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Sealed Air Corp (SEE) CEO Edward Doheny on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-06-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.64 beats by $0.02 | Revenue of $1.22B (2.72% Y/Y) misses by $-7.8M

Earning Call Audio

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Sealed Air Corp (NYSE:SEE) Q3 2019 Earnings Conference Call November 6, 2019 10:00 AM ET

Company Participants

Lori Chaitman - VP, IR

Edward Doheny - CEO, President & Director

James Sullivan - SVP & CFO

Conference Call Participants

Tyler Langton - JPMorgan Chase & Co.

George Staphos - Bank of America Merrill Lynch

Arun Viswanathan - RBC Capital Markets

Neel Kumar - Morgan Stanley

Bryan Burgmeier - Citigroup

Rosemarie Morbelli - G. Research

Adam Josephson - KeyBanc Capital Markets

Mark Wilde - BMO Capital Markets

Salvator Tiano - Vertical Research Partners

Gabrial Hajde - Wells Fargo Securities

Daniel Rizzo - Jefferies

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Third Quarter 2019 Sealed Air Earnings Conference Call. [Operator Instructions].

I would now like to hand the conference over to your speaker today, Ms. Lori Chaitman, Vice President of Investor Relations. Please go ahead, ma'am.

Lori Chaitman

Thank you, and good morning, everyone. Before we begin our call today, I would like to note that we have provided a slide presentation to help guide our discussion. This presentation can be found on today's webcast and can be downloaded from our IR website at sealedair.com.

I would like to remind you that statements made during this call stating management's outlook or predictions for future periods are forward-looking statements. These statements are based solely on information that is now available to us. We encourage you to review the information in the section entitled Forward-looking Statements in our earnings release and slide presentation, which applies to this call.

Additionally, our future performance may differ due to a number of factors. Many of these factors are listed in our most recent annual report on Form 10-K and as revised and updated on our quarterly reports on Form 10-Q and current reports on Form 8-K, which you can also find on our website at sealedair.com or on the SEC's website at sec.gov.

We also discuss financial measures that do not conform to U.S. GAAP. You will find important information on our use of these measures and their reconciliation to U.S. GAAP in our earnings release. Included in the appendix of today's presentation, you will find U.S. GAAP financial results that correspond to some of the non-U.S. GAAP measures we reference throughout the presentation.

With that, I'll turn the call over to Ted Doheny, our President and CEO. Ted?

Edward Doheny

Thank you, Lori, and thank all of you for joining us for our third quarter earnings conference call. On today's call, I'll start out with a quick recap of our third quarter results and discuss how Reinvent SEE strategy is transforming Sealed Air to a world-class company. This is an exciting journey, and we're making great progress. I'll then discuss the status of the integration of Automated Packaging Systems and how this will accelerate our growth. I'll conclude with an update on the progress we are making on our sustainability goals in our 2025 pledge. Jim will expand on our financial results for the quarter and provide more details on our outlook for 2019. We will end the call with the Q&A session.

Turning now to our third quarter results on Slide 3. In constant dollars, we delivered 12% adjusted EBITDA growth on 5% higher sales compared to last year. Our top line performance was largely attributable to higher volumes in food packaging and contribution from our recent acquisitions. Adjusted EBITDA margin was up 130 basis points to 19.8%, and we delivered adjusted earnings per share of $0.64, a 5% increase over last year.

While we continue to face macroeconomic challenges around the world and within the markets we serve, our Reinvent SEE strategy is driving share gains and significant productivity improvements. This enabled us to deliver strong EBITDA growth in the quarter and position us to reaffirm our 2019 earnings and free cash flow commitments. More importantly, we are strengthening the structural earnings power of the company.

Slide 4 reiterates our vision, our strategy and how we're making all of this happen. Our vision is to transform Sealed Air from the best in packaging to a world-class company servicing the global packaging industry. Today, we are the leading innovator in packaging and are making a difference in the industries we serve with automated equipment, service and materials. At the same time, we're reinventing the business from how we innovate to how we solve. Our Reinvent SEE work streams are designed to accelerate profitable growth, drive operational excellence, develop a high-performance culture and deliver long-term value for our customers, shareholders, employees and the society where we live and work.

Let's turn to Slide 5, which illustrates how our team is taking our 4P'S of Reinvent SEE, performance, people, products, processes and sustainability to world class. We are investing smarter to accelerate the speed to market of our new innovations in food and Protective Packaging. We're making advancements in our materials for proteins, including seafood and plant-based protein alternatives in fluids.

For Protective Packaging markets, we're introducing a new reinvented version of our Bubble Wrap brand in 2020 that contains more than 90% recycled material while providing the same level of protection and air retention as our original Bubble Wrap brand. We continue to invest to strengthen our capabilities in automation, sustainability and digital.

We've been making changes across our manufacturing and distribution network to enable us to drive the best products at the right price and make them sustainable. We have seen gross margin improvements from our Reinvent SEE work streams in plant productivity, network efficiencies and procurement savings. Throughout our global operations, by acting as 1 Sealed Air, we have been able to realize savings in multiple functions throughout the organization. This has given us the ability to move and respond faster to the markets we serve and the adjacent markets we are targeting.

As we head to year-end and plan for 2020, we're adding new reinvent work streams on revenue and service to drive top line improvements. We're focusing on driving integrated customer solutions with our automated equipment, service and materials. We're expanding the capabilities of our commercial teams by providing them with more resources, launching new campaigns to drive market share gains and accelerate commercialization of our newest innovations.

We're enhancing our service leadership by leveraging Automated Packaging Systems' technical service excellence and expanding our own best practices globally.

I want to share the integration of Automated Packaging Systems is going very well. Our sales teams have attended training and collaboration meetings, verifying cross-selling prospects around the world. We collaborated at 3 major trade shows in the U.S. and Europe, and held a summit to accelerate innovation projects and growth.

While it's still early, we had a handful of cross-selling orders in North America, Europe and Asia in the quarter and are optimistic about our opportunities in 2020.

Now let's turn to sustainability on Slide 6, which is at the heart of our purpose statement: To leave the world better than we found it. Looking back over the last year, sustainability concerns across the packaging industry have increased around the world. We have made progress on our internal operations and our 2025 sustainability pledge. These investments have been driven by our focus on operational excellence and by increasing market demand for more sustainable packaging solutions. Our goal is to deliver the best products at the right price and make them sustainable.

Recently, we published our 2019 sustainability report where you can learn more about how Sealed Air is working to move the needle on sustainability and build a more circular economy. We're proud to report that we've exceeded our 2020 sustainability goals 2 years ahead of schedule on resource intensity, which includes greenhouse gas emissions, energy and water. On waste, we've been diverting nearly 80% of our waste from landfills. More than half of our facilities today are delivering on our 2020 goal of achieving 100% waste diversion.

Employee safety is paramount to us. Our goal is to achieve zero harm across our global facilities. Year-to-date, we're pleased to have reduced our total recordable incident rate by 10%, with more than 65% of our facilities achieving zero harm.

On our 2025 sustainability pledge, we're making meaningful progress towards delivering solutions that are recyclable or reusable and contain post-consumer or post-industrial recycled content. Investments in our portfolio are geared towards our 2025 commitments.

In the third quarter, we had 3 Protective Packaging solutions to our list of recyclable offerings. Our reinvented Bubble Wrap material and StealthWrap shrink film have been recently certified for store dropoff recycling. The new version of Bubble Wrap is not only made from recycled content but also has a 40% lower total carbon footprint than our existing product. Our StealthWrap Automated Packaging System replaces larger, heavier secondary boxes and provides improved efficiency by reducing dimensional weight during distribution.

We also received third-party certification for curbside recyclability for our paper-based TempGuard biothermal assurance product. Across the packaging value chain, we are widely recognized as a leader in essential, flexible packaging committed to build a circular economy and reducing our customers' carbon footprint through innovation and collaboration. We strongly believe our investments will accelerate our growth trajectory. Looking ahead, our product road map puts us on track to achieve our 2025 objectives.

I'll now pass the call to Jim to review our results in more detail. Jim?

James Sullivan

Thank you, Ted, and good morning, everyone. On Slide 7, we'll start with a review of our net sales by region. In the third quarter, sales increased 3% as reported and 5% in constant dollars. We delivered growth across all regions, which included 2 months of sales contribution from Automated Packaging Systems. In constant dollars, North America, our largest region, representing 60% of the company sales, grew 4% year-over-year. EMEA was up 5%, and Asia Pacific was up 3%. South America, where we have U.S. Dollar Index pricing, was up 21%.

Turning to Slide 8. Here, we highlight our volume and price trends by business segment and by region. In the third quarter, overall volume, excluding acquisitions, was down 1%. Food Care volume was up 2%, with favorable trends across all regions. This was more than offset by a 5% volume decline in Product Care.

The industrial manufacturing slowdown and ongoing trade disputes hit our Product Care business the hardest in North America and Asia Pacific, where we had organic volume declines of 7% and 5%, respectively. In EMEA, Product Care volume was up slightly, with growth in automated equipment offsetting economic softness in Europe. Favorable overall price performance was driven by the U.S. Dollar Index pricing in South America. And as we anticipated, price in North America was down 1% primarily due to resin-based formula pricing in Food Care.

On Slide 9, we present our year-over-year sales and adjusted EBITDA bridges for the third quarter and year-to-date. Starting with the quarter, organic sales, which exclude acquisitions and currency translation, were essentially flat year-over-year. Automated Packaging Systems accounted for $48 million of the $62 million of sales from acquisitions. Adjusted EBITDA of $241 million increased $22 million or 10% compared to last year, with margins up 130 basis points to 19.8%. This increase was largely attributable to our Reinvent SEE initiatives and favorable price/cost spread.

In price/cost spread, we benefited from Reinvent SEE actions that are structurally lowering our direct materials and transportation costs and increasing value capture. We also benefited from market-driven lower input costs relative to last year. Higher operating costs were largely due to labor and indirect material and services inflation, increased incentive compensation and incremental investments in the business, partially offset by Reinvent SEE benefits from network optimization, manufacturing supply chain process improvements, procurement savings and other organizational efficiencies. We also realized $21 million of savings from restructuring actions.

Operational EBITDA from the addition of Automated Packaging Systems for 2 months in the quarter was offset by a $7 million noncash purchase accounting inventory charge, and currency translation was also $4 million unfavorable to adjusted EBITDA. Adjusted EPS in the third quarter was $0.64 on average diluted shares outstanding of 155 million. This compares to $0.61 in the third quarter of 2018. Automated Packaging Systems was $0.04 dilutive on adjusted EPS in the current quarter and included $0.07 of noncash purchase accounting items.

The adjusted tax rate in the quarter was 28.5% compared to 27.8% in the third quarter 2018. Year-to-date, the adjusted tax rate was 25.5%. And for the full year, we continue to expect the rate to be approximately 26%. Turning your attention to our year-to-date EBITDA bridge. You can see we have realized approximately $123 million of Reinvent SEE benefits, with $47 million coming from restructuring. Reinvent SEE has exceeded our expectations, and we are now on track to achieve approximately $150 million in total benefits for the year, with approximately $65 million coming from restructuring savings. This is a $15 million increase in our full year outlook for Reinvent SEE benefits, which has positioned the company to reaffirm its adjusted EBITDA, adjusted EPS and free cash flow guidance despite lower projected sales.

Turning to our results by segment on Slide 10. We present third quarter and year-to-date results for Food Care. For the quarter, Food Care net sales of $730 million were up 2% organically and up 3% in constant dollars. Adjusted EBITDA increased 10% to $160 million, with margins improving 190 basis points to 21.9%. Global protein markets were up about 1% in the third quarter compared to our Food Care volume, which was up 2%. By region, our volume was up 3% in both South America and Asia Pacific, up 2% in North America and up 1% in EMEA. Overall, our volume of materials was up 3%, which was partially offset by a decline in North American equipment sales due to a tough year-over-year comparison.

Our top line performance was driven by local protein consumption, strong exports and continued adoption of sustainable solutions. Increased consumer demand for fresh protein continues to drive penetration of our case-ready platform across all proteins. The export market for beef, poultry and pork continues to strengthen, particularly in North America and South America, largely due to the impact the African swine fever is having on pork production in China and surrounding countries.

In sustainability, we are gaining share globally with our solutions that contain recycled materials and offer post-consumer recyclability. It is also worth noting that we are seeing incremental growth opportunities in adjacent markets, including fluids, seafood and alternative proteins. For the full year 2019, global protein production is projected to be up 1.5%. Our Food Care team has been outperforming the market, and we expect this trend to continue going forward. However, due to the timing of certain new equipment deliveries and a weaker macroenvironment in Europe, we are revising our full year 2019 constant dollar sales outlook for Food Care to 3.5% versus 4%.

On Slide 11, we highlight results from our Product Care segment. In the third quarter, Product Care net sales of $489 million were up 8% in constant dollars. Excluding Automated Packaging Systems acquisition, Product Care net sales were down 5% due to volume declines on essentially flat pricing trends. The volume decline in the quarter was primarily with our specialty industrial applications and traditional packaging solutions. Adjusted EBITDA of $84 million or 17.2% of sales was up 10%, and margins expanded 60 basis points. Restructuring savings, favorable price/cost spread and other benefits from Reinvent SEE were partially offset by lower volumes, higher operating costs and the inventory purchase accounting charge associated with the Automated Packaging Systems acquisition.

In Product Care, we continue to work on our portfolio to focus on automation and sustainability. Value-added solutions, which include automated equipment, inflatables, paper systems, core view and temperature assurance, were up 6% on an organic basis in the third quarter. When you include the contribution from Automated Packaging Systems, this segment of our business now accounts for roughly 1/3 of Product Care. Our traditional packaging solutions, which includes Bubble Wrap, standardized mailers, shrink film and void fill, were down 7% organically and still account for 1/3 of our Product Care sales. This part of the segment has been adversely impacted by the market shifting to automation and sustainable solutions and the global industrial manufacturing slowdown.

As Ted noted, we are bringing more recyclability to this portfolio with a new version of Bubble Wrap in 2020 and recently, a recyclable cushioned mailer. Our specialty industrial applications, which include the Instapak platform and integrated fabrication solutions, account for the remaining 1/3 of our Product Care sales, and this part of Product Care was down 7% organically due to lower global industrial demand and the ongoing trade dispute with China. While the market cycle has been challenging, we are working with customers to upgrade their packaging to be parcel-ready, which brings more efficiency and less waste to the distribution channel.

For the full year, we now estimate Product Care constant dollar sales growth to be 6% compared to our previous guidance of 7%. Organic sales are now expected to be down approximately 4% compared to our previous forecast of down 3%. It is important to note that while our top line outlook has come down throughout the year, a more favorable sales mix, combined with Reinvent SEE benefits, have resulted in higher margins in Product Care.

Now let's turn to year-to-date free cash flow on Slide 12. In the 9 months ended September 30, we generated $110 million of free cash flow compared to $35 million in the same period in 2018. The year-over-year improvement was driven by higher adjusted EBITDA and lower cash tax payments, partially offset by increased investment in CapEx and our Reinvent SEE programs. Net debt at the end of the third quarter totaled $3.7 billion. Net debt to LTM adjusted EBITDA on a pro forma basis for the Automated Packaging Systems acquisition was 3.8x. As we previously communicated, we expect pro forma net leverage to be approximately 3.7x by the end of 2019 driven by cash generation and continued growth in adjusted EBITDA in the fourth quarter.

Turning to our updated outlook on Slide 13. We now anticipate net sales to be approximately $4.8 billion or about 1.5% growth for the year as reported. On a constant dollar basis, net sales are expected to increase approximately 4.5%. Food Care growth of 3.5% includes just over $10 million from the smaller strategic acquisitions completed in the second quarter. Product Care growth of 6% includes $180 million from acquisitions, of which approximately $120 million is expected to come from Automated Packaging Systems for the 5 months ending December 31, 2019.

We are reaffirming our adjusted EBITDA for the full year in the range of $950 million to $960 million. This outlook includes $10 million to $12 million of adjusted EBITDA from Automated Packaging Systems, which is inclusive of the $7 million noncash inventory purchase accounting charge. It also includes unfavorable currency translation for the year of $30 million, which is up about $5 million from our previous guidance. We continue to expect adjusted EBITDA -- or adjusted EPS, excuse me, to be in the range of $2.70 to $2.80. Our guidance assumes approximately $0.07 of dilution from Automated Packaging

Systems. Our outlook for adjusted EPS is based on roughly 155 million shares outstanding and does not assume additional share repurchases for the remainder of the year.

We are reaffirming our forecast for free cash flow of $180 million. Our CapEx for the full year is on track for $210 million, which includes $10 million for Automated Packaging Systems. We continue to expect to Reinvent SEE, restructuring and associated payments to be about $115 million in 2019.

Let me now pass the call back to Ted for closing remarks.

Edward Doheny

Thank you, Jim. We will continue to push forward on our journey to world class and aggressively go after opportunities with Reinvent SEE. Reinvent SEE is about accelerating profitable growth and increasing earnings power. As illustrated on Slide 14, you can see how we are reinventing our powerful brands in operating as one company. Our 4P'S of Reinvent SEE are increasing efficiency in an unleashing growth. We're excited for what's ahead, and we'll continue to focus on what's in our control to drive our success and create value for our shareholders.

With that, I'll now open the call for questions.

Question-and-Answer Session

Operator

[Operator Instructions]. And our first question comes from Tyler Langton with JPMorgan.

Tyler Langton

Just on the Reinvent SEE there, I guess, sort of the savings have kind of steadily moved up throughout the year. I guess just in terms of offsets with EBITDA sort of not moving up as much, is it Product Care volumes, FX, higher operating expenses? Just wondering if you could provide any sort of color on what have been sort of the biggest offsets sort of versus your estimates.

James Sullivan

Well, when we started here -- this is Jim. When we started the year, we certainly had greater expectations for volumes across the business. And where we're at right now with increasing the benefits from this program, we're able to drive EBITDA -- adjusted EBITDA to a higher level than when we started the year and have seen an awful lot of margin improvement. So I think at the most basic level, what's going on with Reinvent has more than offset the volume declines for the year and the currency translation drag on the business.

Operator

Our next question is George Staphos with Bank of America.

George Staphos

I guess my first question, and obviously, we'll turn it over there, can you give a bit more color in terms of the volume decline in Product Care? In the third quarter, it was down 5%. Considering that last year was a relatively challenging quarter is an easy comparison for Product Care. And as you move into the fourth quarter, the comps get a bit tougher. Can you give us some additional color in terms of how the volumes are progressing year-on-year in Product Care, especially in the categories as you laid them out?

Edward Doheny

Thanks, George. This is Ted. Looking at Product Care, and if we unpack what's going on and if we compare it to year-over-year, the third quarter, as you highlighted last year, we saw a drop. In the third quarter of last year, we had an issue with an automated piece of our portfolio that was going away. That's still leaking away in business and probably won't be out until the end of next year.

But if you look at the portfolio, as Jim highlighted and I highlighted in our prepared remarks, if you break it up in pieces, the market being down 5% in the industrial -- our industrial portfolio that matches that with the Instapak and our specialty foams, et cetera, that's matching pretty well with the market. If we look at the utility products or the commodity products where we talk about the Bubble Wrap -- traditional Bubble Wrap, we've also seen that's matched with the market going down, in some cases, even more. Where we've seen -- if we look at the portfolio, though, we've seen some strong growth. And actually counter to the Bubble Wrap traditional, it's been our Bubble Wrap on demand. It's actually been our fastest-growing product as we continue to focus on automation, and that's what the market is asking for. How do we automate fulfillment centers, our customers' operations? And that actually has been growing at double-digit, and we've had margin expansion in that piece. So we're looking at that whole portfolio and unpacking it, focus, and we keep talking about the automated equipment. That actually is up also double-digit. We're working with the portfolio, though, to get that connected to materials. In some cases, it's not connected to our materials, and we're working very aggressively to get that connected.

And then looking at globally, we have some positives. Our European team has actually had flat to growth in -- but with some of the new products. They're seeing that sustainability push much tougher than anywhere in the world. And we've seen our new mailer come online quickly. I was pretty impressed how quickly they brought that new product to market. More to come in this quarter and in 2020. So we're aggressively going after the Product Care portfolio. We have things that are growing. It's got hit by the market. We don't want to be an excuse, but we've got to address that. We've got to move the portfolio quicker, and we've got to get the new products to market fast, and that's what we're working on.

Operator

Our question comes from Arun Viswanathan with RBC Capital Markets.

Arun Viswanathan

I just wanted to ask a little bit of a higher level strategy question. A couple of years ago, the company sold Diversey, and the path forward looked like differing the stranded costs and then continuing to kind of invest in your Food Care and Product Care business. When you look back -- and that sale, unfortunately, was dilutive to earnings, and we were at a $3 base, and we went down to about $2.50 base. So it seems like you're digging yourself out of that hole, but I just wanted to get your own perspective on kind of where you stand in the transformation. And if you could just tie in how much of your product base that you would consider specialty or potentially noncommoditized at this point, that would be helpful.

Edward Doheny

Okay. But I appreciate your summary. And if we look at the strategy of the separation of Diversey, the only comment I'll make on that from the past, it really didn't feel like with a similar business to us. And one of the things with our strategy on Reinvent is how do we act as one company and focused on our purpose statement that we're in the business to protect, focusing on our customers' most challenging packaging issues in making the world better, and we found that. So if we looked at the portfolio of Food Care and Product Care, we're actually acting as one. We actually have many, many market verticals to meet that. And that's where our focus has been, our strategy.

And then on the operational side of that, focusing on automated equipment. That is in both businesses. That's been part of the growth of our Food Care, and more to come. And the same thing with the automated equipment on Product Care. So we see that synergy there. The acquisition of APS was how do we go faster into that space.

The other piece is we're focusing on things -- even with our sustainability, focusing on things that are -- the plastics world of essential versus nonessential. So we see that -- our two portfolios having the same issue there.

Even in the packaging of Food Care, we're looking at can we bring our Protective Packaging solutions? With Product Care, can we bring some of that material expertise that we have together? So strategically, we see a lot of similarities. The adjacent markets, we're seeing quite clearly. We've talked about some of our growth in temperature assurance. With APS, close to 20% of their business was in food, and we've learned a lot of things of how they do high-speed loading of bags, great synergies that we see already with our Food Care business.

So the strategy is to focus on packaging, focus on the critical packaging, focus on having the best materials, having multiple materials in our sustainable world, if it's paper, if it's plastic or if it's a protective material that no one else has, that's what we're focused on.

And then also the strategy is on the operations side. Let's be more efficient on how we go to market. And so that's the backbone behind Reinvent SEE as well. So I think we're making good progress, and I think more good things to come.

Operator

Neel Kumar with Morgan Stanley.

Neel Kumar

The $150 million in Reinvent SEE benefits you're now expecting for the full year implies about $27 million for the fourth quarter given you've done $123 million year-to-date. It seems that it's been about $50 million of benefits for the last 2 quarters. So I was just wondering if there's any reason why this was slowed down in the fourth quarter or perhaps you're may be incorporating some conservatism.

James Sullivan

Yes. This is Jim. I think we like to see it coming through. We've got a very strong pipeline, and we've been really accelerating that pipe given the volume challenges that we have. So you're right, that math is exactly right. And hopefully, we beat it. But I would say that we pushed up a lot of that early in the year, and some of that will carry into the fourth quarter, and the new restructuring actions will be launched in the fourth quarter that will then help us as we lean into 2020. We still think we have a lot of opportunity, broadly on productivity and efficiency across our business that will position us well for next year. But yes, we like to underpromise and overdeliver when it comes to those kinds of things. But the team is working really hard. We talked last quarter about the governance structure and the culture change that this is driving within the company to, really, from idea generation to accountability making that fall through. So I don't think we want to put too much more in the fourth quarter than what we have, but I think we feel confident that -- enough that we were able to raise the forecast to offset the volume decline that we have in the business.

Edward Doheny

Yes, Neel, this is Ted. As Jim's point, I'll tag team on the underpromise, overdeliver and also to touch on the cultural piece there. Me being the optimist here, seeing really some good things that are happening. We had the whole management team in Europe and looking at the change in listening and watching and walking the shop -- the floor, seeing this Reinvent being lectured by where the opportunities are, seeing the plants work together, so the productivity -- I think we've just -- we're on a journey. And I think many, many more good things to come.

The tough market is out there. We just have to fight through and go faster. But I think there's more opportunity to come that may not be seeing in our numbers in the fourth quarter and beyond. But I'm pretty positive. We got a lot of legs here.

Operator

Anthony Pettinari with Citi.

Bryan Burgmeier

This is actually Bryan Burgmeier sitting in for Anthony. Do you guys include the postconsumer and bio-based resin products in the value-added portion of Product Care? And can you provide some color on the growth rate of your sustainable products in 3Q or year-to-date?

Edward Doheny

Yes. I think if I understand your question, yes, if it's the post the recycled content and postconsumer is in the Product Care numbers. I'm not sure if I understand, if you had more detail on that.

Bryan Burgmeier

Well, I'm just wondering if you guys broke out the growth rate of the sustainable products that you've highlighted throughout the year in your slides, if you can just provide any color on how those products are selling year-to-date.

James Sullivan

Yes. The year-to-date for that value-added segment of the business is up high single digits year-on-year. In the third quarter, we talked about that being up about 6%. So it's down from what the year-to-date is. So we saw a little deceleration in that segment of the business in the third quarter. But overall, year-to-date, I would say, high single digits. And again, a piece of this business, I mean, is in -- we're in a bad cycle. Certainly, this is part of the business, even though we're -- it's value-added, has been impacted by a very difficult global manufacturing environment.

Operator

Our next question comes from Rosemarie Morbelli with G. Research.

Rosemarie Morbelli

I was wondering, Jim, if you could talk about the free cash flow expectations for 2020. If I look at the $115 million of restructuring, plus the Novipax settlement of $59 million this year, should we anticipate free cash flow just from those 2 items to increase by $174 million next year? Or are there some residuals?

James Sullivan

Well, that's a loaded question because one of the key drivers of free cash flow is adjusted EBITDA, and we've been able to demonstrate we can grow adjusted EBITDA even in a flat organic environment. So our hope would be even leading into '20 with the trajectory coming out of the back half of '19 that we're going to have some EBITDA improvement. So I think that will be a positive on cash flow year-over-year.

You're right about the Novipax. That won't repeat. Let's call that $60 million in total. The investment side of Reinvent, which is driving the substantial benefits for the company, we're seeing the investment was $115 million this year. That will repeat not at that level next year, but think about that being $100 million-ish. Remember, this program on a cash basis, cash-on-cash was about a 3-year payback. So we've said when we launched this program that we expected $250 million of benefits over 3 years with about the equivalent amount -- a little less, maybe, on the cash side. So we'll have some more cash outflow next year in Reinvent. But hopefully, like we did this year, we're positioned well to overdeliver on the total benefits for the program.

And then CapEx. CapEx, we did bump a bit for APS. I think -- think about 4% of sales for CapEx is a good number, and it gives us some good projects to continue to drive the inflation fighting productivity that we're going to see year in and year out in the business.

Operator

Adam Josephson with KeyBanc Capital Markets.

Adam Josephson

Jim, one more cash flow question. If I go through the bridge to all the items you laid out, I think the implied working capital drag for this year is about $70 million, correct me if I'm wrong, or perhaps there's something else in that $70 million besides working capital. Can you talk about what that missing piece is, the $70 million? And if it's all working capital, what exactly is going on there? And to the extent you're expecting a working capital drag this year, do you expect another one next year? Do you expect the working capital to flatline next year?

James Sullivan

Yes. I think the -- if you look at the underlying metrics with working capital and the key working capital items, as you know, our AR, if you look at the DSO of the business as we sit here at the end of the third quarter, we're like, call it, just over 38 days. And last year, we were at 39. So we're actually seeing some year-over-year improvement in that metric, excluding APS. APS, as a business, probably has about a day higher DSO. So that APS inclusion for the full year will put a little bit of a challenge into the metric. But overall, that's looking really good. And so I would expect that to be moving with that kind of 30 -- high 30s of DSO, and that will change with sales.

AP probably is where we see the biggest year-over-year change from a cash perspective. The company accomplished a lot of really good things in terms of terms extension in 2018 that didn't repeat in 2019. So if you kind of look at the cash flows from that in '18 versus that didn't repeat in 2019. So if you kind of look at the cash flows from that in '18 versus '19 with AP, it's -- the cash outflows are up.

If you look at the underlying metric with AP, let's call it, 87 days a year ago, and we're sitting at about 79 days. So we've lost a little bit on the DPO metric. And I would say some of that is related to tradeoff that we're making in terms of as we deal with our suppliers. We talked a lot of benefits coming from things with procurement and that sort of thing. So there's a little bit of a tradeoff we're making on DPO to drive some of that supplier-related benefits that we're seeing in the business.

I mean -- but if you look at the absolute level of the DPO at 79 days as we sit here today, that's a pretty good number that we'd stack up against most companies and say that, that's a good accomplishment.

And then finally, inventory, we're up about a day year-on-year. So we're about 67 days as we sit here today. Certainly, some of the volume declines that we've experienced on the top line, we're adjusting the manufacturing to be in line with that and to drive structural inventory reduction. We're falling a little bit behind there, but we've got a lot of people that are focused on improving that as we go forward.

And then really, with some of this CapEx that we're going to unleash on the business, the incremental CapEx above the maintenance level, I think, over time will drive really good improvements in the process flow within manufacturing that will structurally take out inventory. But that will take us a bit of time. I think as we think about next year, hopefully, that's an opportunity with what where we're at this year. But hopefully, that gives you a good sense.

The number you quoted is directionally correct in terms of the outflow associated with our working capital. It may be a little bit higher than that, but you're in the ballpark.

Operator

Mark Wilde with Bank of Montreal.

Mark Wilde

So I wondered, Sealed Air has had a lot of restructuring programs over the years, and we're working on some pretty healthy numbers here with Reinvent SEE. I wondered if you could help us from just a big picture standpoint, how much of that do you think you can really hold on to? And how much of that cost takeout is just the price of kind of staying in the game every year of kind of running even with your competition who's also working on reducing costs?

Edward Doheny

Yes, good question, Mark. As we're looking -- part of this Reinvent SEE, I get asked the question even internally, when is it over? I believe this is an ongoing journey. So we're looking very carefully for structural change. [Indiscernible] even use those words. We're looking for a structural change of the business. Some of our investments will come back. But to -- the strategy that we're working on is how do we drive a productivity engine that is sustainable year-over-year. We're benchmarking all our processes, and we're looking at our cost structure. And the marketplace is expecting that we have a productivity improvement year-over-year.

As I think I shared on one of the previous calls, we looked over the last five years, and we saw the costs go up over five years and year-over-year and how do we build a structure that we're continuously bringing productivity? Also, productivity into the organizational structure. So we're changing the structure. We're looking at the layers and looking how we're effective and efficient so that cost doesn't come back. Where the cost is coming back, as Jim even highlighted on the CapEx, is where we're investing into automation, where we're investing into new tools, investing into digital, investing into e-commerce so that we can compete in this marketplace more effectively and efficiently so that we're not considered a serial restructure. I'll just say it, that's what people are saying? No. This is a fundamental transformation, changing the business for how we do business in the future. It's on a journey. We're making good progress. We've got more to come, more to come even after 2020, '21, 2022, and that's the culture change that we're driving.

James Sullivan

If I could just to add on to that a bit. And I'm the new guy kind of looking at this. When I came in, I heard an awful lot about Reinvent SEE all the way down the organization. And certainly, people understand this program. But I would say that tucked in to Reinvent SEE are the normal productivity type of continuous improvement actions that any company would take to fight inflation. And our inflation will run about $50 million a year. So $50 million of that $150 million that Ted talked about is really inflation fighting, continuous improvement. I wouldn't classify that as structural, but a lot of that where the other stuff is. And so that just would be a little bit more perspective maybe as a new person coming in that could be helpful.

Operator

It's Salvator Tiano with Vertical Research.

Salvator Tiano

So I wanted to clarify a little bit about how you see Product Care developing in the next few years. Firstly, if you can clarify a little bit when you provided the breakdown between the three buckets, I guess, utilities, industrial and the value-add, you mentioned, it's roughly 1/3 each. Is that pro forma for APS? Or is it with a two month contribution? And how do you see this developing in the next couple of years given more secular headwinds in some parts of the business and the secular tailwinds to the value-add segment? And as a last point, can you let us know a little bit about kind of the margin differential between the three buckets there so we can a little bit understand how margins should progress, all else being equal, as the segment transforms?

James Sullivan

Let me take a few pieces of that type of question, and then I'll let Ted take the rest. I'll start with the last question because I remember it, it's margin differential. So the highest margin business would be the specialty Instapak integrated phone [indiscernible] in the value-added category, and those are very nice margins. The lower would be the -- what we call the traditional packaging systems, and that's where we're seeing probably the most structural loss of the business. I mean that business is being impacted by the manufacturing environment that we're in, but probably some of it is shifting into the value-added component where we're seeing that nice growth.

The first part of your question was that as I broke that segment down and the results for the quarter, I was using only organic volume. So APS was not included in the growth rates that I quoted there. However, when I split the business between 1/3, 1/3 and 1/3, simply, I did pro forma on an APS, and APS will be in that value-added part because, really, it's driving the automation and the sustainability the company seeks in this area. Ted might want to comment on how this is going to develop going forward.

Edward Doheny

Right. And so if I follow the beginning part of the question, if we look at the portfolio. If we look at, again, what is our automated equipment and let's just explain that. That's where we're loading a package, whether it's loading a bag. That's where we see the portfolio actually doing quite well. That business is growing double digit, but it's a small percentage.

What we'd like about that business and on driving the strategy, that's where the stickiness is. Putting those assets in, helping our customers try the automation, APS does actually a much higher rate of that than our current Product Care portfolio. Then it's matching the materials to that. So higher speed, higher packaging. Again, looking at APS, they have a different material structures. They have a high recycled content, et cetera, but also looking at the whole company, we can help APS with some of our operational improvement, and we've already had our operations teams working together in seeing some of those efficiencies. We drive this portfolio to have the automated equipment. We really like that, but then also to have that materials that are dedicated to that equipment so we see some opportunities.

So the portfolio is shifting and where we don't have the right margins -- and we've talked about mailers before. Mailers is a business that has been on the decline for us. But as I shared within Europe, as we reinvent that mailer with a sustainable product, we brought our operations teams in to get the price right. And that's why we're carefully using that strategy, best product, right price and make it sustainable. We've seen them pretty quickly stop that drop in a tough market in Europe. And we think we can do more of that on the mailer side in the U.S. market, in the Asia Pacific market. So we're attacking the portfolio. APS, I think, can help us go faster. And so we think we can grow it and grow it profitably, and that's what we're working on. It's going to take some time. Right now, we're doing it without market help. But actually, that's helping us go faster. So we feel good about that.

Operator

We have a question from Gabe Hajde with Wells Fargo Securities.

Gabrial Hajde

Ted, if I go to Slide 9 and I look at the EBITDA bridge, specifically, operating costs with the little asterisks, it's -- does that imply that there's $81 million of incremental operating cost because you saved $52 million, plus the $29 million? Is that -- I guess, help me -- is that the right way to think about it? And if it is, it sort of implies $100 million of nonmaterial-related inflation within the business versus what I used to think was around $30 million to $35 million. So -- and I guess maybe compare or contrast that with the comments that you made about making incremental investments in commercial and technical support.

James Sullivan

Yes. Let me jump in there. This is Jim. And the math you did there is absolutely spot on, so let's focus on that $80 million. If you gross up the operating cost bucket on the year-to-date bridge for the company, you get that $80 million number. We talked about inflation being $50 million for the year through 9 months. Think about that number being about $37 million. We also have, let's call it, about $8 million of increase associated with volume variance. As we work to bring our inventories down and more in line with the end market demand, we are seeing some uncovered fixed costs that are flowing through that bucket.

We talked about incentive compensation. The company is driving very strong margin and leverage metrics, which are key components of the variable compensation plan for the company, and that is driving some year-over-year increases in that, which, again, are variable, they come in this year and then we reset for next year.

And then probably the last big bucket there is what I'll call investments. Think about $15 million on a year-to-date basis and maybe $20-ish million for the year. And these are select investments the company is making to try to drive ROIC for the future. So these are longer-term investments that are flowing through the P&L where we hope to get good returns. Our ROIC goal is 15% or above, and so this is the pocket of money that we're selectively using to drive that.

And so I said $15 million year-to-date. A big chunk of that Ted hit on earlier is digital and e-commerce. So we're wanting to put that capability in more broadly than the company that we have today. And then we have some other investments that are going on in there. But -- so your numbers are right, and this gets back to what I said to the prior question, which is Reinvent is the banner we use for all of our improvement, structural and inflation fighting. And that $50 million of inflation for the year, we've got to get that year in and year out. At least until we -- maybe Reinvent will be here forever, but we kind of teed it up as a three year type of thing. We'll fold it in there. But beyond that, we're going to have things that are going to drive that productivity improvement to at least offset inflation and hopefully more.

Operator

Daniel Rizzo with Jefferies.

Daniel Rizzo

You mentioned that both poultry and beef demand was fairly strong in the quarter. I was wondering how the trade war is affecting that and how you see it playing out going forward.

Edward Doheny

Yes. What's interesting, the biggest concern, I think, we shared with you last quarter was what was going on with pork. So if we look at our protein market, the pork actually issue in the quarter. We said for the year, it might be a $3 million headwind. Actually, we're fighting through that. It's a huge issue in China right now. We were in Brazil. We were in Europe, and we're seeing what's happening in the market. So we don't think -- we think we can fight through that headwind and actually maintain the growth in the protein market specifically, cover that, but it'll be covering China through Latin America, Brazil, mainly in the U.S. We've also seen some benefits because the customer is working with us to aggressively how can we ship pork quicker from the U.S. and from Brazil. The good news is their -- it was going frozen, but for them to go quick, where frozen, we don't really necessarily always get the bags, but since they want to go quick and they want to have a high level of protection, that looks like that's an upside opportunity for us going forward.

We also think in -- we also think on the beef side, we do have challenges coming in with Australia right now with the droughts and the herd, that's an issue. But the U.S. right now so far is looking -- we'll maintain it. And plus, we're developing new products going beyond the beef, the poultry, the cheese markets with our liquids. So we think on the Food Care side, we have opportunities going into the end of the year into next year to fight -- you opened the comment with what's going on with the trade wars, et cetera. So those are challenges ahead, but we think those will actually turn opportunities for us in the long term. And the long term is in the next 6 months.

Lori Chaitman

Thank you. And thanks, everyone, for joining our call today. Operator?

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.