

Sealed Air Corp (SEE)

\$35.10 (As of 02/19/20)

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:A

Value: B

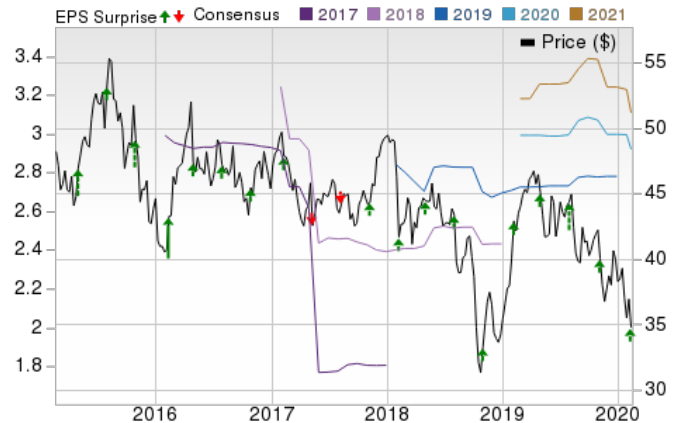
Growth: A

Momentum: D

Summary

Sealed Air's fourth-quarter 2019 revenues and adjusted earnings per share (EPS) improved from the prior-year quarter and beat the respective Zacks Consensus Estimate. This can primarily be attributed to the company's Reinvent SEE strategy. The company's 2020 guidance for sales is \$4.9-\$4.95 billion, higher than the \$4.8 billion in 2019. Adjusted EPS is expected at \$2.85-\$2.95, suggesting year-over-year growth of 1-5%. While acquisitions will drive revenues, input cost inflation will affect earnings. Weaker volumes in the Product Care segment thanks to slowdown in the global industrial market remains a concern. The coronavirus outbreak will also impact volumes in the current quarter. Nevertheless, benefits from Reinvent SEE Strategy, strong fresh food markets and e-commerce demand position the company well for improved results.

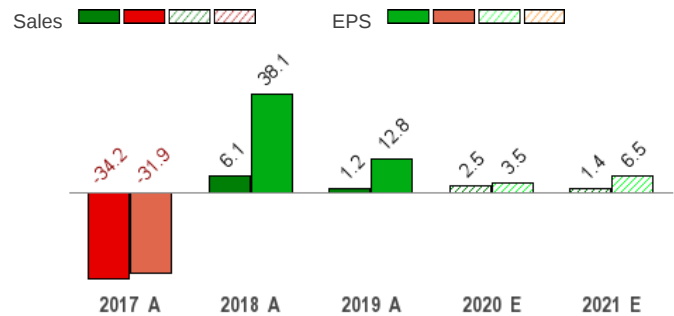
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.13 - \$34.03
20 Day Average Volume (sh)	1,299,247
Market Cap	\$5.4 B
YTD Price Change	-11.9%
Beta	1.04
Dividend / Div Yld	\$0.64 / 1.8%
Industry	Containers - Paper and Packaging
Zacks Industry Rank	Bottom 40% (152 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.4%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	-2.5%
Expected Report Date	05/06/2020
Earnings ESP	0.0%
P/E TTM	12.5
P/E F1	12.0
PEG F1	1.4
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,982 E
2020	1,153 E	1,211 E	1,234 E	1,310 E	4,912 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					\$3.11 E
2020	\$0.60 E	\$0.72 E	\$0.74 E	\$0.87 E	\$2.92 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 02/19/2020. The reports text is as of 02/20/2020.

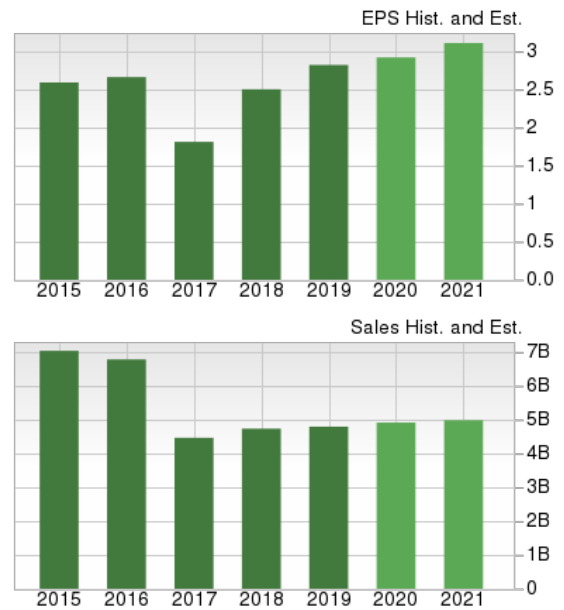
Overview

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:

- ▲ Sealed Air anticipates net sales of \$4.9-\$4.95 billion for fiscal 2020. The guidance reflects year-over-year growth of 2-3% on reported basis and 3-4% in constant dollars. Acquisitions are expected to contribute \$175 million to revenues. While the Food Care segment's sales are projected to improve 1.5%, the Product Care segment is anticipated to advance 7%. Adjusted EBITDA is estimated to lie between \$1.01 billion and \$1.03 billion. The range suggests growth of 5-7% over the adjusted EBITDA of \$965 million in 2019. The company projects adjusted earnings per share at \$2.85-\$2.95. The guided range indicates year-over-year growth of 1-5%.
- ▲ As of 2019 end, the company's net debt to adjusted EBITDA was 3.6x, which is at the lower end of its 3.5x to 4x target range. Further, Sealed Air's cash flow from operating activities improved to \$511 million in 2019 from \$428 million in the prior year driven by higher adjusted EBITDA and working capital improvements. Backed by its healthy balance sheet and solid cash flow, the company continues to invest in growth and improve cost productivity. Notably, capital expenditures were \$190 million in 2019 compared with \$169 million in 2018. For 2020, the company has set a target of \$200 million in capital expenditures and expects to generate free cash flow of \$350 million. The company has \$708 million remaining under the current authorized share repurchase program. Further, share repurchases will be accretive to the bottom line.
- ▲ 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 2019, Sealed Air realized \$168 million of Reinvent SEE benefits, with \$67 million coming from restructuring actions. It surpassed the company's guidance of approximately \$150 million. In 2020, the company expects to realize around \$110 million of benefits from the Reinvent SEE program with half of it stemming from actions taken in 2019 and the balance from new actions. Over the 2019-2021 timeframe, the company has targeted approximately \$330 million of Reinvent SEE benefits. This will continue to boost its 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. 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. 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.

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.

Reasons To Sell:

- ▼ In fiscal 2020, currency headwind is expected to negatively impact net sales by approximately \$40 million and adjusted EBITDA by \$8 million. The outbreak of the coronavirus in China will impact volumes the current quarter. The impact is likely to reflect on the company's first-quarter results.
- ▼ 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 Reinvent SEE program was \$91 million in 2019. It is anticipated to be approximately a \$100 million and \$25 million in 2020 and 2021, respectively.
- ▼ 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 and impact of the coronavirus outbreak will dent Sealed Air's volumes. Unfavorable foreign currency and raw material inflation will dent margins.

Last Earnings Report

Sealed Air Q4 Earnings & Revenues Top Estimates, Up Y/Y

Sealed Air reported fourth-quarter 2019 adjusted earnings per share of 78 cents, surpassing the Zacks Consensus Estimate of 74 cents and improving 4% 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.

Including special items, the company reported net earnings per share of 80 cents compared with the prior-year quarter figure of \$1.28.

Total revenues of \$1,299 million in the reported quarter were up 3% from the year-ago quarter figure of \$1,260 million. The figure beat the Zacks Consensus Estimate of \$1,298 million. Acquisitions contributed 6.2% to total revenues, partially offset by an organic sales decline of 1.6%.

Cost and Margins

Cost of sales increased 1% year over year to \$870 million. Gross profit improved 8% year over year to \$429 million. Gross margin came in at 33.1% compared with 31.7% in the comparable period last year.

SG&A expenses climbed 6% to \$216 million, year on year. Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) were \$271 million in the quarter compared with \$248 million in the prior-year quarter. Adjusted EBITDA margin was 21% compared with 20% in the prior-year quarter, driven by the company's Reinvent SEE initiatives and favorable price cost spread and acquisitions. This was partially offset by higher operating costs, lower volumes and unfavorable foreign currency.

Segment Performance

Food Care: Net sales declined 2% year over year to \$760 million. Adjusted EBITDA improved 5% year over year to \$171 million.

Product Care: The segment reported net sales of \$539 million in the reported quarter, up 10% from the prior-year quarter. Adjusted EBITDA was up 25% year over year to \$107 million.

Financial Updates

Cash and cash equivalents were \$262 million as of Dec 31, 2019, down from \$272 million as of Dec 31, 2018. Cash flow from operating activities was around \$511 million in 2019 compared with \$428 million in the prior year. Capital expenditures were \$190 million for 2019 compared with \$169 million in 2018. The increase can primarily be attributed to increased investment to drive growth and improve cost productivity.

As of Dec 31, 2019, Sealed Air's net debt came in at \$3.6 billion, up from \$3.2 billion as of Dec 31, 2018. In 2019, the company repurchased 1.6 million shares worth \$67 million and paid out dividends worth \$99 million. The company has \$708 million remaining under its current authorized share repurchase program.

2019 Results

Sealed Air reported adjusted earnings per share of \$2.82 in 2019, up 13% from the prior-year figure of \$2.50. Earnings missed the Zacks Consensus Estimate of \$2.78. Including one-time items, the bottom line came in at \$1.89, up 101% from 94 cents in 2018. The bottom line also came in higher than management's guidance of \$2.70-\$2.80.

Sales rose 1.2% year over year to around \$4,791 million from the prior-year figure of \$4,733 million. The top line missed the Zacks Consensus Estimate of \$4,792 million.

Guidance

Sealed Air's guidance for adjusted earnings per share for 2020 is at \$2.85-\$2.95. The mid-point of the range suggests year-over-year growth of 3%.

Net sales are projected at \$4.9-\$4.95 billion, indicating an improvement of 2% to 3% on a reported basis and 3% to 4% in constant dollars. Adjusted EBITDA is estimated to lie between \$1.01 billion and \$1.03 billion.

Quarter Ending **12/2019**

Report Date	Feb 11, 2020
Sales Surprise	0.10%
EPS Surprise	5.41%
Quarterly EPS	0.78
Annual EPS (TTM)	2.81

Valuation

Sealed Air Corporation's shares are down 18.1% over the trailing 12-month period. Stocks in the Zacks Containers - Paper and Packaging industry were down 32.4% while the Zacks Industrial Products sector was up 6.5% over the past year.

The S&P 500 index has gained 20.2% in the past year.

The stock is currently trading at 11.92X forward 12-month earnings, which compares with 15.21X for the Zacks sub-industry, 18.29X for the Zacks sector and 19.39X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.38X and as low as 11.38X, with a 5-year median of 16.67X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$38 price target reflects 12.90X 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	11.92	15.21	18.29	19.39
	5-Year High	27.38	18.95	19.89	19.39
	5-Year Low	11.38	7.13	12.6	15.18
	5-Year Median	16.67	16.81	16.62	17.47
P/S F12M	Current	1.1	2.36	2.78	3.59
	5-Year High	2.39	5.06	2.78	3.59
	5-Year Low	1	1.46	1.51	2.54
	5-Year Median	1.34	1.79	1.98	3
EV/EBITDA TTM	Current	10.42	21.39	17.09	12.31
	5-Year High	14.18	28.21	17.42	12.85
	5-Year Low	6.99	12.26	10.97	8.47
	5-Year Median	11.71	15.08	14.72	10.7

As of 02/19/2020

Industry Analysis Zacks Industry Rank: Bottom 40% (152 out of 255)



Top Peers

AptarGroup, Inc. (ATR)	Neutral
Berry Global Group, Inc. (BERY)	Neutral
Crown Holdings, Inc. (CCK)	Neutral
Graphic Packaging Holding Company (GPK)	Neutral
Silgan Holdings Inc. (SLGN)	Neutral
Sonoco Products Company (SON)	Neutral
Greif, Inc. (GEF)	Underperform
Packaging Corporation of America (PKG)	Underperform

Industry Comparison Industry: Containers - Paper And Packaging				Industry Peers		
	SEE Neutral	X Industry	S&P 500	CCK Neutral	GEF Underperform	SON Neutral
VGM Score	A	-	-	D	A	B
Market Cap	5.42 B	5.42 B	24.59 B	10.70 B	2.01 B	5.65 B
# of Analysts	7	4	13	6	3	5
Dividend Yield	1.82%	2.97%	1.78%	0.00%	4.24%	3.05%
Value Score	B	-	-	C	A	B
Cash/Price	0.05	0.04	0.04	0.03	0.04	0.03
EV/EBITDA	11.64	9.86	14.21	11.98	7.90	9.84
PEG Ratio	1.35	1.77	2.09	2.06	1.38	3.45
Price/Book (P/B)	NA	2.91	3.28	5.30	1.68	3.11
Price/Cash Flow (P/CF)	11.60	7.92	13.59	9.52	4.56	9.49
P/E (F1)	11.99	15.89	19.17	14.41	11.05	15.52
Price/Sales (P/S)	1.13	1.05	2.68	0.92	0.44	1.05
Earnings Yield	8.32%	6.30%	5.18%	6.94%	9.05%	6.44%
Debt/Equity	-19.19	0.88	0.70	4.06	2.23	0.66
Cash Flow (\$/share)	3.03	3.78	6.93	8.29	9.12	5.95
Growth Score	A	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	1.83%	11.71%	10.84%	10.68%	15.00%	8.25%
Proj. EPS Growth (F1/F0)	3.50%	7.44%	7.00%	7.24%	-5.05%	3.06%
Curr. Cash Flow Growth	-12.12%	12.60%	7.81%	41.18%	31.14%	3.29%
Hist. Cash Flow Growth (3-5 yrs)	-6.82%	6.65%	8.25%	15.14%	8.37%	5.28%
Current Ratio	1.09	1.51	1.24	1.12	1.51	1.08
Debt/Capital	NA%	50.45%	42.37%	80.23%	69.30%	39.65%
Net Margin	5.49%	4.01%	11.69%	4.37%	3.72%	5.43%
Return on Equity	-155.41%	19.51%	16.86%	39.58%	20.02%	19.51%
Sales/Assets	0.88	0.93	0.55	0.76	0.93	1.07
Proj. Sales Growth (F1/F0)	2.53%	2.81%	4.05%	1.45%	6.29%	2.69%
Momentum Score	D	-	-	C	B	F
Daily Price Chg	1.24%	-0.11%	0.38%	-0.99%	-0.46%	-0.46%
1 Week Price Chg	-5.85%	-0.16%	1.65%	1.79%	0.66%	-1.95%
4 Week Price Chg	-8.38%	-4.14%	0.86%	5.13%	-6.23%	-4.29%
12 Week Price Chg	-6.92%	-3.63%	4.56%	3.79%	-4.40%	-7.18%
52 Week Price Chg	-18.03%	-0.51%	14.15%	45.52%	2.11%	-6.41%
20 Day Average Volume	1,299,247	184,038	1,989,235	1,021,578	141,660	390,930
(F1) EPS Est 1 week change	0.18%	0.00%	0.00%	0.00%	0.00%	-1.50%
(F1) EPS Est 4 week change	-2.53%	0.00%	-0.03%	0.15%	0.00%	-1.50%
(F1) EPS Est 12 week change	-2.58%	-0.74%	-0.21%	-0.24%	-6.47%	-0.66%
(Q1) EPS Est Mthly Chg	-6.30%	0.00%	-0.40%	-16.07%	0.00%	-2.87%

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	D
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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