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SEE - Q3 2013 Sealed Air Earnings Conference Call

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OVERVIEW:

Sealed Air discussed 3Q13 results and announced 2013 net sales guidance of approx. $7.7b and 2013 adjusted EPS guidance of $1.25-1.30.

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PRESENTATION

Operator

Good morning, everyone, and welcome to the Sealed Air conference call discussing the Company's third-quarter 2013 results. This call is being recorded.

Leading the call today, Jerome A. Peribere, President and Chief Executive Officer; and Carol P. Lowe, Senior Vice President and Chief Financial Officer. After management's prepared comments, they will be taking one question per person. (Operator Instructions). We ask that you limit yourself to one question per caller so that others will have a chance to participate.

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

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

Thank you. And 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 statements. These statements are based solely on information that is now available to us. We encourage you to review the information in the section entitled forward-looking statements in our earnings release, which applies to this call.

Additionally, our future performance may differ due to a number of factors. Many of these factors are listed in our most recent annual report on Form 10-K, 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 reconciliation 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 a.m. today. Now I will turn the call over to Jerome Peribere, our President and CEO. Jerome?

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

Thank you, Lori, and good morning, everyone. Our comments today will focus on third-quarter results and our outlook. But before I get started, I want to briefly highlight our Analyst Day that took place on September 20. And for those of you who couldn't make it, if you haven't done so already, I would encourage you to visit our Investor Relations website, download the presentation, and listen to the replay.

To quickly recap, we outlined our long-term financial and operational objectives for 2016 and how we are committed to meeting or exceeding those objectives. We spent a great deal of time talking about the new Sealed Air, and how we are driving financial and operational excellence and improving the quality of our business. We talked about our sales and value initiatives as well as our pricing disciplines.

We also talked about our targeted innovation roadmap and improving our return on investments. You will hear us reference themes from the Analyst Day on today's call, as each quarter is one step on our journey to becoming a knowledge-based company.

And I am pleased to confirm that our third quarter was a good one in our transformation. The tip of the iceberg is our new logo and tagline -- reimagine. Because we reimagine the industries we serve, and that is the way you need to think about us.

With that, let me turn to Slide 4 and get into the details of the third-quarter results, which we are quite pleased with. Sales were up 2% on a reported basis and up 2.9% on a constant currency basis.

Excluding the impact of stock appreciation rights, or SARs, our adjusted EBITDA margin was 15%, an increase of 5% compared to last year. The increasing EBITDA was driven by higher volumes; manufacturing efficiencies; and ongoing savings initiatives, particularly in our food care business.

On our pricing front, we had favorable pricing trends in each of our three core divisions, and in every region except Europe, which was not enough to offset the increase in raw material costs. While we had implemented new pricing disciplines and sales and value initiatives on a global basis, we still have more work to do. This is what I call go back to our sales force.

The actions that we have taken most recently are a direct response to price increases announced by our major petrochemical suppliers in the North American market, especially on polyolefins. We are confident that our pricing initiatives and overall strategy will provide us with what I call reinvestment economics -- or in other words, to obtain a return on invested capital above our weighted average cost of capital.

Slide 5 of our presentation highlights our top-line results by region. We continue to see solid growth in AMAT, where we had a 10% constant-dollar sales growth in the third quarter and on a year-to-year basis. In Latin America we achieved 9% constant-dollar sales growth in this past quarter.

And developing regions in total increased 9% and accounted for approximately 26% of our sales. On a constant currency basis, we experienced double-digit sales growth in Argentina and Turkey, with high single-digit growth in Russia, China, and Brazil.

In North America, we increased our sales 2%, while Europe was essentially flat. Economic conditions in Europe are still soft, with most of the major countries we serve declining in the low single digits. To be more specific, Germany, Italy, Holland, and Spain all declined between 1% and 2%, and France declined approximately 5%.

The UK was the only major Western European country that delivered sales growth at a constant currency rate of approximately 3%. These trends are all consistent with the rates of decline that we experienced last quarter. These 6 countries combined accounted for approximately 22% of our third-quarter sales.

And in Japan, Australia, and New Zealand, where sales increased slightly, Australia and New Zealand were essentially flat on a constant currency basis; but results in New Zealand significantly improved from the 10% decline we experienced last quarter, due to the positive impact of more favorable weather conditions in the dairy market.

And turning to Slide 6, food care sales increased 3% on a constant currency basis, with approximately 3% growth in packaging and 4% growth in hygiene. Regionally, in AMAT and in Latin America we continue to benefit from increased hygiene standards, rising beef production, a strong customer acceptance of our innovative products and solutions.

In the third quarter, beef production rates in Latin America and AMAT were under high single-digit, low double-digit ranges. And we expect to see these growth trends to continue into the year. Latin America sales increased approximately 9%, with Argentina contributing 26% growth and Brazil contributing 9% growth.

In AMAT we achieved 11% constant currency growth, with an increase of more than 20% in China and approximately 10% growth in both Africa and Turkey. And in North America, constant currency sales increased approximately 3%, while in Europe we experienced a 1% decline.

From a total market perspective, in the third quarter beef production declined by nearly 2% in North America and approximately 3% in Europe. Hence our strong performance. We expect declining trends in these regions in beef production to continue through year-end and in 2014.

And during these down cycles, we have a focus on gaining additional traction with our value-added solutions, such as case-ready and Grip & Tear applications. This strategy has enabled us to improve the quality of our business.

As we look ahead for our food care business, we are seeing early indications that we expect to have a positive impact on our business over the long term. Crop conditions have been favorable, and corn prices have come down; and these trends translate into increased protein production over time. Poultry typically is the first market to be positively impacted, and production is already up approximately 2% since the beginning of the third quarter, followed by hog production.

And finally, I want to briefly highlight the EBITDA margin performance that food care delivered in the quarter. Excluding the impact of SARs, EBITDA margin increased 100 basis points to 16.1% from 15.1% last year. The margin expansion was primarily driven by higher volumes, manufacturing efficiencies, and cost synergies. And as we have discussed for many months now, our sales efforts are focused on bringing value-added solutions to our customers and selling higher-performance products, such as the product that I mentioned a minute ago.

Slide 7 highlights the results from our Diversey Care business. Diversey Care net sales on a constant currency basis were up 1.6%, driven by strong performance from the developing regions, including Eastern Europe. While our overall top-line performance was impacted by a continuing soft economy in Western Europe and negative volume trends in North America, which I will discuss in a moment, we did see better pricing discipline globally and a healthy win/loss ratio in the quarter.

We also had strong performance in the retail, food service, and healthcare sectors. And on a regional basis, constant currency sales growth was in the range of 10% to 12% in Eastern Europe, Latin America, and AMAT. We saw strength across all end markets and throughout the distribution channel.

In Latin America, we were driven by continued strength in Brazil, which increased 8%; and Argentina, which increased 32%, and 9% on a reported basis. Strength in AMAT was driven by 11% growth in Turkey, 14% in the Middle East, and 20% in Africa. And this was achieved with China essentially flat compared to last year this quarter, as our business was negatively impacted by lower government spending and declines in consumer traffic in international food service markets.

In North America, sales declined 3% compared to last year. During the quarter there was destocking in the distribution channel and floor care sales declined in the government and education sector as some of our customers tightened their budgets. We believe that our distributors' inventories have returned to normal levels, and as a result, you should expect fourth-quarter volume in North America to improve.

In Europe, which accounts for almost half of Diversey Care sales, we reported a 1% decline in constant currency, which is in line with what we experienced last quarter on a year-over-year basis. Our business is still challenged with single-digit declines in most countries throughout Western Europe, except for the UK, where we had 2% constant currency sales growth.

Continued weakness in Western Europe was partially offset by strong performance, as we mentioned earlier, in Eastern Europe. Adjusted EBITDA margins excluding the impact of SARs was 10.6%. The lower than anticipated volume in North America and some unusual items negatively impacted margins, including bad debt, which Carol will address in her remarks.

We are very focused on improving the earnings quality of this division, including the implementation of our ongoing cost savings initiatives and our efforts to eliminate bleeders.

And turning to Slide 8, product care delivered 4% constant currency sales growth, with 4% growth in North America and approximately 3% growth in Europe. We had low single-digit growth in Germany, the UK, and Italy, which was partially offset, again, by a 6% decline in France.

These year-over-year trends in Europe are an improvement from last quarter, but we still do not expect the macro environment to change much heading into year-end. And in terms of pricing and product mix, we are making progress, as you can see from the positive price mix spread we delivered in the third quarter as compared to a negative 2% we reported last quarter.

This is a direct result of our decision to walk away from lower-margin businesses, hold firm on our pricing strategy, and focus on growing our packaging systems and cushioning businesses. While this is encouraging, we are still not capturing enough on price to offset raw material increases and have a more positive impact on our margins. And this is becoming a strong priority for us.

And now, with this, I will turn the call over to Carol to provide additional comments on the third quarter and outlook for 2013.

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

Thank you, Jerome, and good morning, everyone. If you are following along with our presentation, Slide 10 provides a bridge for the 2% year-over-year net sales growth. Volumes contributed $26 million. Price mix was $28 million positive, driven by favorable trends in all divisions.

Currency translation was $15 million unfavorable, primarily due to declines in Latin American currency -- and most notably in Argentina and Brazil, which declined 17% and 10%, respectively. Slide 11 reflects the adjusted EBITDA bridge from third quarter 2012 to third quarter 2013. The year-over-year improvement was primarily due to $22 million in cost synergies and $9 million of higher volume.

Unfavorable SG&A and Other of $16 million includes $9 million of compensation and benefits inflation and a few specific items in Diversey Care, including a $4 million bad debt reserve related to a large customer in our AMAT region, as well as a $2.5 million increase in our inventory obsolescence.

As Jerome mentioned, price mix was favorable on the top line, but it was not enough to fully offset the increase in raw materials cost.

I want to take a minute to speak to how Sealed Air is implementing stronger credit and collection policies, enhanced customer credit risk reviews, and increasing reviews and approvals required for contracts that include rebates and related items. Earlier this year we named a new Global Director of Credit and Collections, who is implementing best practices across the Company and upgrading the risk management talent.

We are also now holding our commercial teams accountable for timely collection of customer payments and for bad debt exposure. This is a very important part of Sealed Air Getting Fit.

SARs expense was $9 million in the quarter as compared to $3 million for the third quarter last year. While the amount of SARs expense is not linear with the change in value of Sealed Air's stock price, based on the current number of SARs outstanding, we estimate that every $1 change in Sealed Air's stock price impacts our EBITDA by approximately $1 million.

As of September 30, we had $1.3 million SARs outstanding, of which $1.2 million were unvested. The $1.2 million vests as follows -- $400,000 on December 31, 2013; $500,000 in 2014, and the remainder in the first quarter of 2015. Based on recent experience, we would expect a large portion of the SARs to be exercised within a few months of their vesting date.

Now turning to Slide 12, for the nine months ending September 30, we generated $195 million of free cash flow, a $228 million improvement over the first nine months of 2012. The significant improvement in free cash flow was primarily due to higher net earnings, improvement in certain working capital balances, and lower capital expenditures, partially offset by higher SARs payments.

CapEx in the first nine months of 2013 was $80 million compared with $98 million for the same period a year ago. SARs payments totaled approximately $43 million for the nine months ended September 30, 2013, as compared with $23 million for the same period in 2012.

Our primary use for free cash flow generation continues to be focused on reducing leverage. Our outlook for the full year of 2013 is summarized on Slide 13. Net sales are expected to be approximately $7.7 billion, or at the low-end of the $7.7 billion to $7.9 billion range previously provided. Year to date, currency has negatively impacted our net sales by $53 million.

We are raising our guidance for adjusted EBITDA, adjusted earnings per share, and free cash flow. Based on our third-quarter earnings performance and our expectations heading into year-end, we now estimate adjusted EBITDA to be approximately $1.055 billion versus our previous guidance of $1.01 billion to $1.03 billion.

Adjusted earnings per share is estimated to be in the range of $1.25 to $1.30. This compares to our previous guidance of $1.10 to $1.20. The increased outlook for adjusted earnings per share is due to the increased estimate for adjusted EBITDA, reduced depreciation and amortization, and a lower anticipated effective tax rate. We now expect our core tax rate to be in the range of 20% to 23% for the full year. The lower effective tax rate in the quarter and for the full year is a result of a favorable mix of earnings in certain jurisdictions with lower tax rates.

Year to date, depreciation and amortization was $232 million. For the full year, we now estimate D&A to be approximately $310 million. There is no change to our outlook for the non-cash profit-sharing expense of $40 million and interest expense of $355 million, which includes approximately $290 million of cash interest expense.

Our full-year free cash flow is now estimated to be approximately $375 million. This compares with $280 million for the full year 2012 and our previous guidance of $275 million to $325 million. The increase in free cash flow expectations is primarily driven by higher net earnings and lower capital expenditures.

CapEx is currently estimated to be approximately $130 million and includes $25 million in restructuring capital. The lower CapEx guidance is due to our conscious decision to begin projects in the second half of this year in order to manage cash flow due to economic uncertainties we saw in the early part of 2013.

While we have pushed to accelerate these projects in the second half of the year, we now have more clarity on timing, and some of these projects will not be able to be completed until 2014. Cash restructuring payments estimated to be approximately $140 million. However, as we have shared in the past, timing of execution of certain restructuring activities can be very uncertain, especially in Europe. Cash taxes are estimated to be approximately $100 million.

While we are not providing guidance for 2014 at this time, based on current estimates, we are forecasting 2014 depreciation and amortization to be approximately $320 million and CapEx to be in a range of $180 million to $200 million, including the carryover of certain 2013 CapEx projects.

Our cash interest is estimated to be approximately $270 million in 2014. Cash taxes are estimated to be approximately $100 million, assuming an effective core tax rate of approximately 25%. 2014 cash restructuring payments are currently estimated to be approximately $130 million.

Now I would like to update you on where things stand with Grace. As most of you know, we are still waiting for the Third Circuit Court of Appeals to issue an opinion as to the bank lenders' appeal. We are also waiting until early December to know whether the other appellants will seek an appeal with the US Supreme Court.

Grace previously indicated that it was targeting bankruptcy emergence in Q4 2013. And although it is still possible for Grace to emerge from bankruptcy in 2013, Grace has recently publicly stated that given where things stand with the appellate timetable, it cannot reasonably expect to emerge this year.

As I am sure most of you have read from our public filings, we have negotiated for key protections as part of our settlement agreement concerning the Grace matter, including releases, injunctions, and other protections, and the finality of appeals is related to certainty of these protections being preserved. We do not control the appellate timetable, including when or how the Third Circuit will rule on the bank lenders' appeals; whether the parties will seek to appeal any Third Circuit ruling; whether the Supreme Court will take up any of these appeals; or how any ruling on appeal might impact the underlying bankruptcy plan.

In any event, as to the total deferred tax asset of approximately $400 million related to the settlement agreement, we have previously disclosed in our 10-Q filings the potential for this asset to be reduced by up to $50 million if Grace does not emerge in 2013. We have been pursuing available options to preserve the full amount of this deferred tax asset, but no assurances can be given that the full amount will be preserved.

And now I will return the call back to Jerome.

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

Well, thank you very much, Carol. Before I open the call for questions, I would like to thank all our customers and shareholders for their very strong continued support. I would also like to thank our employees around the world for the commitment to improving the operating financial performance of Sealed Air.

We have made tremendous progress in achieving our objectives, but there is still work to be done. We look forward to speaking with you on our next earnings call, currently planned for February 6, 2014. Operator, I would like to open the call to any questions from the participants.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John McNulty, Credit Suisse.

John McNulty - *Credit Suisse - Analyst*

When I look at the guidance raise that you have given, it looks like a little bit of it is tied to maybe a slightly lower tax rate going into the fourth quarter, but that doesn't look like it accounts for all of it. So I was wondering, Jerome, if you can give us some clarity as to maybe where you are being surprised the most at this point -- whether it is on the pricing, or the cost-cutting? Or is it just the environment is getting better on the macro front?

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

Well, the environment, generally speaking -- we haven't seen that it was getting better in North America. We are going to be slightly impacted negatively by the governmental shutdown during Q4 on our governmental businesses, which I mentioned to you earlier at the point in time.

So it is not macros. It is -- we are very diligently moving towards our Get Fit strategy and making very good progress. So it is about discipline. We have a good cost control. We have some volume growth in some of our markets we just talked about, and we are improving on our pricing strategy.

I am not satisfied with where we are. There are strong competitive forces, but we are making progress. You saw that we announced a price increase effective November 1, so this is a must for us for to achieve in North America. The reason is that we have had polyolefin cost increases mostly effective September 1. And we can't get them immediately through, but this is why we have announced November 1.

We do have, also, pricing formulas. And in our food care business in North America, specifically, we have quite a lot of business on pricing formula. They have a slight lag. We are going to start seeing the benefit from this, which means that we are, in fact, doing a little bit better in pricing that you can see in this point in time.

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

All right. And, just to add a little bit more color to that, as we look at Q4, right now, October, total sales are kind of tracking in line with last year's trend. We did finish Q3 a little bit stronger than what we had anticipated, even as we were entering the first part of September.

Operator

Adam Josephson, KeyBanc Capital Markets.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Carol, I think you just addressed this, but I just -- obviously, you reaffirmed your full-year guidance at the Analyst Day, with 10 days to go in September. So what changed subsequent to that event that you were not expecting? I guess this somewhat goes back to the previous question, but was volume better; was cost savings tracking better? What specifically improved relative to your expectations?

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

Adam, it was -- again, we finished September much stronger. July and actually, probably, a good portion of August, we were not seeing a lot of favorable trends. And as you look at the information that is provided in the earnings release, you will see that we did perform very strongly from a cost control standpoint and with the synergies.

We had $22 million in cost synergies for the quarter, as well as -- and then we have had $75 million year to date. So a lot of it is around cost control. But again, if you look at the year-over-year constant-dollar sales growth, that is also pretty favorable compared to what we are seeing in the greater global economy. Unfortunately, we just don't have the ability kind of midmonth to be able to measure and account for all of the cost performance improvements.

Operator

George Staphos, Bank of America.

George Staphos - *BofA Merrill Lynch - Analyst*

You had mentioned earlier that you are putting into place new controls, procedures, accountability for managing credit. Jerome, Carol, could you comment at all on what you are doing to manage pricing implementation and to verify that the price increases that you want to put through and that your sales and marketing folks are saying they are putting through are, in fact, being put through?

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

Great question, George. It is all about discipline. And our organization was very sales driven, as I explained to you from my observations earlier in the year. We have taken some people and isolated them in the marketing function to make sure that they are in charge of pricing.

When I went to school, I learned that marketing was about the 4Ps. Well, in the B2B business, the 4Ps become two, and they are product and price. And that is the job of marketing. And that is what we are reinforcing.

So we have identified some people who are clearly accountable to look at our costs, our pricing, and to get those through. So that is what we are doing.

We are doing the same with our credit policies. We have a level of bad debt with which is unacceptable. We have a level of past dues which is unacceptable. And we are working very hard at correcting all of this.

Operator

Ghansham Punjabi, Robert W. Baird and Company.

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

Back to the pricing issue, you know, the 4% to 9% announced in North America -- the industry has obviously lacked transparency, particularly in plastics packaging as it relates to formal price increases. So first off, Jerome, is this something that we should expect with more regularity, as it sort of is driven by higher polyolefin costs, if they continue? And second, in terms of the overseas markets, when can we expect a comparable strategy there in terms of pricing?

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

So what you saw from the announcement we made is -- it was dictated by urgency. There has been a retroactive September 1 price increase from the polyolefin producers. And we were in need from -- of urgency to get those things done.

I come from industries where those were publicly announced. And I don't see any problem doing this kind of thing, and potentially, we'll continue doing this.

We have announced to our customers price increases in all the sectors last Spring. Some of this went to the level that we had announced. Some were partial. At this time we are seeing margin squeeze that we just simply cannot accept.

So we are going to go and go strong on those. This is the value that we deserve to get in order to have reinvestment economics. So I am really feeling very strong about this.

Now, with regards to the other parts of the world, it is just the same. It is the same that we, generally speaking, can have, either polyolefins or the type of products cost increases. And fundamental discipline means that you are going to be passing them on to all your customers. This is step one.

And then, according to the value that you create and the uniqueness of your solutions, you need to have margin expansions. That is what I am looking at, and I will measure this through margin expansions in each of our businesses. We have had pricing growth in the US; in Europe, even; et cetera, et cetera, on the product care business that you were mentioning earlier. But they are not sufficient to cover what we are going through.

And, by the way, this is an opportunity to get rid of some of our bleeders. We do have some low-margin businesses, which we either get what we need or we are going to move out.

Operator

Alex Ovshey, Goldman Sachs.

Alex Ovshey - *Goldman Sachs - Analyst*

Wanted to ask a question on the price increase announcement that was discussed earlier in the quarter. And as you think about your book of business over the next 12 months, how much of that book of business do you expect will benefit in full from the 5% to 9% increase in prices, and how match much will take longer than 12 months to actually see the full benefit?

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

Well, I cannot wait for 12 months to see the benefits of our announced price increases. We have obtained some price increases as a result of our Spring announcements, but not enough, and inconsistently.

Of course, there are competitive forces, and in the food care businesses we lost -- we have been taking a business from a very large international competitor, some business in Australia and New Zealand. We have been taking some business -- or an account in the US, also. Well, that is life.

But we are the leader. We need to be leading in pricing discipline. So that's what we are.

But 12 months is clearly not acceptable. We just can't wait for 12 months to get -- to recover our costs. Remember what I said. We need to -- this is the pricing discipline aspect, which is to recover by definition our cost increases. And next to that, we need to be better at analyzing and understanding the value we create for our customers. And as a result of that, to see margin expansion.

Operator

Chris Manuel, Wells Fargo.

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

Congratulations on the strong finish here to the year. I wanted to ask you a question, if I could circle in on Diversey a second. And specifically, when I look at the profit trajectories we worked through Q3. I guess where I am really trying to go with my question is how this might suggest into 2014.

But when I look at the performance here in Q3, even if I were to adjust for the bad debt expense, and the inventory obsolescence, and the $1 million you have here for volume, your earnings were still down on a year-over-year basis. I know some of the price increases you have got through look to be more in some of the food care and protective care pieces. What are you doing specifically within the Diversey piece to improve profitability and help to offset some of the extra impacts? And how that might play out into 2014?

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

Okay. So several things. First of all, my take is that if you exclude SARs and if you exclude this bad debt, and if you include the one-offs, et cetera, we are not doing worse; we are doing slightly better. So that is my view.

What we are doing is, under the leadership of [Yi Lam], we are simply -- she has simplified her organization. It is done. She has done that this summer. She is still making business improvements, taking care of bleeders, and she is imposing a much better pricing discipline.

There is a lot of work to do. It is not easy. But we are getting there. I am optimistic, actually, from what I am seeing, that we are getting traction in the marketplace. Our equipment business is doing quite well. We have booked a few weeks ago the largest equipment machine order that we ever had, and it is going to be delivered in the coming few months, et cetera.

So there are some real good things going on. They need to translate into numbers. It is going to take a little bit of time, but we do have some good wins and some good channels improvements here and there.

Operator

Scott Gaffner, Barclays.

Scott Gaffner - *Barclays Capital - Analyst*

Good quarter. Just curious, Jerome, on your commentary on Europe -- you still seem to be maybe a little bit pessimistic on Europe. But if I look at sort of the volume trends in Europe sequentially, European food plus-1% in Q3 versus minus-1% in Q2. European product care looks like it was up 4% on volumes versus about 2% in Q2. And in Diversey Care we seem to be sort of still down about 1.5%. So is it just -- are you being cautious on Europe, or is there something else going on that leads you to believe that things are going to continue to be relatively flattish in Europe going forward?

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

You see, Scott, everything is relative in life. I have read quite a few documents or quite a few articles recently which were saying Europe has turned the corner, et cetera, et cetera. So from a GDP point of view, all we are talking about is moving from 0.4% negative GDP growth to plus-1% or plus-2% -- plus-0.1% or plus-0.2%. So again, all of this is relative.

Do we see positive trends quarter over quarter, which means do we see improvements in the third quarter compared to the year to date? Yes, we do. Except in France. But in the UK, as I said, we had year-to-date growth of 1.2% in UK, and we are moving to a 2.6% in the past quarter.

In Italy, we were having a negative growth of about 3%. We are moving to about 1%. In Germany, it is about stable to pretty iffy at this point in time. In France, it is improving; but we have got hit big time because we were strong in France in food care and product care, also. We have been, year to date, about minus-7%, and we are about minus-5%.

And I am well placed to know that the French economy is very iffy, and the consumer sentiment is very poor. In Spain, we are improving. Moved from a minus-3% to a minus-1%. So yes, things are improving, but it is going to be a long time before European GDP is above 2%. It is going to be a long time because of the importance of governments' spending, which is in most of those economies around 50% of the total GDP.

Operator

Marc Wilde, Deutsche Bank.

Mark Wilde - *Deutsche Bank - Analyst*

Jerome, I wonder if you could give us a little more color in Latin America. When you talked about volume trends, particularly in Argentina and Brazil -- but especially Argentina -- you were throwing out some big year-over-year gains. And I just wondered if you could put a little more color around that. Maybe talk about how sustainable you think that strength is. Historically, those have been pretty volatile markets.

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

Okay. So constant currency growth in Argentina is meaningless when you have 25% devaluation. All right? So in this specific country, you need to have -- you need to look at your year-over-year, and we are quite pleased with what is going on. And very bluntly, it is the quality of our people. We have got very, very good people in that country, and in Latin America, also.

So our total growth in food care year to date has been close to 10%. But 29% in constant currency, but real, in dollars -- in local currency, after the devaluation it has been about 9%. Great, great growth.

Our total business -- in Diversey Care we are doing wonderful. And again, it is the local quality of our people which really makes a difference. So then, on a total country -- on Diversey Care, we have been growing double-digits year to date in dollars. We have been growing over 30% in constant currency, which I said doesn't mean -- but the real number to think about is about 12%.

Operator

Al Kabili, Macquarie Research Equities.

Al Kabili - *Macquarie Research Equities - Analyst*

Just wanted to get a little bit into the guidance, which implies a $12 million sequential drop in EBITDA. And Carol or Jerome, I think you mentioned you had seen some pretty good momentum. And exiting the third quarter, we have got the price hikes that you have announced for November 1. So if you could just kind of help us with that sequential decline that you are looking for?

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

A quick comment on this with regards to cost and pricing. Remember that we have our polyolefin cost increase effective September 1, as announced to the industry. And our price increases are effective November 1, when they apply. When we have formula pricing, they don't apply; it is the overall trend. So that has a slight negative. Why don't you comment on the rest?

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

Yes. And, Al, we also -- remember, we have some seasonality where Q2 and Q3 for the total Company are typically our strongest quarters. And in Q4, while we do benefit from on our packaging side relative to the holiday season, there is less hospitality that we see on the Diversey side. So we will experience a slight decline going sequentially from quarter to quarter due to that seasonality.

Operator

Phil Gresh, JPMorgan.

Phil Gresh - *JPMorgan Chase & Co. - Analyst*

My question is sort of a follow-up to that one, more on the top line. With your guidance of kind of -- your trends of flattish top lines from the fourth quarter, and your implied guidance being similar to that, I assume pricing is at least the same as the third quarter, if not accelerating, given the increases?

So volumes in the third quarter were positive, so I am wondering where cost of portfolio specific segments, et cetera, you might be seeing the deceleration of the trends? And Carol, if you could very quickly just confirm -- in the CapEx for next year, is the full $30 million decline this year carry over into next year? And how much is in the restructuring for CapEx next year?

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

So if we look at just kind of trends as we head into Q4, again, I mentioned that October is kind of tracking in line with last year trends, obviously with still two months to go. Food -- we expect modest growth overall, with Latin America and AMAT positive.

North America, as Jerome talked about, we do have some negative trends, especially as it relates to the fresh red meat market. He gave you some of that data. We are really not expecting any benefit from Europe to possibly having some downward pressure.

Diversey, again, Jerome highlighted all the strong emerging market growth. North America -- we do have some risk, especially that might trail from the government shutdown. And we expect it to be flattish. We will have some improvement, we believe, from our distribution channel, because the destocking that we experienced in Q3 -- we don't expect that to continue into Q4, but we are not really expecting a pickup. And again, Western Europe not to provide any momentum.

For our product care business, we do expect some growth on constant currency. However, we will have some negative FX that will affect all of the businesses. So that will be an impact.

And as we look at CapEx, yes, the $180 million to $200 million does include the $30 million carryover from 2013, and the $180 million to $200 million includes approximately $40 million relative to restructuring capital.

Operator

Philip Ng, Jefferies.

Philip Ng - *Jefferies & Company - Analyst*

On the I&L segment, there was a bad debt expense during the quarter. How should we think about that going forward? Will that reverse?

And I guess, stripping that out, and if I look at EBIT margins overall for the full year at kind of flattish, should we expect a bigger margin improvement next year, with the European restructuring kicking in?

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

Okay. So let me -- I'll address on the bad debt expense. It was a very unusual situation. It is a specific customer that had grown quite substantially on a year-over-year basis. And as they were trying to manage that growth, they ran into certain issues.

We are still pursuing collection of that bad debt. We are waiting on certain court actions within the specific country on how they will recognize that customer's petition for relief on certain items. So it is a very fluid situation, and it is unusual for us to have that large an amount specific to one customer. So we would not expect it to continue. If we are successful in our collection pursuit, then we would be able to reverse that.

As far as margins, and Jerome may have more specific comments, but we do expect Diversey to improve its margins as we move forward, especially in 2014, because as he has highlighted, we have done a lot in terms of implementing cost synergies, the realignment of the organizational structure. We are really not commenting specifically at the divisional level as to what we expect, but we do expect improvement, just as we do with all of our businesses -- to have year-over-year improved performance.

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

Actually, what you need to do, Phil, is to refer to our Investor Day. There is a roadmap there, and it is still intact.

Operator

Rosemarie Morbelli, Gabelli and Company.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

You talked about getting the cost increases, the price increases. Could you also touch on what you are doing on your purchasing, and whether you could pass through half of what you are getting, and then the other half by benefiting from changes you are doing with your suppliers?

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

Well, our objective is to pass, clearly, all of our cost increases. There is no way out. And this is what has mostly affected the performance of Sealed Air over the past few years, and it has reflected in declining EBITDA percentages year over year much too often in our history.

So it is a question of discipline. And when we just can't pass those, and when we have to accept as a fait accompli that a given product line has commoditized too much, we need to change the service model. And if it still doesn't work, we need to accept that this is a product line we don't necessarily want to be in. And you have got lifecycles in products and product lines, and you've got to accept them.

Operator

Anthony Pettinari, Citi.

Anthony Pettinari - *Citigroup - Analyst*

At the Analyst Day you detailed your earnings quality improvement program. And I was just wondering, as we approach 2014, can you give us any updated color on how you would expect the benefits of that program to be distributed between 2014 and 2015? And then, when we look at the two restructuring programs in total, is it safe to say, again, that Diversey is going to see the biggest kind of margin improvement as a result of restructuring in 2014?

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

So I guess we are not providing any information on 2015 at this time. We did -- as it relates to the restructuring programs for Analyst Day, I did break down how we expected the costs to play out for 2013, 2014, and 2015. That has largely stayed the same.

Actually, if you look at all of the restructuring, all three of the divisions have benefit from the restructuring program. At this time, food care and Diversey Care specific to the restructuring would be approximately the same benefit. There are a lot of things for Diversey Care, and they obviously have the greatest possibility for improved margins, just because of where their margins currently sit.

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Operator

There are no remaining questions in queue. I would now like to turn the call back over to Mr. Jerome Peribere for closing remarks.

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

All right. Well, thank you all for your participation and your very good questions on the call today. Confident that our plan to improve Sealed Air's quality of earnings is underway, and this third-quarter performance is a true testament to our leadership team and our employees and their commitment.

There is clear direction for our business, and we are confident that we have the right strategy in place. And we are watching quarter after quarter on the progress of this strategy. We are focused on providing significant value and innovative solutions to our customers. We need to become more nimble, and we are taking actions towards that. And all of this in order to create our Better Way for Life, which is our vision.

Thank you very much. Look forward to talk to you on February 6. Bye-bye.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.

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