

Sealed Air Corp (SEE)

\$37.00 (As of 07/16/20)

Price Target (6-12 Months): **\$38.00**

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:C

Value: C

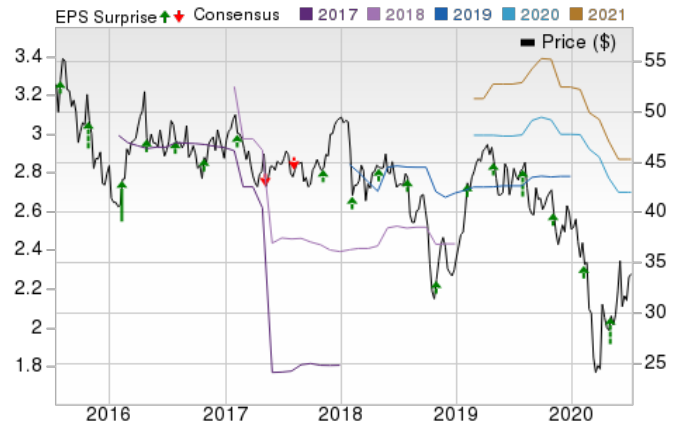
Growth: B

Momentum: F

Summary

Approximately 75% of Sealed Air's end markets are experiencing increased demand for food, medical supplies, consumer staples and e-commerce demand, which bodes well for the company. However, the remaining 25% are facing slowdown or have been forced to temporarily suspend production. The estimates for the company's current quarter and year's earnings have undergone negative revision lately. The company however has a positive record of earnings surprises in the trailing four quarters. Nevertheless, in 2020, the company anticipates realizing around \$110 million of benefits from its Reinvent SEE program, which is focused on innovations, SG&A productivity, product-cost efficiency, channel optimization and customer-service enhancements. Acquisitions and product innovation will also aid the company's results going forward.

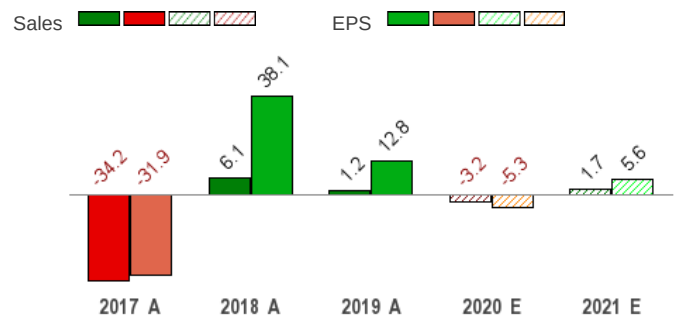
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$45.86 - \$17.06
20 Day Average Volume (sh)	1,168,925
Market Cap	\$5.8 B
YTD Price Change	-7.1%
Beta	1.17
Dividend / Div Yld	\$0.64 / 1.7%
Industry	Containers - Paper and Packaging
Zacks Industry Rank	Top 38% (95 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	23.7%
Last Sales Surprise	2.2%
EPS F1 Est- 4 week change	-1.2%
Expected Report Date	08/06/2020
Earnings ESP	-0.3%
P/E TTM	12.5
P/E F1	13.9
PEG F1	2.5
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,719 E
2020	1,174 A	1,076 E	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					\$2.82 E
2020	\$0.73 A	\$0.54 E	\$0.62 E	\$0.78 E	\$2.67 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 07/16/2020. The reports text is as of 07/17/2020.

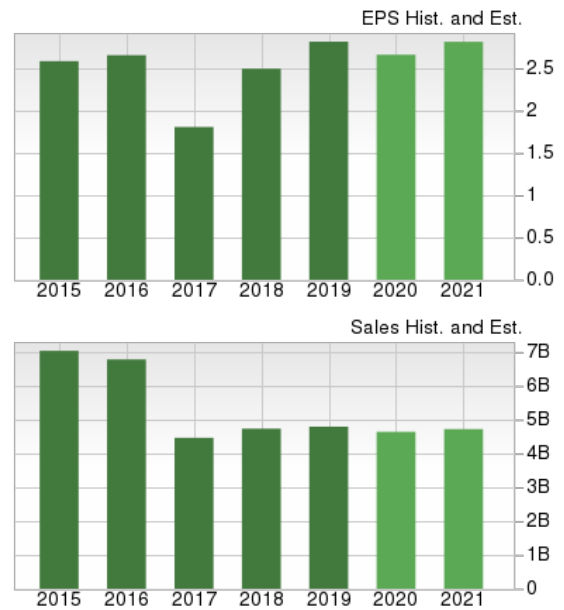
Overview

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 60% of the company's sales in 2019, the Product Care segment contributed the remaining 40%.

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:

- ▲ 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 65% 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 13% 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.
- ▲ 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:

- ▼ 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. Given the uncertainty in its end-markets and duration of the pandemic, the company has suspended its full-year 2020 guidance.
- ▼ 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. Decelerating global industrial market and the U.S.-China trade war have been impacting Product Care 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 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. Product care volume is anticipated to decline 15% to 20% in the second quarter.
- ▼ Sealed Air's net debt (total debt less cash and cash equivalents), was \$3.6 billion as of Mar 31, 2020, flat 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 104.8%, much higher than the industry's 61.3% - which is concerning. The company's times interest earned ratio has however been improving over the past few years and is at 3.3, but lower than the industry's 4.1. Nevertheless, as of Mar 31, 2020 Sealed Air had approximately \$1.2 billion of liquidity available, which comprised of \$275 million of cash, an undrawn committed credit facility of \$918 million and amounts available under the accounts receivable securitization program of \$50 million. Sealed Air does not have any debt maturities until August 2022. The company is meanwhile prioritizing investments to maximize cash flow. Sealed Air has trimmed its capital expenditure guidance for the year from \$200 million to \$175 million to conserve cash while allowing investment in key strategic growth areas.

Slowdown in global industrial market, lower demand in other end markets and overall impact of the coronavirus outbreak will dent Sealed Air's volumes in the near term.

Last Earnings Report

Sealed Air Beats on Q1 Earnings, Suspends '20 View

Sealed Air reported first-quarter 2020 adjusted earnings per share of 73 cents, surpassing the Zacks Consensus Estimate of 59 cents. The bottom line also improved 24% year over year. The results can be attributed to strong execution of Reinvent SEE strategy, which was introduced in December 2018 to drive earnings growth and productivity improvements. Acquisitions, higher volumes and favorable price/cost spread also contributed to the results.

Including special items, the company reported net earnings per share of 74 cents compared with the prior-year quarter figure of 41 cents.

Total revenues of \$1,174 million in the reported quarter were up 6% from the year-ago quarter figure. The top line beat the Zacks Consensus Estimate of \$1,148 million. While currency negatively impacted sales by 3%, acquisitions contributed 7% to the same.

Quarter Ending 03/2020

Report Date	May 05, 2020
Sales Surprise	2.22%
EPS Surprise	23.73%
Quarterly EPS	0.73
Annual EPS (TTM)	2.95

Cost and Margins

Cost of sales increased 5% year over year to \$783 million. Gross profit improved 7% year over year to \$391 million. Gross margin came in at 33.3% compared with 32.8% in the prior-year quarter.

SG&A expenses declined 8% to \$194 million year over year. Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) were \$253 million in the quarter compared with \$216 million in the prior-year quarter. Adjusted EBITDA margin was 21.6% compared with 19.4% in the prior-year quarter, driven by the company's Reinvent SEE initiatives, favorable price cost spread, higher volumes and acquisitions. This was partially offset by higher operating costs, lower volumes and unfavorable foreign currency impact.

Segment Performance

Food Care: Net sales rose 2% year over year to \$690 million. Adjusted EBITDA improved 9% year over year to \$156 million.

Product Care: The segment reported net sales of \$484 million in the reported quarter, up 12% from the prior-year quarter. Adjusted EBITDA was up 24% year over year to \$93 million.

Financial Updates

Cash and cash equivalents were \$275 million as of Mar 31, 2020, up from \$262 million as of Dec 31, 2019. Cash flow from operating activities was around \$41 million in the reported quarter compared with \$65 million in the prior-year quarter. Capital expenditures came in at \$48.7 million in the reported quarter compared with \$49.4 million in the prior-year quarter. As of Mar 31, 2020, Sealed Air's net debt came in at \$3.6 billion, flat compared with Dec 31, 2019.

Suspends Guidance

Sealed Air has suspended full-year 2020 guidance citing the uncertainty in the markets owing to the coronavirus pandemic.

Valuation

Sealed Air Corporation's shares are down 9.2% in the year-to-date period and 15.8% over the trailing 12-month period. Stocks in the Zacks Containers – Paper and Packaging industry and the Zacks Industrial Products sector are down 4.6% and 7.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry are down 3.9% while the sector are up 1.4%.

The S&P 500 index is up 0.4% in the year-to-date period and up 8.4% in the past year.

The stock is currently trading at 13.27X forward 12-month earnings, which compares with 16.29X for the Zacks sub-industry, 21.93X for the Zacks sector and 22.89X 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 16.31X.

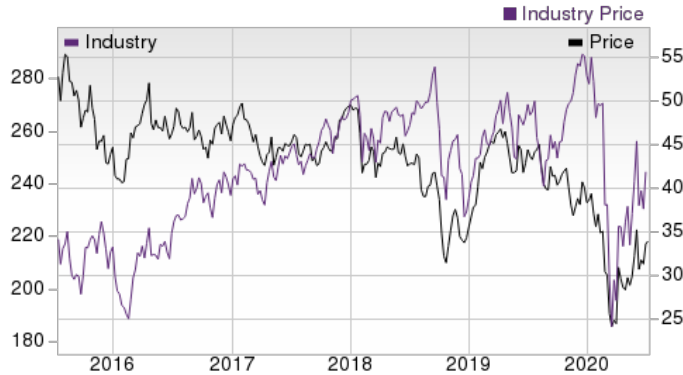
Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$38 price target reflects 13.95X forward 12-month earnings.

The table below shows summary valuation data for SEE:

Valuation Multiples - SEE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.27	16.29	21.93	22.89
	5-Year High	27.38	18.95	21.93	22.89
	5-Year Low	5.93	7.13	12.55	15.25
	5-Year Median	16.31	16.14	16.81	17.52
P/S F12M	Current	1.22	2.48	2.81	3.58
	5-Year High	2.39	5.06	2.81	3.58
	5-Year Low	0.55	1.46	1.52	2.53
	5-Year Median	1.32	1.82	2.01	3.02
EV/EBITDA TTM	Current	10.48	17.75	16.74	11.99
	5-Year High	14.21	28.56	17.45	12.86
	5-Year Low	6.91	12.28	10.73	8.25
	5-Year Median	11.39	15.5	14.89	10.87

As of 07/16/2020

Industry Analysis Zacks Industry Rank: Top 38% (95 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Graphic Packaging Holding Company (GPK)	Outperform	2
AptarGroup, Inc. (ATR)	Neutral	3
Avery Dennison Corporation (AVY)	Neutral	3
Crown Holdings, Inc. (CCK)	Neutral	4
Greif, Inc. (GEF)	Neutral	3
Packaging Corporation of America (PKG)	Neutral	3
Silgan Holdings Inc. (SLGN)	Neutral	3
Sonoco Products Company (SON)	Neutral	4

Industry Comparison Industry: Containers - Paper And Packaging				Industry Peers		
	SEE	X Industry	S&P 500	CCK	GEF	GPK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	4	3	2
VGM Score	C	-	-	C	A	B
Market Cap	5.76 B	5.41 B	22.43 B	9.03 B	1.77 B	3.98 B
# of Analysts	7	5	14	6	4	9
Dividend Yield	1.73%	2.10%	1.82%	0.00%	4.81%	2.10%
Value Score	C	-	-	C	A	B
Cash/Price	0.05	0.04	0.07	0.08	0.04	0.03
EV/EBITDA	13.09	10.06	13.00	10.16	7.87	7.72
PEG Ratio	2.47	3.06	2.97	2.67	1.06	0.59
Price/Book (P/B)	NA	2.74	3.13	4.43	1.56	1.98
Price/Cash Flow (P/CF)	9.70	8.92	12.13	7.55	4.02	5.85
P/E (F1)	13.78	16.23	21.97	13.36	10.61	14.87
Price/Sales (P/S)	1.19	1.04	2.38	0.77	0.37	0.64
Earnings Yield	7.22%	6.17%	4.35%	7.48%	9.42%	6.73%
Debt/Equity	-20.60	1.39	0.75	4.28	2.52	1.71
Cash Flow (\$/share)	3.82	3.81	6.94	8.88	9.12	2.44
Growth Score	B	-	-	D	A	C
Hist. EPS Growth (3-5 yrs)	2.11%	12.23%	10.85%	10.51%	15.70%	4.33%
Proj. EPS Growth (F1/F0)	-5.47%	-4.01%	-9.37%	-1.73%	-12.82%	10.22%
Curr. Cash Flow Growth	10.79%	7.93%	5.51%	7.40%	31.14%	3.10%
Hist. Cash Flow Growth (3-5 yrs)	-2.40%	6.65%	8.55%	12.67%	8.37%	6.65%
Current Ratio	1.14	1.70	1.30	1.31	1.48	1.86
Debt/Capital	NA%	60.74%	44.33%	81.06%	71.83%	63.34%
Net Margin	6.84%	4.32%	10.59%	4.24%	3.60%	2.18%
Return on Equity	-179.75%	19.35%	15.74%	35.65%	20.53%	13.98%
Sales/Assets	0.87	0.86	0.54	0.75	0.86	0.86
Proj. Sales Growth (F1/F0)	-3.17%	-0.94%	-2.44%	-3.20%	-0.94%	3.66%
Momentum Score	F	-	-	A	F	A
Daily Price Chg	2.35%	0.88%	-0.06%	-0.04%	2.63%	0.78%
1 Week Price Chg	0.99%	-0.59%	-0.41%	0.63%	-1.18%	-0.43%
4 Week Price Chg	16.90%	8.41%	1.63%	2.30%	9.51%	1.93%
12 Week Price Chg	31.30%	18.23%	15.55%	13.05%	19.05%	10.80%
52 Week Price Chg	-14.57%	-5.21%	-4.26%	12.57%	7.04%	2.59%
20 Day Average Volume	1,168,925	326,536	2,236,294	1,072,751	175,100	2,649,509
(F1) EPS Est 1 week change	-1.17%	0.00%	0.00%	0.27%	-0.72%	0.12%
(F1) EPS Est 4 week change	-1.17%	0.00%	0.01%	0.15%	-0.29%	0.12%
(F1) EPS Est 12 week change	-3.81%	-2.26%	-5.24%	-1.95%	-2.26%	3.94%
(Q1) EPS Est Mthly Chg	-2.81%	0.00%	0.00%	0.16%	-2.76%	0.85%

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	C
Growth Score	B
Momentum Score	F
VGM Score	C

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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