

Sealed Air Corp (SEE)

\$40.95 (As of 08/07/20)

Price Target (6-12 Months): **\$42.00**

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:A

Value: B

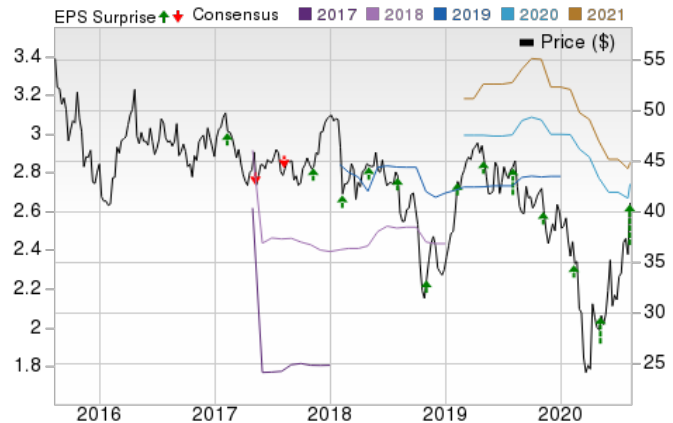
Growth: A

Momentum: A

Summary

Sealed Air's both earnings and revenues in second quarter 2020 witnessed a year-over-year decline but beat the Zacks Consensus Estimate. For 2020, the company's adjusted earnings per share guidance is in the range of \$2.85 to \$2.95. The mid-point of the range reflects a year-over-year increase of 3% despite an expected year-over-year drop of 1% in sales. Approximately 75% of Sealed Air's end markets are experiencing increased demand for food, medical supplies, consumer staples, and rise in e-commerce demand amid the COVID-19 pandemic, which bodes well. However, the remaining 25% are facing slowdown. In 2020, the company anticipates realizing around \$110 million of benefits from its Reinvent SEE program. Acquisitions and product innovation will also aid the company's results going forward.

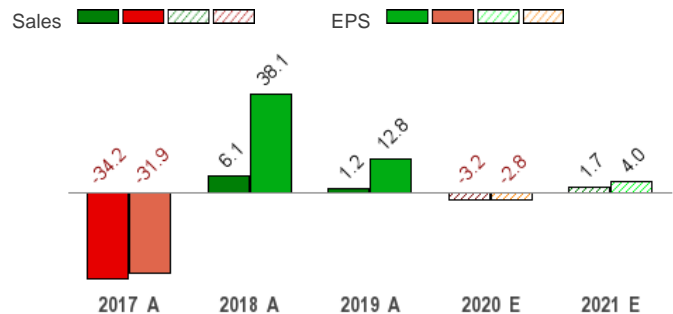
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$45.86 - \$17.06
20 Day Average Volume (sh)	1,217,652
Market Cap	\$6.3 B
YTD Price Change	2.4%
Beta	1.19
Dividend / Div Yld	\$0.64 / 1.6%
Industry	Containers - Paper and Packaging
Zacks Industry Rank	Top 27% (67 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	40.7%
Last Sales Surprise	7.0%
EPS F1 Est- 4 week change	7.5%
Expected Report Date	NA
Earnings ESP	3.6%
P/E TTM	14.0
P/E F1	15.0
PEG F1	2.7
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,719 E
2020	1,174 A	1,151 A	1,151 E	1,235 E	4,639 E
2019	1,113 A	1,161 A	1,219 A	1,299 A	4,791 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.85 E
2020	\$0.73 A	\$0.76 A	\$0.64 E	\$0.79 E	\$2.74 E
2019	\$0.59 A	\$0.80 A	\$0.64 A	\$0.78 A	\$2.82 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/07/2020. The reports text is as of 08/10/2020.

Overview

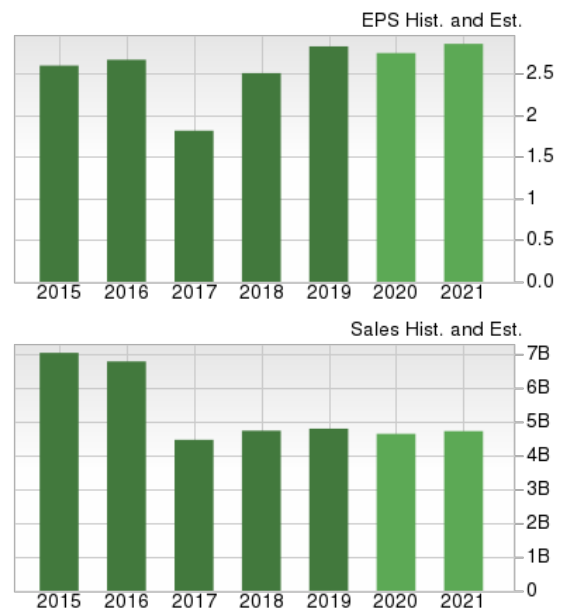
Charlotte, NC-based Sealed Air is a global leader in food safety and security and product protection. The company operates in the United States as well as globally. It caters to a diverse set of end markets including food and beverage processing, food service, retail, healthcare and industrial, and commercial 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.

Effective second-quarter 2020, the company renamed its reporting segments from Food Care to Food and Product Care to Protective. However, there has been no change in the composition of the segments. While the Food segment generated 60% of the company's sales in 2019, the Protective segment contributed the remaining 40%.

The **Food** 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. The segment 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.

Protective packaging solutions are utilized across several global markets and are especially valuable to e-commerce, electronics and industrial manufacturing. Protective 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. A noteworthy acquisition for the segment was of Automated Packaging Systems, a manufacturer of automated bagging systems in 2019. The buyout offers opportunities to expand the company's automated solutions into adjacent markets.

Earlier, the company acquired AFP, Inc., which expanded its protective packaging solutions. The company had also acquired Fagerdala, to leverage its manufacturing footprint in Asia.



Reasons To Buy:

- ▲ Many of Sealed Air's customers have been deemed by governmental entities as "critically essential" based on the U.S. Department of Homeland Security's and other international agencies' standards. Notably, around 64% of Sealed Air's revenues come from packaging of protein, foods, fluids and goods for the medical and life sciences industries. The food care business continues to benefit from the shift in demand for case ready, shrink bags and pre-packaged meals and snacks designed for home consumption amid the pandemic-induced restrictions. In the medical and life sciences portfolio, demand for protected packaging solutions for medical supplies, pharmaceuticals, and personal protective equipment, such as monitoring systems, ventilators, mask and COVID-19 test kits remains high. Further, e-commerce sales, which contribute around 14% to the company's sales, have been on the rise amid the stay-at-home scenario. Thus, with more than 75% of the company's revenues originating from end-markets that are deemed essential and supporting the stay-at-home environment amid the pandemic, the company is positioned well to sustain the top-line performance.
- ▲ 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. In 2020, the company is on track to realize 110 million of incremental benefits to adjusted EBITDA compared to last year. Over the 2019-2021 timeframe, the company has targeted approximately \$330 million of Reinvent SEE benefits. This will continue to boost bottom-line performance.
- ▲ Adjusted earnings per share guidance remains unchanged at \$2.85-\$2.95. The mid-point of the earnings guidance range reflects an increase of 3% from earnings of \$2.82 in 2019. Despite an expected drop of 1% in sales for the year, Sealed Air anticipates earnings per share to improve year on year. This will be driven by the company's Reinvent SEE initiatives and contribution from the Automated acquisition. The guidance also factors in an anticipated adjusted tax rate of approximately 27% compared with 26% in 2019.
- ▲ 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.
- ▲ 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. 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. These acquisitions and investments the company has been making in its core business will drive growth.

Sealed Air is likely to benefit from demand for packaging for essential goods and e-commerce amid stay-at-home restrictions. Restructuring actions, acquisitions and innovation will also drive growth.

Reasons To Sell:

- ▼ For 2020, Sealed Air expects net sales in the range of \$4.725 billion to \$4.775 billion, down from the prior guidance of 4.9 billion to \$4.95 billion. The mid-point of the guidance range reflects a year-over-year decline of 1% from the \$4.8 billion of sales in 2019. Foreign currency is now expected to have a negative impact on net sales of approximately \$120 million, higher than the prior expectation of \$40 million. Adjusted EBITDA is expected between \$1.01 billion and \$1.03 billion, consistent with the company's guidance. However, foreign currency is now expected to have a negative impact on Adjusted EBITDA of approximately \$25 million, higher than the previous forecast of an unfavorable impact of \$8 million.
- ▼ The company has presence in 48 countries/regions, which are likely to have been impacted or will be impacted by COVID-19. Facility closures as a result of government orders in response to the pandemic and reduced production capacity due to local social distancing requirements might impact its results in the forthcoming quarters. Parts of the food industry including food service and restaurants have been impacted significantly. Over the next few quarters, the company's fluids portfolio, which consists of innovative vertical pouch packaging, for condiments, soups and sauces will be negatively impacted by the slowdown in the food service industry.
- ▼ Around 35% of its sales serve consumer and industrial segments. Many of these end markets including general manufacturing, transportation, and non-essential goods, are facing slowdown or shut downs following government restrictions and a significant reduction in discretionary spending. A weak global industrial market and the U.S.-China trade war have been impacting Protective segment's volumes for some time. The pandemic adds to concerns. The company's traditional packaging solutions, which include Bubble Wrap, standardized mailers, shrink film and void fill, generate around one-third of the Protective 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 Protective segment's sales, also remains weak thanks to lower global industrial demand and the U.S.-China trade war.
- ▼ Sealed Air's net debt (total debt less cash and cash equivalents), was \$3.5 billion as of Jun 30, 2020, down from \$3.6 billion compared with Dec 31, 2019. Sealed Air's total debt-to-total capital has gone up over the past few years and is currently at 101.8%- which is concerning. The company's times interest earned ratio has however been improving over the past few years and is at 3.9. Nevertheless, as of Jun 30, 2020 Sealed Air had approximately \$1.3 billion of liquidity available, which comprised \$290 million of cash, an undrawn committed credit facility of \$1,053 million. The company does not have any debt maturities until August 2022. Free cash flow is expected in the range of \$350 million to \$375 million, higher than its previous expectation of \$350 million.

Weak global industrial market, unfavorable impact of foreign currency, lower demand in few end markets and impact of the coronavirus outbreak will dent Sealed Air's results in the near term.

Last Earnings Report

Sealed Air Q2 Earnings & Revenues Surpass Estimates

Sealed Air reported second-quarter 2020 adjusted earnings per share of 76 cents, surpassing the Zacks Consensus Estimate of 54 cents. However, the bottom line declined 5% year over year. Benefits from the company's Reinvent SEE initiatives, favorable price cost spread, and contribution from the Automated acquisition was partially offset by lower organic sales volume, unfavorable foreign currency translation and higher adjusted tax rate.

Including special items, the company reported net earnings per share of 64 cents compared with the prior-year quarter figure of 16 cents.

Total revenues declined 1% year over year to \$1,151 million in the reported quarter. The top line, however, beat the Zacks Consensus Estimate of \$1,076 million. Currency negatively impacted sales by 4%.

Quarter Ending 06/2020

Report Date	Aug 06, 2020
Sales Surprise	6.97%
EPS Surprise	40.74%
Quarterly EPS	0.76
Annual EPS (TTM)	2.91

Cost and Margins

Cost of sales decreased 5% year over year to \$761 million. Gross profit improved 3% year over year to \$390 million. Gross margin was 33.9% compared with 32.6% in the prior-year quarter.

SG&A expenses plunged 31% to \$185 million year over year. Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) were \$260 million in the quarter, up 10% from \$237 million in the prior-year quarter. Adjusted EBITDA margin was 22.6% compared with 20.4% in the prior-year quarter, driven by the company's Reinvent SEE initiatives, favorable price cost spread, and contribution from the Automated acquisition. This was partially offset by lower organic sales volume and unfavorable foreign currency translation.

Segment Performance

Food: Net sales declined 5% year over year to \$673 million. Adjusted EBITDA improved 9% year over year to \$169 million.

Protective: The segment reported net sales of \$478 million in the reported quarter, up 6% from the prior-year quarter. Adjusted EBITDA was up 9% year over year to \$91 million.

Financial Updates

Cash and cash equivalents were at around \$290 million as of Jun 30, 2020, up from \$262 million as of Dec 31, 2019. Cash flow from operating activities was around \$213 million in the first half of 2020 compared with \$169 million in the prior-year period. As of Jun 30, 2020, Sealed Air's net debt was \$3.5 billion, down from \$3.6 billion as of Dec 31, 2019.

2020 Guidance

For 2020, Sealed Air now expects net sales to be \$4.725-\$4.775 billion. Foreign currency is now expected to have a negative impact on net sales of approximately \$120 million. In February, the company had provided sales guidance of \$4.9 billion to \$4.95 billion, which included an estimated unfavorable currency impact of approximately \$40 million.

Adjusted EBITDA is expected between \$1.01 billion and \$1.03 billion, same as the February 2020 guidance. However, foreign currency is now expected to have a negative impact of approximately \$25 million higher than the prior expectation of an unfavorable impact of \$8 million. Adjusted earnings per share is expected in the band of \$2.85- \$2.95. Free cash flow is expected in the range of \$350-\$375 million, compared with \$350 million communicated in February 2020.

Valuation

Sealed Air Corporation's shares are up 3.4% in the year-to-date period and 8.2% over the trailing 12-month period. Stocks in the Zacks Containers – Paper and Packaging industry and the Zacks Industrial Products sector are down 3.2% and 3.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 4.3% and 12.2%, respectively.

The S&P 500 index is up 3.9% in the year-to-date period and up 16.4% in the past year.

The stock is currently trading at 14.35X forward 12-month earnings, which compares with 15.97X for the Zacks sub-industry, 21.81X for the Zacks sector and 22.77X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.38X and as low as 5.93X, with a 5-year median of 16.27X.

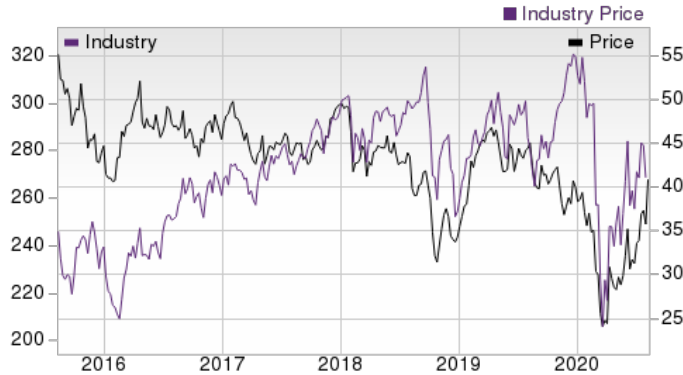
Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$42 price target reflects 15.12X forward 12-month earnings.

The table below shows summary valuation data for SEE:

Valuation Multiples - SEE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.35	15.97	21.81	22.77
	5-Year High	27.38	18.95	21.81	22.77
	5-Year Low	5.93	7.13	12.55	15.25
	5-Year Median	16.27	16.11	17.48	17.58
P/S F12M	Current	1.35	2.5	2.9	3.66
	5-Year High	2.39	5.06	2.9	3.66
	5-Year Low	0.55	1.46	1.52	2.53
	5-Year Median	1.32	1.82	2.04	3.05
EV/EBITDA TTM	Current	10.61	19.58	19.49	12.62
	5-Year High	14.21	28.56	19.49	12.84
	5-Year Low	6.91	12.3	10.84	8.24
	5-Year Median	11.34	15.61	14.9	10.9

As of 08/07/2020

Industry Analysis Zacks Industry Rank: Top 27% (67 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
AptarGroup, Inc. (ATR)	Outperform	2
Crown Holdings, Inc. (CCK)	Outperform	2
Graphic Packaging Holding Company (GPK)	Outperform	2
Silgan Holdings Inc. (SLGN)	Outperform	1
Avery Dennison Corporation (AVY)	Neutral	3
Greif, Inc. (GEF)	Neutral	3
Packaging Corporation of America (PKG)	Neutral	3
Sonoco Products Company (SON)	Neutral	3

Industry Comparison Industry: Containers - Paper And Packaging				Industry Peers		
	SEE	X Industry	S&P 500	CCK	GEF	GPK
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	2	3	2
VGM Score	A	-	-	A	A	A
Market Cap	6.35 B	5.33 B	23.30 B	9.99 B	1.89 B	4.11 B
# of Analysts	7	6	14	7	4	9
Dividend Yield	1.57%	2.17%	1.76%	0.00%	4.50%	2.03%
Value Score	B	-	-	A	A	A
Cash/Price	0.05	0.04	0.07	0.04	0.04	0.02
EV/EBITDA	13.93	8.87	13.32	10.59	8.07	7.46
PEG Ratio	2.68	3.04	2.94	2.86	1.13	0.56
Price/Book (P/B)	NA	2.78	3.19	4.50	1.66	2.02
Price/Cash Flow (P/CF)	10.69	7.95	12.51	8.35	4.29	6.05
P/E (F1)	14.95	16.05	22.02	14.28	11.32	14.09
Price/Sales (P/S)	1.31	1.02	2.53	0.88	0.40	0.65
Earnings Yield	6.72%	6.22%	4.37%	7.00%	8.83%	7.12%
Debt/Equity	-53.51	1.29	0.77	3.67	2.52	1.49
Cash Flow (\$/share)	3.82	3.82	6.94	8.88	9.12	2.44
Growth Score	A	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	2.11%	11.82%	10.46%	9.93%	15.70%	5.77%
Proj. EPS Growth (F1/F0)	156.07%	-1.55%	-6.80%	583.08%	25.55%	-33.75%
Curr. Cash Flow Growth	10.79%	7.93%	5.39%	7.40%	31.14%	3.10%
Hist. Cash Flow Growth (3-5 yrs)	-2.40%	7.51%	8.55%	12.67%	8.37%	6.65%
Current Ratio	1.20	1.48	1.33	1.15	1.48	1.27
Debt/Capital	NA%	58.26%	44.50%	78.59%	71.83%	60.14%
Net Margin	8.24%	5.06%	10.13%	4.28%	3.60%	1.97%
Return on Equity	-240.81%	19.35%	14.39%	32.53%	20.53%	14.13%
Sales/Assets	0.85	0.86	0.51	0.73	0.86	0.85
Proj. Sales Growth (F1/F0)	-3.17%	-0.81%	-1.51%	-3.05%	-0.94%	4.49%
Momentum Score	A	-	-	D	F	D
Daily Price Chg	2.31%	1.08%	0.90%	0.80%	4.88%	2.22%
1 Week Price Chg	-4.21%	-3.57%	0.14%	1.24%	-7.37%	-2.99%
4 Week Price Chg	25.60%	5.58%	8.95%	13.57%	19.33%	7.66%
12 Week Price Chg	38.82%	18.46%	18.90%	23.34%	35.51%	14.88%
52 Week Price Chg	-10.02%	3.04%	1.18%	13.12%	12.98%	4.83%
20 Day Average Volume	1,217,652	225,601	2,057,775	985,989	161,893	3,115,001
(F1) EPS Est 1 week change	8.79%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	7.52%	0.43%	1.36%	3.66%	-0.72%	9.28%
(F1) EPS Est 12 week change	7.52%	1.69%	1.57%	3.54%	-0.14%	9.31%
(Q1) EPS Est Mthly Chg	-2.81%	0.00%	0.54%	1.87%	0.00%	15.04%

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	A
Momentum Score	A
VGM Score	A

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.

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