Jeff Middleswart
jmiddleswart@btnresearch.com

Bill Whiteside, CFA
bwhiteside@btnresearch.com

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Sealed Air – 3Q20 Update
Maintain SELL

We still rate SEE as a SELL. The story remains much of the same – weak growth (negative with FX included) and giving guidance that is far off what the company actually experiences. Adjusted EPS of 82-cents has at least 17-cents from unexpected items or items that shouldn't be added back.

- **Price/Cost spread added to earnings again**. SEE has contracts with customers that allow it to recover cost inflation. It also means cost deflation should also lower prices. The result is the company is expected to net to zero over time in terms income coming from favorable raw material costs.

  SEE came into 2020 saying that after windfall profits from price/cost throughout 2019 –investors should expect a negative swing in this area of $70 million in 2020. It warned again on the 3Q call that it is guiding to negative price/cost starting in 4Q20. We shall see about that guidance – but the problem is the longer this rubber band is stretched – the more it should correct in the future. This has been a key source of EPS and EBITDA growth:

	3Q20	2Q20	1Q20
Price Cost	$9	$19	$7
EPS Boost	**$0.05**	**$0.08**	**$0.04**
Total EBITDA Gain	$18	$23	$37
Due to Price/Cost	$9	$19	$7
Due to Acquisition	$4	$14	$13

- **The company guided to a 27% tax rate coming into 2020. In 1Q, they enjoyed a lower tax rate by realizing $10 million in tax settlements that were not in guidance**. They guided to 27% after 2Q. **3Q saw a large drop in tax rate due to changes in US tax rates regarding low-taxed foreign earnings. That added 8-cents to EPS for 3Q20 and was not guided to or announced during the quarter**. After two drops, the company is guiding to 26% for a tax rate for 2020 now. The dispute with the IRS to disallow a $1.49 billion tax deduction has still not been resolved and no further guidance was given by SEE other than to say it may be resolved within 12-months.

- **There still isn't much growth at all here.** We have been pointing out that for a company that supplies industries in the fresh food business and e-commerce – it simply isn't growing:

	North Am	EMEA	APAC	total pre-S.Am	S. Am	Total
2019 Sales	$729.4	$250.0	$180.8	$1,160.2	$58.3	$1,218.5
Price gain	-$10.8	$0.9	-$0.1	-$10.0	$9.3	-$0.7
Volume gain	$12.9	-$5.7	$2.3	$9.5	-$1.8	$7.7
2020 Sales	$731.5	$245.2	$183.0	$1,159.7	$65.8	$1,225.5
Org Growth y/y	0.3%	-1.9%	1.2%	**0.0%**	**12.9%**	0.6%
FX $ impact	-$5.3	$5.9	$3.8	$4.4	-$16.8	-$12.4
2020 Growth with FX	-$3.2	$1.1	$6.0	$3.9	-$9.3	-$5.4
Actual Growth %	-0.4%	0.4%	3.3%	**0.3%**	**-16.0%**	**-0.4%**

The basics of this table are that SEE has zero organic growth without adding in South America where price hikes are huge. However, the reason South America has high pricing power is because it loses almost twice as much on FX. In reality, South America is a negative growth story.

So, here is another zero on growth for 3Q20. It is -2.4% for the 9 months of 2020. We actually think this is worse considering how many people are eating at home and how much grocery sales have soared. Plus, think how many people are ordering even toothpaste and paper towels in the mail. Looking at the table above under price/cost – it is clear that EBITDA growth is not being driven by organic growth. It even had a surge in demand at the end of 1Q as customers stocked up on packaging supplies.

- **SEE continues to add back its FX hits to Adjusted EPS as well as third party consulting fees – both of which occur essentially every quarter:**

Adjustments to Income	3Q20	2Q20	1Q20
3rd Party Consultants	$7.2	$3.8	$4.0
FX impacts	$1.1	$1.2	$0.9

For 3Q20 – here was another recurring 4.3 cents that SEE added back to adjusted earnings. If we remove that from their adjustments along with the 8-cents in tax issues they didn't guide to and the 5-cents in Price/Cost issues they said would be a drag, not a gain – we get adjusted EPS of 65-cents for 3Q20. That compares to estimates of 66-cents and prior year EPS of 64-cents and they gained 2-cents from an acquisition for 3Q20 in the past year too.

- **Guidance for 2020 was raised but not due to business improving. SEE raised Free Cash Flow guidance from $375 million to $450 million.**
    - $30 million comes from the tax rebates related to 3Q changes
    - $15 million comes from cutting the forecast on capital spending
    - $15 million comes from cutting the cash spending on their restructuring plan
    - $6 million comes from a 1% cut in the forecasted tax rate

Explanation of EQ Rating Scale

6- "Exceptionally Strong"	Indicates uncommonly conservative accounting policies to the point that revenue and earnings are essentially understated relative to the company's peers. Higher possibility of reporting positive earnings surprises
5- "Strong"	Indicates the company has no areas of concern with its reported results and we see very little risk of the company disappointing due to recent results being overstated from aggressive reporting in recent periods.
4- "Acceptable"	Indicates the company may have exhibited a minor “red flag”, but the severity of the issue is not yet a concern. Minimal risk of an earnings disappointment resulting from previous earnings or cash flow overstatement
3- "Minor Concern"	Indicates the company has exhibited either a larger number of or more serious warning signs than companies receiving a 4. The likelihood of an immediate earnings or cash flow disappointment is not considered to be high, but the signs mentioned deserve a higher degree of attention in the future.
2- "Weak"	Indicates the company’s recently reported results have benefitted materially from aggressive accounting. Follow up work should be performed to determine the nature and extent of the problem. There is a possibility that upcoming results could disappoint as the impact of unsustainable benefits disappears.
1- "Strong Concerns"	Indicates that the company’s recent results are significantly overstated and that we view a disappointment in upcoming quarters is highly likely.

In addition to the numerical rating, the EQ Review Rating may also include either a minus or plus sign. A minus sign indicates that our analysis shows the overall earnings quality of the company has worsened since the last review and there is a possibility the numerical rating will fall should the problem continue into the next quarter. Likewise, a positive sign indicates that the overall earnings quality is improving, and the company may see an upgrade in its numerical rating should the trend continue.

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