THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

SEE - Q1 2018 Sealed Air Corp Earnings Call

EVENT DATE/TIME: MAY 03, 2018 / 2:00PM GMT

OVERVIEW:

Co. reported 1Q18 net sales of $1.1b and adjusted EPS of $0.51. Expects 2018 net sales to be $4.75-4.80b and adjusted EPS to be $2.45-2.55.

CORPORATE PARTICIPANTS

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

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

William Gregory Stiehl *Sealed Air Corporation - Acting CFO, CAO & Controller*

CONFERENCE CALL PARTICIPANTS

Anojja Aditi Shah *BMO Capital Markets Equity Research - Senior Associate*

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

Clyde Alvin Dillon *Vertical Research Partners, LLC - Partner*

John Dunigan

Lars F. Kjellberg *Crédit Suisse AG, Research Division - Research Analyst*

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

Molly Rose Baum *BofA Merrill Lynch, Research Division - Research Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Sealed Air First Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Lori Chaitman, Vice President, Investor Relations. Ma'am, you may begin.

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

Thank you, Shannon. 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'd 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 on -- 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 their 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. I want to thank all of you for your interest in Sealed Air, and welcome to our 2018 first quarter conference call. Before Bill and I discuss our first quarter results, business trends and 2018 outlook, I'd like to note a change to our reporting structure. Starting this quarter, we allocated more expenses from our Corporate segment to our divisions. This change was implemented to accelerate productivity improvements, drive accountability and eliminate operational redundancies. For your convenience and modeling purposes, we provided 2017 results to reflect the revised allocation of these expenses. Please note that our decision to move expenses from the Corporate segment to the divisions has no impact on our total adjusted EBITDA.

Now let's move to our first quarter results. We had a solid start to the year. Operating leverage improved. We reduced our fixed cost structure, and we invested in new innovations to drive profitable growth. Our first quarter net sales of $1.1 billion increased 10% over last year, and adjusted EBITDA of $205 million was up 13% over the same period. Operating leverage, or what we define as our profit-to-growth ratio, was 23%, tracking above our full year target of 20%. As a reminder, this ratio represents the year-over-year change in EBITDA over the change in sales. Earnings per share in the quarter was $0.51, a 19% increase over Q1 2017.

Our performance in the first 3 months of the year, combined with favorable global business trends, gives us confidence in our 2018 outlook. We are on track to achieve our full year 2018 guidance for net sales, adjusted EBITDA and free cash flow. To account for the 9 million shares we repurchased in January, we raised our earnings per share forecast to be in the range of $2.45 to $2.55. We announced today that the board approved a new share repurchase program of $1 billion, replacing the prior authorizations. This represents an increase of approximately $500 million from what was remaining under our previous program. Keep in mind our guidance assumes no additional share repurchases.

To deliver our objectives for 2018, we are focused on opportunities that will create the most value. First, accelerate profitable sales of our innovative solutions in high-growth markets and geographies. We want to be top-of-mind when our customers are trying to solve their most critical packaging and fulfillment challenges.

Second, take our operational excellence on how we innovate, buy, make and sell materials, systems and solutions to world class. We have good systems in place, but there's room for improvement. And these improvements will expand margins and increase our return on invested capital.

And third, reduce our cost structure and drive organizational productivity by operating as one Sealed Air. Our focus is to address stranded costs from the Diversey sale. But we are going beyond stranded cost with additional actions, some of which we're taking in the first quarter -- were taken in the first quarter. We delivered $10 million in incremental restructuring savings in Q1 primarily attributable to stranded cost reduction activities. For the full year, we expect restructuring savings to be approximately $30 million. Bill and I will discuss these actions and opportunities in more detail throughout the remainder of our prepared remarks.

With that, let me now turn the call over to Bill.

William Gregory Stiehl - *Sealed Air Corporation - Acting CFO, CAO & Controller*

Thank you, Ted. Turning to Slide 4, let's start with a review of our net sales by region. In the first quarter, we delivered $1.1 billion on net sales with all regions develop -- delivering constant dollar sales growth. Excluding the acquisition of Fagerdala, Latin America was our fastest-growing region at 8%. Strength in Latin America was primarily driven by Brazil where we benefited from a stronger cattle market in addition to new customer wins. North America was up 5% with 8% growth in Product Care and 4% in Food Care. Growth in Europe, Middle East and Africa or EMEA of 4% was led by positive sales trends in the U.K., Germany, Spain and Russia. Asia Pacific increased 11%, including sales from Fagerdala. Excluding Fagerdala, Asia Pacific was down slightly primarily due to continued market weakness in Australia and New Zealand in Food Care.

Turning to Slide 5. Let me walk you through our first quarter net sales and adjusted EBITDA on a year-over-year basis. Volume increased 2%, contributing $24 million to top line results. Price/mix was $18 million favorable or 2%. We delivered positive volume and price/mix trends in both Food Care and Product Care. Currency translation was favorable by $36 million.

Adjusted EBITDA was $205 million or 18% of net sales. Growth in adjusted EBITDA was attributable to higher volumes, restructuring savings and operating discipline and favorable currency. This was partially offset by unfavorable mix and price/cost spread. Volume growth contributed $9 million. Restructuring savings were $10 million. Cost management and income from acquisitions contributed $2 million. Currency was favorable by $6 million. Unfavorable mix and price/cost spread of $4 million was due to higher input and freight cost as well as the timing of Food Care's contract pass-throughs. In addition, Product Care was also impacted by the timing of price realization.

As Ted noted earlier, we made a change to our reporting structure beginning this quarter. While this change does not impact our total EBITDA, I do want to provide some color on what this is expected to look like going forward. Our 2018 guidance for the Corporate segment prior to this change was less than $100 million. We expect approximately $60 million of these expenses to be allocated to Food Care and $30 million of these expenses to be allocated to Product Care with the remaining reported as a new Corporate.

Adjusted EPS was $0.51 on average diluted shares outstanding of 165 million.

Our adjusted tax rate was 30% in the first quarter '18. We continue to estimate our tax rate for the full year 2018 to be approximately 29%. As we indicated on our last quarterly earnings call, we are currently evaluating opportunities to optimize our tax posture. Included in our GAAP earnings, we recorded a $290 million provisional tax expense related to the onetime mandatory tax on unpatriated foreign earnings as a part of the U.S. Tax Reform.

Let's now turn to our free cash flow for the 3 months of the year on Slide 6. Free cash flow for the 3 months ended March 31 was a use of cash of $63 million, which included the onetime payment in lieu of certain future royalty payments for patents to an outside engineering firm. As you may recall, in December 2017, we entered into an agreement to pay $50 million, of which $5 million was paid in 2017 and the remainder was paid in January 2018. CapEx was $43 million. Interest payments net of interest income were $38 million, and cash tax payments were $19 million. For the year, we continue to expect CapEx to be $160 million. Interest payments net of interest income to be $175 million and cash tax payments to be $145 million.

Let me now pass the call back to Ted for more details on our divisions and our outlook. Ted?

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

Thank you, Bill. Turning to Slide 7, which highlights volume, price/mix trends by division and by region. On a global basis, volume trends were up 2% in Food Care with positive trends in all regions except Asia Pacific due to declines in Australia and New Zealand. We expect the protein and dairy market conditions in Australia and New Zealand to improve this year. Product Care, excluding the impact of Fagerdala -- impact of Fagerdala delivered 3% volume growth with 3% growth in North America, EMEA and Asia Pacific.

Price/mix was favorable in Food Care and Product Care due to our announced price increases and continued shift to value added solutions, both of which partially offset higher input and freight cost. As we continue to work through our product portfolio and deliver new innovations, we're finding more ways to help our customers save money and solve their most critical packaging challenges.

I want to highlight that we experienced a more favorable mix in our e-commerce and fulfillment business in the first quarter. This was a key contributor to the higher margins in Product Care.

Let's turn to Slide 8 and review Food Care results. In the first quarter, Food Care delivered $696 million net sales or 3% constant dollar sales growth due to positive volume and price/mix trends. Adjusted EBITDA increased 8% in constant dollars to $135 million or 19.3% of sales. EBITDA results include $10 million of expenses previously allocated to Corporate. You can see in the sales and EBITDA bridge that despite favorable price/mix on the top line, our profitability was negatively impacted by an unfavorable mix and price/cost spread. This was due to timing of contract pass-throughs and higher input and freight cost. We expect this trend to improve for the remainder of the year. Food Care has also benefited from our efforts to reduce cost. You can see these efforts in restructuring savings and operating cost in the bridge, which combined contributed a positive $9 million to adjusted EBITDA.

I want to highlight the trends that we experienced in Q1 that we expect to continue throughout the year. Our case-ready platform continues to go globally at above-market rates. In North America, case-ready was up double digits. We are seeing strong customer acceptance and increased adoption with the seafood and convenience segments.

Second, the momentum continued in high-growth geographies such as Brazil, Russia, China and Southeast Asia in the first quarter. We expect this trend to continue going forward as demand increases for packaged proteins and convenience meals.

And third, in North America and EMEA, the ongoing shift to fresh foods, combined with our sustainable innovative packaging, is driving our above market growth across all proteins. We're also excited to see our penetration into the rigid container market with our flexible packaging systems for fluids such as condiments, sauces and soups.

In Q1, North American beef production was muted due to weather and other factors. However, the industry forecast for the full year 2018 is still expected to be in the 2 to 3 -- 3% to 4% as demand for domestic and exports accelerate in Q2. Looking ahead, we're on track to achieve our 3% constant dollar sales growth for the full year 2018. We expect adjusted EBITDA to improve in the second half versus the first half primarily due to seasonality and the timing of contract pass-throughs.

Moving to Slide 9, where we highlight results from our Product Care division. In the first quarter, Product Care delivered $435 million in net sales or 11% constant dollar growth. Excluding Fagerdala, Product Care delivered 6% growth on higher volumes and favorable price/mix.

Adjusted EBITDA increased 19% in constant dollars to $780 million or 18% of net sales. EBITDA results include $6 million of expenses previously allocated to Corporate. You can see in Product Care's EBITDA bridge that the year-over-year increase was driven by profitable volume, restructuring savings and cost management. We're seeing a more profitable mix of business particularly in e-commerce and fulfillment section -- segment as the pricing actions are taking hold.

Our mix and price/cost spread was negative due to the timing of price realization and other higher input and freight cost. We expect our mix and price/cost spread to improve for the remainder of the year.

Our e-commerce and fulfillment business represents 30% to 35% of Product Care sales and is growing 15%. Our innovative portfolio, which includes the next generation inflatable Bubble Wrap, automated systems such as I-Pack and StealthWrap and our unique Korrvu packaging is delivering 15% plus growth as well. We also had high single-digit growth in Instapak due to an improved industrial environment. Overall, our businesses continue to gain momentum and our top priority going forward is to drive higher profitable sales from our innovations.

The integration of Fagerdala is progressing well and has provided us with a platform for greater sales and cost synergies. For example, our specialty foam solutions increased 9% organically in the quarter, demonstrating the power of our enhanced offering and combined sales efforts. We're also leveraging their technical expertise to expand our portfolio of custom solutions targeting existing and adjacent markets. For the full year of 2018, we anticipate year-over-year constant dollar sales to increase approximately 7%. Fagerdala is on track to achieve nearly $100 million in sales, of which $70 million is incremental since we closed the acquisition in early October 2017.

Under the new reporting structure, Product Care adjusted EBITDA margins are expected to expand over last year.

Now turning to our total company 2018 outlook on Slide 10. Net sales are expected to be in the range of $4.75 billion to $4.8 billion with constant dollar growth of approximately 4.5%. Adjusted EBITDA is expected to be in the range of $890 million to $910 million, improving an EBITDA margin of 19%.

As I noted earlier, we are increasing our range for adjusted earnings per share to $2.45 to $2.55, reflecting our year-to-date share repurchases. We forecast free cash flow from continuing operations to be approximately $400 million.

To wrap up the call, I'd like to provide a brief discussion on our strategic directions, which you can see at a high level on Slide 11. In my first 100 days plus as CEO, I traveled around the world getting to know our people, operations, suppliers and customers. I've been working closely with our senior leadership team to refine and pivot our long-term profitable growth strategy while aggressively going after near-term opportunities to take Sealed Air's performance to the next level. We are focusing on growth opportunities from new innovations, driving operational excellence, recognizing and promoting talent and targeting strategic investments that will create value. We're building a solution model that starts with focusing on how we can save our customers -- solve our customers' most critical challenges and save them the most money. This is leading us to high-growth geographies, market adjacencies and next generation technologies, including digitalization and automation. We're using our market-leading brands and existing core competencies to penetrate these markets. We're accelerating our investments in proprietary and sustainable materials, including renewable and recycled content.

We recently introduced new metrics to manage our portfolio. Our profit-to-growth ratio is designed to improve our operating leverage. It has helped us to manage our portfolio, drive operational excellence, move the needle in innovation and improve earnings quality. We're using ROIC as a guide to our investments and capital allocation strategy. We'll continue to focus on opportunities that are accretive to earnings and create long-term value for our shareholders.

Our people around the world are making all of this happen. I'm excited to see our organization's high level of energy, integrity and passion for our business and customers.

Before we open up the call for your questions, we ask that you please mark your calendars for Thursday, August 2, for our second quarter 2018 earnings call.

Shannon, we'd like to begin the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from George Staphos of Bank of America.

Molly Rose Baum - *BofA Merrill Lynch, Research Division - Research Analyst*

This is actually Molly Baum sitting in for George. He's on another call right now. But my first question I wanted to ask, if you could provide a bit more color on Asia Pacific volumes, specifically in Australia and New Zealand. I know you had mentioned in the prepared remarks that you expect the volumes to improve this year, but if you can maybe provide a bit more color on timing of this shift and kind of what you're expecting for the full year.

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

Okay. Looking at Asia Pacific, just as quickly though around the world, Asia Pacific is third in our volumes as we look specifically, you're talking about the Food Care business. We're still seeing Australia in the quarter down. We're still seeing New Zealand down, primarily driven by what's going on in the meat cycle and in dairy. We do see -- hope to see it return by the second half. But right now, we still see it down in the area. We have seen China up actually double-digit, but it's a very, very small piece of our business.

Operator

Our next question comes from Lars Kjellberg of Credit Suisse.

Lars F. Kjellberg - *Crédit Suisse AG, Research Division - Research Analyst*

Just on the mix price/cost improvements that you expect to have in the second half. Can you provide us any visibility or your view on the visibility you have on that? What are the principal drivers do you expect to see in that guidance and some sort of stabilization or downturn in resin cost would be one question, of course.? Any color you can give will be helpful.

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

Yes, this is Ted, and I will let Bill jump in as well. But if -- the focus is on price/cost mix, and let's just talk about cost and, obviously, resin with being a leading piece of our cost. We were anticipating, going in this year, that we may see the resins move down in the quarter. We didn't see that, which we talked in the last call. We were late behind some of that pricing efforts there, and our contracts on the Food Care could still take some time to catch up. Looking out to the second half of the year, we still see that choppy. We're seeing some of the forecasts that say that we should see a resin drop. But even in talking about some of our leading suppliers, we're anticipating they might be still trying to get a price increase out there. So overall, we see the puts and takes. We see it choppy, flat, but we don't see a drop until the second half and maybe even late in the second half of the year. Other input cost in there that really are hitting us in the quarter and hitting everyone is freight. So part of our price increases that we put out there and the most recent one on the Product Care, we didn't get that to take effect until April. So we think we'll be ahead of that in the second half of the year. That's what we're planning for. But the choppiness in our cost structure, our input price is still out there. We think we'll be ahead of it, though, in the second half of the year.

William Gregory Stiehl - *Sealed Air Corporation - Acting CFO, CAO & Controller*

So you have noted that the first quarter of '18, we were negative on mix and price/cost spread. We expect that to continue to improve as we move through 2018. We actually expect near the end of the second quarter of '18, that, that will actually turn positive and continue to improve and be positive throughout the balance of 2018 for both Food Care and Product Care.

Operator

Our next question comes from Ghansham Panjabi with Baird.

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

This is actually Matt Krueger sitting in for Ghansham. Given the increasingly difficult comparisons for Food Care during the second half of the year, can you provide some added detail on the expected volume cadence for food packaging throughout 2018?

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

The first quarter, as we talked a little bit about what's going on, we're behind catching up on the contract pricing coming through. We think we'll be catching up that on the second half. The North America, looking at the first half, North America being very strong last year. We still are seeing, I'll say, muted or tepid growth in the first quarter on meat. We think we have opportunities, though, in Asia in the meat cycle in the back end of the year. I'm trying to think what else on the -- in Europe, actually, interesting because I was in Europe twice in the past quarter. We see some opportunities on the catch up on the price, and we also see some pickup on some of our new products, especially Darfresh, Darfresh On Tray. It was quite interesting actually seeing a supermarket in Italy and France and then Holland. Definitely, the pickup on some of our new products and innovations in Europe, I think we should see an opportunity for some volume growth in the second half in Europe and plus getting ahead or getting caught up on the pricing side. So see opportunities in the second half. The final piece going around the world, looking at Latin America. Latin America having fairly strong growth in the first quarter, we see that could continue, especially the comparables in Latin America should be helping us on the second half of the year.

Operator

Our next question comes from Edlain Rodriguez from UBS.

Unidentified Analyst

This is (inaudible) for Edlain. Looking at your EPS guidance, do you have any additional share repurchase baked into that for '18 and going forward for your priorities for cash?

William Gregory Stiehl *- Sealed Air Corporation - Acting CFO, CAO & Controller*

So as we've said, we don't model future share repurchases into our guidance. What we've said is we are going to be active in the market relative to share repurchases. But the guidance is basically calculating 162 million shares and would not contemplate any additional shares.

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

Okay. Use of cash?

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

Yes, we're not giving any guidance on the share repurchase. We are looking, though, on investments. As we've talked before on the strategic investments both internally -- well, first talk about internally, some of the investments in our facilities, investments in capacity. We're looking to -- we just have some opportunity to de-bottleneck some of our facilities. We're also looking at some of our investments in the sustainability area. We're looking at some -- we have some interesting opportunities with some renewable-type resins we're looking for investments this year in. And then on strategic investments, the M&A, we're still always comparing that with the share buyback. We now have some pretty good data on how we've been in the market. You saw how aggressive we were in the first quarter. We're comparing that investment to our acquisitions. We now have the data of what Fagerdala looks like. We put $100 million into Fagerdala. We're looking at the accretive power of that acquisition to buying the same $100 million worth of shares. And right now, Fagerdala is ahead of that on accretion, and we're being very disciplined. We're looking at the ROIC on potential acquisitions that are out there. And we're being very frugal and making sure that they meet our financial targets, so.

Operator

Our next question comes from Chip Dillon from Vertical Research.

Clyde Alvin Dillon *- Vertical Research Partners, LLC - Partner*

My question has to do with the view -- the future view toward your balance sheet. I know the previous CEO, and under his regime, a leverage ratio of 3.5x to 4x was what was viewed as sort of where Sealed Air would like to target. And I just want to know as you look at all the opportunities where you see that leverage. And as part of the question, if you could also let us know a little bit about what your thoughts are about future restructuring savings. You mentioned $30 million this year. Are we likely to see something similar in '19 and '20?

William Gregory Stiehl *- Sealed Air Corporation - Acting CFO, CAO & Controller*

Sure. So on the leverage ratio, you'll know that at the end of Q3 after we sold Diversey, the transaction closed in September of '17. We ended Q3 with a net debt to adjusted EBITDA ratio of 2.4x. It went up a little bit at the end of the year to 3.2, and now we're at 3.6x, and that's primarily because of our share repurchases. That's what's actually driving that. And relative to the restructuring savings, we continue to drive those costs out of the business. We're very comfortable with a 3.5x to 4x net debt to adjusted EBITDA ratio. We're confident that we've started the process of operational productivity and driving a lower level of stranded cost and realizing those savings.

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

Yes. And I'll comment compared to my predecessor on the capital allocation strategy and the comfort level with that net debt-to-EBITDA ratio. As we stated early, the business has been comfortable at 3.5 to 4 and testing that and looking at -- we have pretty strong and stable markets that allow for us to do that. We generate strong cash. I believe we have even more opportunities to improve not only just on our cash flow but our cash conversion, so feel comfortable with that with what's out there. Also putting the targets into the organization, I think it really helped. We've seen that very quickly on the leverage ratio, managing what's coming into the business with our portfolio. I think we can pivot on that quickly as a guide. And that also leads in for us to look -- as we do look at potential M&A that it's got to be accretive to the -- to those metrics as well as accretive to the ROIC metric. That's really a great test. We already analyzed what our competitors have bought. We looked at where they accreted to their cost of capital. And so we're being very careful with that, and we want to be very opportunistic. And using the share buyback is our guide. If we can invest in the business and buy our own shares back and be opportunistic and generate and create value, that's what we'd like to do. With that guide of the 3.5 to 4, I think we have some pretty exciting opportunities with our capital allocation looking internally, looking externally and letting the numbers and letting these guides guide us to do the right thing.

Operator

Our next question comes from Arun Viswanathan from RBC Capital Markets.

Unidentified Analyst

It's actually Tom for Arun. I have a question on Product Care. And you guys mentioned in the prepared remarks that 35% of the segment is e-commerce, and that was growing at 15%. I guess, the question is where could this go, the 35%? Could that be the lion's share of the business? What's the competitive landscape there? It just seems like this could be a tremendous opportunity for you guys.

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

Yes. This is Ted. Everybody's got a backup. There must have been another call going on right now. The e-commerce is a tremendous opportunity for us. But as I'm using the language on the strategy of pivoting and refining our strategy, e-commerce is a key one to look at. Because when we look at e-commerce, who's not into e-commerce right now? If we're not ready for what's going on in e-commerce, we're not going to get this lift that's really out there for us in packaging. So if you look at the difference in the quarter, you saw a pretty sharp pivot, and that is managing what goes through that portfolio. And we have the right -- we have the ability to do that by we can look at the margin, the products that are going in, where we could add value. But also, it’s really focusing on us to be in front of the customer and solving those problems. This past week, I was with one of the world's largest freight packaging companies and I was at their logistics headquarters. We are now fully embedded with them with our own innovation center into their facility. I was able to see, it's unbelievable, 416,000 packages an hour going through that facility. So that's touching all of our customers that are going through there, even the Food Care business. So we have to be prepared that our portfolio fits into this very high-growth market that we make money on it. So again, that's why those guides are there to do that. But it's forcing, asking -- I was there with my counterpart and got to ask very directly, what are your biggest problems that you're solving? It was quite interesting. Similar, freight. How do they manage the freight going back? What can we do on our packaging to make it lighter? And then his next one was damage. Great. What can we do to get in there? And with -- not only you, as the freight supply logistics expert, but the packages that are coming through. We can solve those problems. We have some really interesting innovations to do that. The other interesting piece in the data point in listening is in the e-commerce market was returns. What can we do to help returns? Just a huge percentage that people -- the home is becoming the new store. People are sending stuff to their homes. So the consumer experience, we have some pretty exciting innovations. We're working on some augmented reality that actually can tell you what's inside the package, tell you what you bought and how interesting it is. And so we can help that e-commerce market with some pretty exciting solutions. And behind that, though, use our financial metrics that guide us into a profitable growth in this market. Just as you said, it's not going away and it will be a bigger part of our business, and we need to make it a bigger profitable part of our business. So we're excited what e-commerce can do. And not just Product Care, Food Care. Food Care is also extending the shelf life. But we are working with these same customers -- how do we extend it from shelf life to truck life to plane life. And we even had some interesting talks about drone life. So how do we -- we think the opportunity there is for us, but we're going to have to manage that. It's not -- won't be our existing portfolio. It's -- we've got to look at our portfolio that matches this new high-growth market. So it's an exciting opportunity for us.

Operator

Our next question comes from Scott Gaffner with Barclays.

John Dunigan

This is John Dunigan again on for Scott. Unfortunately, Scott is on that other call. I just wanted to go back to price/mix for a second. Ted, I may have heard you wrong, but if you had said that the latest price increase in Product Care was in April, I think you might have said late April...

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

No, it was April 1. I apologize.

John Dunigan

No problem. But just, I guess, overall, how are the conversations going with clients? Are clients -- are you seeing them push back more because some of the resin prices are declining at this point? And then maybe you can give us some color on how you're thinking if they do decline or continue declining throughout the rest of the year, how much Sealed Air can actually hold on to by the end of the year to be able to hit some of the targets that you've talked about?

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

You've got a bunch of questions in there. I'll try to see -- I'll go through the first one, and if I miss a couple of the other question, you'll have to remind me. First one was how are customers reacting to price increases. Well, you can either probably answer that yourself, not well. So -- but it's an excuse for us to be at the table at all levels and figure out how do we handle this, and it's forcing us into the solutions conversation. Can we save you money in other places? But it's a question that the price increase will come. It's interesting on the price/cost spread, though, on the timing of the price increase, just to give a little bit of color, that was April 1. So we had pretty strong growth in Product Care in the first quarter. So one of the buying behaviors you get, because we announced early, so we're anticipating some of our bump in Product Care in the first quarter was to pull product forward before the price increase. So that's, I think, so a little bit of color to that first question. The second part, where do we think it's going forward? Well, our team internally, there is no question on that decision. We have to find a way to manage our portfolio and get price in the marketplace. But really as we're shifting that is how do we get value? So the same conversation is we have to look at our portfolio. One of our most -- this is another interesting anecdote, but meeting with customers in the e-commerce market, we have shifted our mailers. We do a ton of mailers in e-commerce. I think it's roughly around 1.2 billion mailers. So we're looking at to do more than mailers, and we have some pretty exciting new products. Well, before we even introduce the products, if we're dealing with the purchasing team, we had an interesting story that we introduced a brand-new product that I talked to you before about TVs. Well, the first comment back from the customers purchasing that our price was too high, and they haven't even seen the product. No one else has it. So again, to the story, pricing is very difficult. The only way we can get pricing through the market is if we find ways to help save them money. The TV saving opportunities that over 52% of those flat screens are now going through the Internet, their #1 issue is damage. We have a unique solution that dramatically reduces damage, is sustainable, doesn't have Styrofoam in it, significantly lower weight, doesn't have to be repackaged. And that's what we got to focus on -- what comes through is a better price/cost mix in the portfolio.

Operator

Our next question comes from Brian Maguire with Goldman Sachs.

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

This is actually Brian Maguire on for Brian Maguire. Ted, a question on your comments about Diversey, stranded costs maybe going beyond just the Diversey stranded cost with your restructuring. There's a couple of elements to the question, but Sealed Air has been restructuring for a number of years. One of the critiques we often get is that there's always restructuring going on. There's always some cash being consumed by the restructuring activities. So, I guess, some elements of my question, should we expect that cash need for restructuring to continue into 2019 and to be at a similar level at where you're at in 2018 or maybe even higher? And maybe you can go into detail a little bit on where you're finding opportunities for restructuring after a number of years of that happening. And then sort of related to that, just trying to understand the decision to fold the Corporate expense into the segments. Just wondering if that's related to it, and if your goal there is to try and drive greater accountability to the segment leaders for those expense buckets. But yes, if you could just kind of comment in general around your restructuring comments.

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

Yes -- no, great questions. Lots in there. But let's try, we'll give you a 3-part answer. I'll open it up on the why. I'll turn it over to Bill so he can give you some historical precedents because I can't answer the history, Bill can. And then I want to close to where you left it, how we're doing it, the strategy of what we're trying to accomplish here. So the first piece on the restructuring in moving it, acting as one company, we did this to drive the productivity. Diversey was real. There was commitment out there. That's what I inherited. We are going to make the commitment. There was a dilution effect going and selling of Diversey. We had to cover $0.70, and to do that, we are going to buy back the shares or find an accretive acquisition. So our job is to create value for shareholders. But then the other piece was take out the Corporate cost when you're 3 divisions and 1 Corporate and now you don't have that division. So we said, let's take a look at the strategy of acting as one company, and let's not take out the stranded cost because you have to. How do we be more efficient acting as one company? And looking at some of the costs that were in there, the Corporate is not going to drive the engine. The Corporate is -- the divisions are driving the engine. The Corporate's there for guidance and, obviously, they don't want to pay Corporate expenses, so Corporate is going to have to justify the value. So it's a strategic piece in there. But I got to give Bill credit before I turn it over to Bill. Bill led this effort with the team and did a really nice job of getting this done with the team. And I will let him explain the details on where the actual money is going and how we're doing that.

William Gregory Stiehl - *Sealed Air Corporation - Acting CFO, CAO & Controller*

So first of all, on the cash restructuring spend itself, our free cash flow guidance of the $400 million includes cash restructuring payments for all of '18 of $20 million, and that's deducted to arrive at the free cash flow. Not included in that calculation is an additional $30 million that are going to be spent to address the stranded cost. So basically, $50 million this year. And basically, to answer your question, maybe another $20 million to $25 million in '19 to address those restructuring and stranded cost needs. But relative to the stranded costs themselves, as we said, we have $10 million of restructuring savings in first quarter 2018. We're anticipating $30 million for the full year. Ted and the leadership team are coming together, and we all own the issue of organizational productivity and the resulting reduction of stranded cost. We understand that driving those costs out earlier than what was originally planned and earlier than what we had said in the third quarter of '17's earnings release is very, very positive and will have a positive impact on our profit growth ratio. And we also, to your question about disbanding, the larger Corporate segment and rolling those costs in to our Food Care division and our Product Care division, what we said was $60 million of cost in full year '18 would go to Food Care, $30 million to Product Care. That is having a total leadership team ownership of the stranded cost reductions, and it contributes to a one Sealed Air focus that Ted continues to drive.

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

Right. And let's talk about the strategy. Your comment, are we going to be a serial restructuring company? No. What we're going to do is we're going to be driving organizational productivity. So we actually have given definition on that. We're going to do more for less by investing and working smarter. And so we're going to put that speed into the organization to drive those returns. Second is we are focused on the long term, and that's what the Corporate -- and that's where we made the change in moving innovations. We are here for the long run, so we are going to invest in things that don't have a 3-year return. We are going to invest things that could fundamentally change the structure of the company. So that's a Corporate expense, Corporate function -- the divisions need to pay for that. We have some pretty exciting things, and if you come to our innovation center here -- in my 6 months, we have some exciting technology that we're working on that can change the game. We're not a private equity firm. A private equity firm has got a 3-year window. We're different. We can invest in that, and we want to be productive because we want to beat the private equity in the short term and we want to beat them in the long term. We think if we do those 2 things, we can beat the private equity because we're competing with them. And long term, we can add significant value for our shareholders, but we've got to incubate that. So that's part of the strategy that's behind this change.

Operator

Our next question comes from Anojja Shah from BMO Capital Markets.

Anojja Aditi Shah - *BMO Capital Markets Equity Research - Senior Associate*

I just wanted to see if we can get an update on your CFO search, and maybe just a couple of comments on how you're thinking about that right now.

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

That's a great question because he is listening. The -- actually, what we shared and what I've been sharing with people who ask, I gave myself that I'd like to look at this for 6 months. We have a good guy. Our lead candidate I get to work with all the time, which is Bill. We have an outside search going on and looking at candidates in the marketplace. Since I've had 2 other companies and dealt with a lot of the banks, we've got a lot of candidates that we're looking at both formally and informally. But it's probably toughest on Bill listening right now to be asked the question. We're -- I owe it to the business, I owe it to our people that make sure that we look for the best candidate out there. With Bill listening right now, as I already gave a shout out on what he's doing to actually lead some of these changes. He's been a pleasure to work with in sending that message. So I don't want him to listen to his early assessment, but so far, I think this is an exciting company to be a part of. We're pivoting the strategy. This is a pretty cool place to work, so we have a lot of interest. So now that I'm saying this publicly, I'll probably get more, but that's where we are. I gave myself 6 months to go get it done.

Operator

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

Molly Rose Baum - *BofA Merrill Lynch, Research Division - Research Analyst*

Just 2 quick things. The first is a follow up to my question about the cattle cycle. So in terms of looking at Latin America and Brazil, when do you expect the cattle cycle to turnover? And then my second unrelated question, could you provide a bit more color on what the $12.7 million legal settlement gain was in the nonoperating items?

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

I'll take the cattle, and I'll turn the second question over to Bill. If we look at cattle in the U.S., as I shared, U.S. has been somewhat muted. We think we have some opportunity. We had some weather-related issues, but the herd is, I'm learning this, is they're in ready, so there could be an opportunity in the second half. The one that's turned for us for 2 reasons, one, it's been down in Latin America and we've had some share gain there. So we feel good that we could have some continued upside opportunity in Latin America. The other one, though, in Asia Pacific, which is Australia and New Zealand, is still on the down cycle, but we're anticipating a second half. But that could be as late as the end of the year. So we do see that turning. Bill, you want to handle the second one?

William Gregory Stiehl - *Sealed Air Corporation - Acting CFO, CAO & Controller*

Relative to the class action settlement, it relates to urethane purchases. This particular settlement arises from a 2004 class action lawsuit that relates to urethane purchases in 2000 through 2003, so quite some time ago. The defendant in this case lost a jury trial and agreed to settle, so we have a share of the settlement income of $15 million. And we did record the $12.8 million in this quarter as a special item income. And we'll record the rest when the rest of the cash is received.

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

Operator, that was our last question. Thank you, everybody, for joining our call today.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. Have a wonderful day.
