. It's actually our senior notes or bonds. Right now, based on those limitations for the basket, it's approximately $200 million a year. Based on what we've already executed, we could do an additional $70 million this year if we had the right opportunity. There was some carryover from last year. If we look at 2015, that basket's probably limited to around $80 million that we could do in 2015.

However, we've also been very clear that we would be opportunistic and we would consider possible activities or market transactions that would alleviate that current restriction. Again, we'll be opportunistic, it has to be the right timing and it has to be the right return for investment. And our leverage still, we're not within that 3.5 to 4 range that we're ready to move ahead right this minute with something. But it is definitely on our list and we'll respond as we believe is appropriate for the Company and for our investors.

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

Thank you. That concludes our call today. Thank you all for joining us and have a great day. Operator?

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.