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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2019 Sealed Air Earnings Conference Call. (Operator Instructions) As a reminder, this conference may be recorded. I will now turn the conference over to your host, Ms. Lori Chaitman, Vice President of Investor Relations. Ma'am, you may begin.

Lori C. 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 periods 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 and slide presentation which applies to this call.

Additionally, our future performance may differ due to a number of factors. Many of these factors are listed in our most recent annual report on Form 10-K and as revised and updated on our quarterly reports on Form 10-Q and current reports on Form 8-K, which you can also find on our website at sealedair.com or on the SEC's website at sec.gov.

We also discuss financial measures that do not conform to U.S. GAAP. You may find important information on our use of these measures and the reconciliation to U.S. GAAP in our earnings release. Included in the appendix of today's presentation, you will find U.S. GAAP financial results that correspond to some of the non-U.S. GAAP measures we reference throughout the presentation.

Now I'll turn the call over to Ted Doheny, our President and CEO. Ted?

Edward L. Doheny ***Sealed Air Corporation - CEO, President & Director***

Thank you, Lori. Thank you for joining us for our first quarter earnings conference call. On today's call, I'm going to start with a recap of our first quarter results, provide an update on the progress we've made with Reinvent SEE and then discuss the exciting acquisition of Automated Packaging Systems which we announced this morning. Bill will expand on our financial results for the quarter, and then I'll discuss our outlook for 2019, which excludes the impact of the APS transaction. We expect to close early in the third quarter and update our full year outlook on our second quarter conference call tentatively scheduled for July 31.

Turning now to our first quarter results. We're off to a solid start to the year and we're seeing a positive impact in our financial results from our Reinvent SEE transformation. Adjusted earnings per share increased 16% compared to last year. Adjusted EBITDA was up 5% as reported and 10% in constant dollars. We're pleased to report that margins expanded by 130 basis points to 19.4%. Sales were up 3% in constant dollars on favorable pricing, a contribution from the Austin Foam acquisition.

While organic volume declined 1% in the quarter, this was against macro headwinds that impacted our business, particularly in the industrial sector, and a tough year-over-year comparable in protected packaging. We're working hard to recover volumes for the remainder of the year and we'll go after opportunities we see by market, by product, by geography and now with M&A.

We are reinventing the company. We're encouraged by our progress to date. We're now operating as one Sealed Air. We're consolidating and delayering across functions, geographies and divisions to reduce costs. We'll enable -- this will enable us to respond faster to our customers and market needs and drive profitable growth.

We're making changes to our go-to-market strategy to improve the profitability in smaller yet growing countries. We've implemented our new value capture pricing model. We're rationalizing suppliers and vendors and realizing operational savings with yield improvements and more to come.

Across our manufacturing network, we're selectively upgrading aged assets, investing in new automation technologies and partnering to develop Sealed Air's smart factory processes as we move more aggressively to further automate our global manufacturing network.

We're still in the early days of Reinvent SEE. We're focusing on the dollar impact of our initiatives, change management and process redesign. As we work to double our innovation rate and drive profitable growth, we're accelerating our investments in sustainable materials to get ahead of market demand.

This morning, we announced the acquisition of Automated Packaging Systems for $510 million on a cash and debt-free basis. This transaction accelerates our innovation and automation and sustainability and is closely aligned with Reinvent SEE. APS generated sales of $290 million in 2018, an increase of 10% over 2017. We expect the transaction to be accretive to our adjusted EBITDA in 2019.

Let me expand on how Automated Packaging Systems fits into our strategy. We've been looking at APS for over a year and how are they performing in the market. APS is a market leader with unique and innovative solutions, complete with automated equipment, advanced materials and best-in-class technical and field service.

They have an established track record of growth in innovation through machine automation and integration supported by a strong patent portfolio. This will accelerate our Reinvent SEE goal of doubling our innovation rate over the next 5 years, a combination that aligns well with our Reinvent SEE objective to drive channel optimization while improving customer service.

We believe Automated Packaging Systems will thrive within Sealed Air given our global reach, distribution network and highly complementary portfolio. We believe we will learn from Automated Packaging Systems and create cross-selling opportunities to gain access to additional growth in e-commerce, fulfillment and food markets.

In food, APS serves adjacent packaging segments such e-foods, produce, snack foods and portion-controlled meals. We'll also leverage APS' engineering and technical service expertise and bring that capability to our customer base around the world.

We'll generate compelling cost and productivity synergies. These include procurement, extrusion, conversion, material and network efficiency. We also see synergies with the recycled materials that will benefit our Sealed Air portfolio.

Our strategy for Sealed Air to grow faster than the markets we serve, delivering earnings growth with operating leverage above 40% and have a disciplined ROIC strategy to drive economic value well above our cost of capital. Our acquisition of APS supports our strategic growth objectives and aligns with our 4P'S of Reinvent SEE. APS' success in providing sustainable solutions will help us achieve our sustainability pledge sooner.

I'll now pass the call to Bill to review our results in more detail.

William Gregory Stiehl ***Sealed Air Corporation - Senior VP & CFO***

Thank you, Ted. As a reminder, we made 2 reporting changes for this quarter. First, Mexico and Central America are now included in our North America region. We provided you with 2018 quarterly sales by region in the appendix of the earnings deck that is available on our Investor Relations website. Second, price is now being reported as a stand-alone metric and mix has been included in volume trends.

On Slide 8, let's start with a review of our net sales by region. In the first quarter, sales declined 2% as reported and increased 3% in constant dollars. North America was up 3% in constant dollars and accounted for nearly 60% of our sales in the first quarter. Favorable price and contribution from our Austin Foam acquisition were offset by a 2% decline in volume.

In Food Care, North America was up 2% on favorable pricing and positive volume trends. In Product Care, North America was up 4%, also on favorable pricing plus contribution from Austin Foam, which was partially offset by a 6% decline in volume. The decline in volume was due to a tough year-over-year comparable as well as a very soft industrial environment.

In Europe, Middle East and Africa, sales declined by 1% in constant dollars. Food Care EMEA was down 2% due to market softness elevated by Brexit concerns. In Product Care, the market headwinds were offset by new customer wins, which resulted in a 1% increase in sales. APAC was up 3% in constant dollars, largely driven by continued growth on Australia in food packaging and demand for packaged proteins. This was offset by market weakness in Protective Packaging, primarily in Asia related to ongoing tariff disputes and a resulting slowdown in the electronics sector. South America was up 25% due to U.S. dollar index pricing on relatively flat volume.

Slide 9 highlights volume and price trends by division and by region. In the first quarter, we delivered favorable price across all regions and in both divisions due to our value capture pricing model and formula pass-throughs in Food Care North America.

Food Care delivered favorable volume trends across all regions, except for EMEA where we experienced a 2% decline. In Product Care, we experienced volume declines in both North America and Asia.

On Slide 10, we present our sales and EBITDA bridges for the first quarter. I covered sales trends in the last 2 slides so my comments will focus on EBITDA performance. Adjusted EBITDA of $216 million increased 10% on a constant dollar basis.

Margins were up 130 basis points to 19.4%. We delivered favorable price/cost spread of $22 million as a result of actions taken related to our Reinvent SEE strategy, formula pricing in Food Care North America as well as lower input cost. This was offset by volume declines that impacted EBITDA by $7 million.

We realized $13 million in restructuring savings which was partially offset by $7 million of higher operating costs largely related to inflation. Unfavorable currency was $10 million. For the full year, we are on track to realize $70 million in restructuring savings and expect to continue improving our leverage on organic growth.

Adjusted earnings per share in the first quarter was $0.59 on average diluted shares outstanding of 155 million shares. Our adjusted tax rate was 29% in the first quarter. For the full year 2019, we continue to anticipate a 26% adjusted tax rate, reflecting our tax optimization efforts.

Turning to our results by division. On Slide 11, we present first quarter results for Food Care. Food Care sales of $680 million were up 3% in constant dollars. Adjusted EBITDA increased 12% in constant dollars to $143 million. Margins in Food Care improved 170 basis points to 21% of net sales.

The global protein markets were up slightly in the first quarter. We expect the protein markets to accelerate for the remainder of the year, resulting in 2% to 3% growth for the full year. This compares to our full year outlook for Food Care sales of 4% constant dollar growth.

We expect improved pasture conditions particularly in North America, continued local protein consumption and strengthening of the export market. Our food packaging business continues to outperform the market due to the strength of our core business and the penetration of our case-ready platform.

We have the broadest portfolio in case-ready applications for all proteins, including seafood. We are expanding solutions that contain recycled materials. We are also expanding solutions that are post-consumer recyclable. We expect growth in these offerings to continue and have increased our investments in renewable and recyclable processes and materials.

In March, we announced our plans to make a $24 million capital investment at our largest global manufacturing facility in Simpsonville, South Carolina to produce plant-based food packaging. This facility is the first one in North America to produce materials made from plant-based resin and post-consumer plastic.

We also have been successful penetrating the fluid market and expect this to be a key driver for our growth in 2019 with new customer wins. This growth is directly related to our innovative Vertical Pouch Packaging platforms where we are seeing increased demand for conversion of rigid containers to flexible packaging.

For example, our latest FlexPrep system solution integrates equipment, materials and dispensing technologies which we expect to be a key driver for future growth. We are confident Food Care will continue to deliver above-market growth rates on the top line while driving strong operating leverage.

On Slide 12, we highlight results from our Product Care division. In the first quarter, Product Care net sales were $433 million and they were up 2% in constant dollars. Growth in inflatable Bubble Wrap, paper systems and Korrvu were offset by declines in mailers, void fill solutions and some of our industrial applications.

Adjusted EBITDA of $75 million or 17.3% of sales, was down slightly on a constant dollar basis. Favorable price/cost spread and restructuring savings were essentially offset by the decline in volume and higher operating costs which weighed on our margin performance in Product Care.

We have identified opportunities as part of Reinvent SEE that will improve our Product Care performance, including optimizing our go-to-market strategy and simplifying our business to better align with our changing end market dynamics. In 2019, we expect growth in our differentiated portfolio, including inflatable Bubble Wrap, paper systems, Korrvu and automated systems. We continue to work with our B2B customers to modify their packaging and ensure their products are parcel-ready. Our broad product portfolio, including integrated fabrication, specialty foam and Instapak, is well positioned to capitalize on this trend.

As Ted discussed, we are accelerating our investments in both automation and sustainability with our announced acquisition of Automated Packaging Systems. We are excited to add such an innovative business to our platform, and we're confident that APS' highly complementary and additive capabilities will be a growth driver for Sealed Air.

Let's now turn to our free cash flow for the 3 months ended March 31 on Slide 13. In the first quarter, we generated $16 million in free cash flow compared to a use of cash of $77 million in the same period a year ago. CapEx was $49 million in the first quarter. Our estimated CapEx budget for the full year remains at $200 million.

Restructuring cash payments were $25 million in Q1, and our plan for $115 million in restructuring spend in 2019 is on track. Net interest payments were $40 million. And for the full year, net interest payments are estimated to be $190 million. Cash tax payments were $13 million. We continue to forecast cash tax payments to be $130 million in 2019.

At this point, I will turn the call back over to Ted to discuss our outlook. Ted?

Edward L. Doheny ***Sealed Air Corporation - CEO, President & Director***

Thank you, Bill. Turning to our total company 2019 outlook. We're reaffirming our outlook for the full year. Net sales are expected to be approximately $4.8 billion or 2% growth as reported. On a constant dollar basis, net sales are expected to increase 5%, with Food Care up 4% and Product Care up 5.5%. On an organic basis, we expect Product Care sales to be up 1.5%. We have some work to do on driving our volume for the remainder of the year. We're confident in the opportunities and our action plans to make this happen.

The focus of Reinvent SEE is to drive profitable growth and innovation. As we reinvent our business, we're focusing delivering the best products at the right price and making them sustainable.

Adjusted EBITDA for the full year is expected to be approximately $925 million to $945 million, an increase of approximately 4% to 6%. Our operating leverage is expected to reach our 40% target in 2019.

Adjusted EPS is expected to be in the range of $2.65 to $2.75, an increase of approximately 6% to 10% compared to the prior year. Our guidance does not assume additional share repurchases for the remainder of the year.

For the full year, we continue to estimate free cash flow to be approximately $250 million. As we noted on our last earnings conference call, our restructuring efforts are behind us -- when our restructuring efforts are behind us, we expect our EBITDA to free cash flow conversion to increase over 40%, with CapEx of approximately 4% of net sales and an improvement in working capital velocity.

Before we open up the call to your questions, I would like to spend a few minutes on the progress on sustainability. We're leading the packaging industry to a more sustainable future. We committed capital to produce materials made from plant-based resin and post-consumer plastic in our Simpsonville facility. This is one of the world's largest packaging facilities and the first in North America to produce this type of film. The expansion is underway with plant production scheduled to begin in 2020.

Investing in plant-based technology, accelerating our work on fully recycled materials and now with our announced acquisition of Automated Packaging Systems, we're expanding our portfolio of recycled content. This brings us closer to the sustainability commitments outlined in our pledge. We are committed to delivering 100% recyclable or reusable packaging offerings and 50% average recycled content across all packaging solutions by 2025.

Later this month, we'll be attending the Ocean Plastics Leadership Summit, a scientific expedition to understand the problem and opportunity to connect leaders across the plastics ecosystem to eliminate plastic waste. This event is the first of its kind convened on the Atlantic Ocean with the purpose of enabling the world's most committed companies in the entire ecosystem to accelerate solutions dedicated to the ocean plastics crisis.

We will have the opportunity to network with other leaders, discuss potential partnerships, joint ventures and new innovation initiatives. We look forward to using and learning from this summit to create new solutions at Sealed Air and lead the change in the packaging industry. Our objective is to reinvent everything we do on our own operations and the entire packaging ecosystem. We look forward to updating you on our continued progress throughout the year.

With that, I'd now open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Aaron -- excuse me, our first question comes from Ghansham Panjabi of Baird.

Matthew T. Krueger ***Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst***

This is actually Matt Krueger sitting in for Ghansham. So my question is with the volumes that you saw across your segments in line with your internal expectations for 1Q. And then if so, how should we think about growth for the remainder of the year given that the macro backdrop still seems somewhat choppy? I guess what I'm trying to get at is what factors give you confidence that you can see kind of a step-up in growth in the latter half of 2019?

Edward L. Doheny ***Sealed Air Corporation - CEO, President & Director***

Okay. The first piece, looking at both, we'll break it up into Product and Food Care. In the first quarter, we did anticipate that we would have tough comparables from year-over-year. We also knew that a year ago, we had the currency tailwinds and now going to headwinds. So the other piece in there on the industrial side, we did see the industrial business take a step down in the quarter. So our confidence on the second half of the year is we do think we do have some volume that was short in the first quarter and we think we can make up in the second half of the year. On the Food Care side, we do see that we gained a little bit on the markets and we're still confident that we can beat that 4% growth that we had on the second half of the year. So we feel pretty good on the volume side on the Food Care.

Operator

Our next question comes from Anthony Pettinari of Citi.

Bryan Nicholas Burgmeier ***Citigroup Inc, Research Division - Associate***

This is actually Bryan Burgmeier sitting in for Anthony. I was just wondering if you could provide any context on the margin profile of APS relative to Product Care. And any detail you can share on potential synergies would be helpful as well.

Edward L. Doheny ***Sealed Air Corporation - CEO, President & Director***

Okay. Well, I'll give you an overview. First of all, we've been looking at this business for well over a year. We're excited. As their title suggests, Automated Packaging Systems, that's where we see the markets are going in automation. As far as the profit profile, we'll share at closing. We've got a couple of months out there. But just to give you a guide, we are looking at businesses actually below our multiple. And the synergies that we're looking at over the next 3 years, we think this will hit our guard rails on our ROIC. So it will be north -- double-digit in ROIC post synergies.

What we liked about it is, one, getting to know the culture, the people, we know them in the marketplace. But it is their full system on the automation, where they actually make the equipment, they actually load the bags, their iconic Autobag. So they have the material, the equipment and the full system. And also, what we like is their service footprint. They have a very strong loyal customer base that we look at. So we think we could not only help them do what they do, but they can help us.

Looking at the other synergies of what we can do on the cost base with Reinvent SEE, we're pretty excited that we think we can bring some cost synergies to the profile. So it fits well strategically. Culturally, it feels right. We think we could learn from them and we think we could help them. And we also like the fact that they grew 10% last year. So they are -- it's a good, strong business, profitable business, family-owned business. So lots of positives and we're pretty excited about it.

Operator

Our next question comes from George Staphos of Bank of America.

George Leon Staphos ***BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research***

Ted, I just want to come back to the volume trend in Product Care. Look, we know the comparison was challenging and we appreciate that. But it does seem like industrial has been this nagging issue for the company for a while. Piggyback on the last question or 2, what volume, to the extent that you can comment, do you have in hand right now that makes you feel confident you can hit your volume goals and then the resulting incremental margin goals? Is it in hand? Or you have targets and you have to now go and get it?

Edward L. Doheny ***Sealed Air Corporation - CEO, President & Director***

Okay. Well, I'll end with your first, and yes, we have our "go get it" targets that I actually feel pretty good about that we can get. I just want to reconfirm what's going on in the Product Care. We actually did see very strong growth in our inflatable Bubble Wrap, also in our Korrvu and also in our paper systems. We did have a tough year-over-year comparable and the tough issue was mailers and we've got some exciting things working on mailers.

The other piece in there that we didn't anticipate was the industrial slowdown in the first quarter and that affects our Instapak Instapak business though and trending in the quarter, we saw it pick up in the last month. We see the equipment installs. There's definitely a lead and lag on that. So that gives us confidence that we do see that industrial piece coming back and we have very strong market share and we think we can recover that.

The other piece on the mailers, and it's a common theme and why I'm talking so much about sustainability, we believe we can recapture some of that with that mailer market share this year with a sustainable product. We're aggressively working on recycled product -- now the team's target is over 12 months, but we're asking them to aggressively see what we could do to have a fully recyclable mailer content into the Bubble Wrap line and we think we could create growth. So just giving you an example of one of the projects in place. But we got some work to do, but we think we can recover that volume in our Protective Packaging businesses.

And on the Food Care, I think we have a tremendous growth opportunity there with our iconic Cryovac in some of the products that we have going there. So in the first quarter, we did have some issues in Europe with Brexit, so we didn't get the volumes there that we thought. We did see good penetration still on our growth in North America. On the second half of the year, we do think we have penetration in our core market, in our Darfresh product line, the case-ready and pretty much all the protein markets around the world.

The first half of the year, we're anticipating strong growth in Australia. The second half, we think that will be tempered down. But again, on the sustainability side, we had the full team over in Europe last month at our new Packforum in Italy. And we got to see the Darfresh line that we're now up to 94% recycled content in Darfresh. In the European market, that is really, really a big deal on sustainability. We think we can get not only our market share, we can gain market share in food. We think we can hit that growth target for the second half of the year.

Operator

Our next question comes from Edlain Rodriguez from UBS.

Edlain S. Rodriguez ***UBS Investment Bank, Research Division - Director and Equity Research Associate, Chemicals***

Ted, I was going to ask you a question about resin cost, but I know you don't like to talk about resin, so I'll ask one on pricing instead. So what -- I mean your pricing was not quite solid. Why oil prices going up when resins are going down? And is there any relationship between the higher price we saw and the volume softness that we also saw in there?

Edward L. Doheny ***Sealed Air Corporation - CEO, President & Director***

I don't think so. And by the way, Edlain, I appreciate because each time that you're opening that you talk -- that I don't like to talk about resin but you keep talking about it, so that is good.

As far as the resin piece in our quarter, we probably got a couple million uplift with what's going on in resin. The price -- the cost piece that we made in the quarter was really more related to Reinvent and what we're doing and actually more than just getting a better price on resin. We're working quite aggressively with multiple resin suppliers. Bill can actually give you more detail on that, we'll go through some of the Reinvent SEE pieces. But as far as the pricing piece, in raising price and losing volume, do not think that's an issue at all with the resin.

We think we have more cost side going upside potential for the rest of the year. Our outlook on resin, we do, as you can see, better resin pricing in the first quarter. But our outlook for the year, it's still flattish. So that does mean if we have other opportunities with the resin going down, we have upside on the cost side for the year. But our outlook, our guidance right now has a flat resin story for us.

So if it continues to go down, we have upside. But we think we have upside already from what we're working on in Reinvent SEE.

Operator

Our next question is from Scott Gaffner of Barclays.

Scott Louis Gaffner ***Barclays Bank PLC, Research Division - Director & Senior Analyst***

I hate to come back to Product Care, but I think that was the area where there was the most variation relative to people's estimates. Ted, if I look at it, you're saying 1.5% organic growth for that business. Before, you had said 1%. So it seems like maybe you're even more confident in that segment now? Can you talk about the growth on a go-forward basis? Is it -- at least in 2019, is it recapture of some of these industrial businesses? Or is it more growth in the high-value segment at least in 2019 that we should be anticipating? And based on that, do you still think you can get segment EBITDA up year-over-year despite some of these challenges?

Edward L. Doheny ***Sealed Air Corporation - CEO, President & Director***

Yes. Well, Scott, let me break that in 2 pieces because you threw in segment EBITDA in there on the growth. On the EBITDA, I'm pretty confident we already get that. We're focused pretty hard on the cost and the efficiencies that we talked to you about. On the volume side, is just -- highlighting again, we did have that tough comparables. The Instapak piece that got hit with -- that's what we didn't anticipate, that the industrial market in the first quarter was tepid. So we think we'll recover that.

As I mentioned, we are seeing equipment install in March alone up 40% year-over-year. That's a positive number for us. And as you know, Instapak, in our -- the Protective Packaging business is our largest and most profitable line. So that -- I feel good about that. The other piece I mentioned, our inflatable bubble on demand is going well. The automation was a gap that we hinted all last year. Even before we talked about APS coming in the portfolio, we've been working on the automation side. That's the part of the gap that we got hit in 2018 that we have to recover. So we do have a strong pipeline out there. We got to go make it happen. But we're not giving up on the year on the volume on the Protective Packaging side.

Operator

Our next question is from Tyler Langton of JPMorgan.

Tyler J. Langton ***JP Morgan Chase & Co, Research Division - Research Analyst***

Just had a question on the $17 million price/cost benefits EBITDA that you saw in Food Care. I guess you could give some -- a little bit more details on what drove that. I know some impediments in resins wasn't a huge part of it. But I think in the release, you also mentioned that South America saw 25% revenue growth from the U.S. dollar index pricing. Just trying to figure out if that played a role or just any more color there would be helpful.

William Gregory Stiehl ***Sealed Air Corporation - Senior VP & CFO***

So we definitely got some lift from resin, we talked about that. There's a lot of our Reinvent SEE activities that are focusing on rationalizing suppliers and getting better resin prices. We're actually going through accelerated resin qualification processes and substitution processes -- we have better resin prices and we're seeing that reflected through lower cost of goods sold and ultimately higher margins as we go through.

And we're always focusing our activities on our higher-margin SKUs. We talked to you in the fourth quarter call in February about part of our Reinvent SEE being focused on SKU optimization, [and we're leading customers towards those higher-margin SKUs]. So I think the combination of our critical evaluation of resin as well as our Reinvent SEE activities is giving that lift in price/cost spread that you mentioned.

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

And just as a reminder, and as we said in the prepared remarks that the Reinvent SEE initiative, $9 million was realized in that price/cost spread on that EBITDA bridge and a few million dollars came from lower resin. When we think, actually, those productivity savings will continue as the year progresses, and obviously, resin is always a bit of a moving target.

Operator

Our next question comes from Gabe Hajde of Wells Fargo Securities.

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

Operator, you want to move to the next question and we can pull Gabe back in the queue when he comes back?

Operator

Our next question is from Chip Dillon of Vertical Research. Gabe, your line is open.

Gabrial Shane Hajde ***Wells Fargo Securities, LLC, Research Division - Associate Analyst***

Yes. Can you hear me now?

Edward L. Doheny ***Sealed Air Corporation - CEO, President & Director***

Yes.

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

Yes, we can hear you now.

Gabrial Shane Hajde ***Wells Fargo Securities, LLC, Research Division - Associate Analyst***

Was hoping to revisit the APS transaction a little bit. I appreciate you won't maybe divulge all the details, but can you talk about maybe capital intensity of that business, Ted, and then perhaps what the growth profile looked like in maybe, I don't know, the 3 to 5 years leading up to 2018? Was trying to understand if '18 was an aberration for some reason and if that's an organic number or if they, in fact, were completing some acquisitions on their own.

Edward L. Doheny ***Sealed Air Corporation - CEO, President & Director***

Yes. We'd looked at closely at their growth and that's where we're interested. And we also looked at their intellectual property to see what they were doing with their innovation, with the new products where that was a lot of focus for the business. Their growth rates were quite strong, so, strong single digit to double digit, we mentioned in 2018, and that was organic.

And as far as their footprint, they're pretty concentrated in their markets that they have and also in -- primarily in the U.S. So we think actually taking some of their products and their solutions to our footprint, we see some synergy opportunities there.

As far as their capital intensity, we're not sharing that yet, it's still a couple of months away. But what -- we were interested in their profile of their business. They do -- 16% of their business is equipment and 70-plus percent is material and then their parts and service. And that profile was quite interesting for us of how strong of an equipment solution player they were. And just to share, relatively, that's double our size right now. So that's the part that we are quite interested in.

Then also those adjacent markets. It's always interesting when you study a competitor, you get to learn market share very quickly and you get to see it clearly. And some of the markets that we haven't touched and some of those food markets that they're in are quite interesting in looking at some of those customer bases that they have access to. And some of their largest customers actually connected to adjacent space for us that we're not in, and one of those is in the food space.

Operator

Our next question is from Chip Dillon of Vertical Research.

Salvator Tiano ***Vertical Research Partners, LLC - VP***

This is Salvator Tiano sitting in for Chip.

So yes, I would like also to ask about the -- about APS. Trying to understand actually a little bit better the earnings profile and I understand you cannot disclose any specific information. But we're a little bit puzzled by the wording that it's going to be EBITDA accretive. But obviously, that's not that hard unless they have pretty bad losses. So what is kind of the expectation for actual accretion to the bottom line after -- or after -- or even before any incremental interest cost?

And you also just mentioned then at some of the slides about their equipment sales, material sales. You mentioned in the press release that you really like the company for the equipment. But we still see that 3/4 of their revenues come from materials. Is the breakdown on the income base is very different than the sales profile breakdown?

William Gregory Stiehl ***Sealed Air Corporation - Senior VP & CFO***

Thanks for the question. I'll start with the financial piece of the question, and that is, we've signed the deal at this point we've not yet closed the transaction. We anticipate that, that's going to happen in July. And then at that point, we'll provide more detail in terms of the impact on our full year guidance. We're clearly focusing on driving the profitable growth. We're looking at the operational synergies.

But we've got to be very careful to kind of think through the financial accounting implications of the transaction as well as the tax benefits that we'll achieve. We are going to have that be accretive to adjusted EBITDA in 2019 and we'll talk through the full impact on our guidance in late July.

And when Ted was talking about the APS equipment business, one thing that impressed Ted and me as we looked at that business was the exclusivity arrangement that they had with the materials associated with the equipment. I think that they do that very, very well, and that's one of the things that seemed very attractive to us as we looked at the various pieces of their business, a significant one being equipment.

Edward L. Doheny ***Sealed Air Corporation - CEO, President & Director***

All right. So if you look at the materials, we're talking about equipment a lot because we see that's an opportunity, specifically where the markets are going, and this is a food and this is a Protective Packaging.

If we look at our customers facilities, whether it's a large fulfillment center or meat packing plant, where the opportunity for automation is, is how do you load the bag, how do you load the container? This is what they do very well, and it's a gap in our portfolio. The materials piece, so I just want to highlight that automation, that is the customers' words of how they get more efficient with their labor.

Now the materials piece, which is over 70% of their business is also an opportunity for us on synergies. We did analyze what their spend is, what their resin spend is, we know what our cost, we think that is an uplift for us on the synergy. But we also saw a cross synergy that we're quite excited about is their penetration with recycled materials. We found that their cushioning product is 97% recycled. That's really opened our eyes internally with our team on how we could really ramp up our Bubble Wrap product lines with recycled content.

And then back to the question of the multiple that we're looking at. Again, we're looking at something that we do not want to pay more than our multiple, so that's what we're looking at. We'll give more detail on close. But also, the guard rails are there on the ROIC.

That's what we are excited about at what we can do and what the go-forward multiple is, and that translates to being north -- a double-digit ROIC opportunity for us. So matches our guardrails, strategic fit, it's definitely going to fit to our operational leverage target, so lots of work. We studied this for quite some time, so we think this is going to be a nice addition to the Sealed Air portfolio.

Operator

Our next question comes from Neel Kumar of Morgan Stanley.

Michael Miki Slutsky ***Morgan Stanley, Research Division - Research Associate***

This is actually Michael Slutsky sitting in for Neel Kumar. I was just wondering if you could elaborate on some of the growth opportunities in e-commerce from the acquisition given its increasing importance within Product Care.

Edward L. Doheny ***Sealed Air Corporation - CEO, President & Director***

Sure. The -- if you look at e-commerce right now, it's -- again, it's loading equipment quickly. So if you look at -- one of our largest e-commerce solutions is the mailer. The mailers today, what used to be in boxes, now comes in a mailer. So in the e-commerce, that's basically 1 billion boxes have been eliminated.

So how do you now go from the mailer? And how do you load those in a high-volume fashion? So instead of a person can load a mailer between 5 and 6 a minute, how do you move that to 10 to 20 to 30? And that's where their Autobag comes in. And so that synergy there is how do you load bags. Now their pouch are not cushion pouches. That doesn't have to be that way. So they actually are the market leader in loading bags from multiple different industries and again highlighting food.

So we see that synergy, and that's what e-commerce is looking for on automation system to load mailers, to load bags, to load pouches, and they do quite well on the pouch. Now we see some nice synergies there.

William Gregory Stiehl ***Sealed Air Corporation - Senior VP & CFO***

It also strengthens our sustainability portfolio quite nicely. And the other thing that APS has done very, very well is their innovation scale is quite nice. I mean we've heard Ted talked about our vitality index and how we need to double that vitality index going forward. APS' innovation is supported by strong numbers of patents and we've been very impressed by not just what they've done so far, but what they've got in their future plans relative to innovation.

Edward L. Doheny ***Sealed Air Corporation - CEO, President & Director***

Right. And I'll just highlight again on -- we keep hitting the sustainability, their product on their version of Bubble Wrap, their air pillows, is 97% recycled content. That's a big deal.

Operator

Our next question is from Brian Maguire of Goldman Sachs.

Brian P. Maguire ***Goldman Sachs Group Inc., Research Division - Equity Analyst***

Just a 2-part question. One just on volumes in Food Care specifically. Europe, there's some weakness there. I think [is it related] to Brexit? I'm -- I don't think we've heard too many other companies kind of call out Brexit specifically, especially in the food and beverage space. I wouldn't have think that, that would play a major role. So just wondering if you could kind of expand on those comments.

And related to that, are you seeing any negative impacts already from sustainability concerns given that these are kind of plastic-based products? And then -- so the second related question was sort of on the acquisition. You've had some challenges in Product Care over the last couple of quarters. Just wondering about the timing on this one. Do you think that it -- integrating this will -- might add too much complexity given some of the restructuring and reinvention, Reinvent SEE kind of activities taking place there?

William Gregory Stiehl ***Sealed Air Corporation - Senior VP & CFO***

So why don't I go and answer the APS integration question first? And that was we -- had the entire leadership team and their direct reports spend a lot of time in the due diligence process of this potential acquisition. And part of the due diligence is not just understanding the business, but understanding what we need to do in order to integrate that business very, very quickly. So we do get that accretive lift to adjusted EBITDA that we've been discussing. And we feel highly confident in our ability to quickly integrate this business and to highlight the strength that they actually bring to the table.

Edward L. Doheny ***Sealed Air Corporation - CEO, President & Director***

Good. And then back to the Food Care on EMEA that -- other people not mentioning it. The impact for us on Brexit is basically the U.K. is the largest importer of beef from European countries. I was over there and actually met with a grocery store. So to your comment about, is sustainability and plastics an issue there? Absolutely. That's why we're talking about it everywhere. But as far as we think that's recovered issue and with the Brexit -- but for right now, it's part of our first quarter story. But full year, we think, will be correctional. We'll hit our growth targets on Food Care.

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

And just to add on with what Ted said actually in EMEA and North America and really around the world, our sustainability -- our sustainable solution in Food Care is fueling the growth. So what we're seeing in EMEA -- actually, the U.K. interestingly enough, U.K. sales was up a little bit in the quarter. It's the other countries around it that were a little bit weaker, and that's due to this Brexit concern. So like Ted said, because U.K. is the biggest importer of beef among the European countries, there's just a little bit uncertainty around what's going to happen with that market and movement.

But sustainability, it fuels our growth in Europe, and we do think that our recycled trays and some of our films we're making with recycled materials is going to continue to drive that growth throughout Europe and we're also seeing it now in North America. I hope that helps clarify and add a little bit of a color.

Operator

Our next question comes from Daniel Rizzo of Jefferies.

Daniel Dalton Rizzo ***Jefferies LLC, Research Division - Equity Analyst***

Just 2 questions. One, the follow-up on that, would that suggest that the Brexit issue is going to cause some sort of weakness or stagnation until October. Because it hadn't been answered and there's still a lot of uncertainty? And number two, in terms of Product Care, is there opportunity for SKU rationalization there as you've talked about in Food Care?

William Gregory Stiehl ***Sealed Air Corporation - Senior VP & CFO***

So on the Brexit, I mean it's really hard to say the total impact that we're going to see if we go into the fall. I mean EMEA is 21% of our total Food Care sales. So we're still very North America centric. We are very comfortable with our outlook relative to Food Care sales for the balance of the year. But we do see some countries in Europe, if you look at just stand-alone Q1, Germany, Italy, France, Russia that are basically flat, and it's a Brexit impact just because of the significance of what the U.K. actually imports.

And on the SKUs, yes, we absolutely see an opportunity looking at that to rationalize the SKUs across Product Care as well as Food Care. The interesting data point on the Product Care is when you add -- after the closing of the transaction in July, if you add all the SKUs of the APS acquisition, you're going to actually see some very complementary products that get added, and we'll be able to absorb that portfolio quite well.

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

And just to be specific, you asked about Brexit and the rest of the year. We actually are expecting volumes to rebound going forward. We think that the concern on Brexit has to do with [potential taxes and some tariffs and probably need to ask Karl Deily for a little bit more in detail. But without question, it wasn't anything drastic on these other countries. But when we look at Germany, Italy, France and the U.K., those are our 4 largest countries in Europe. Like Bill said, the UK](corrected by the company after the call) was up a little bit, but Germany, Italy and France were just softer, softer than what we anticipated due to Brexit. But again, going forward, there will be more clarity in that market and we do expect it to recover over the next 3 quarters.

Operator

Our next question comes from Mark Wilde from Bank of Montreal.

Mark William Wilde ***BMO Capital Markets Equity Research - Senior Analyst***

Ted, a question for you. A company that made kind of paper dunnage and paper dunnage systems got taken out a few months ago, it got a really high valuation, it had high margins and high growth. But when I look at this, some of it is pretty similar to technologies that Sealed Air has had for years. So I just -- I wonder if there's any lessons from that competitor versus what Sealed Air has done and things you might be able to do different going forward in that business. And just secondly, if we could get some thought on this African swine flu issue and what impact that might have on your business going forward.

Edward L. Doheny ***Sealed Air Corporation - CEO, President & Director***

Sure. Let me do the African swine flu first just because it was tied into the previous questions on Food Care. We did see small impact in the first quarter, basically a couple of million dollars in sales and actually got to see it personally. I was over in Russia. So I've seen the effect, the global effect. But what it's actually doing is driving exports into China. So we're seeing that activity. So we think it actually shouldn't overall be affecting us, but we are definitely seeing the impact on it into China. And again, it's another great advantage we have of our global footprint and being connected to our global customers that when there's an issue on one area, we will see the correction, sometimes not in the quarter, but we'll see it in the year.

Good question, Mark, as you asked about looking in -- partly just to share with you on APS as to how that looks. We've looked at over 30 different companies in the past year. And we've looked at paper companies that we've elected not to go after. And then where we looked is what could we do -- what do they have that could add value to us that we couldn't do on our own.

So we're putting M&A side by side with our innovation team and as we've talked about, doubling our innovation. So our paper systems actually is up double digit. That part of our product Protective Packaging business is quite strong. It's double digit on a small number, so we're looking to see what more we can do. By definitely looking at paper and what's going in the packaging, looking at foam, looking at plastics, looking at recycled, we want to make sure that we have that in our portfolio to anticipate where the market is going.

Also, what we're looking at which tied into looking at other companies in the space is their go-to-market strategy. So very important on -- going through direct, through distribution or e-commerce. So it's another piece of Reinvent SEE as we look to further grow our Protective Packaging as we look at -- in the M&A space now with APS but even on our own portfolio, what can we do with the channels to go after those markets beyond actually the innovation piece.

Operator

I'm showing no questions at the time. I'd like to turn the call back over to Ted for any closing remarks.

Edward L. Doheny ***Sealed Air Corporation - CEO, President & Director***

Great. I wasn't expecting that quick. Okay. Great. I want to thank everyone for the call today. I think it's important to keep in mind that Reinvent SEE is about driving profitable growth. We are simplifying our organization so we can move faster on the markets we serve. And through our accelerated innovation, we're increasing our speed to market, ensuring that we deliver the best products at the right price and making them sustainable. Our capital investments are focused on improving our productivity engine. And we are excited to bring Automated Packaging Systems into the Sealed Air family. So thank you. And with that, turn it to Lori and we'll close the call.

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

Thank you. Operator?

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference. Thank you for your participation. Have a wonderful day. You may all disconnect.
