

Sealed Air Corp (SEE)

\$37.94 (As of 01/08/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/10/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: B

Summary

Sealed Air's 2019 guidance for sales is \$4.8 billion, higher than the \$4.73 billion in 2018. Adjusted earnings per share is expected between \$2.70 and \$2.80. The mid-point of the range indicates year-over-year growth of 10%. Acquisitions are anticipated to contribute \$190 million to revenues in the ongoing year while unfavorable currency and input cost inflation will affect earnings in 2019. Weaker volumes in the Product Care segment thanks to slowdown in the global industrial market remains a concern. Nevertheless, going forward, the company will benefit from Reinvent SEE Strategy focused on innovations, SG&A productivity and product-cost efficiency. Moreover, demand for core product portfolio, benefits from reducing costs, strong fresh food markets and e-commerce demand, position the company well for improved results.

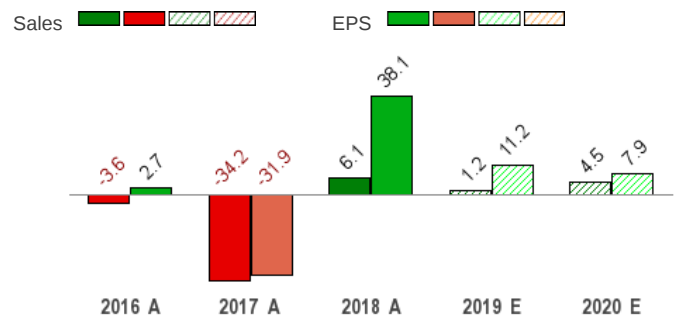
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.13 - \$35.20
20 Day Average Volume (sh)	1,054,409
Market Cap	\$5.9 B
YTD Price Change	-4.8%
Beta	1.03
Dividend / Div Yld	\$0.64 / 1.7%
Industry	Containers - Paper and Packaging
Zacks Industry Rank	Top 19% (49 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.6%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/06/2020
Earnings ESP	-0.2%
P/E TTM	13.7
P/E F1	12.7
PEG F1	1.4
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,165 E	1,222 E	1,248 E	1,311 E	5,009 E
2019	1,113 A	1,161 A	1,219 A	1,298 E	4,792 E
2018	1,131 A	1,155 A	1,186 A	1,260 A	4,733 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.62 E	\$0.74 E	\$0.75 E	\$0.79 E	\$3.00 E
2019	\$0.59 A	\$0.80 A	\$0.64 A	\$0.74 E	\$2.78 E
2018	\$0.51 A	\$0.64 A	\$0.61 A	\$0.75 A	\$2.50 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 01/08/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/09/2020.

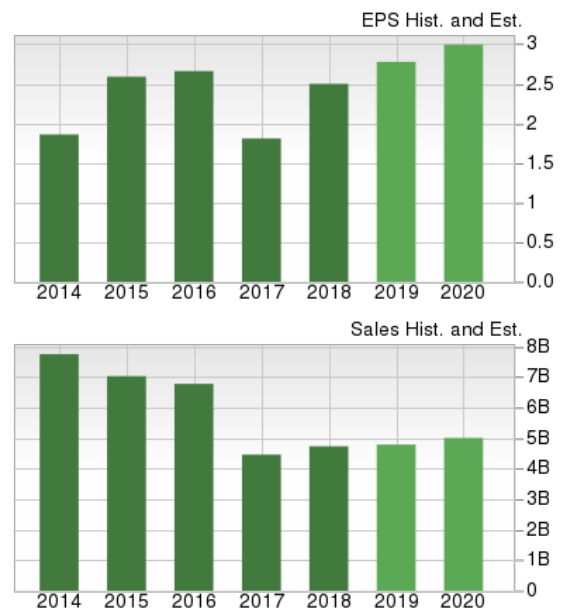
Overview

Charlotte, NC-based Sealed Air is a global leader in food safety and security and product protection. The company operates in the United States as well as globally. It caters to a diverse set of end markets including food and beverage processing, food service, retail, healthcare and industrial, and commercial and consumer applications. Its portfolio of widely recognized brands includes Cryovac food packaging and Bubble Wrap protective packaging which enable safer as well as efficient food supply chain and protect valuable goods shipped globally.

The company has two reportable segments: **Food Care** (including Medical Applications and New Ventures businesses) and **Product Care**. While the Food Care segment generated 61.4% of the company's sales in 2018, the Product Care segment contributed the remaining 38.6%.

The **Food Care** segment serves perishable food processors, predominantly in fresh red meat, smoked and processed meats, poultry and dairy (solids and liquids) markets worldwide, and maintains a leading position in target applications. Food Care provides integrated packaging materials and equipment solutions to provide food safety, shelf life extension, and total cost optimization with innovative, sustainable packaging that enables customers to reduce costs and enhance brands in the marketplace.

Product Care packaging solutions are utilized across several global markets and are especially valuable to e-commerce, electronics and industrial manufacturing. Product Care solutions are designed to protect valuable goods in shipping, and drive Operational Excellence for its customers, increasing their order fulfillment velocity while minimizing material usage, dimensional weight and packaging labor requirements. The acquisition of Fagerdala in 2017 and AFP, Inc., a leading, privately held fabricator of foam, corrugated, molded pulp and wood packaging solutions, in 2018 further expanded the company's protective packaging solutions in electronics, transportation and industrial markets with turnkey, custom-engineered, fabricated solutions.



Reasons To Buy:

- ▲ Sealed Air anticipates net sales of \$4.8 billion for fiscal 2019. The guidance reflects year-over-year growth of approximately 1.5% on reported basis and 4.5% in constant dollars. Acquisitions are expected to contribute \$190 million or 4% of growth in revenues. The company's sales came in at \$4.73 billion in fiscal 2018. While the Food Care segment's sales are projected to improve 3.5%, the Product Care segment is anticipated to advance 6%. Adjusted EBITDA is estimated to lie between \$950 million and \$960 million. Sealed Air's adjusted EBITDA for fiscal 2019 is pegged at \$890 million. EBITDA margin for the year is forecasted at 19.8-20%. The company projects adjusted earnings per share at \$2.70-\$2.80. The mid-point of the guided range indicates year-over-year growth of 10%.

Focus on innovation and robust fresh food and e-commerce market will drive growth for Sealed Air. The company will also benefit from ongoing restructuring actions and acquisitions.
 - ▲ In December 2018, Sealed Air announced a reformation plan — Reinvent SEE Strategy — along with a fresh restructuring program, in a move to drive its growth. The new strategy is focused on innovations, SG&A productivity, product-cost efficiency, channel optimization and customer-service enhancements. One of most vital aspects of this strategy involves investment in technology and resources focusing on new and existing high-growth markets. The company also aims at simplifying its operational structure and expanding SEE Operational Excellence by upgrading end-to-end processes throughout the company. The new strategy will fuel Sealed Air's growth by supporting packaging innovations for fresh food and e-commerce, and increasing operating leverage target above 40% per year, beginning in 2019.
 - ▲ Sealed Air will combine the new program with its ongoing restructuring program. Both the programs are likely to lead to total annualized savings of more than \$250 million through 2021. In the first nine months of fiscal 2019, Sealed Air realized \$123 million of Reinvent SEE benefits, with \$47 million coming from restructuring actions. The company is on track to achieve approximately \$150 million in total benefits for the ongoing year, with approximately \$65 million coming from restructuring savings.
 - ▲ Expected benefits from reducing costs, driving operational excellence and commercializing new innovations along with favorable global business trends position the company well for improved results. Sealed Air's top-line will be supported by enhanced demand for its core product portfolio, recently-introduced innovations, strong fresh food markets and e-commerce sector. The company is witnessing increased demand for essential and high-performing packaging solutions that extend shelf life, reduce waste and drive customer productivity. Further, ongoing momentum in high-growth geographies such as Brazil, Russia, China and Southeast Asia will continue as demand increases for packaged proteins and convenience meals.
 - ▲ Sealed Air's acquisition of Automated Packaging Systems, Inc., a leading manufacturer of high-reliability, automated bagging systems, expands breadth of the company's automated solutions and sustainable packaging offerings. This will enable the company to capitalize on opportunities in the markets it serves. Automated Packaging Systems is expected to contribute approximately \$120 million to Sealed Air's revenues in fiscal 2019. Earlier, the company acquired AFP, Inc., which expanded its protective packaging solutions in the electronics, transportation and industrial markets with custom-engineered applications. The company had also acquired Fagerdala, to leverage its manufacturing footprint in Asia, expertise in foam manufacturing and fabrication, and commercial organization to grow sales in the consumer electronics, medical equipment and devices, automotive, temperature assurance, and e-commerce fulfillment sectors. AFP and Fagerdala align well with the ship-in-own-container (SIOC) trend in e-commerce. This trend is transforming e-commerce packaging as more distributors want manufacturers to have their primary packaging parcel ready.
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Reasons To Sell:

- ▼ In fiscal 2019, currency headwind is expected to negatively impact net sales by approximately \$145 million and adjusted EBITDA by \$30 million. This is higher than the company's previous expectation of an unfavorable impact of \$130 million on net sales and \$25 million on adjusted EBITDA.
- ▼ Decelerating global industrial market and the U.S.-China trade war have been impacting Product Care segment's volumes. The company's traditional packaging solutions, which include Bubble Wrap, standardized mailers, shrink film and void fill, generate around one-third of the Product Care segment's sales. This part of the segment is bearing the brunt of the market's shift to automation and the global industrial manufacturing slowdown. Moreover, specialty industrial applications, which include the Instapak platform and integrated fabrication solutions, account for another one-third of Product Care sales, also remains weak thanks to lower global industrial demand and the U.S.-China trade war.
- ▼ Increasing raw material prices and higher freight charges remain headwinds. Moreover, Sealed Air continues to invest in R&D, sales and marketing. Even though these investments will drive future growth, it will affect margins in the near term. Total cash restructuring payments and costs associated with both the restructuring programs are projected at \$225-\$255 million during 2019 through 2021. For 2019, the company will incur total cash costs of \$115 million.
- ▼ With a major portion of its product focus tied to the food and beverage end markets, weak economic conditions could negatively impact demand for Sealed Air's product offering and demand for its customer's products as customers would be less willing to invest in innovative offerings. This would impact sales and margins.

Slowdown in global industrial market continues to impact volumes in the Product Care segment. Unfavorable foreign currency and raw material inflation will dent the company's margins.

Last Earnings Report

Sealed Air Q3 Earnings Surpass Estimates, Improve Y/Y

Sealed Air reported third-quarter 2019 adjusted earnings per share of 64 cents, surpassing the Zacks Consensus Estimate of 63 cents and improving 5% year over year. The results can be attributed to strong execution of the company's Reinvent SEE strategy, which was introduced in December 2018 to drive earnings growth. Including special items, the company reported net earnings per share of 51 cents compared with the prior-year quarter figure of 48 cents.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	-1.35%
EPS Surprise	1.59%
Quarterly EPS	0.64
Annual EPS (TTM)	2.78

Total revenues went up to \$1,219 million in the reported quarter from the year-ago quarter's \$1,186 million. However, the figure missed the Zacks Consensus Estimate of \$1,235 million. Unfavorable currency impact lowered total net sales by \$25 million.

Cost and Margins

Cost of sales inched up 1% year over year to \$827 million. Gross profit improved 7% year over year to \$392 million. Gross margin came in at 32.2% compared with 30.8% in the comparable period last year.

SG&A expenses climbed 15% to \$222 million, year on year. Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) were \$241 million in the quarter compared with \$219 million in the prior-year quarter. Adjusted EBITDA margin was 20% compared with 18% in the prior-year quarter, driven by the company's Reinvent SEE initiatives and favorable price cost spread, partially offset by higher operating costs, lower volumes.

Segment Performance

Food Care: Net sales inched up 0.3% to \$730 million during in the third quarter, from the prior-year quarter figure of \$727 million. Adjusted EBITDA improved 10% year over year to \$159.6 million.

Product Care: The segment reported net sales of \$489 million in the reported quarter compared with \$459 million in the prior-year quarter. Adjusted EBITDA was up 10% year over year to \$84 million.

Financial Updates

Cash and cash equivalents were \$200 million as of Sep 30, 2019, down from \$271.7 million as of Dec 31, 2018. Cash flow from operating activities was around \$251 million in nine-month period ended Sep 30, 2019 compared with \$150 million in the prior-year comparable period.

As of Sep 30, 2019, Sealed Air's net debt came in at \$3.7 billion, up from \$3.20 billion as of Dec 31, 2018. In the nine-month period ended Sep 30, 2019, the company repurchased shares worth \$67 million and paid out dividends worth \$74 million.

Guidance

Sealed Air has affirmed its guidance of adjusted earnings per share at \$2.70-\$2.80. However, net sales are projected at \$4.8 billion compared with the previous estimate of \$4.85 billion. Acquisitions are expected contribute \$190 million toward revenues (4% of growth), of which Automated Packaging Systems will contribute approximately \$120 million.

Adjusted EBITDA is estimated to lie between \$950 and \$960 million. Nevertheless, currency is anticipated to have an unfavorable impact of approximately \$145 million on net sales and \$30 million on adjusted EBITDA.

Valuation

Sealed Air Corporation's shares are up 5.1% over the trailing 12-month period. Stocks in the Zacks Containers - Paper and Packaging industry were down 23.1% while the Zacks Industrial Products sector was up 16.9% over the past year.

The S&P 500 index has gained 24.1% in the year-to-date period and 18.2% in the past year.

The stock is currently trading at 12.64X forward 12-month earnings, which compares with 15.69X for the Zacks sub-industry, 18.11X for the Zacks sector and 18.82X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.38X and as low as 11.49X, with a 5-year median of 16.80X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$41 price target reflects 13.66X Forward 12-month earnings.

The table below shows summary valuation data for SEE:

Valuation Multiples - SEE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.64	15.69	18.11	18.82
	5-Year High	27.38	18.95	19.9	19.34
	5-Year Low	11.49	7.13	12.59	15.17
	5-Year Median	16.8	16.89	16.54	17.44
P/S F12M	Current	1.17	2.44	2.75	3.49
	5-Year High	2.39	5.06	2.75	3.49
	5-Year Low	1	1.46	1.51	2.54
	5-Year Median	1.34	1.79	1.96	3
EV/EBITDA TTM	Current	13.01	24.17	17	11.99
	5-Year High	14.18	27.66	17.43	12.86
	5-Year Low	6.99	12.71	10.89	8.48
	5-Year Median	11.71	15.29	14.71	10.67

As of 01/08/2020

Industry Analysis Zacks Industry Rank: Top 19% (49 out of 254)



Top Peers

AptarGroup, Inc. (ATR)	Neutral
Brambles Ltd. (BxBLY)	Neutral
Greif, Inc. (GEF)	Neutral
Graphic Packaging Holding Company (GPK)	Neutral
Packaging Corporation of America (PKG)	Neutral
Sonoco Products Company (SON)	Neutral
Greif Bros. Corporation (GEF.B)	NA
NINE DRAGONS (NDGPY)	NA

Industry Comparison Industry: Containers - Paper And Packaging				Industry Peers		
	SEE Neutral	X Industry	S&P 500	CCK Neutral	GEF Neutral	SON Neutral
VGM Score	B	-	-	C	A	A
Market Cap	5.86 B	5.80 B	23.84 B	9.53 B	2.07 B	5.80 B
# of Analysts	7	5	13	6	3	4
Dividend Yield	1.69%	2.97%	1.79%	0.00%	4.10%	2.97%
Value Score	B	-	-	C	A	B
Cash/Price	0.03	0.03	0.04	0.03	0.04	0.02
EV/EBITDA	12.28	10.51	13.88	11.23	8.02	10.13
PEG Ratio	1.43	1.87	2.02	1.83	1.43	3.54
Price/Book (P/B)	NA	2.97	3.33	4.72	1.74	3.13
Price/Cash Flow (P/CF)	11.19	8.47	13.76	8.48	4.71	10.03
P/E (F1)	12.75	16.09	18.76	12.80	11.43	15.91
Price/Sales (P/S)	1.23	1.07	2.63	0.82	0.45	1.07
Earnings Yield	7.91%	6.22%	5.32%	7.81%	8.75%	6.28%
Debt/Equity	-12.34	0.98	0.72	4.06	2.23	0.64
Cash Flow (\$/share)	3.39	4.77	6.94	8.29	9.12	5.78
Growth Score	C	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	2.27%	11.71%	10.56%	10.60%	15.00%	7.80%
Proj. EPS Growth (F1/F0)	7.87%	7.87%	7.46%	9.43%	-5.05%	3.08%
Curr. Cash Flow Growth	8.17%	19.75%	14.83%	41.18%	31.14%	15.51%
Hist. Cash Flow Growth (3-5 yrs)	-0.54%	8.06%	9.00%	15.14%	8.37%	5.80%
Current Ratio	1.06	1.61	1.23	1.12	1.51	1.20
Debt/Capital	NA%	52.05%	42.99%	80.23%	69.30%	38.89%
Net Margin	7.55%	4.55%	11.08%	4.10%	3.72%	5.99%
Return on Equity	-135.60%	20.02%	17.16%	41.91%	20.02%	20.08%
Sales/Assets	0.90	0.93	0.55	0.75	0.93	1.11
Proj. Sales Growth (F1/F0)	4.52%	4.52%	4.16%	1.99%	6.29%	1.95%
Momentum Score	B	-	-	A	F	C
Daily Price Chg	1.15%	0.52%	0.39%	-0.31%	1.01%	-0.41%
1 Week Price Chg	-4.18%	-1.89%	-0.30%	-1.30%	-1.78%	-1.61%
4 Week Price Chg	-2.09%	-2.64%	2.38%	-2.56%	-3.20%	-4.70%
12 Week Price Chg	-7.19%	7.34%	6.40%	10.67%	13.80%	-0.50%
52 Week Price Chg	7.57%	10.59%	22.97%	55.86%	10.86%	9.54%
20 Day Average Volume	1,054,409	201,033	1,610,101	875,131	180,920	333,120
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.89%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	-2.40%	-1.51%
(F1) EPS Est 12 week change	-2.42%	-2.99%	-0.50%	0.27%	-6.37%	-0.45%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-5.42%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	C
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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