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SEE - Q1 2014 Sealed Air Earnings Conference Call

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OVERVIEW:

Management discussed 1Q14 results, reporting adjusted EBITDA of $252m. Guidance was for 2014 adjusted EPS of $1.50-1.60 on net sales of approx. $7.7b.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first-quarter 2014 Sealed Air earnings conference call. My name is Sidney and I'll be the operator for today. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes. I would now turn the conference over to Lori Chaitman, Vice President of Investor Relations. Please proceed.

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

Thank you and good morning, everyone. Before we begin our call today, I would like to note that we have provided a slide presentation to help guide our discussion. This presentation can be found on today's webcast and can be downloaded from our IR website at SealedAir.com.

I would like to remind you that statements made during this call stating management's outlook or predictions for the future are forward looking. 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 Forms 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 their reconciliations to US GAAP in the financial tables that we have included in our earnings release.

Please note that we will end the call by 11:00 AM today. Now, I'll turn the call over to Jerome Peribere, our President and CEO, who is traveling internationally and joining us remotely today. Jerome?

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

Thank you, Lori, and good morning, everyone. At this point, I'm sure that you have had a chance to review our press release and earnings results for the first quarter. Our first-quarter performance is a true testament to what we are becoming, a Company focused on helping our customers win through differentiated solutions and who shares in the value that we create.

Including in our operating standard is the necessity to pass on our raw material cost increases in a timely manner. In addition to recovering inflationary costs, the results of our customer value creation approach also shows in the improving quality of our earnings.

While there's always room for improvement and there is still plenty of work to do, we outperformed on most if not all our key metrics in the first quarter. We are in the early stages of becoming a knowledge-based Company and I am confident that we have the right strategy in place.

Now, I want to make you aware of an enhancement that we are implementing on our quarterly earnings releases. From time to time, we would like to give our division Presidents the opportunity to speak with you on a more routine basis regarding their business, key trends, and targeted performance metrics, and as always, Carol will provide a review of our financial results.

For today's call, I have invited Karl Deily, President of Our Food Care Division, to provide you with a detailed update on our Food Care and highlight Product Care and Diversey Care performance. At the conclusion of our prepared remarks, Carol and Karl will be available for questions. With that, let's get started with an overview of our financial results presented by Carol. Carol?

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

Thank you, Jerome. Let's start with our performance by region for the first quarter, which you will find on slide 4 of our presentation. I will highlight sales trends on a constant dollar basis as compared to last year.

Latin America, and Asia, Middle East, Africa, and Turkey, or our AMAT region, continued to be our fastest growing regions with growth of 10% and 7%, respectively. North America sales were up 3.5% with favorable price mix in each of our three core divisions.

In Europe, our focus on quality of earnings and eliminating low margin business resulted in a net sales decline of 2%. We experienced single-digit declines in France, Italy, Germany, and Switzerland, which was partially offset by a 4% increase in Spain and relatively flat sales in the UK. The six countries I just referenced accounted for approximately 20% of first-quarter sales.

Sales in Japan, Australia, and New Zealand were a little over 1%, which was lead by a 2% increase in New Zealand and a 13% increase in Japan, albeit off of a small base. This increase was partially offset by a 2% decline in Australia.

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 the slide, we have positive price mix in every division and in every region.

You can see our pricing efforts coming through, particularly in North America and Latin America. In North America, Latin America, and AMAT, we experienced favorable price mix across all divisions.

This has been a tremendous effort and we are extremely pleased with these results. It is worth noting that in Latin America and AMAT, we have experienced implemented price increases to address inflation as well as to offset currency devaluation.

Given the economic environment in Europe, we have not made as much progress implementing pricing initiatives as we have had in other regions. While in the first quarter we had a slightly favorable price mix in Europe, we have implemented additional pricing actions in Q1, the results of which we expect to see in the coming months.

Our overall volume declined slightly compared to last year. Karl will cover these trends in more detail, but at a high level, Food Care volume in the quarter was relatively unchanged compared to 2013, despite the fresh red meat market being down approximately 3% to 4% in North America and Europe.

Product Care volume, which was also essentially unchanged from the prior year, was negatively impacted by rationalization and unfavorable weather conditions in North America. The decline in Diversey Care volume was due largely to our efforts to eliminate low margin business.

Turning to slide 6, let me walk you through our net sales and adjusted EBITDA performance on a year-over-year basis. Starting with the net sales bridge, positive price mix of $62 million in the quarter was offset by a slight decline in volume. Unfavorable currency translation of $52 million was mostly due to the currency weakness in Australia, Argentina, Brazil, and Turkey in the first quarter 2014 as compared to Q1 2013.

For the quarter, adjusted EBITDA increased 9% on a year-over-year basis to $252 million, or 13.8% of net sales. We delivered 160 basis point improvement in gross profit margin and 110 basis point improvement in EBITDA margin, and within each of our divisions, we had both gross margin and EBITDA margin expansion. For the total Company, the increase in adjusted EBITDA was due to favorable mix and price cost spread of $36 million, partially offset by negative volumes of $9 million.

Cost synergies of $24 million were more than offset by $21 million of higher SG&A and other expenses, as well as $8 million of unfavorable currency. Adjusted earnings per share for the quarter was $0.33, as compared to $0.23 in the first quarter last year. The adjusted tax rate for Q1 2014 was 21.4% and includes favorable tax settlement in foreign jurisdictions.

Now, I would like to pass the call to Karl who will provide a detailed review of Food Care results and recap Diversey Care and Product Care performance for the quarter. Karl?

Karl Deily - *Sealed Air Corporation - President, Food Care Division*

Thank you, Carol. It's a pleasure to be with you today and join you on the call. I'd like to turn our attention to slide 7, where I'll begin with Food Care. And Food Care sales increased 4% in constant dollars, with approximately 4% growth in both packaging and hygiene segments.

As Carol indicated, Latin America and AMAT continued to be our fastest growing regions. This growth is attributable to overall market growth, customer adoption of our innovative products, and our pricing disciplines within these regions.

As we look ahead, while we expect overall beef production to moderate in Latin America and AMAT over time, we have a very strong market leadership position and believe we will continue to experience healthy growth rates. We are penetrating these markets with our value-added solutions and services and experiencing better pricing.

In Europe, our constant dollar net sales were relatively flat on a year-over-year basis. These results outperformed a protein market which was down approximately 3%. While the European economy appears to be stabilizing, the lack of GDP growth and flat to declining protein market continues to make it a challenging business environment.

Despite the negative market environment, we are still focused on recovering our increased input costs. While we reported a slight increase in price mix in quarter one, it was not enough to cover the raw material cost increases that we've incurred over the last few years, and the reason why we went ahead and implemented additional increases in the first quarter of this year.

Japan, Australia, and New Zealand sales were relatively unchanged with 3% growth in New Zealand offset by a 3% decline in Australia. The decline in Australia was predominantly due to pruning of low margin businesses, offsetting favorable market conditions.

In North America, the fresh red meat market declined more than 5% in the quarter with cattle slaughter rates down approximately 5.2% and hog slaughter rates down approximately 4% to 5%. Despite these unfavorable market trends, our business in North America delivered constant dollar net sales growth of 5% due to favorable price mix on relatively flat volumes.

We just started seeing the porcine epidemic diarrhea, or PED virus, negatively impacting port production in March in North America, and it is not expected to subside until end of the year. Going forward, in North America and Europe, we continue to experience single-digit declines in beef production. To date, we have done a very good job offsetting these declines with a more favorable product mix, better pricing, and new product introductions, and we will continue this effort.

With that said, we are anticipating the larger impact in North America and Mexico from the PED virus in the second and third Quarters as a result of continued declines in pigs per liter. For the full year, industry experts are estimating a reduction in the range of 1% to 7%, with the largest impact expected over the next three to six months.

I want to briefly highlight the EBITDA margin performance in the first quarter for Food Care. Adjusted EBITDA margin increased 150 basis points to 17.6% compared to last year. This increase was largely attributable to price increases and adoption of our innovative product portfolio.

While we delivered 9.5% year-over-year growth in the first quarter, the volume challenges in the beef and pork markets will negatively impact our business in the coming months. As a result, our adjusted EBITDA is only expected to be up slightly next quarter, as compared to the second quarter of last year. For the full year, we are anticipating EBITDA growth and margin expansion.

I would like to now comment on our performance in Diversey Care and Product Care, and if you'll turn to slide 8 I will start with the Diversey Care division. The highlights of the results from our Diversey Care division show net sales on a constant currency basis were up 1%. Favorable price mix of 3.2% was offset by a 2% decline in volume.

We have made progress exiting low margin business, particularly in Europe, where we experienced a 3% net sales decline on a constant dollar basis. This decline was offset by strong performance in developing regions with an 8% increase in constant currency sales. This was lead by double-digit growth in Eastern Europe and Latin America.

We also delivered 2% constant dollar growth in North America, despite a difficult shipping environment due to unfavorable weather conditions this winter. While we were focusing on customer rationalization and realigning our cost structure, we are also making targeted investments that will further differentiate Diversey Care's product offer in the marketplace.

It's worth noting that during the first quarter, Diversey Care's innovative dishwashing product offer, Suma Combi, was recognized by Tomorrow's Cleaning magazine, it's a leading publication in the hygiene sector in the United Kingdom, where we won Best Product 2014 award. Diversey Care's adjusted EBITDA margin increased 50 basis points to 8.8% of sales.

This improvement was primarily attributable to a more favorable customer mix and improved pricing. Favorable mix and price cost spread and synergies were offset by lower volumes, higher SG&A, and negative currency translation.

Looking ahead for Diversey Care, we continue to expect healthy growth in Eastern Europe, Latin America, and AMAT. In North America, we expect our sales trend to be more balanced throughout the year as compared to 2013 when we had a strong second quarter due to a significant buy in from the distribution channel.

In Europe, we are planning for volume declines as we continue to focus on improving the quality of the business in a market environment that is not experiencing much GDP growth, and the public sector spending is constrained, especially in machines and tools.

So if you'll turn to slide 9, now I'll cover Product Care. Product Care delivered 3% constant currency sales growth with favorable price mix of 2.1% and a slight uptick in volume. Constant currency sales in North America increased 2%, and Europe was essentially unchanged compared to last year.

In North America, the 2% sales growth was driven by favorable price mix of 4.2%. This was partially offset by a 2.4% decline in volume.

We are seeing an increase in demand from our eCommerce and third-party logistics customers for our packaging systems and cushioning solutions, such as Instapak, inflatable Bubble, and Fill-Air solutions. Growth in packaging systems and cushioning were partially offset by declines in general use, which was negatively impacted by unfavorable weather conditions and rationalization.

In Europe, relatively flat net sales were due to a slight uptick in volume, offset by an unfavorable product mix. Adjusted EBITDA margin of 17.8% was up 160 basis points compared to last year. Adjusted EBITDA increased 12% to $70 million. This improvement was driven by favorable mix and price cost spread as well as cost synergies.

While the Product Care team has made great progress over the last three to five months recovering raw material increases and improving the mix in North America, we still have plenty of work to do on this front as raw material costs in 2014 are expected to be higher as compared to last year, and are expected to continue to increase over the next few years.

As we look ahead, the Product Care team has an objective of more than recovering raw material increases, in order to be able to reinvest in future growth opportunities and innovation. We will continue to focus on providing our customers with automated, value-added solutions that lower the cost per pack, reduce damage cost, and minimize freight cost.

Our volume will be further impacted by our rationalization efforts; however, we expect to offset lower volumes with an improvement in mix and better pricing. Let me now pass the call back to Carol to review cash flow, liquidity, and our outlook. Carol?

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

Thank you, Karl. I will now refer to slide 10. As a reminder, we funded the W.R. Grace settlement and related accrued interest with $555 million of accumulated cash and cash equivalent, and $375 million from committed credit facilities.

Free cash flow, excluding the settlement agreement, was a use of $36 million for the quarter. This compares favorably to a use of $63 million in the first three months of 2013 due to our improvement in earnings.

Working capital as a percent of net trade sales improved from 19% at March 31, 2013 to 17% at March 31, 2014, which is consistent with where we ended the year 2013. CapEx in the quarter was $28 million. We expect capital expenditures to increase throughout the year, and at this time, are still estimating the full year to reach $170 million.

Cash restructuring costs were $27 million. We estimate cash restructuring charges to be $150 million in 2014. Cash payments related to SARs were $14 million in the quarter, compared with $17 million in Q1 2013.

For the year, we have increased our free cash flow outlook to $425 million from the previous guided $410 million. Our primary use for free cash flow generation continues to be focused on reducing leverage.

On slide 11, we present our total liquidity post the settlement payment as well as our net debt. I want to briefly discuss our liquidity position and where we expect to be at year end.

To partially fund Grace, we used our revolver and accounts receivable securitization facility. We also paid down our $150 million 12% senior notes in February. We expect our liquidity position to improve over the balance of the year as we continue to use our free cash flow to delever.

Our first priority for debt repayment is revolver borrowing. Because of our intent and ability to pay down the revolver within the next 12 months, our revolver outstandings are included in current liabilities, despite the fact that they do not mature until September 2016.

Net debt in the quarter increased $61 million to $4.4 billion from the balance at the end of 2013. This increase was a result of net cash used for seasonal inventory growth, annual incentive compensation payments, and interest payments.

Our outlook for the full year 2014 is summarized on slide 12. We are maintaining our forecast for net sales of approximately $7.7 billion, with organic growth of approximately 3% to 4%, which is due to positive trends in both price and volume, offset by rationalization of approximately 1% to 2%, and an estimated unfavorable impact of more than 2% from foreign currency translation.

We are also maintaining our adjusted earnings per share guidance in the range of $1.50 to $1.60. We currently estimate a full-year tax rate of 27% compared to the guidance we previously provided of approximately 25%, due to lower income that is now anticipated in certain foreign tax jurisdictions with lower effective tax rates.

We estimate adjusted EBITDA to be at the high end of our $1.05 billion to $1.07 billion range. We expect full-year adjusted EBITDA to improve in each of our three divisions as compared to 2013.

The other category includes our medical business and our corporate and unallocated cost. We expect approximately $100 million of net costs in the other category for the full year, as compared with $88 million in net costs for 2013. The increase is primarily attributable to additional investments we are making in core R&D platform technologies, as well as anticipated negative impact from foreign exchange losses.

As I mentioned earlier, we are increasing free cash flow guidance from $410 million to $425 million to reflect the higher end of our EBITDA range. We still expect distribution and amortization to be approximately $315 million. Interest expense is estimated to be approximately $295 million, and cash interest payments are estimated at $280 million.

In summary, we are very pleased with our first-quarter performance, and I would also like to note that our second-quarter earnings call is tentatively scheduled for July 30 at 8:30 AM. Operator, can you please open the call for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Ghansham Panjabi with Robert W. Baird.

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

Hey, guys, good morning.

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

Good morning, Ghansham. How are you doing?

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

Yes, listen, it's still early in the year, but clearly you're raising your EBITDA forecast versus where you were pointing initially on the midpoint of the range. More bullish on cash flow. Carol, how does that change your view in terms of share buybacks for 2014, particularly if your larger shareholders were starting to sell this year?

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

So Ghansham, what we'll do, we're still committed to the 3.5 to 4 times leverage. Obviously with the guidance that we've provided, we will be within that range at the end of the year. And as we've indicated previously, we would approach the Board once we are within that range for support to return value to shareholders, which could be in the form of dividends or share repurchase.

I think it is important, just to remind everyone, that within our existing credit facilities and notes, we do have a restricted payment basket which does limit what is available in terms of share repurchase and dividends. So we have to monitor that. Again, the most restrictive right now would be relative to the revolver, but we do have restrictions as well on certain of the notes.

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

Operator, next question please.

Operator

Our next question comes from Chip Dillon with Vertical Research Partners.

Chip Dillon - *Vertical Research Partners - Analyst*

Yes, thank you, good morning. Just as we dig a little bit into the free cash flow guidance, which is nice to see that it's up, could you just give us the elements of what looks to be about a $15 million increase?

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

So before where we were midpoint for guidance, Chip, and now we're at the higher end from our free cash flow standpoint. So if we were to do the walk from EBITDA, you would look at the $1.07 billion, high end of the guidance. We have previously communicated that we would expect non-cash profit-sharing expense of $40 million, we would have CapEx of $170 million I referenced, as well as cash restructuring charges of $150 million.

We've also previously communicated that cash tax payments are expected to be approximately $100 million for the full year, and our interest payments are estimated at approximately $280 million. The net difference to get you to the $425 million is a combination of changes in our working capital as well as SARs cash payment.

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

Operator, next question please.

Operator

Our next question comes from George Staphos with Bank of America Merrill Lynch.

George Staphos - *BofA Merrill Lynch - Analyst*

Thanks. Hello, everyone. Good morning. Thanks for all of the details.

Question I had is on pricing, two parts. One, could you comment as to where you're seeing the most significant difficulty, obviously you've had a lot of progress, but the most significant difficulty in implementing the new model across your product lines? And then the related point, are you seeing relatively good momentum either on pricing or volume with your foam in place businesses? Thank you.

Karl Deily - *Sealed Air Corporation - President, Food Care Division*

Well, I agree with you that we have been very successful. We're doing what we said that we were going to do, and that we have been very effectively moving price in a number of the regions, predominantly in North America. In our AMAT region, we've been able to get price in volume. Australia/New Zealand we've been able to move price.

Where we've had the most difficulty is in Europe, and that's where with the environment that we're in in parts of Europe, its been most difficult to move the price, typically for Product Care and for Food Care; however, we are committed to going back and we are going back. We have additional pricing actions that we've moved in the first quarter and we will continue to work those actions, and we are extremely focused on improving the quality of the business and getting paid for the value that we bring to our customers.

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

Operator, next question please.

Operator

Our next question comes from John McNulty with Credit Suisse.

John McNulty - *Credit Suisse - Analyst*

Yes, good morning. Just a question on the food packaging side. I know you highlighted the volume issues around beef and I guess an impending issue on pork.

I guess I'm wondering because of the pricing dynamics around that, where beef prices and pork prices have gone up a lot, while it's hurting you on the volume, is it helping you in terms of being able to get price and maybe upsell some of your products to maybe offset some of that, just because the value of the products that your customers are moving are so much higher than they had been a year or two ago?

Karl Deily - *Sealed Air Corporation - President, Food Care Division*

Well, it's one of those difficult balancing teeter-totter acts. It's difficult to drive price through to the market. I think we heard this morning Chipotle Grill increased their menu prices for the first time in three years, so it's not as easy for some of our customers to pass through pricing, but it is definitely I think helps the environment to drive both price.

And we have had an accretion in price and mix, especially in our major markets, and it's from just what you said. It's not only driving price, it's driving higher value-added solutions. We've been very effective in leveraging our value proposition into those markets to compensate for the lower production volumes.

And obviously, our goal is to help our customers market a lower volume of product so that they can generate greater revenue for themselves. So I think both from providing higher mix value-added solutions as well as just the constrained market is favorable for accretive pricing actions.

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

Operator, next question please.

Operator

Our next question comes from Al Kabili with Macquarie.

Albert Kabili - *Macquarie Research Equities - Analyst*

Hello, thanks. Good morning. Carol, I think it was mentioned on the call that the first quarter didn't yet reflect all of the full pricing actions that have been thus far taken. And I was wondering if you could help us quantify what the annual benefit from the incremental pricing would be that wasn't yet reflected in the first quarter?

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

Okay. So, Al, the comment largely was related to Europe. My specific comments. We have had additional pricing increases that were implemented in March that we would expect to see benefit of in the second quarter; however as we've also noted we will have offset due to rationalization, and Karl commented specifically about Q2 and potential impact from the protein market.

What I was commenting to was specific in Europe where we have had some price increases, but they've not stuck as much as they have in other regions. So we will be going back in specific geographies and with certain customers where we have not realized as much of an increase to cover on inflationary cost as we should have, as well as addressing underperforming accounts.

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

Operator, next question please.

Operator

Our next question comes from Chris Manuel with Wells Fargo.

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

Good morning, and congratulations on a strong start to the year.

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

Thank you, Chris.

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

One question, but it has two parts to it. First, from the perspective of I think if we take the high end of your guidance range it implies $32 million of EBITDA improvement for 2014 versus 2013, but yet, after Q1 you've already got $21 million of that in hand.

My question really comes around what changes with the cadence over the balance of the year? Are you possibly anticipating that the pricing that you're putting in place, that the competitive landscape gets more difficult? Or it sounds like you're still anticipating volume growth?

What are the elements that become potentially more challenging that don't make that either look very conservative or that are maybe negatives that we are missing?

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

So obviously, it's just one quarter that we've got under our belt, but there's still uncertainties ahead. We do have confidence in terms of our EBITDA performance, as we commented that we do expect improved EBITDA year over year as well as EBITDA margins.

However, as Carl has noted, the PED virus in North America and Mexico will be impacting the protein market for the remainder of the year, predominantly within Q2 and Q3. Within Product Care, same disciplined on pricing. We do expect further rationalization as we eliminate low margin business.

That has an impact on volume and we will experience some underabsorption, and that could also be the impact with Food Care with the decline in volumes related to the virus. For Diversey, again great executions from the team on pricing disciplines. Rationalization, they're being very proactive going after very low margin accounts, either to increase them or to exit them from the portfolio.

The macro environment in Europe is still remaining very challenging even though we are starting to see a little bit of stabilization, but again, there, because of some of the higher fixed cost structure, we do have underabsorption relative to that business and it impacts the overall profitability. So again, Europe will be key as we move forward. And again, on total for earnings per share, the tax is moving from 25% to 27%, also impacts our earnings per share.

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

Operator, next question please.

Operator

Our next question comes from Anthony Pettinari with Citigroup.

Anthony Pettinari - *Citigroup - Analyst*

Good morning. The sales bridge in the slide indicates volumes were at $12 million hit year over year. And on the EBITDA bridge, it says that volumes were a $9 million hit.

And given you've done a lot voluntary shedding of low margin business, I guess the decremental margin was maybe a little higher than I expected. So given you've had maybe some weakness in red meat or maybe weather, I was wondering if you could just give any color around that? And the volume, what volumes you're really losing?

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

So the biggest impact is relative to Diversey. Again, as I've just referenced on the prior question, because Diversey is more of a fixed cost structure as it currently stands versus Food Care and Product Care, if you looked specifically at their volume impact and out of that $9 million, Diversey accounts for $6 million of it.

So again, that's why we say when we get volume and top line growth in Diversey, it falls straight through to the EBITDA. So it's a great opportunity as we continue to see improvement in that business and the Diversey Care team works to align its cost structure.

We do expect in the second half of 2014 to see some of a greater impact for the alignment of the cost structure for Diversey Care, but that's the primary driver why you see such a big drop from the sales line to the EBITDA line.

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

Operator, next question please.

Operator

Our next question comes from Alex Ovshey with Goldman Sachs.

Alex Ovshey - *Goldman Sachs - Analyst*

Thank you, good morning, everyone.

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

Good morning, Alex.

Alex Ovshey - *Goldman Sachs - Analyst*

In the Food Care business, clearly you're making some pretty good progress on the pricing front. Can you just talk about the impact that has had on your market share across the key product lines if any?

Karl Deily - *Sealed Air Corporation - President, Food Care Division*

Sure, Alex. We don't talk specific market shares, but I think you can see how we have performed above the market that not only with our pricing, but with the new solutions that we're introducing to our customers that we've been able to outpace the market. So as we look forward in North America, we've had basically flat volumes, but we have the headwinds of the reduced slaughter rates and the second- and third-quarter impact of the PED virus on volumes that we're expecting in Europe.

Sales have been relatively flat, but they are obviously various dynamics in the European market. And I think we continue to have some losses due to pricing, but we also have had some very great wins, and that's both on the packaging side and the hygiene side of our business.

So we continue to manage the markets in our business very closely, and in areas where the markets are growing, like in Europe, there are parts of the market that are strong, whether it be Russia, UK, Northern Europe, the other markets that are very weak like Southern Europe, France, Italy, to name just two. In Latin America, where volumes are dropping a little bit but they are still improving, it's what we do is we just very much look at selling new products, penetrating those markets, and managing our margins.

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

Operator, next question please.

Operator

Our next question comes from Adam Josephson with KeyBanc.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Thanks, good morning, everyone. In 2013, your EBITDA contribution from price mix was $41 million and this quarter alone it was $36 million. If you run rate that, you get to close to $150 this year.

What's embedded in your full-year EBITDA guidance in terms of the price mix contribution? As well as any loss of volume related to those price increases and to the product rationalizations that you talked about earlier?

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

So in terms of our guidance, what we talked about was the fact that we would have the 1% to 3% year-over-year growth versus 2013. And in terms of the rationalization, that that would be, we would have organic growth of 3% to 4%, and that's due to both positive trends in price and volume.

We've not split that out specific to the organic growth, and we would have rationalization of 1% to 2%. And again, the foreign currency translation is a meaningful impact on the top line at more than 2% estimated.

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

Operator, next question please.

Operator

Our next question comes from Scott Gaffner with Barclays.

Scott Gaffner - *Barclays Capital - Analyst*

Thanks, good morning. Just wanted to focus for a minute on the rationalization. I think sounded like, Carol, on that last answer you just said that things were at 1% to 2%.

But can you talk about the progress that you're making on rationalization? Do you think there's a opportunity to accelerate that and maybe get that done in a 12-month period rather than 18- to 24-month period? And if so, what segments are running ahead of schedule?

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

Karl can comment specifically on Food Care as well as provide color for Product Care and Diversey Care, but in general, just to remind everyone when we talk about rationalization, it is by customer, it's by product, it's by geography. And we are approaching it in a very surgical fashion to make sure. The first step is to see if we can maintain business by increasing pricing, or changing the product offering that we may deliver to a customer, to improve that overall quality of earnings that we realize either from a customer or a certain geography and from a product line.

So that's the first approach, so that does take time. We are making meaningful progress and it is showing in our earnings results for Q1, as we are improving the quality of our earnings in a meaningful way. We then followed that, if we are not successful in some of those direct approaches to our customers or with specific product lines, then we have to move to exit.

Obviously, we can't just abandon a customer by not supplying them. We have to have it timed correctly because they may have other products that they buy from us, or we may have other support within a certain geography that we have to meet. So we will accelerate as best we can.

Obviously, we would prefer to have the improvement in earnings on a quicker basis because that gives us additional cash to reinvest in the business in terms of innovative products that we can bring to market, as well as delevering and getting to a position where we can return value to shareholders. Karl, I don't know if there's anything specific?

Karl Deily - *Sealed Air Corporation - President, Food Care Division*

Yes, Scott, the only thing I would add is it's a discipline. And it's like quality or a safety, I think it's a job that never ends. And hopefully you make progress on some of the significant dilutive customers products or countries, but you just continue to work the process.

And it is a process and you could then have a major devaluation like Argentina experienced in January, and you focus on that, and you may have other things that ebb and flow. But in general, I think it's an ongoing process and a discipline, and I think we're becoming much better at it.

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

Operator, next question please.

Operator

Our next question comes from Phil Ng with Jefferies.

Philip Ng - *Jefferies & Company - Analyst*

Hey, good morning. Margins in Diversey was quite strong, but awfully easy comp in Q1. How much of the improvement was you walking away from some bleeders and should we see continued momentum on the margins front? And can you provide an update on your progress in your push in North America?

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

So a lot of the progress that we made in Diversey Care was due to exiting a very low margin business. That made a meaningful contribution to the margin improvement. We expect as we move forward for the balance of the year, as Carl noted, that we will have continued margin improvement for the full year.

However, we also referenced the fact that Q2 comps will be a bit challenged because there was a pull forward in Q2 2013 on some sales for the distribution channel that we won't expect to repeat. We expect it to be more normalized in 2014 than it was in 2013, a little bit smoother.

In terms of North America, we are making progress. We referenced that our sales were up 2%, and that was despite the fact that it was a very challenging quarter from a weather perspective within North America. So we're pleased with our results and the team continues to do just a great job executing on its strategy.

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

Operator, next question please.

Operator

Our next question comes from Rosemarie Morbelli with Gabelli & Company.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Good morning, all, and congratulations on the strong quarter.

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

Thank you.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Carol, I was wondering if you could judge on the cash generation next year as well as the tax refund anticipation from the Grace transaction or solution? You gave us the numbers, the cash used in 2014, yes, with CapEx, restructuring, interest expense. Can you compare that with next year, or compare next year with this year rather?

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

So we've not provided details for 2015. We have talked about the fact that by 2016 we expect to have $600 million in free cash flow that was provided during our analyst day back in September last year.

I will note that as it relates to the refund that we expect to receive due to the Grace settlement, having actually funded that in 2014, that our cash benefit for 2015 is expected to be slightly in excess of $200 million when we file our 2014 return in early 2015.

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

Operator, next question please.

Operator

We have a follow-up question from John McNulty.

John McNulty - *Credit Suisse - Analyst*

Yes, just a question maybe for Karl. With regard to the customers that may have left because of pricing issues where you've raised price on them, is it too early yet or have you seen any indication of them coming back because either competitors have followed through on price, or the customers actually realize, hey, know what, there's more value than we thought and we're coming back? Have you seen any trends like that yet, or again, is it too early to tell?

Karl Deily - *Sealed Air Corporation - President, Food Care Division*

John, it's probably too early to tell, but we have had some of that occur in Europe on the hygiene side of the business where we implemented some significant pricing actions to the market where our margins or our performance just wasn't to our standards.

And actually, within two or three months, two of the customers that had left us came back, either due to the value of our products and services or the inability of the competitor to supply. So we do believe that we provide great value. As we market our value proposition that we provide great value to our customers, and we believe when some of them do step away that they will come back.

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

Operator, next question please.

Operator

Our last question comes from George Staphos with Bank of America Merrill Lynch.

George Staphos - *BofA Merrill Lynch - Analyst*

Thanks for taking my question. Bigger picture question for everyone, including Jerome if he's on the line. When we seen companies go through transformation turnaround programs, call them what you will, usually the first couple of years are where you make the most progress.

There's an obvious pricing need that needs to be addressed and gets addressed. There's an obvious cost reduction move that needs to be addressed and gets addressed. And the momentum is good and then invariably, these strategies for the companies lose momentum in year three or four.

How do you, if you agree with that premise, how are you going to maintain momentum within Sealed Air as you go get past year one, year two in this transformation, what specifically are you worried about and what specifically will you do? Thank you and good luck in the quarter.

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

Thank you, George.

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

So let me take that one. Am I the line?

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

Yes, you are.

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

So good question, and this is why we have two programs. One is called Get Fit, and it is about all I talked about was for a long time was a disciplined approach toward what needs to get fixed. And yes, we're making faster progress than I originally thought, but I'm not surprised because we have very clear guidelines, very clear metrics, and we are fabulously executing on all of those.

But the next step, which we are starting to do, is the same as changed the game. And the change the game is the more value-add approach to our customers. And you need to know that in Sealed Air, we are absolutely obsessed with making our customers win.

And winning for our customers is about adding margin to them through value-add solutions and then we share in the value. And this is a whole program, and of course we don't want to say too much about that until we launch some of those, but in the three divisions that we have, we are very focused in developing those.

Talking actually right now with some customers about some of those, and this is what is starting now and which is going to gain tremendous momentum over the years. Which is why during investor day, I was showing you this curve which was taking us to a certain level of EBITDA towards 2016, and then continuing to grow.

And I have very little doubt that this Company is going to look very, very different in three to four years from now because of the change the game. I hope I have answered your question.

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

Operator?

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

Thank you, Jerome. I guess before we wrap up, just to add one thing to get back to Rosemarie's question about cash flow, while we can't state whether it would potentially more favorably impact 2015 or 2016, we have implemented a special performance award program.

If we can exceed our cash flow that we provided to you of $600 million in 2016, as well as exceed goals for 2015 and 2014, so we've implemented a special program to incent a keen focus in the Company and across the entire Company to accelerate our cash flow generation. Again, helping provide investment for R&D, technologies, and innovation, as well as to more quickly being able to hopefully delever the Company as we move forward and return value to shareholders, and that is referenced in our proxy.

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

Thank you, everyone, for joining us today. Operator, I'll pass the call back to you.

Operator

This concludes today's conference. You may now disconnect. Have a great day.

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