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SEE - Q1 2017 Sealed Air Corp Earnings Call

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OVERVIEW:

Co. reported 1Q17 net sales from continuing operations of $1b and adjusted EPS from continuing operations of $0.43. Expects 2017 net sales from continuing operations to be approx. $4.3b and adjusted EPS from continuing operations to be approx. $1.70.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Sealed Air First Quarter 2017 Earnings Conference Call. (Operator Instructions) And as a reminder, this conference is being recorded.

Now I would like to welcome and turn the call to Ms. Lori Chaitman, Vice President of Investor Relations. 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 are forward-looking statements. These statements are based solely on information that is now available to us. We encourage you to review this information in the section entitled Forward-looking Statements in our earnings release, which applies to this call. Additionally, our future performance may differ due to a number of factors. Many of these factors are listed in our most recent annual report on Form 10-K and as revised and updated on our quarterly reports on Form 10-Q and current reports on Form 8-K, which you can also find on our website at sealedair.com or at 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 their reconciliation to U.S. GAAP in the financial tables that we've included in our earnings release. Included in today's presentation on Slide 3 and Slide 17, you will find U.S. GAAP financial results that complement some of the non-U.S. GAAP measures used throughout the presentation.

In addition, on Slide 16, we included a reconciliation of previously reported consolidated results to continuing operations for both Q1 and full year 2016, reflecting Diversey as discontinued operations. In the coming weeks, we will publish key metrics for Q2, Q3 and Q4 2016 continuing operations to help with your 2017 analysis for the remainder of the year. As a reminder, our medical business was integrated into our food care business, which is reflected in our results and outlook.

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

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

Thank you, Lori, and good morning, everyone. We have a lot to cover on our call this morning. And during our prepared remarks, we will cover the announced sale of Diversey, the end use of proceeds and how we will address trended and unallocated costs. We will review in detail our first quarter results and outlook for continuing operations. We will also highlight Diversey results, and after our prepared remarks, we will open up the call for your questions. So let's get started.

On March 27, we announced a definitive agreement to sell Diversey, our Diversey Care division and our related hygiene business to Bain Capital Private Equity for $3.2 billion. The transaction is expected to close early September, with net proceeds of approximately $2.5 billion. This transaction marks a significant milestone for both Sealed Air and Diversey, and we're committed to a timely and successful separation.

For Sealed Air, this transaction will give us an even greater focus on executing our profitable growth story and investing in our core business. The increased financial flexibility will enable us to return cash to shareholders through share repurchases and dividends, while at the same time, target value-added acquisitions. To address the diluted impacts of this transaction, we increased our share repurchase program by an additional $1.5 billion, expanding our total authorization for future repurchases to approximately $2.2 billion. We will continue our quarterly cash dividend of $0.16 per share, and we will pay down approximately $1.1 billion of debt and maintain our credit profile.

In reviewing our first quarter performance for continuing operations, you will see that we had a very solid start of the year. Sales were $1 billion, an increase of 3% constant dollar growth. Food Care sales of $656 million had constant dollar growth of 2% and Product Care sales of $377 million had constant dollar growth of 4%, excluding 50 basis points of rationalization efforts in Europe. We are very pleased to see the execution in North America with constant dollar sales growth of 6%, and both Food Care and Product Care contributed to this performance with sales growth of 7% and 3%, respectively.

We are also pleased with our EBITDA performance for both Food Care and Product Care. Combined, those 2 divisions delivered adjusted EBITDA of $216 million or 21% of sales, offset by $34 million in corporate expenses. These resulted in adjusted EBITDA from continuing operations of $182 million or 18% of sales. And Carol will provide more details later on the call on corporate expenses, which includes stranded and unallocated costs associated with the sale of Diversey.

Diversey, which was recorded in discontinued operations in the first quarter, delivered $582 million in sales, an increase of 2% in constant dollars. And if we did not have discontinued operations accounting, adjusted EBITDA would've been $53 million as compared with $48 million in adjusted EBITDA in the first quarter of last year. Our comments throughout the rest of this call will be focused on results from continuing operations.

So let me now turn to Slide 5. Our regional performance was still there. North America accounted for 55% of our net sales, and as I just noted, increased 6% in constant dollars. Latin America, which accounted for 9% of net sales, had constant dollar sales growth of 5.5%. Mexico, by the way, increased 17% and Brazil was up 5%, which was partially offset by a 4% decline in Argentina. On a combined basis, Mexico, Brazil and Argentina accounted for 8% of total company's net sales. Asia-Pacific represented 15% of net sales and was flat year-over-year, with 10% growth in New Zealand and 9% growth in China. Growth in New Zealand and China was offset by the 12% decline in Australia due to the beef market downcycle. Australia, New Zealand and China combined accounted for 10% of our total company net sales. EMEA, which accounted for the remaining 21% of the total company net sales, was the only region that declined in the quarter. And the 3.5% decline in constant currency was primarily due to timing of Food Care equipment sales, rationalization efforts in Product Care that were completed in May of last year and the decline in net sales in Russia related to currency because our pricing is indexed to the euro. On an as-reported basis, Russia was slightly up versus last year.

Now turn to Slide 6, which highlights volume and price/mix trends by division and region. You can see from this slide that on a global basis, volume trends were up 4% in the first quarter. We delivered over 7% volume growth in North America, with 9% volume growth in Food Care and 6% growth in Product Care. I wanted to note that Sealed Air has not delivered volume growth like this since the recovery in 2010 after the great global recession.

Volume growth in North America was partially offset by unfavorable price/mix of 1.7%. In Food Care, unfavorable pricing was due to timing of raw material cost pass-through, which we expect to turn in the second half of the year. And in Product Care, unfavorable mix was impacted by continued growth in e-commerce and fulfillment. We announced price increases that began in early Q2, which should help top line going forward.

I also want to note that we experienced positive volume trends in Latin America led by 2% volume growth in food packaging -- in Food Care packaging. This is the first time since the first quarter of 2014 that volume contributed to sales growth in this region. Despite improvement in Q1, the consequences of the selective ban on the Brazilian beef export is expected to slow down the recovery in this local market and negatively impact our volume in Q2 and Q3. But Latin America continues to be a significant growth opportunity for us, and we expect trends to improve as we head into 2018.

Turning now to Slide 7 and review Food Care results in more details. Food Care delivered $656 million in net sales in the first quarter, an increase of approximately 2% on a constant dollar basis. Adjusted EBITDA of $142 million or margins of 21.6% was impacted by higher input cost. Adjusted EBITDA in Q1 2016 was $139 million. The strength we delivered in North America was not only driven by the increased cattle production in the region, but also growth in fresh pork, smoked and processed meat and cheeses. North America accounted for 41% -- 51% of Food Care sales in the first quarter. Latin America, which accounted for 13% of Food Care sales, delivered positive volume trends for the first time in several quarters, resulting in 5% constant dollar growth. Growth in North America and Latin America was partially offset by continued weakness in Australia as I talked about, and declines in Europe due to timing of equipment sales and Forex in Russia.

First half sales was a strong year for -- first half of 2016 was a strong year for equipment in Europe, resulting in a tough year-on-year comparable in Q1. As we head into the second half, we expect equipment sales to return to growth and the EMEA region accounted for 20% of Food Care net sales, with Asia-Pacific accounting for the remaining 16% of sales.

For the full year 2017, we continue to expect Food Care to deliver 3% constant sales growth, with continued strength in North America, improving trends in EMEA and a more favorable global price/mix as the year progresses due to the timing of raw materials cost pass-through in North America.

Slide 8 highlights results from our Product Care division. Product Care net sales of $377 million increased 4% in constant dollars, excluding 50 basis points of rationalization in Europe, which happened in end of May of last year. Adjusted EBITDA was $74 million or 19.7% of sales. Performance accelerated through the quarter, with all regions delivering positive constant dollar sales and volume growth. North America, which accounted for 62% of Product Care's net sales, increased 3%, with strong growth in e-commerce and fulfillment. EMEA accounted for 23% of sales and increased slightly, driven by high single-digit growth in Germany, offset by flat sales in the U.K. and declines in France largely related to the rationalization I referred to. Asia-Pacific and Latin America, combined, accounted for the remaining 15%of sales and were up nearly 10% led by strength in China, Japan and Mexico.

We continue to grow alongside the rapidly expanding e-commerce and fulfillment market and sees good areas of stabilization within the industrial sectors. Our new products, including B+, FloWrap, StealthWrap, inflatable bubbles and automated mailers, are also gaining momentum across all of our end markets, and our customers focus on addressing dimensional weight pricing. We expect our automated fulfillment solutions to continue ramping throughout the year and further contribute to our performance.

It is worth highlighting that last week, we announced with UPS the opening of a packaging innovation center in Louisville, Kentucky on the UPS largest Supply Chain Solutions site. We were honored to be selected as UPS' partner to help address their customers' packaging and shipping challenges, and this clearly demonstrates the power of our innovative solutions and the ability for UPS and Sealed Air to collaboratively work together to add value to customers around the world.

For the full 2017, we expect the momentum we experienced in the first quarter to continue throughout the rest of the year, resulting in constant dollar sales growth in the range of 3% to 4%. Growth within our e-commerce and fulfillment segment is far surpassing industrial growth.

And now let me pass the call to Carol to review our net sales and adjusted EBITDA, free cash flow and our outlook for the full year. Carol?

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

Thank you, Jerome. Turning to Slide 9, let me walk you through our net sales from continuing operations on a year-over-year basis. We delivered $1 billion in net sales in the first quarter. Volume contributed $38 million and was partially offset by unfavorable price/mix of $11 million. Jerome has already provided color on our top line trend.

Adjusted EBITDA from continuing operations was $182 million. Volume growth contributed $17 million in Q1. Mix and price/cost spread was $12 million unfavorable. Operating expenses increased $5 million and restructuring savings were $1 million. Currency had an unfavorable impact on adjusted EBITDA of $2 million. You can also see on the bridge that we disclosed the unallocated costs as a separate item, which were $8 million in the first quarter 2017 as compared to $5 million in the first quarter 2016. I will expand on this further when we discuss the 2017 full year guidance.

Adjusted earnings per share from continuing operations were $0.43 from the first quarter compared to $0.42 in Q1 2016. Our adjusted tax rate for continuing operations in Q1 2017 was 14% compared to 19% in Q1 2016. The adjusted tax rate in the first quarter was favorably impacted by a tax benefit on share-based compensation and benefits related to statutes of limitations, explorations and audit settlements.

Turning to Slide 10. We are presenting our free cash flow on a consolidated basis, which includes results from continuing and discontinued operations. In the first quarter, consolidated free cash flow, excluding payments related to the Diversey sale, was a use of cash of $31 million. CapEx was $50 million; cash interest payments, $48 million; and restructuring costs were $15 million. Aligned with our typical free cash flow seasonality, working capital and other assets and liabilities were a use of cash of $115 million.

Now turning to our outlook on Slide 11. Net sales from continuing operations for 2017 are expected to be approximately $4.3 billion, an increase of over 3% on a constant dollar basis. This forecast is assumed approximately 3% constant dollar growth for Food Care and 3% to 4% for Product Care. We expect growth to be driven largely by volume in both businesses. We estimate that currency translation will reduce net sales by approximately $35 million. For continuing operations, our major currency exposures include the euro, which was approximately 13% of net sales in Q1; the Australian dollar at 5%; British pound, 4%; and the Mexican peso, New Zealand dollar and Brazilian real, each for approximately 3% of net sales.

2017 adjusted EBITDA from continuing operations is expected to be approximately $825 million. Corporate expenses are expected to be approximately $130 million in 2017, which includes $25 million of unallocated costs related to discontinued operations accounting. These unallocated costs consist of functional support and related expenses previously allocated to Diversey Care and hygiene solutions that did not qualify for discontinued operations. Our goal is to eliminate most of the unallocated costs by the end of 2018.

Corporate expenses also include approximately $40 million of stranded costs. Identification of stranded costs is based on a percent of net sales. With the divestiture of this size, we recognize that we need to reduce the size of our corporate expense structure. We will be making a concerted effort to reduce stranded costs by 50% and repurpose the balance to support growth initiatives. This reduction is planned for the 24-month period following the close of the transaction. Keep in mind that once the transaction closes in September, we will start supporting Diversey through our transition services agreement for up to 12 to 18 months. We expect to receive approximately $23 million in PSA revenues during this period, which will largely offset the unallocated cost.

Unfavorable currency translation is estimated to be approximately $5 million. Our net interest expense for 2017 is estimated at $195 million, with the assumption that we pay down $1.1 billion of debt with the net proceeds of the Diversey sale. Depreciation and amortization is forecast to be approximately $165 million. We expect our adjusted tax rate to be approximately 28% for the full year 2017. Adjusted earnings per share is expected to be approximately $1.70. Our forecast for EPS is based on the current weighted average shares outstanding of $196 million. Keep in mind that we are no longer restricted on share buybacks. And to address dilution of the sale of Diversey, we will begin buying shares through open market purchases and accelerated share repurchases. We expect to fund the repurchase program with cash flow generation and net proceeds from the sale of Diversey.

Let's turn to Slide 12 and review our outlook for free cash flow. To calculate our free cash flow outlook, our forecast is based on our estimated full year outlook for continuing operations and only the first 8 months of discontinued operations. Let me walk you through how we estimate our free cash flow for the year. We started with an estimated consolidated adjusted EBITDA of approximately $1 billion, with $825 million of expected EBITDA from continuing operations and $215 million from the first 8 months of discontinued operations, assuming an early September close. We anticipate cash interest payments to be $200 million and cash tax payments to be $160 million. Restructuring cash cost, excluding efforts dedicated to reducing unallocated and stranded costs, are estimated to be $50 million. Capital expenditures are forecast to be $175 million, of which, $165 million represents Sealed Air continuing operations expenditures. Restructuring related CapEx is expected to be $25 million in 2017 and is included in the $175 million CapEx estimate. Working capital and other assets and liabilities is expected to be a use of cash of $65 million. As you know, our free cash flow is typically generated in the second half of the year, with the fourth quarter being our strongest quarter for cash generation, and that is especially true of the Diversey business.

With these factors in mind, our forecast for free cash flow in 2017 is approximately $390 million, excluding cash payments related to the sale of Diversey. Looking beyond 2017, our targeted adjusted EBITDA conversion to free cash flow for continuing operations is 50% plus.

I would like to discuss the gross and net proceeds of the sale as highlighted on Slide 13. Bain Capital is acquiring Diversey in an all-cash transaction valued at $3.2 billion. We expect to receive net cash proceeds of approximately $2.5 billion. Cash taxes are expected to be in the range of $250 million to $275 million. The pension liability transferring with Diversey is approximately $200 million, and transaction fees and separation costs are anticipated to be $70 million. Restructuring cost to address unallocated and stranded costs are estimated to be $50 million. The remaining balance includes other cost and debt-like obligations.

This concludes our prepared remarks. Before we open the call to questions, I would like to remind you, our second quarter 2017 earnings call is tentatively scheduled for Thursday, August 3.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from the line of Ghansham Panjabi with Robert W. Baird.

Mehul M. Dalia - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate*

This is actually Mehul Dalia filling in for Ghansham. Just trying to get a better sense of what the free cash flow profile is for the company, excluding Diversey? And relative to the $390 million you're guiding to -- towards for 2017, what kind of free cash flow will the new Sealed Air generate in 2018 and beyond? And what are some of the parameters like CapEx, cash restructuring, cash tax and working capital, going to look like going forward?

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

So we're not prepared to give a number for 2018. I made reference in my comments to the 50% free cash flow conversion rate that we will be moving to. With respect to CapEx, a more normalized basis for us would be approximately $150 million to $160 million, and that saves plenty of room for us to invest for growth because our maintenance CapEx is somewhere around $100 million for the company. So any other questions?

Mehul M. Dalia - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate*

Yes, and I guess, what's driving largely in working capital for this year? I think, it was supposed to be an $80 million source before, now it's a $65 million use of cash. Any details around that will be helpful.

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

So it's largely because of the sale of Diversey. As I noted, we are heavy in our free cash flow generation in the second half of the year, and that is very true for Diversey. Actually, the bulk of their free cash flow is generated within Q4. So most of the delta from the guidance that we provided before to the update for working capital and other is largely driven because of the current plans, close date for the transaction in early September.

And also, your question about the restructuring, just to make sure we have clarity there. We have previously guided $85 million to $100 million in restructuring for 2017. As you see, we now have restructuring for continuing operations, excluding anything associated with the separation, at $50 million. And you also see, as we highlighted in the deck, that we have $50 million identified for restructuring associated with addressing stranded costs. So those 2 together, we are still within our $85 million to $100 million for 2017, although on the high end. We expect that the $50 million for the restructuring associated with stranded costs, that will actually spread mostly from Q4, and then into 2018 as we address those stranded costs.

Operator

And our next question is from the line of Edlain Rodriguez with UBS.

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

Just so we all are on the same page, can you bridge the $825 million EBITDA guidance for continuing operations versus the number you had before, like last year, at the end of the fourth quarter, which I believe was closer to $860 million, $865 million ? And you've talked about the stranded costs, but you lowered the negative impact from currency. What's the delta? Like what got worse versus what you were looking at, at the end of last year?

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

Actually, we wouldn't say that there's a lot worse than at the end of last year. We've highlighted that some of the mix was Product Care, and Jerome can comment more on that, just as we continue to grow at a faster rate within our e-commerce and fulfillment, does have some impact. However, we're seeing nice performance from Food Care and from Product Care top line. And the unallocated costs of $25 million also was key in that bridge as well.

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

So there's something that you need to understand, is that the SEC rules with regards to unallocated costs before closing. And unless the -- given unallocated cost is very precisely put into a division, call it, computers and cell phones, those are -- there is a cost for computers and cell phones, for example, which is very clearly set into the Diversey operation. But if it is a cost which is allocated as a percentage of sales or things like this, before closing, all of those costs move to Sealed Air, to new Sealed Air. And that is probably part of this explanation, and we have talked about $25 million of those cost, which in fact, are moved into our accounting Sealed Air, new Sealed Air accounting. And you're going to have -- you're going to see those after closing being offset by GSAs.

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

And one last one. In terms of like product tier. So how do you address the margin issue, where e-commerce sales that are growing, but it tend to have lower margins, and industrial sales, which are declining? So how you make up for that margin?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

That's a very good question. We don't have a margin issue, as you said, with Product Care because actually, we're really very happy with the restoration of margins in that division that we have carried throughout the years. But what you have seen is that we have actually -- what we have not seen, but what we have had is somewhat flat pricing, but a negative price/mix. And you have seen that we have 3% to where -- that for the year, we said that we're going to have 3% to 4% constant dollar sales growth. The reality in the gross profit line is that we're seeing a slight degradation in the first quarter and it's going to be impacting also the second quarter because we have had hedged the resin price increases, which we have not been able to immediately offset with our own price increases, which we have started. So we already are seeing some price increase, slight price increase in the first quarter, which is going to continue in the second quarter. But that's one part. One part is the slight margin compression that all of our competitors have had in food packaging and in product packaging and things like this because of the speed and how hefty those resin cost increases have been. The second thing is the mix. And in Product Care, we are growing, as we already told you in the previous quarters, much faster in e-commerce and fulfillment than in our industrial packaging. By the way, our industrial packaging is doing much better than it has done. We are seeing some lift. We're seeing some restoration of volume, which is very pleasant to see in an industrial GDP, which is still not very good, but we're seeing this. But what is important to understand is that yes, we do have some lower value-added products temporarily in e-commerce. But we also have, and you need to remember that, have launched an equipment line. Two years ago, we didn't have any equipment product. We have a PACK EXPO last October, showing our new line of equipment and those are starting to ramp up. You can imagine that when your production starts to ramp up, you have lower margins because you have to absorb volume variances in your plan. And we are, by far, not at the margins we need to be in our equipment, but this is the nature of the beat. You'll ramp up your equipment, and when those are going to start kicking with sizable volume and we're doing -- we have a lot of momentum in that sector, we are going to improve our margin. This is why, and I'm concluding with this, this is why I said that short term, our margins in e-commerce 3PL are lower than our total margin. But that this is not going to be the case, over time.

Operator

Our next question is from the line of George Staphos with Bank of America Merrill Lynch.

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

I want to come back to the question of performance relative to guidance. If we -- and let's take it from a prior -- pre-Diversey being discontinued operations basis, which will then get away from that accounting issue you're talking about, Jerome. So I think, prior guidance, you were looking for about $1.180 billion in EBITDA. And if I take the $825 million of continuing operations and I gross up the $215 million for full year, are lined up at around $1.150 billion. We also have currency, which seems like it's been less negative, which is a good thing, and volume trends have been at least good, it would appear, as you've been expecting. So if you agree with the premise of everything I just set up, there does appear to be some difference in what you were guiding to in terms of what you're seeing right now. What would cause that? And then my second question, and I'll turn it over. Jerome, you've done a great job of driving margin, in part by getting fair value for your products in the market relative to the worth they are to the customers. Do you feel you have much more upside in that regard, either in Product Care or Food Care in terms of, again, getting that fair value, that fair price for the value provided to customers? Or have you largely accomplished that at this juncture?

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

So George, one thing to note. I'm not sure because we don't break out guidance for each of the segments and businesses. And depending on what the assumption was for hygiene, that could potentially be contributing to some of the disconnect. We did provide, on Slide 16 of the deck, what hygiene's performance was for the full year 2016 as well as for Q1. We have had growth within the hygiene business year-over-year for 2017. And so depending on your assumptions for that, that could be causing part of the disconnect with the guidance, looking back at it. The other thing from...

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

Carol, presumably, that would have been in the $1.180 billion?

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

Yes. I'm sorry, George, okay. So you're looking at the total. The other thing is on some of the formula pricing in that pass-through, we did have slightly higher-than-expected increases that we will make up in the second half of the year. So there's a little bit of that, whereas previously, we have said resins will be approximately flat for the year. They will be up slightly on a full year basis. And so -- but that's timing due to the pass-through, so we'll see that as well.

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

So yes, in regards to our cost increases. Once again, remember, the cost increases, there was $0.05 in February, there was $0.03 in March. The $0.03 of April in resins has been moved to May, and we'll see if it goes through, et cetera. So yes, we have been negatively impacted on the gross profit line, on both divisions, one, because of formula price through, the other one because of negotiations. And it is going to impact also Product Care and a little bit also -- and also Food Care in the second quarter before we see a restoration. But what you have to be sensitive also with regards to the currency, and yes, indeed the currency impact is less, but remember, who it affects most is, it is the Diversey side because they have a higher exposure to non-U.S. dollar than the rest of New Sealed Air. Having said that, no, we don't see a deterioration of our forecast in -- when you compare apples with apples. We're going to have -- we expect continued gross profit squeeze in the second quarter because of the resin that I talked to you about.

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

And on the March, to get fair value for all your products, Jerome?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

On the second comment, which is also a very good question. Remember what I said several years ago, there is a catch-up to do. So therefore, the margin increase is going to slow except for the new products. And you remember that in Food Care and in Product Care, we have been moving with innovation, which is -- which are really doing well. We are going to update you all during our Analyst Day next autumn about this. And as a result of that, we believe that we are going to be able to continue to have margin expansion. The solutions that we are bringing, adding new value to customers, have a very quick and very strong payback for our customers. So we're really pleased with our innovation.

Operator

And our next question is from Scott Gaffner with Barclays.

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

I had a follow-up on a couple of George's questions because I've done a very similar math to him on the RemainCo, if you want to call it that, EBITDA guidance of $825 million. Maybe just asked a little bit more straightforward, are you seeing a reduction in your EBITDA guidance for the Food Care, Product Care, RemainCo business? And if not, maybe you just built in some conservatism into that forecast on a go-forward basis, given all the moving parts?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

So our forecast is our forecast. What we have seen, as I said before, is a margin squeeze in the Product Care. We used to see the sales growth move to the EBITDA and more. And we are not seeing this in Product Care for the reasons I have talked about. And therefore, for the full year, we're not seeing and we are not expecting to have Product Care have the sales growth drop to the bottom line and more. And the reasons, once again, are hefty and quick resin increases and the product mix with regards to our equipment and our lower value-add products into e-commerce. So that's one. The second one is that we are -- in Food Care, we're seeing growth and we're satisfied with what's going on in there, and we are not seeing the major EBITDA contraction or lower growth than you were expecting. Once again, remember what I said before. The SEC accounting principles oblige us to take all of those non-directly attributable allocated costs that we have before closing into Diversey. They have to come to new Sealed Air. That is having an impact.

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

Okay. And just as a follow-up on the resin price increases. On food Care, I thought I heard you say -- I'm sorry, Product Care, I thought I heard you say pricing was impacted by some negotiations, and then in Food Care, anything to -- that you can do to maybe tighten the pass-through on those resin price increases? I think you said you weren't going to get it back until the second half of the year.

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

So no, you don't tighten because those -- the pass-throughs, because those are contracts and, therefore, you respect the contracts. But what goes around comes around. And as a result, this is, at the point in time, they're going to start to -- we're going to start to benefit from those. And we believe that this is going to be towards the end of the year and, definitely, into next year. With regards to Product Care, those are negotiations, and because we don't have, basically, formulas, and that has affected some gross profits in the first quarter because of the speed of those $0.05 and $0.03 and potentially some more to come. We have announced price increases and we have executed price increases on based on resins. We also have some benzene and NDI, very hefty price -- cost increases, and we have already started to implement price increases on our Instapak product line, which is important.

Operator

And our next question is from the line of Arun Viswanathan with RBC.

Arun S. Viswanathan - *RBC Capital Markets, LLC, Research Division - Analyst*

I just wanted to go back to the plan going forward. So we'll be losing the Diversey EBITDA. You talked about share buyback and an accelerated share repurchase program and some debt paydown and the M&A. Maybe you could just help us understand how you bridge the dilution because we're getting quite a bit of that on a (inaudible) basis. How do you see that bridge playing out over the next 12 to 18 months?

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

So on the dilution, I made the comment that we would cover part of it through the net proceeds approximately if we utilize $1.1 billion, and then we utilize cash flow -- free cash flow generation. It's approximately $1.8 billion, depending on the price of the stock to get us to a net neutral position for the separation of the Diversey business. And we will put in place the market purchases as well as an accelerated share repurchase program. And our goal, again, is to neutralize by the end of 2018.

Arun S. Viswanathan - *RBC Capital Markets, LLC, Research Division - Analyst*

And what about M&A? I imagine that some proceeds could be used in that. Is that correct? And what are you seeing in the pipeline itself?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

So we -- yes, M&A can be part of the game. We have -- I've been very public saying that we have been doing technology bolt-ons in the past, and we're going to continue looking at bolt-on operations. So therefore, there is no huge M&A being discussed or being looked at, at this point in time. We believe that we can do regional bolt-on to reinforce our Product Cre and our Food Care divisions.

Operator

And our next question is from the line of Brian Maguire with Goldman Sachs.

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

I just wanted to zero in on the corporate expense line for a minute. A lot of moving pieces there. As I understand it, I guess, you have $25 million of unallocated expenses in there. I think you made some comments that $23 million of that will get covered by some transition service agreements once the sale closes. And then eventually, you hope to take out half of the $40 million of stranded costs. So is the right way to think of it as a negative $130 million this year going to something like a negative $110 million next year? And I know that's not all corporate. There's some spending on growth initiatives in there. Any thoughts on changing the cadence of some of that spending and maybe pushing it out a little bit to offset some of the dilution from the sale in terms of the impact from the stranded costs?

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

So you are thinking about the math the correct way. So the $130 million includes the $25 million of unallocated -- not to delve into technical generally accepted accounting principles, but just to note that all those costs are -- they're a shift from discontinued to continuing operations because the accounting rules are very specific that unless something can be identified as a discrete cost, it can't fit in discontinued operations. So we have to pull it up in the continuing operations. That's why we called it out. That will be the easiest part of the cost to exit. They will first largely be covered by approximately $23 million in transition service agreement proceeds. Over those agreements, they vary across all of the work stream. Some last 6 months, some are 12, some can go up to 18 months, but they should largely cover that $25 million. Then in addition to that, I highlighted the $40 million, which we will work to exit 50% of that beginning at the close date and estimated we'll probably take approximately 24 months to exit those cost. And we have included in that $50 million in the restructuring to get to the net proceeds for the sale of the business to cover the exit of those costs. If we don't have the growth to be able to cover that $20 million that we're saying we're not exiting, obviously, we will have to take actions to address more than the $20 million because our goal is to continue to have quality of earnings via EBITDA growth as we see top line growth. It always doesn't happen smoothly one for one, depending on if we're growing in a certain sector and making investments such as with the e-commerce and fulfillment markets, where we're growing rapidly there. But we do plan to have year-over-year. Also, if we look at corporate -- either in corporate expenses or what we're investing within the businesses, Jerome has created a culture here at Sealed Air and we'll continue to manage that way. We have to earn the right to grow and earn the right to be able to spend and invest. And if the performance of the business level, or in total for the company, if we're not seeing that growth and that improvement in performance, we will very aggressively manage the cost.

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

Having said that, you have observed, I hope, the dramatic shift in our volume growth, and that helps me to come back and say -- and remind you all of what I said last year. Last year, I said that we were expecting to have a total growth of about 3%, which we did not deliver. But I was expecting this to be ramping -- the growth of last year to be ramping up towards the end of the year. So when you step back, what are you seeing? You're seeing that basically, I was wrong by 1 to 2 quarters maximum. And I do confirm that I am expecting to see the volume growth and the total growth to firm up because we said 3% to 4% this year. And when you look at -- the specifically to the volume, we have had this past quarter about the double growth that we have had for a long time because our volume growth in New Sealed Air has been about 0.8% to 0.7% in the first 3 quarters of last year and about 2% in the fourth quarter. So what you're seeing is that this growth has picked up. So Q4 volume growth for New Sealed Air was 2%. Q4 -- Q1 volume growth for the first quarter was 3.8%. And I do confirm that this is a very good and positive trend, which is making me very confident that our strategy was and is the right one, innovation and segmentation is the name of the game. And next to that, we're going to see how it develops into 2018. But all together, we believe that this 3% to 4% growth in 2017 is going to be coming, which is a (inaudible) to the past.

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

No one disputes the volume growth, I think, is just some of the translation of that to the bottom line getting offset by some of the OpEx spending, and the corporate has been just a little bit frustrating. So hoping to see a little bit more of that drop in the bottom line going forward. Just one on the Food Care...

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

Not more frustrating than for us, by the way, but this is a transition time. It is a difficult time in 2017. We have done what we felt was necessary to be done for the future of Sealed Air. This -- Diversey has earned the right to fly from its own wings with Bain Capital right now, and I think this is good for Sealed Air and this is good for Diversey. We are -- and on the Product Care, not dropping, having the sales growth not dropping to the bottom line. Fully agree with you, we believe that this is transitional also, but it's going to be there in 2017.

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

Okay, I appreciate that. I just have one on Food Care. I noticed the price/mix was down, even though resins are up, and I think the U.S. was a bigger contributor to the mix. I would've thought they would have had a higher price point. Just wondering if -- are you seeing any competition pick-up there that's leading you to have to cut any like-versus-like pricing above and beyond just the raw pass-throughs? And maybe just help us understand what's driving the price/mix to be down there?

Jerome A. Peribere - *Sealed Air Corporation - CEO, President and Director*

I'm a very strong believer that you do not buy your way into markets with price, and I have proven that over the past few years. What is making us win in the marketplace is our innovation. It is not only on red, fresh meat. It is also on cheese, it is also on processed foods. We have customers who are converting to grip and tear, and so our solutions, we are making progress with Optidur as we were expecting. We're making progress with our DOT as we were expecting. So I would say, all good, and this is what enables us to have the volume moves that we're having. It's mostly -- what we're seeing is price in the first quarter, mostly North America, because of the formula pricing. That is mostly a timing point situation.

Operator

Our next question is from the line of Adam Josephson with KeyBanc.

Adam Jesse Josephson - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Equity Research Analyst*

Carol, just a 2-part question on the dilution. So if you buy back, call it $1.8 billion, let's call it 40 million shares, so the $170 million, just by my math, would go to $250 million. So to get back to $260 million would seem to require quite a bit of EBITDA growth. I'm just wondering how much of that would come from the stranded costs/unallocated cost going away? How much needs to go to get to neutral earnings by the end of next year? That's my first question.

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

So we would assume, again, that all of the unallocated is addressed by the end of 2018, so that full $25 million. And the $20 million of the $40 million, we would address that beginning at the date of separation and estimate that it will take approximately 24 months. Cost will exit each and every quarter, so -- and the timing of that when to be variable, but we would -- our assumptions assume that we would exit the $25 million the $20 million within 24 months of the close, but the biggest portion of it being exited by the end of 2018.

Adam Jesse Josephson - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Equity Research Analyst*

Okay. And are you assuming organic growth on top of that growth?

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

Yes, we do -- are assuming organic growth for EBITDA.

Adam Jesse Josephson - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Equity Research Analyst*

Okay. And just last question, on the share, on the buyback now, can you just talk about the timing of it and the extent to which you intend to lever up -- to buy back stock before the deal closes.

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

Yes. So Adam, we'll be out of our blackout now that we've had our earnings release and shared this information. We'll file our 10-Q by tomorrow at the latest, so -- which we just have all the numbers that we've presented within our earnings release. So we'll be out of the blackout, so we can be back in the market at any time prior to going back into blackout for the Q2 earnings. And we'll have to put plans in place before that to be active through that entire time period and up until the earnings release for Q2. So we've not -- internally, we've talked about what numbers make sense. As always, we'll stick to the discipline we've had where we've earned models. We'll look at the intrinsic value for the stock. We review the models with the board and those ranges, and we'll continue to do so as we go forward. We ended Q1 right around 3.5x leverage. We will stick to our commitment of 3.5x to 4x leverage. And we feel very comfortable with the amount that we will be buying in Q2 and Q3 even without the close of the Diversey transaction. While we don't see any risk to the transaction at all, we will be very prudent in how we buy the stock back.

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

Operator, that ends our call for today, please.

Operator

Ladies and gentlemen, this concludes our Q&A session for today. Thank you for your participation in today's program. You may all disconnect. Have a wonderful day.
