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SEE - Q4 2015 Sealed Air Corp Earnings Call

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OVERVIEW:

Co. reported 4Q15 net sales of $1.75b and adjusted EPS of $0.76. Expects 2016 net sales to be approx. $6.8b and adjusted EPS to be $2.52-2.60. Expects 1Q16 net sales to be approx. $1.6b.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q4 2015 Sealed Air earnings conference call. My name is Mark and I will be your operator for today. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to Lori Chaitman, Vice President Investor Relations. Please proceed, ma'am.

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

Thank you and good morning, everyone. Before we begin our call today, I 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 prediction for the future are forward-looking statements. These statements are based solely on information that is now available to us. We encourage you to review the information in the section entitled forward-looking statements in our earnings release, which applies to this call.

Additionally, our future performance may differ due to a number of factors. Many of these factors are listed in our most recent annual report on Form 10-K and as revised and updated on our quarterly 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 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 AM 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 proud to report on behalf of all Sealed Air employees that for the third consecutive year, we executed on our commitments and delivered financial and operational improvements.

We stayed focused on our objectives and our three divisions and functions performed extremely well. For the full year 2015, we delivered 3% organic sales growth with favorable price mix in every division and in every region.

Adjusted EBITDA margins expanded by 230 basis points. Our productivity metric, which is the ratio between our operating expenses to our gross profit, improved from 65% in 2014 to 60% in 2015. And if you look at our operational results, excluding FX and the impact of 2015 divestitures, our net sales increased $217 million and our EBITDA increased by $212 million. That is impressive and something to be proud of.

Our free cash flow in 2015 was $595 million, which excluded $184 million in CapEx -- which included, sorry, $184 million in CapEx and $98 million in restructuring. And we returned $802 million to shareholders through share repurchases and still have $884 million remaining under our current authorization.

Our Get Fit and Change the Game strategy is well underway, and you can see the financial benefits from Get Fit programs over the last few years. Some of our Get Fit successes include a tight control in strategic alignments, pricing discipline, targeted R&D investments, gross margin expansion, productivity improvements, and working capital management. And there is still a lot to be done.

In supply chain, for example, our Get Fit efforts are changing and simply tying how we -- or how and where we operate to deliver improvements in cost of goods sold, cash management, and service. Over the last 24 months, we have consolidated 9% of our total facilities, with another planned incremental reduction of 5% over the next 12 to 18 months. We have reduced our total active SKUs by 30% since 2013, and we will continue to optimize SKUs going forward.

In the past two years, we have been able to cut our cash conversion cycle by a third, largely through better management of payables and receivables. We have clear targets and will continue making progress in 2016 and beyond with a more concerted effort on inventory management.

Our ongoing commitment to continuous improvement will ensure that we are consistently realizing operational efficiencies. This is the power of being and staying focused, and believe me, our Get Fit program has many more good days ahead.

At our analyst day back in June 2015, we provided a detailed investment plan for Change the Game. Our early successes validate the long-term potential of these growth opportunities. In food care, for example, demand for the operation tray in Europe has exceeded our expectations and our rollout in North America is off to a very solid start. Our recently introduced barrier technology OptiDure is also seeing similar market acceptance in Europe and there is already meaningful interest globally.

In diversey care, the acquisition of Intellibot has given us first-mover advantage into robotic flow care equipment market. We are also delivering on our commitment to bringing sustainable solutions to the hygiene industry with our 100% biodegradable plant-based SURE solutions. And there are more solutions like this under development.

And in product care, our automated solutions, including B+ and FloWrap are gaining traction and positioning us as our customers' trusted consumable and equipment partner. We will execute in 2016 with the same mindset as in 2015. We will deliver profitable growth and maximize free cash flow by focusing on execution and operational excellence. We will stay disciplined on our value-added selling approach and we will continue investing in next-generation disruptive technologies.

Before I get into the details of our results, I want to highlight something that I am very passionate about. And that is sustainability being at the service of financial performance. Companies with sustainability at the forefront of what they do every day are long-term financial winners in tomorrow's world.

At Sealed Air, sustainability is at the very core of what we do, how we innovate, and how we invest. As such, following the COP 21 agreement in mid-December in Paris, we joined a group of companies who clearly wanted to commit. We pledged to disclose both the total financial impact and the environmental benefits of all new product introductions to our customers.

Proving our leadership, we were recognized for the second consecutive year by CDP for our sustainability efforts and have been awarded a position in CDP's climate indices, which puts us in the top 10% of global S&P companies. We were listed in CDP's Supplier A lists and received 100% disclosure score compared to an average of 84% for the other companies reporting.

With that said, let me turn to our fourth-quarter and year-end results by region and by division, and then I will pass the call to Carol for more details on our financials, including our outlook for 2016.

On slide 4, we present our performance by region for the fourth quarter. Net sales of $1.75 billion were up 2% on organic basis, which excludes currency and the food care divestitures in North America and in Europe.

Let's start with EMEA. We delivered 3% organic growth in the quarter with favorable trends in some of our largest Western European countries and continued growth in Russia and Turkey. These results were achieved despite anemic GDP growth throughout Europe and a slowdown in emerging markets. Our performance in EMEA is a direct result of our pragmatic decision to realign our organizational structure, enabling our divisions to be well positioned to capitalize on growth opportunities.

In North America, organic sales were relatively flat, with 5% growth in diversey care and a slight increase in food care, offset by a decline in product care. Asia-Pacific was also relatively flat compared to last year. We experienced 2% to 3% constant dollar growth in Australia and New Zealand, which was offset by some softness in China and other Asian countries. Australia and New Zealand combined account for approximately 6% of our net sales and China approximately 3%.

Latin America was hit the hardest with currency devaluation, declining 18% on an as-reported basis and increasing 7% in constant dollars. Constant dollar growth in Argentina, Mexico, and Brazil were attributable to increased demand in our food care business. These three countries combined account for about 7% of our total net sales.

As presented on slide 5, the trends we experienced for the full year are consistent with the comments I just provided for the fourth quarter. We delivered $7 billion in net sales, an increase of 3% on an organic basis, with growth in every region.

On slide 6, we outline our price mix, volume, and sales trends on a constant dollar and organic basis. We had favorable price mix in every region throughout the year, with the exception of North America in the fourth quarter. We are pleased with this performance, given the declines in resin and our formula pricing structure in our food care business. Our results demonstrate the rate of adoption of our advanced portfolio and how our customers are clearly valuing our offering.

At Sealed Air, everything we do and everything we bring to market not only meets the highest criteria for sustainability requirements, but is designed with the most advanced technologies to help our customers improve productivity and save costs. That is an attractive value proposition in today's global economy.

Turning to our performance by division on slide 7, food care sales increased 3% on an organic basis in the fourth quarter, driven by a combination of favorable price mix and higher volumes. By region, we delivered 2% and 1% organic growth in EMEA and North America, respectively. Latin America was up 12% in constant dollars and Asia-Pacific was slightly up.

Adjusted EBITDA increased 8% on an organic basis. Margins of 18.7% expanded 120 basis points compared to last year. Throughout 2015, in every quarter in every region, we delivered positive organic growth and outpaced our end markets.

In addition to what I highlighted earlier on the operation tray and OptiDure, we are seeing increased demand for ready meals and our fluid-based solutions. We have three effective systems operating in three regions around the world. And heading into year end, equipment sales were strong. This is a strong indication of the strength underlying our food care packaging business.

Our hygiene business, our direct in hygiene business, our direct food contact chemical solution designed to improve food safety and [essential] flat is really gaining traction with our key customers. This quarter, our team in Asia-Pacific was awarded a Darfresh vacuum skin packaging -- or VSP -- contract for red meat, poultry, and seafood with a large supermarket chain.

This breakthrough solution increases operational efficiency, extends shelf-life, reduces food waste, and differentiates this customer from their competition through brand-building. This is the first introduction of Darfresh VSP in this region.

Before I highlight our full-year results and 2016 outlook for food care, let me briefly provide you with an update on what we are seeing in the North America beef market, which was down approximately 5% in the fourth quarter and also 5% for the full year 2015. Industry data points suggest that we are at the bottom in North America, and there is evidence that the market is on track to turn positive in the second half of 2016.

Going forward, we are well positioned to continue outperforming the capital market in North America as production increases, and we continue to penetrate existing and new customers with our advanced portfolio across all proteins and adjacent markets.

For the full year, food care's net sales declined 11% as reported, but increased 4% on an organic basis. Adjusted EBITDA margins of 20.3% expanded 280 basis points. And as on a reported basis, adjusted EBITDA increased 3%. Excluding unfavorable currency and divestitures, adjusted EBITDA increased 18% on an organic basis for the full year.

In 2016, we expect food care to deliver net sales and adjusted EBITDA growth on an organic basis and margin expansion. We expect volume trends in the second half to be stronger as we reap the benefit of the beef cycle turning positive in North America.

Slide 8 highlights the results from our diversey care division. Diversey care net sales on a constant dollar basis were approximately 3% up in the fourth quarter. We had favorable price mix in every region and volume growth in EMEA, North America, and Asia-Pacific. Adjusted EBITDA margins of 11.2% increased 9% on a constant dollar basis.

Across all regions in diversey care, even in Latin America, where the volume is the most challenging, we have improved the overall quality of the operations. We are investing in disruptive technology and have reshaped our product portfolio with a keen focus on sustainability, productivity, and the integration of chemicals, tooling, and machinery.

We have focused our sales and marketing efforts on our core vertical markets, including hospitality, healthcare, facility management, food services, and retail. This approach is enabling us to grow our core business and consistently win new customers. In fact, we recently have strategic wins in North America in facilities management as a result of our focus on total cost of ownership and strength in our solutions offering.

You can see the result of our efforts in the performance of North America and EMEA regions, both of which have delivered constant dollar growth throughout 2015 after years of declining sales. And in the fourth quarter, North America was up 5% and EMEA was up 3% in constant dollars. Asia-Pacific, where we have solid footing, continued to have favorable performance and delivered 2.5% constant dollar growth in the fourth quarter.

Our pipeline for our Intellibot machines continues to grow, and we have over 200 machines operating today in the field. We are integrating the advanced robotics capabilities of the Intellibot into our leading TASKI floor care equipment. I can assure you that we have learned a lot about robotics from that acquisition. We also continue to see strong demand in healthcare for our accelerated hydrogen peroxide or AHP technology with products like Oxivir.

For the full year, diversey care net sales increased 3% in constant dollars. Also, on an as-reported basis, it declined 8%. This division was hit the hardest by currency devaluations.

We continued our commitment to support our core growth and Change the Game initiative by making substantial targeted investments in sales, marketing, and R&D, including the acquisition of Intellibot. Even with these increased investments, we still delivered 10% adjusted EBITDA growth in constant dollars and margins of 11.6%.

And going forward in 2016, we expect favorable sales and EBITDA trends in diversey care on a constant dollar basis, and margin expansion. We will continue to focus on profitable growth opportunities and manage our cost structure to help offset currency headwinds.

Let me now turn to product care results on slide 9. Product care net sales declined 3% in constant dollars in the quarter and 1% for the full year. As you know, rationalization efforts have been ongoing over the last 12 months.

Our efforts in Latin America for the most part are behind us and we look forward to rebuilding our business in that region. In North America, effective in January of this year, we divested another $15 million of a product line. In EMEA, our rationalization efforts are still underway and are expected to be completed in the first half of 2016.

If you look at our product care business on a global basis, excluding rationalization, it is performing well ahead of our expectations. Throughout 2015, we experienced double-digit growth in e-commerce and third-party logistics, and significantly improved our profitability in general packaging. We changed leadership in both Asia-Pacific and Latin America, and are already seeing the benefits of our new go-to-market approach.

It is worth noting that across all of our end markets, including the industrial segment, which has been relatively soft, we have strong equipment placements heading into year end. This is an indication of future growth and we look forward to capturing that opportunity as the year progresses.

Our adjusted EBITDA performance really details the 2015 story for product care. In the quarter, product care delivered margins of 21.5% or a 360 basis point improvement compared to last year. For the full year, adjusted EBITDA margin expanded 310 basis points to nearly 21%. And on a constant dollar basis, adjusted EBITDA increased 16% in the quarter and for the full year.

While some of this growth and margin expansion is the result of lower input costs, more of the improvement came from our rationalization efforts, pricing disciplines, and an increasing mix of global performance packaging solutions.

In 2016, we expect volume growth to improve throughout the year as we complete our rationalization efforts and continue increasing our penetration into the rapidly growing fulfillment markets. For adjusted EBITDA, we expect continued constant dollar growth and margin expansion.

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

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

Thank you, Jerome. Turning to slides 10 and 11, let me walk you through our net sales bridge and adjusted EBITDA performance for the quarter and for the year.

Starting with net sales on slide 10, we delivered $1.75 billion in sales in the fourth quarter and $7 billion for the year. On an organic basis, sales increased approximately 2% in the quarter and 3% for the full year. Sales growth was attributable to favorable price mix, which was 1.6% or $32 million in the quarter and 2.3% or $176 million for the full year. Volume was essentially unchanged in both periods.

Unfavorable currency translation was $190 million in the quarter and $764 million for the full year. In 2015, approximately 18% of our total sales were exposed to the euro. In the quarter and for the full year, divestitures impacted net sales $64 million and $172 million, respectively.

Turning to slide 11, for the quarter, adjusted EBITDA of $282 million or 16.1% of net sales was essentially unchanged on an as-reported basis compared to our performance in the fourth quarter of 2014. Unfavorable currency translation was $30 million and the impact from divestitures was $11 million.

On an organic basis, adjusted EBITDA increased 15%. This increase was largely due to favorable mix and price cost spread of $40 million and restructuring savings of $16 million. We are pleased to have delivered 190 basis point improvement in adjusted gross margin and 180 basis point improvement in adjusted EBITDA margin compared to last year.

For the full year, adjusted EBITDA increased 5% year over year to $1.17 billion or 16.7% of net sales. Unfavorable currency was $126 million and the impact from divestitures was a negative $33 million.

On an organic basis, adjusted EBITDA increased 19%. This increase was primarily due to favorable mix and price cost spread of $185 million, as well as restructuring savings of $60 million. The increase in SG&A and other expenses of $44 million was primarily related to higher nonmaterial inflation costs. We delivered a 230 basis point improvement in adjusted EBITDA margin compared to last year.

For the full year, medical and corporate expenses, which is categorized as other in our adjusted EBITDA financial tables, was a net expense of approximately $69 million as compared to a net expense of $90 million in 2014. The year-over-year improvement was driven by the strong performance in our medical business.

Adjusted earnings per share was $0.76 in the fourth quarter and $2.59 for the full year 2015. Currency negatively impacted adjusted EPS by $0.11 for the quarter and $0.38 for the year. Unfavorable FX was offset by higher earnings from operations, lower interest expense, a lower adjusted tax rate, and share repurchases.

The adjusted tax rate for Q4 2015 was 8% as compared with 9% for Q4 2014. For the full year, our adjusted tax rate was 20% as compared with 22% for 2014, contributing approximately $0.06 to the year-over-year EPS improvement.

In the fourth quarter of 2015, we recorded foreign tax credits that previously were considered not recognizable. In 2015, we repurchased 16.1 million shares for a total value of $802 million. For the full year, the average diluted shares outstanding were 207 million compared to 214 million shares in the same period a year ago.

Our share buyback had a favorable impact of $0.09 on 2015 adjusted EPS as compared to 2014. We have $884 million remaining on our share repurchase program.

We ended the year towards the low end of our target leverage ratio of 3.5 to 4 times. We believe this leverage range is optimal, given our solid and recurring free cash flow.

Turning to slide 12, free cash flow was a source of $595 million in 2015, excluding the tax refund associated with the settlement agreement. Cash interest payments were $224 million and CapEx was $184 million. Working capital and other assets and liabilities were a source of $50 million 2015.

We have made meaningful progress over the last few years achieving our operating working capital target of 15% of net sales based on a 13-month average. This is a 200 basis point improvement as compared to the same period a year ago. And as Jerome noted, there are still opportunity for us to improve inventory management.

Turning to slide 13, we present our outlook for 2016. We expect net sales to be approximately $6.8 billion, a 3.5% increase on an organic basis. On an as-reported basis, unfavorable currency is expected to be $400 million. We anticipate approximately $250 million of this unfavorable currency in the first half of the year.

The impact from the food care divestitures on 2016 net sales is $102 million, of which $67 million impacts the first quarter. Based on these assumptions, we anticipate net sales in the first quarter to be approximately $1.6 billion.

Adjusted EBITDA for the full year 2016 is expected to be in the range of approximately $1.17 billion to $1.19 billion, an increase of 7% to 9% on an organic basis. On an as-reported basis, we are estimating FX to have a negative impact on adjusted EBITDA of approximately $65 million. We anticipate nearly $40 million of this unfavorable FX in the first half of the year. The impact from the food care divestitures on 2016 EBITDA is $21 million, of which $14 million impacts the first quarter.

Keep in mind that we will have our toughest year-over-year comparison for food care in the first quarter 2016 due to currency headwinds, the impact from the divestitures, and formula pricing.

On an organic basis, we anticipate adjusted EBITDA to be down slightly. We expect sequential improvement for the remainder of the year. For the full year, we expect food care to deliver organic EBITDA growth and margin expansion.

Our medical and corporate expenses are expected to be a net expense of $100 million for the full year 2016 as we continue to invest in our next-generation technologies, including sensing, data analytics, and our digital platform, and make further progress on our global ERP rollout.

Our adjusted EBITDA in Q1 is estimated to be approximately $245 million. We expect EBITDA to improve sequentially for the remainder of the year. Our interest expense for 2016 is estimated at $225 million. Depreciation and amortization is forecast to be approximately $285 million.

Adjusted EPS is expected to be in the range of $2.52 to $2.60. The adjusted EPS unfavorable impact from currency is expected to be approximately $0.18. Our adjusted EPS outlook for 2016 is based on an adjusted tax rate of 24%.

Our free cash flow in 2016 is estimated to be $550 million. CapEx is expected to be $275 million, which is in line with the estimate we provided at our analyst day in June. Included in the $275 million is approximately $100 million related to the investment we are making in our Charlotte campus, and $40 million is associated with other capital restructuring activities. Excluding these items, maintenance and growth CapEx combined is estimated at $135 million.

Cash restructuring payments are expected to be $110 million. We expect to realize restructuring savings of approximately $30 million in 2016, and we'll have higher savings in 2017. Cash interest payments are expected to be $220 million and cash tax payments are estimated at $125 million. We anticipate working capital to be a source of cash of approximately $100 million.

In closing, we are confident that we are investing in the right markets and in the right regions, where there are growth opportunities for Sealed Air. We are not ignoring the global environment around us, and we will continue to implement continuous improvement processes to ensure we realize further operational efficiencies. Our focus on new product adoption and investment in disruptive technologies will drive sustainable and profitable growth in the years to come.

Before we open to questions, I would like to remind you that our first-quarter 2016 earnings call is tentatively scheduled for Thursday, April 28 at 10 AM.

With that, operator, can you please open the call for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Scott Gaffner, Barclays.

Scott Gaffner - *Barclays Capital - Analyst*

Just a first question around Latin America. Because I think in the quarter, if I looked at the slides correctly, it was up 10% organically in the quarter. Can you talk a little bit about that? Are you seeing anything in the economic environment that makes you concerned that that growth rate is not sustainable?

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

Latin America has been a difficult continent throughout 2015, especially as devaluations in the second half have increased. Everybody knows the situation in Brazil and we have dramatically suffered from our position in Venezuela, but that's what it is.

Having said that, we have some very strong bright spots, especially in Argentina, which has been one of the countries where we've been growing the most in local currencies and in dollars in 2015. So in the end, the environment is what it is.

We have been slightly impacted in our food care business. We have restructured our product business -- product care business, so we -- the comparables are not easy to make here, because we have gotten rid of some very low-quality business.

And in diversey care, we have had some spotty difficulties, including the countries I have mentioned, especially Venezuela and so. But altogether, we are fairly confident that we have hit the trough in these countries.

In food care, we believe that in Latin America outperform the market, despite the volume declines. There is a very strong interest in our new product introduction in countries like Argentina, Mexico, and Brazil, for example.

Operator

Ghansham Panjabi, Baird.

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

First off, congrats on the strong finish to 2015.

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

Thank you, good morning.

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

I guess my question relates to the 2016 organic growth rate of 3.5%, which is clearly an acceleration over the second half 2015 run rate, even with the macro presumably more challenging. I guess what gives you more confidence on that type of outlook? And how does that break out between volume and price mix? Thanks.

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

So it's interesting -- it seems that everybody is [rampant] about the economies. I would say the financial markets are pretty iffy. One week it's oil, another week it is China, another week it is the banks, etc. I am not that negative.

We are -- we had growth of -- when apples to apples, we had 2.8% growth in 2015. We have an objective of growing 3.5%-plus, and very frankly, I am very pleased with what I'm seeing with our new products. And I could go and take them division by division.

So we have our food care business, which is going to be helped in the second half of the year by the massive cattle situation that we have talked in details about during our investor day, saying that it was probably going to be coming in the second half of 2016. And we definitely have now more confidence that it is clearly coming at that time.

We have lots of very new products. We talked a lot about the offers on trade. We talked a lot about OptiDure. We are -- we have given you projections -- 2018 projections for those type of products during our investor day. We are ahead of our schedule. We are very pleased.

On diversey care, we are making very steady progress, substantial customer wins, a very (technical difficulty) value proposition. Our Intellibot business is going well. Our TASKI business is going well. Our positioning is very strong.

Our product care has suffered from top-line growth in 2015. As we said earlier, we've divested from a little business in North America effective January 1. We are likely to conclude something else in Europe, which is not a quality business, later in the first half.

But our value proposition, the acquisition of B+, the launch of our FloWrap solutions, our new offering are making me really confident. So it has been a long answer, but very frankly, between 2.8% and 3.5%, given what we have, is something that we should really be able to do. And this is in an economy which is not good, but when has it been good in the last three years?

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

And specific to your question about volume versus price mix, it is more heavily weighted with more than half driven by volume.

Operator

George Staphos, Bank of America.

George Staphos - *BofA Merrill Lynch - Analyst*

Congratulations on the year and thanks for all the details. I had a point of clarification question, and then I wanted to touch on organic volumes for the year.

So Carol, I just want to make sure I heard you right. You are forecasting the EBITDA for the quarter coming in -- did I hear correctly, at $245 million, with food being down somewhat? And I guess by implication, the other segments being up? And then just comparatively, what was the prior year if I strip out divestitures and the like?

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

George, on the $245 million is correct for the Q1 EBITDA forecast and driven mainly the decline by food care. So yes, the implication is the other two would be up. And then on the divestitures, I guess Lori, I'm trying to (multiple speakers).

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

What we had for 2016, what we have is $18 million -- $18 million to $20 million in currency and we've got about $18 million in divestitures.

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

Right. George, in Q1 of last year, it included -- it has a North America and European trade divestiture of $67 million. And on the bottom line, that impact is about $14 million in EBITDA. So $67 million on the top line and $14 million on the bottom line. For food care. He had another question.

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

Operator, is George still available? I think he had another question.

Operator

George is not available.

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

Okay. So if George comes back into queue, please let him in.

Operator

Adam Josephson, KeyBanc.

Adam Josephson - *KeyBanc Capital Markets - Analyst*

Carol, just on the FX assumptions, can you help us with what currency rates you are assuming for the full year? And how much different your sales and EBITDA guidance would be if you were taking today's rates as opposed to perhaps year-end rates?

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

Okay, so with respect to the assumptions we made, euro we used $1.05. We recognize that is less than where the euro is at today. But there is still a lot of volatility out there, and we feel like that is a good prudent exchange rate for us to utilize with our guidance. We referenced that about 18% of our revenues were based in euros for 2015, so the math can be calculated there.

For the ruble, we used 80.5; the Brazilian real 4.33; Australian dollar 1.44; the Great British pound, 1.45; and the Canadian dollar, 1.30.

Operator

Anthony Pettinari, Citi.

Anthony Pettinari - *Citigroup - Analyst*

On free cash flow, getting beyond the CapEx bump in 2016, is that $200 million CapEx guidance for 2017 that you gave at the analyst day -- and I think that was sort of your normalized range beyond 2017. Is that still intact or is there anything -- whether it is divestitures or maybe being a little bit ahead of expectations on Change the Game -- that would change that kind of $200 million normalized range?

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

So let me just make a general comment. You have pointed to exactly the right thing, which is are we ahead or are we late compared to our forecast given an investor day. And outside of currency, we are ahead. And we stand -- what did we say? We said 4% to 5% organic growth on the top line. And we said that it was not going to be linear.

And what did we just say? We said 3.5% for 2016 and we confirmed that it is not going to be linear. It is going to be improving over time, thanks to the ramp up of our solutions, which are really getting market traction.

Then we said 7% to 8% growth of EBITDA over time, over that period 2015 to 2018, with the goal of reaching EBITDA margins of 18% in 2018 and 20% in 2020. You'll remember that I also said that our goal was to align the year with the EBITDA percentage. Well, thanks to in 2015, we were ahead and we plan to continue to be ahead.

So all together, we are comfortable with the EBITDA growth guideline that we have given for that for -- in July -- in June of last year, for 2015 to 2018. And definitely with the growth targets, we believe that we are ahead.

And on your point on capital, Carol can comment. But yes, indeed, we also confident with the guidance that we have given over the next three years for free cash flow as a result, including also as a result of the capital, where we said it was going to be $180 million to $200 million, if I remember.

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

Yes, so $180 million to $220 million, so averaging out about $200 million. And we still feel like that's the right number, given growth investment opportunities that we are very confident we will have those investments that will continue to drive Change the Game.

Operator

George Staphos.

George Staphos - *BofA Merrill Lynch - Analyst*

(technical difficulty)

Operator

Chip Dillon, Vertical Research Partners.

Chip Dillon - *Vertical Research Partners - Analyst*

Question has to do with basically the free cash flow guidance. And I just wanted to really zero in on the tax situation. You mentioned, Carol, a tax rate of 24% and I wondered how much of that would be cash taxes in the sense that you might still have some carryover tax benefits from the settlement and maybe some other items.

In other words, is that going to be all cash or do you think there will be some benefits carryover that will reduce the cash tax rate?

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

So we -- actually, what we communicated on analyst day is that our cash taxes will be going up as we move forward because we have utilized a lot of the benefits. So our guidance at $125 million will be moving to $180 million is our estimate for 2018. So we expect that to continue to increase as we go forward.

Operator

Chris Manual, Wells Fargo.

Gabe Hajde - *Wells Fargo Securities, LLC - Analyst*

This is Gabe Hajde, actually, sitting in for Chris. Wanted to touch on the raw material environment, sort of what your expectations are heading into the year, what is baked into guidance, and if there is any sort of benefit price cost spread that you are looking at that is baked into your number.

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

So are you saying long term or -- could you rephrase the question? Are you referring to the long-term environment or just basically 2016?

Gabe Hajde - *Wells Fargo Securities, LLC - Analyst*

Well, the more near-term question would be what is assumed in your guidance? And given sort of what we are seeing with oil, where it is today, and increased capacity in polyethylene, is your long-term expectation that it could stay down here in terms of resin, regardless of what happens with oil?

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

Okay, so we have baked in our forecast weak polyethylene prices, olefins prices. And these are already in our forecast. We are very close to those markets and so far, they are developing as we thought they would be developing. So we don't believe that there is much upside compared to what we have forecasted at this point in time.

With regards to the overall environment, while we are on February 10, have been year to date to nine countries around the world, and my job is to have one eye on the microscope and one eye on the telescope. And I can assure you that I am very close to what's going on. And I went to Asia, I went to Europe, travel in the North America, and I am seeing positive momentum altogether.

So this painting things in black and white globally is -- might be fashionable, but I just don't see it this way. I am seeing that we have customers and we have momentum with customers. And we have new customers who are interested in what we are doing, who want to eliminate food waste, who want to eliminate and optimize packaging, etc., who want to improve their food safety, who want to see productivity improvements in their operations in the diversey care.

And they are looking at us as having the ability, the capability, the knowledge, the results to bring them value-add decisions. And I must say I am pretty optimistic.

Operator

Mark Wilde, BMA (sic) Capital Markets.

Mark Wilde - *BMO Capital Markets - Analyst*

I wondered if you could just talk about uses of cash in 2016. The stock is quite a bit cheaper now than your average price last year, but at the same time, probably acquisition multiples on businesses you might be interested in are probably coming down. So just some thoughts on that.

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

Mark, we have stated many times that with respect to acquisitions, we do not have a huge focus to go out and acquire something, other than what could be considered a bolt-on or an added technology benefit for the Company. And in fact over the three-year planning horizon that we communicated on analyst day, we said we were estimating a total of approximately $400 million over that time period.

Our acquisitions to date have continued to be things that bring technology to the Company or expand market penetration capabilities with existing customers and can help us win new customers. So that -- our focus there won't change. Jerome has been very vocal about with his experience, a lot of acquisitions just are not successful, and we are going to remain focused where we have core capabilities and we know we can bring successful financial results to our investors.

With respect to looking at share repurchase, we were very active in 2015. We are confident in the price that we paid that is a good value over the long term. We work with the Board, providing them various financial models around intrinsic value, Monte Carlo simulations based on our long-term forecasts.

And while the price is extremely attractive right now, we will continue to work with the Board on what they think are the right actions for us to move forward with the remaining value of our share repurchase program. And we also will manage within that 3.5 to 4 times leverage.

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

So let me add a little bit of color in here. We -- my view on acquisition has not changed. There is a time for making large acquisitions and there is a time for staying focused.

2016 is still for us the time to remain focused. We have a lot of things -- of value to capture through our ongoing -- in 2016, in 2017, to our Get Fit programs -- a lot. And we have a tremendous ramp up on our innovation and of our Change the Game.

Let's separate those two. Change the Game are highly disruptive innovations. They are not all of our innovation. And we are continuing to do small acquisitions. Those are technology targeted and we are very pleased, very, very pleased with every single of those that we have done. They are very small companies. Generally speaking, they are startups, but we have done that.

Are we going to do bigger ones in the years to come? Yes, we probably will. Having said that, you want to do those when you have basically exhausted the bulk of your opportunity -- organic opportunity. And we have so many opportunities on what we are improving and doing that we should not be distracted.

Operator

Philip Ng, Jefferies.

Philip Ng - *Jefferies LLC - Analyst*

The industrial economy is actually quite weak. It's impressive you expect product care volumes to be up this year. Can you kind of parse out the opportunities you are seeing that is driving the growth, whether it is e-commerce or dim weight and how trends are shaking for just the broader market? Thanks.

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

Okay, so the industrial, as you seem to focus here on the product care, it is correct that industrial markets -- and we have noted that in our packaging sales for industry and our exports for out of the year. We have noted softness. This is correct.

You mentioned e-commerce. We have had double-digit growth. We continue to have double-digit growth, and we are focusing a lot on dim weight and on solutions which can reduce damage and improve the volume of the boxes, etc.

This is why we have acquired B+. This is why we have developed and launched our FloWrap technology. They are having a huge interest. We are working with integrators. We are working with lots of 3PLs and fulfillment companies and we are very excited by the discussions that we are having.

The pipeline is absolutely tremendous. And there is not one company we go to who is not impressed with the way we approach the market, because we can help them reduce dim weight or dimension in the packaging, and reduce the damage.

And when you look at the cash costs of the packaging operation between the cost of the packaging, the cost of the fulfillment operation, which is fulfillment velocity, which is the manpower to pack, between transportation costs and between damage, out of those four cash costs, the smallest of the costs is the cost of the packaging. Therefore, you cannot isolate the cost of the packaging from the other three, because this is how we can add the most value to our customers. And extract, by the way, the most value to ourselves also.

And we have a very strong equipment placement story here and that which has been ramping up over the whole year of last year. And we are very optimistic that this is a very good sign for 2016.

Operator

Rosemarie Morbelli, Gabelli & Company.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Congratulations. Jerome, I was wondering if you could give us a little (technical difficulty) on the food side and compare what you are expecting in terms of growth rate in North America versus the decline in Australia. Have those kind of met one another and decline in Australia will be lower than the increase in North America?

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

Well, that cycles and you pointed to that cycle. And yes, the Australian bid cycle, which was growing double digits in the first half in food care, was growing at a lower pace in the fourth quarter. Having said that, now we believe that the food care North America upside is going to be stronger than the food care situation in Brazil.

And then, once again, you have cattle. But you also have pork, chicken, etc. And we are fairly positive for the other parts of the world with regards to pork production and chicken production.

In the US, we believe that in the second half, given the fact that you have a lot of cattle which moved to feedlots, instead of all the signs out there that it's going to be a stronger year for protein, so that is on the market side. We have grown in a negative environment. We have grown in the US in a minus 5% capital environment in 2015. And this is by adding solutions, a value-add solution to our customers. And therefore, we are very optimistic about what's going to happen in the second half of 2016.

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

Operator, that's all we have time for this morning. Thank you, everyone, for joining. Operator, I'll pass the call back to you.

Operator

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