THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

SEE - Q4 2014 Sealed Air Corp Earnings Call

EVENT DATE/TIME: FEBRUARY 10, 2015 / 1:30PM GMT

**OVERVIEW:**

Co. reported full-year 2014 net sales of $7.8b and adjusted EPS of $1.86. 4Q14 net sales was $2b and adjusted EPS was $0.59. Expects full-year 2015 net sales to be approx. $7.4b and adjusted EPS to be $2.08-2.18.





THOMSON REUTERS

## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Ghansham Panjabi** *Robert W. Baird - Analyst*

**John McNulty** *Credit Suisse - Analyst*

**George Staphos** *BofA Merrill Lynch - Analyst*

**Scott Gaffner** *Barclays Capital - Analyst*

**Chip Dillon** *Vertical Research Partners - Analyst*

**Alex Hutter** *Jefferies & Company - Analyst*

**Rosemarie Morbelli** *Gabelli & Company - Analyst*

**Al Kabili** *Macquarie Capital - Analyst*

## PRESENTATION

**Operator**

Welcome to the quarter four 2014 Sealed Air earnings conference call. My name is Corrin and I will be your operator for today. (Operator Instructions). As a reminder, this call is being recorded for recording purposes. And now I would like to hand the call over to Lori Chaitman, Vice President of Investor Relations. Please go ahead, Lori.

---

**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 would like to remind you that statements made during this call stating management's outlook for predictions of 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 apply 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 report on Form 10-Q, which you can also find on our website at SealedAir.com.

We also discuss financial measures that do not conform to US GAAP. You may find important information on our use of these measures and a reconciliation to US GAAP in the financial tables that we've 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. I am very pleased to report that 2014 was a very strong year for Sealed Air. We exceeded our financial objectives in the fourth quarter and for the full year. We delivered 8% adjusted EBITDA growth in 2014 and expanded margins by 90 basis points despite currency headwinds.

We had favorable price mix in every region and in every division in the quarter and for the full year. We improved the health of our balance sheet and generated over $600 million in free cash flow. We continued on our innovation path including, for example Darfresh on Tray, Instapak Simple and a new TASKI XP platform. We also announced the relocation of our headquarters to Charlotte, North Carolina and launched a new website.

These are just some of the many successes that we had over the last 12 months. And while we are pleased with our 2014 financial results, we still believe that there is significant improvement to be had in terms of top-line potential growth and further margin expansion, as well as maximizing our free cash flow generation.

But before we review our fourth-quarter and year-end results, I want to share some insights on how we are approaching 2015. Based on foreign-exchange rates today we are assuming unfavorable currency translation of approximately $550 million in sales and $80 million on EBITDA in 2015.

And while we anticipate as reported sales in 2015 to be down approximately 5% compared to 2014, we expect to grow approximately 2.5% in constant currency and are confident that we will deliver adjusted EBITDA growth and margin expansion. EBITDA growth and margin expansion will be driven not only by favorable input costs, but also our continued focus on value adding selling, operational disciplines and earnings quality improvement efforts.

With that said let me turn back on the fourth quarter and yearend results, and Carol will provide, of course, more details on our 2015 outlook. Let's start with 2014 full-year performance by region on slide 4.

Net sales were up slightly on in as reported basis and up 3% in constant currency. Currency translation had a negative $183 million impact on net sales in 2014. By region sales in North America increased 3% on a constant currency basis due to 5% growth in Product Care, 2% growth in both Food Care and Diversey Care.

In Europe sales improved on a constant currency basis each quarter throughout the year, resulting in a modest increase in constant currency sales in 2014 as compared to a slight decline in 2013.

Latin America and AMAT were our fastest-growing regions in constant currency sales growth in the middle high -- in the high-single-digits. Constant currency sales and Japan, Australia and New Zealand were up 2% in 2014.

On slide 5 you can see our performance by region for the fourth quarter. Net sales declined 2% on an as reported basis, but were up 3% in constant currency. Currency translation had a negative $105 million impact on net sales in the quarter compared to $183 million for the full year.

Sales in North America were up 2% led by 5% growth in Product Care and 4% growth in Diversey Care. Food Care sales were essentially unchanged compared to last year. Sales in Europe were down 6% on a reported basis and up 2% in constant currency.

To be more specific on our performance in Europe, let me provide you with country trends on a constant currency basis in the quarter as the UK delivered strong growth of 9% with double-digit growth in Food Care and mid-single-digit growth in Diversey Care and Product Care. Spain, Switzerland and Holland were flat to slightly up while France, Italy and Germany declined.

The seven countries I just referenced accounted for 21% of our fourth-quarter consolidated sales. And I also would like to highlight that Russia continued to deliver strong growth with net sales in Q4 increasing 5% on an as reported basis, which translates to approximately 40% growth in constant currency.

Moving on to Latin America and AMAT, both regions delivered constant currency sales growth in the high-single-digit in the quarter. And in AMAT, China and India delivered double-digit sales growth and in Latin America, Brazil and Mexico delivered mid-single-digit growth.

On an as reported basis AMAT was approximately 3% and Latin America down 4% in the fourth quarter as a result of significant currency devaluations. Constant currency sales in Japan, Australia and New Zealand were up slightly in the quarter. Growth in Australia was slightly offset by the decline in New Zealand.

On slide 6, we [align] our price mix, volume trends and sales growth on a constant dollar basis by division and by region. As you can see from the slide, we had constant currency sales growth and variable price mix in every division and every region in the fourth quarter and in 2014.

Food Care had solid performance despite the challenge in the protein market in North America. Constant currency sales in both Diversey Care and Product Care improved each quarter throughout the year.

We also stay focused on our commitment to shift our business to our more innovative, value added solutions and provide best-in-class service to our customers on a global basis. We have made significant progress on this front, but there is still plenty of room for improvement as we continue to evolve into a knowledge based Company. You will hear more about all of this at our Analyst Day on June 18 in New York City.

Turning to our performance by division, I will focus my comments on fourth-quarter results on a constant currency basis. On slide 7, Food Care sales increased 3% with approximately 3% in packaging and 2% in hygiene. Latin America increased sales by 10% and AMAT increased 2%. Europe had a strong performance with a growth of 5% while North America was relatively flat.

Developing regions, which include Latin America, AMAT and Eastern European countries, delivered double-digit growth led by strong performance in Argentina, Russia and China.

In Europe packaging sales increased nearly 9% while hygiene declined 3%. The protein market was up slightly and the quarter which helped, but we also continue to see increased demand for our value added solutions and new platforms.

In hygiene, you know that we continue to prune low margin businesses. And while this effort impacted top-line, it made a significant contribution to our EBITDA margin performance.

Food Care adjusted EBITDA in Europe delivered margin expansions of 300 basis points in 2014. This significant improvement was due to a combination of a low margin pruning and operational improvements in our hygiene business as well as the accelerated adoption of our innovative packaging portfolio.

In North America, cattle and hog production were down approximately 8% and 4% respectively compared to last year. Despite these unfavorable market trends in North America our sales were relatively flat compared to last year due to favorable product mix and better pricing.

To reiterate what we said in our last earnings call, we believe the beef cycle is close to the bottom and we expect that the rate of decline to moderate over the next 12 months.

It is worth noting that on a global basis our three largest market segments, fresh red meat, smoked and processed and poultry, delivered sales growth in the quarter and for the full year. Poultry had also been a key growth driver in North America and in Latin America.

This strong performance is a direct result of increased demand for our advanced solutions such as cash ready, Darfresh, fluids, Grip & Tear and QuickRip. We introduced Darfresh on Tray during the fourth quarter and we have already experienced significant traction in both Europe and North America. Darfresh on Tray is a system solution that reduces food waste in the total distribution system while also utilizing less material.

I want to highlight the EBITDA margin performance in the fourth quarter for Food Care. Adjusted EBITDA of $172 million or 17.5% of net sales increased 8% compared to last year. This increase was largely a result of pricing discipline, improved mix and cost synergies. And for the full year Food Care net sales of $3.8 billion increased 4% in constant currency and was essentially unchanged on an as reported basis.

Adjusted EBITDA margin in 2014 of 17.5% increased 140 basis points over 2013 which is an outstanding performance. And going forward in 2015 we expect adjusted EBITDA growth and margin expansion, favorable input cost and our continued focus on innovation and operational discipline are expected to more than offset the forecasted currency headwinds.

Slide 8 highlights the results from our Diversey Care division. Diversey Care net sales on constant currency basis were up 4% in the fourth quarter. Volume and price mix were up approximately 2% each. Developing regions increased 11% led by 16% growth in Latin America and 10% growth in AMAT.

Our fastest-growing countries were China, India and Brazil and North America increased sales 4% which is our strongest performance in North America over the last 24 months.

In Europe sales were essentially unchanged. Positive trends in the UK and Switzerland offset by declines in France and Germany. Holland, Italy and Spain were relatively flat. And from an end market perspective on a global basis, our strongest sectors in the quarter were building service contractors and hospitality.

We have had a number of solid customer wins that are beginning to ramp up and contribute to our top-line results. And during the quarter we introduced, among others, the TASKI XP platform, a standalone -- a stand on, sorry, floor care machine that delivers 30% more productivity than the conventional walk behind floor care machines.

As you can see, we delivered adjusted EBITDA of $58 million or 10.9% of net sales in the quarter. We are beginning to reap the benefits of our targeted investments in R&D and sales and marketing. But unfavorable currency translation and certain supply chain costs had a negative impact on margins during that fourth quarter.

Diversey Care generates nearly 45% of its sales from Europe and its performance in the fourth quarter and for full the four-year was negatively impacted by currency declines.

For the full year Diversey Care's net sales of $2.2 billion increased 3% in constant currency and were essentially unchanged on an as reported basis. But adjusted EBITDA in 2014 of $245 million increased 3% compared to last year.

To be noted is that excluding unfavorable currency translation in the fourth quarter and in 2014, Diversey Care's adjusted EBITDA was up 5% and 8% respectively. In 2015 we expect Diversey Care's adjusted EBITDA growth to be moderated due to its high exposure to the euro.

Turning to slide 9, Product Care delivered 5% constant currency sales in the fourth quarter -- sales growth in the fourth quarter, which is its highest growth rate all year. This growth was attributable to favorable price mix of 4% and as we have continued to shift our business towards high-performance solutions, including cushioning and packaging systems, and continue to focus on improving the quality of our general use business.

As we have discussed, growth in e-commerce and third-party logistics is increasing demand for our cushioning and packaging systems and we expect these trends to continue going forward.

If you recall, last quarter I highlighted the Instapak Simple as one of our key innovations that brings the benefit of cost-effective high-performance damage reduction to emerging regions and the e-commerce market. This product was successfully launched from October of last year.

North America, which accounts for about 60% of our Product Care business, increased sales 5%. Europe represents just over 20% of Product Care sales and had its strongest performance of the year with over 3% growth.

AMAT also had its strongest performance of the year with 11% sales growth, and AMAT and Japan, Australia, New Zealand combined account for just under 20% of Product Care sales. But it is worth highlighting that both China and Japan had double-digit growth in the quarter.

Latin America accounts for only 4% of Product Care sales and declined 2% due to the rationalization efforts that were completed during the quarter.

Adjusted EBITDA increased 6% to $77 million or 79% of net sales. Growth in cushioning and packaging systems, along with product and customer rationalization actions in general use, had a significant impact on our adjusted EBITDA margins in the fourth quarter and throughout the year. Every quarter in 2014 we delivered both top-line and adjusted EBITDA growth.

For the full-year Product Care's net sales of $1.7 billion increased 4% in constant currency and 3% on an as reported basis. Adjusted EBITDA margins increased 10% compared to last year and margins improved 120 basis points to 17.7%.

The rate of adjusted EBITDA growth surpassed sales growth throughout the year, underscoring our commitment to securing the appropriate value for our solutions. Going forward in 2015 we expect adjusted EBITDA growth and margin expansion, favorable input costs and our continuous focus on innovation and operation discipline in general use are expected to more than offset currency headwinds.

And now let me pass the call to Carol to review our total sales and EBITDA bridges, cash flow and outlook for 2015. Carol?

---

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

Thank you, Jerome. Turning to slide 10 and slide 11, let me walk you through our net sales and adjusted EBITDA performance on a year-over-year basis.

Starting with net sales on slide 10, we delivered $2 billion in sales in the fourth quarter and $7.8 billion for the year. On a constant currency basis sales increased approximately 3% for both periods. Sales growth was attributable to favorable price mix which was 3% or $61 million in the quarter and 3.2% or $249 million for the full year.

Volume was essentially unchanged in both periods. Unfavorable currency translation was $105 million in the quarter and $183 million for the full year. Approximately 20% of our total sales are exposed to the euro; approximately 4% to the Brazilian real; and then we have approximately 2% exposure to both the Russian ruble and the Turkish lira.

Turning to slide 11, for the quarter adjusted EBITDA increased 4% on a year-over-year basis to $282 million or 14.3% of net sales. For the total Company the increase in adjusted EBITDA was due to favorable mix and price cost spread of $48 million. Cost synergies were $22 million in the quarter.

Selling, general and administrative and other expenses increased by $40 million of which $17 million was attributable to an increase in incentive performance-based compensation and $14 million was related to salary inflation. Currency translation had a negative $17 million impact on EBITDA in the quarter.

Despite currency headwinds we delivered a 100 basis point improvement in adjusted gross profit margin and a 90 basis point improvement in adjusted EBITDA margin compared to the fourth quarter last year.

For the full year adjusted EBITDA increase 8% year-over-year to $1.12 -- or to $1.12 billion or 14.4% of net sales. The increase in adjusted EBITDA was due to favorable mix and price cost spread of 3.2% or $150 million on essentially flat volume.

Cost synergies of $97 million were more than offset by an increase in SG&A and other expenses of $127 million, of which $46 million was attributable to an increase in incentive performance-based compensation and $54 million was related to salary inflation.

For the full year currency had a negative impact of $30 million on adjusted EBITDA, yet we delivered a 100 basis point improvement in adjusted gross profit margin and a 90 basis point improvement in adjusted EBITDA margin compared to 2013.

Adjusted earnings per share for the quarter was $0.59 as compared to $0.39 in the fourth quarter last year. 2014 EPS was $1.86 as compared to $1.39 in 2013, an increase of over 30%.

The 2014 tax rate of 22% was lower than our previously provided guidance of 27% largely due to the December enactment of credit extenders as well as favorable earnings mix. In 2013 our tax rate was 21%.

During the fourth quarter 2014 we repurchased approximately 1.4 million shares for approximately $50 million at an average price of $36 per share. For the full year we repurchased approximately 5.4 million shares for $184 million at an average price of $34 per share. This includes approximately 3.9 million shares purchased from the WRG Asbestos Personal Injury Trust in the second quarter of 2014.

Since the beginning of this year, 2015, we have repurchased approximately 498,000 shares for $21 million at an average price of $41 per share. We will continue to be active in the market and have the capacity to buy an additional $69 million in shares through the end of 2015. We continue to evaluate alternatives that will enable us to increase returns to our shareholders and maintain our target leverage of 3.5 to 4 times.

Now turning to slide 12, free cash flow was a source of $612 million in 2014 excluding the Grace settlement. This compares favorably to a source of $509 million in 2013 due to higher earnings and an improvement in operating working capital management. Operating working capital as a percent of net sales improved from 17% at the end of 2013 compared to 14% at the end of 2014.

The Company focuses its management of are pretty working capital on a 13-month average target. For the 13-month period ending December 31, 2014, the average for operating working capital as a percent of net sales was 17%. This represents a 200 basis point improvement compared to 2013.

CapEx was $154 million and cash restructuring costs were $108 million in 2014. Cash payments related to SARs were $21 million as compared with $46 million in the prior year. Cash interest payments in 2014, excluding the settlement, were $293 million compared to $290 million in 2013.

Turning to slide 13, in December 2014 we issued 425 million 4 7/8 senior notes due 2022 and 425 million 5 1/8 senior notes due 2024. Net proceeds from the offering were used to repurchase the 750 million 8 1/8 senior notes.

In July we amended and restated our senior secured credit facility. Altogether these transactions reduced our annualized interest expense by approximately $30 million, provide extended maturities and increase covenant flexibility.

Turning to slide 14, our outlook for 2015 is presented. We expect net sales to be approximately $7.4 billion, a decline of approximately 5% on a reported basis, but an increase of approximately 2.5% in constant currency.

As Jerome mentioned earlier, we estimate an unfavorable impact of approximately $550 million on sales from foreign currency translation. Adjusted earnings per share is expected to be in the range of $2.08 to $2.18 as compared to 2014 adjusted EPS of $1.86. We anticipate our tax rate to be approximately 25% in 2015.

Adjusted EBITDA is anticipated to be in the range of $1.15 billion to $1.18 billion or approximately 3% to 5.5% growth rate on a reported basis. Currency is estimated to have a negative impact on adjusted EBITDA of approximately $80 million.

We are confident that we can achieve that level of EBITDA presented as we continue to focus on our disciplines to improve the quality of earnings and benefit from favorable input costs. Additionally, we expect approximately $50 million and cost synergies, most of which will come from the earnings quality and improvement restructuring programs.

In late December our Board approved a new restructuring program, the Fusion program, which will consist of projects across our three divisions as well as functional support. This program is expected to generate savings of approximately $80 million to $85 million by the end of 2018. We do not expect to realize any savings from this program until early 2016.

The cost of the Fusion program is expected to be approximately $275 million to $285 million, of which the net cash outflow is expected to be in the range of $210 million to $220 million. We anticipate the proceeds from asset sales and state incentives to be approximately $65 million.

Our guidance for free cash flow is approximately $600 million for 2015 which excludes the tax refund related to the Grace settlement of approximately $245 million.

Our outlook for free cash flow is derived from higher earnings, improvements in working capital and lower cash interest payments offset by higher restructuring cash costs and capital expenditures as compared to 2014.

Cash restructuring costs, excluding restructuring CapEx, are expected to be $120 million. This $120 million consists of approximately $50 million from previously announced restructuring programs and approximately $70 million from the new Fusion program. Capital expenditures are expected to be $180 million, which includes approximately $45 million of CapEx related to restructuring activity.

In 2014 CapEx was $154 million of which approximately $25 million was related to restructuring. The year-over-year increase in CapEx for 2015 as compared to 2014, excluding the restructuring activities I just mentioned, is associated with target growth projects for Food Care, Product Care and Diversey Care, an R&D pilot plant and the second phase of our ERP implementation. Cash interest payments are expected to be $255 million and cash taxes are expected to be $110 million.

Before I open the call to questions I would like to remind you that our first-quarter earnings call is tentatively scheduled for Thursday, April 28 at 8:30 AM. And Ken Chrisman, President of our Product Care Division, will be joining us for that discussion.

We are also hosting our Analyst Day on Thursday, June 18 in New York City, as previously mentioned. I look forward to speaking with you again in the near future. With that, operator, can you please open the call for questions?

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions). Ghansham Panjabi, Baird.

**Ghansham Panjabi** - *Robert W. Baird - Analyst*

Just first off, could you just give us a sense as to what the volume outlook by operating segment is for 2015 as it relates to your guidance? And I guess as it's related to your guidance it is for 2.5% constant currency growth.

Given where resin is and kind of what it is doing right now in some of your pass-throughs in your contracts, is it fair to expect a negative price mix bias (inaudible) portfolio for the year? Thanks.

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

Good question, Ghansham. So our volume for 2015 is going to be at about 1.5% or so. And this compares with zero volume growth that we had in 2014 and about slightly higher than 1% in 2013. We are going to see volume growth in the three divisions led by Diversey Care and Product Care and also some in Food Care.

So the story of price mix is going to be somewhat different than the one of 2014 because obviously the resin prices have been and are coming down. And as a result of that, it is not so much price which is going to be important into 2015, but just margin and margin expansion.

And we do believe that we going to be having margin expansion from all kind of things. Number one, we need to remember that we are in a recovery mode. We have lost a lot of pricing over the past few years and we need to rehabilitate pricing. This is true for what I would call the commodity parts of our portfolio, specifically in Product Care and in Food Care.

In Product Care we still have a whole segment which is we call the general use, which I would tend to call the more commoditized type of product line. And those, whereas they had been doing better in 2014, they are far from being at an acceptable level.

So we are going to be holding very firm and we are holding very firm on our pricing. We'll only respond to competitive aggression and that is all we're going to do.

On Food Care we do have some regional weaknesses in some product lines and that is what we're going to be addressing on pricing. Obviously currency translation is hurting and as they continue to go down because the dollar is revaluating regularly amongst almost all currencies, we are in need to adjust our pricing.

---

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

Operator, next question, please.

---

**Operator**

John McNulty, Credit Suisse.

---

**John McNulty** - *Credit Suisse - Analyst*

With regard to resin prices having come off, have you started to see any of your customers potentially upgrade their products at this point? I know there was a lot of kind of downshifting of products that they were looking at when oil prices and resin ran up. So have you seen the reverse of that yet and is it something you are expecting as you look into 2015?

---

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

Good morning, John. I can't precisely answer your question other than make the following comments. We are working very hard at addressing the customer needs depending on the segment they want to touch.

So some -- take Food Care as an example. Some customers want more shelf life and as they want more shelf life they need to upgrade in the quality of the products. Some others want portion size with potentially less shelf life, but improving compared to what is on the shelf today. This is a real strong trend right now and so on.

So what we have in Sealed Air now is a whole commercial organization absolutely obsessed with that understanding in satisfying customer needs. So it is really going to be on a case-by-case basis more than a general approach, which, by the way, haven't been told that this is the case in terms of upgrading, generally speaking, the packaging.

---

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

Operator, next question, please.

**Operator**

George Staphos, Bank of America.

**George Staphos** - *BofA Merrill Lynch - Analyst*

Thanks for all of the details and taking my question. Congratulation on the year. I guess maybe related to what Ghansham was getting at, if I take the midpoint of your range for 2015 from a margin standpoint, it is up roughly about 130 basis points, if I did my math correctly, versus 2014, despite the foreign-exchange headwinds.

So, Jerome and Carol, as we think about how you have confidence in that goal, which you said you did, is most of the progress towards that going to come from mix and further value selling? Or will more of it come from productivity or other buckets? And within that, how would we think about the mixture across the three segments?

And the last thing is it sounds like Diversey will have a tough time growing this year because of FX. Would you confirm that or add color? Thank you, and good luck in the quarter.

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

Thanks, George, good to talk to you. What the big hitter -- the big hitter in 2015 is obviously that we are going to have more than $0.5 billion of currency translation. Just imagine, just go back one second to the fourth quarter and imagine us publishing a constant currency EBITDA number of about $300 million in the fourth quarter, which is what you would get if you add the $280 million and the $17 million of EBITDA currency translation loss.

So we would have all celebrated an extraordinary quarter. I can assure you that we would have just blown away our numbers on a constant currency basis for 2015. But life is what it is and we are taking -- we have felt it was coming, actually, very early in September actually, and we had started very early to take measures; hence, our Fusion project. To come to the point, $550 million and more possibly of foreign currency translation, equally balanced by volume, about $100 million, and price mix. So that is the way we are seeing it.

We are going to stay very firm on prices, first of all, because resin is not the only component of our cost. It is only a part of it. We are a highly-serviced company. As a result of that, we have a lot of manpower. We have 25,000 employees -- or 24,000 employees in this Company and, therefore, you remember my comment of two years ago about the salary match increase year on year. So this is a big part of the cost.

And we have conversion costs, etc.

Coming onto Diversey Care, well by definition we have 45% of our sales in Europe. We are exposed to currency and the translation that I just talked about. And therefore we are anticipating a slight improvement in our profitability in dollar basis.

Having said that, let me remind you that we are very clearly on the right track, as proven in 2013 EBITDA improvement, and as proven in our 2014 EBITDA improvement growth as we have -- in constant currency we have grown about 8%.

So we're making wins in the field. It happens in the field. But we are very focused on margin improvement in that business, which is the thing which is going to last over time no matter what currency is doing.

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

And, George, I will just add, just to remind everyone, we have highlighted $80 million EBITDA foreign-exchange expected negative hit year over year in our 2015 guidance. In addition, for a couple of years now we've talked very publicly that we have approximately around $60 million in annual inflationary costs related to wages, benefits.

So if you take those two as cost increases to go from the $1.18 billion to the guidance we've provided for EBITDA for 2015, that tells you. And then you take the $50 million positive for cost synergies, you can do the math and see what is remaining and that it's all coming -- a lot of good benefit from mix and price cost spread as well as the volume growth that Jerome highlighted. So both benefiting the Company and again staying firm on our good practices and policies and the cultural changes that we are making.

Also I will just mention real quickly, back to John's question, because of the great advances of technology I got an update from our President of our Product Care division to answer about the quality of the products.

And it is not meaningful yet, but we are starting to see a shift toward some of our Korrvu products for e-commerce, which is a much higher quality product, as well as our inflatable bubble, which also higher quality than some of or general use products. So we are starting to see a little bit of that trend but it is still very minor at this point.

---

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

Thank you, Carol.

---

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

Operator, next question, please.

---

**Operator**

Scott Gaffner, Barclays.

---

**Scott Gaffner** - *Barclays Capital - Analyst*

Just wanted to look backwards and look forwards around your pricing initiatives. I mean if I look back to 2014, maybe even over the last 18 months, a lot of your pricing initiatives look like they came on the back of higher resin. Maybe that made it a little bit easier for you, maybe it made it more difficult.

But can you talk about what the decline in resin means as far as pricing initiatives going forward? And can you also talk about what sort of benefits, if you were to maintain pricing, you would get from lower resin? Thanks.

---

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

So, I am not, Scott, going to go too much in details there for obvious competitive reasons. But what we have embarked into is a whole program of margin restoration. I said some time ago that we were not having reinvestment economics and we do need to have that. This is the very basis of proper business management. So we have gotten pricing as a result of resins and we have gotten other type of pricings at the very same time.

In the future we have in Europe, for example, last year -- sorry, this will come into the future -- we had last year pricing power also in Europe in -- despite a very poor environment. So this Company is in transformation and it is on the way of doing two things in a very disciplined way.

The first one is good business management. You saw it in terms of margin expansion, we need margin expansion because they have dramatically deteriorated in the past. And we're going to continue to be doing this. We're going to have mix improvement because by definition we are not putting the resources on our lower margin products, we are shifting them towards higher margin products.

And we doing working capital management. You have seen what we have done in just one year, we moved 300 basis points from 14% of operating working capital -- no, from 17% operating working capital to 14%. And this is -- and we are continuing to do these kinds of things.

And at the very same time we have started to reinvent this Company. And this Company is not going to be just about more plastic. It is going to be about the cutting edge of the technologies which will enable our customers to win. That is what we are going towards. That should give them higher margins and give us higher margins.

---

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

Operator, next question, please.

---

**Operator**

Chris Manuel, Wells Fargo.

---

**Unidentified Participant**

Good morning, this is actually Gabe on for Chris. Congratulations on the year. Just had a question about the state of the economy across the world with the US kind of emerging as being a little bit more strong and some of the other developing regions being a little bit fragile. And how you expect to sort of -- what regions and/or product lines you expect to get the 1.5% volume growth that you talked about?

---

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

Okay, well, Chris, good question and good morning. Well the buzz word, which is not mine which is everybody's, is volatility, right. I got it all wrong in fourth quarter when in October I said that we were anticipating -- we were already into the fourth quarter and we were anticipating a $10 million negative EBITDA as a result of currency translation, we got $17 million, almost double.

During the fourth quarter our average exchange rate for the euro was EUR1.26 and the real at BRL2.47, the ruble at RUB0.43. Guess what, the ruble is at RUB0.66 today, the euro is at EUR1.13, the Brazilian real is at BRL2.81. So more volatile than that I don't know.

So which is why am stopping making projections on resin prices, for example, on currency, etc. And our exchange rates for 2015 are at around those levels that we have today, although possibly just a little bit more conservative.

So where is it going to grow? We have -- we are expecting innovation to pull us and actually in food care the innovation has already pulled us -- pulled our results and our product mix, which is going really well. We're going to see a deceleration of the beef cycle -- negative beef cycle, so things should be improving a little bit in volume in North America. And we should see the hogs business have a little bit of growth in North America which should be all good.

Real at BRL2.80 is good for meat exports and for local profitability. So we should benefit a little bit about this. In Diversey Care we're continuing to eliminate low margin businesses and, at the same time, we have had a few solid customer wins in hospitality and we going to have even more on healthcare, in the kitchen and on TASKI. So I am positive there we should have some volume growth there.

We continue to grow volume nicely in emerging countries. In Latin America in TASKI we have been hurt by very fast devaluations, but we're up in reported dollars in AMAT and we're growing very, very nicely in quite a few countries down there.

And in Product Care we have -- Carol talked about our Korrvu line, we have some specialty packaging there which are doing very well in our systems which are doing extremely well also. And that is where we are planning to shift.

You've seen that we had growth in Product Care in Europe, which didn't have for a while. We think we have a lot of momentum in North America and intend to do that. And by the way also, in Asia on our Product Care division we are extremely optimistic that we're going to be succeeding there.

---

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

Operator, next question, please.

---

**Operator**

Chip Dillon, Vertical Research.

---

**Chip Dillon** - *Vertical Research Partners - Analyst*

Congratulations on another great year. When you look at the working capital squeeze, Carol, you mentioned that you have got it down to 17% of sales, could you give us -- and about $90 million or so I guess last year. What should we look for in 2015 and 2016?

And then just quickly, if you could give us a breakdown of the $97 million in cost saves last year, how that was split between the [equip] program and the one from back in 2011 -- I guess it was called the [IOP] program.

---

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

All right, so, good morning, Chip. As we think about the working capital, it contributed approximately $168 million for 2014 for our free cash flow and for 2013 it was about $145 million.

And as we look towards 2015, if you go kind of looking at the $600 million that we guided, we would anticipate -- if you do the math taking into account I gave you CapEx and restructuring payments, interest payments, you are going to come somewhere around $110 million expected benefit from working capital management.

We still are slightly over $100 million in past due receivables, so we expect some of that benefit to come from continuing to decrease our past dues. If you recall, we finished 2012 at over $200 million. So we've made great progress, but there is still some additional progress that we can make.

Also our management of inventory, we feel like there are continuing opportunities as we make our processes more robust around our sales and operations planning as well as SKU optimization. We also had some investments in inventory as we started to implement some of our new distribution programs that our supply chain team is working on.

So as we make those transitions at times we carry slightly higher levels of inventory and then we right size those. So we did have that right at year end. So we do have opportunities in both. Our payables, we've made great progress in increasing our days payable outstanding and we will continue to focus on that as well where it makes sense and where we have large dollar spend and large volume.

In terms of the $97 million in savings that we provided for the improvement from 2013 to 2014 for cost synergies, most of that -- a large portion of that came from our equip program. We still had a little bit trailing from our integration and optimization program, but the larger portion was from the equip program.

And as we look to 2015, as we noted, almost all of that $50 million in cost synergies will come from the equip program as well with the new Fusion program starting to give us a positive return at the beginning as we move into 2016. The new program has an internal rate of return in excess of 40%, so we are really excited about what that is going to bring to our cost structure as well.

---

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

Operator, next question, please.

---

**Operator**

Philip Ng, Jefferies.

---

**Alex Hutter** - *Jefferies & Company - Analyst*

Good morning, this is Alex Hutter on for Phil. Thanks for taking my questions and congratulations on the quarter. One of your public competitors in Food appears to be taking a more proactive stance on price, which is encouraging. But can you provide some color on competitive activity in Food Care and Product Care? And based on those dynamics do you expect to have you seen any players ceding price to gain share with resin prices falling?

---

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

There are some skirmishes in the field here and there by definition and -- but I would say nothing notable. Every company pursues its own strategy. We are not going to lose business that we don't want to lose. But we are the leader, therefore we have to be conservative on price reduction. And as I said before, our strategy is to recoup the margins that we have lost in the past and that is what we really want to do.

---

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

Operator, next question, please.

---

**Operator**

Rosemarie Morbelli, Gabelli & Company.

---

**Rosemarie Morbelli** - *Gabelli & Company - Analyst*

Congratulations. I was wondering, Jerome, you said something to the effect that refills were above your expectations for both the quarter and the year. And I was wondering if you could give us a little more details on the areas where you were surprised on the positive side and whether there were some negative surprises which were more than offset by the positive ones?

---

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

Okay, well, Rosemarie, good question again. What surprised me is not so much the results but -- because the result -- because the financials are the consequence of what we're doing. What surprises me is the speed at which from Q3 to Q4 of 2013 this organization has shifted its mind. And this organization is now a courageous organization.

We have our people who believe, our people who see how we are winning and how we can continue to win, have taken the responsibility of the price leadership and of their product mix leadership and of the need for innovation. And therefore things are moving at a pace which is very different than from the past. And I could see that, as I said, sometimes late Q3 early Q4 of last year.

And therefore you now are seeing the results that we had. We started in the first quarter, but in fact it amplified throughout the year. You should -- as we have said during the prepared remarks, our Product Care and Diversey Care business had constant currency sales improving every single quarter in.

Q1 our Diversey Care business improved in constant currency by 1.2%, in Q1 of 2014, it went up and up and up. And in the fourth quarter of 2014 it went up by 4%. And this is obviously something extremely important. And the same with our Product Care, which started the year at 2.6% and finished the year at 4.6%.

And this is extremely important because there is a changing pace, there is more courage in the organization, etc. It doesn't mean that it is going to continue to go crescendo like this because we have, as I said before, a very volatile environment and so on.

So we not going to take currency as an excuse. We have to do what we have to do, we're going to continue doing and forging ahead through a disciplined approach to our business to improve operationally and to start building, and we have started that, to start building the future.

So as to what didn't go that well, I would say I am not going to contradict myself with what I said before because I have been really positively surprised as to how we're gaining -- how we're making these cultural change (inaudible).

So the negatives are uncontrollable factors and I don't control currency and I don't control the overall economy. Having said that, we were not expecting the economy to improve much better. So this is going to be considered as a plus if it does come. It's been iffy in the last two to three years and we believe that in 2015 it's going to continue to be iffy.

---

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

Operator, next question, please.

---

**Operator**

Anthony Pettinari, Citi.

---

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

Operator, I think we --.

---

**Operator**

(Operator Instructions). I am assuming they don't wish to take the call. Shall I forward the next call through to you?

---

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

Yes, we'll take the last question, please.

---

**Operator**

Al Kabili, Macquarie.

---

**Al Kabili** - *Macquarie Capital - Analyst*

I guess, Jerome, you mentioned that this year is much more about margin than it is about price given the situation with the resin outlook. That said, in your outlook how do you think of 2015 as far as are we getting an outsized resin benefit this year that then makes it more difficult to expand dollar margins next year?

Or do you very much see 2015 as very much part of the normal progression in the EBITDA margin expansion and so you would still look to continue to grow margins in 2016 as well? Thanks.

---

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

So, we are ahead of our schedule. You remember that when we had our Investor Day in September of 2013 we have given guidance with regards to our EBITDA margins. We are going to be there and more in 2015. So we are ahead of our schedule.

The way it is going to happen with -- it's going to be slightly different temporarily, but we're continuing to have the same kind of approach to what we want it to have. But that is important to understand.

I am going to stop making predictions on the resins because in Q4 I was wrong. And I -- it is soft in Q1, there are wide discrepancies depending on the parts of the world which will have to be corrected. And next to that you have -- it can turn upside down very quickly.

Depending on the demand in Asia, depending on a few factors here and there you could see resin prices move back up. And therefore we have to be very careful with any price concession because, as we all know, it is much easier to go down than to go up. And these things can turn around very, very quickly.

We are resolutely on our way to 20% EBITDA in the mid- to long-term. I really believe that with our Get Fit initiatives and with our Change the Game initiatives, which are going to start to bear fruit in a meaningful way in 2016/2017 and from there, we are going to have a portfolio which is going to be fairly different with new and differentiated technologies, which should give our customers a differential advantage and improve profits -- profitability for ourselves too.

---

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

Great, thank you. Operator?

---

**Operator**

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

---