SEALED AIR

COMPANY NATURE

	SALES	MARGIN
• FOOD PACKAGING	1,684.1	ROS: 14.2%
• SYSTEMS (INCL EQUIPMENT)		
• TRAYS, PADS, PLASTIC WRAPS		ROA: 16.6%
• COLLABORATIVE SYSTEMS		
• PROTECTIVE PACKAGING	822.7	ROS: 18.9%
• BUBBLE WRAP, STYROFOAM		
• MAILERS		ROA: 24.1%
• ENGINEERED SYSTEMS (INSTAPAK).		

SEALED AIR

BUSINESSES – FOOD PACKAGING

TECHNOLOGY – NO PATENTS (10K)

CUSTOMERS – SUPERMARKETS, FOOD PROCESSORS.

COMPETITORS –
(10K - MANY BETTER FINANCED COMPETITORS)

	$ SALES	P/E
SONOCO	– 2.8B	16.0
OWENS-ILLINOIS	– $5.2B	15.5
CROWN CORK	– $8.5B	13.2
BEMIS	– $1.8B	18.1
TETRAPAK, ETC		

ECONOMIES-OF-SCALE – LIMITED

DECENTRALIZED PLANTS

DIRECT SALES

2% R&D.

SEALED AIR

PROTECTIVE PACKAGING

- BUBBLE WRAP
- "JIFFY" MAILERS
- "INSTAPAK"

} BUSINESS - PRODUCTS

CUSTOMERS - CATALOG, CONSUMER GOODS COMPANIES (SYSTEMS)

TECHNOLOGY - NO PATENTS

ECONOMIES-OF-SCALE - LIMITED

MULTIPLE PLANTS

LOW R&D

DIRECT SALES

SERVICE SUPPORT - Y.

SEALED AIR - ASSET VALUE

(NO PROBLEM WITH CONSOLIDATION)

ASSET	BOOK	ADJ	TOTAL
CASH	45	0	45
A/R	453	18 (DOUBTFUL ACCTS)	471
INVENTORY	275	16 (LIFO RESERVE)	291
PREPAID EXP, TAX, OTHER*	71	0	71
DEF TAX, OTHER	171	0	171
PPE	1117 (1946 - 829)	258	1375
LAND	29		
BLDGS	392		476
CIP	54		
MACH, EQUIP	1471		900
GOODWILL	1908	PRODUCTS	288 (5 YRS × 57½)
		ORG, CUSTOMERS	643 (1½ YRS × 429)
		- 977	
TOTAL ASSETS	4040	- 685	3355

* CURRENT

SEALED AIR - ASSET VALUE

	BOOK	REPRODUCTION	
ASSETS (BOOK)	4040	3355	
LIABILITIES			
A/P	177	177	
DEF TAX	201	150	
OTHER	353	353	
TOTAL	731	680	
NET ENTERPRISE VALUE	3309	2675	(2.5 - 3.0B).

SEALED AIR - MARKET VALUE

DEBT	1080	
COMMON (83.3M)	4582	(@ 55)
PREFERRED (35.8M)	1969	(@ 55) (31.7 COMMON).
TOTAL VALUE	7631	

SEALED AIR - EARNINGS POWER

CANNOT USE YEAR - SINCE 1/2 IS FOR CRYOVAC ONLY.

USE PRO FORMA - ANALYSIS (FOOTNOTE #19).

	1998	1997	
REVENUES	2792	2675	+ 4.4%
FOOD PKG	1709	1692	
PROT PKG	1010	983	
OPERATING INCOME	440	460	
RESTRUCTURING	87 (30)	14 (30)	
GOODWILL AMORTIZATION	48 (0)	48 (0)	
ADJUSTED	410	430	
TAX (40%)	(164)	(172)	*FINANCIALS
CYCLE	0	0	(STABLE)
DEPRECIATION	141*	107*	
CAPEX	(82*)	(102*)	
GROWTH CAPEX	0	20	
EP	305	283	

SEALED AIR - GROWTH CAPEX

CHANGE IN SALES = 117 MILLION

PPE 1375
REVS 2792 } $ PPE / $ SALES ≅ 0.50

GROWTH CAPEX = 58½ MILLION

⟹ MAINTENANCE CAPEX 82 - 58 ≅ 24

BUT EQUIPMENT = 900 MILLION (REPLACEMENT COST)
(LIFE = 10 YRS) ⟹ 90 MILLION
REPLACEMENT CAPEX.

WHAT'S GOING ON? NO INVESTMENT, EXCEPT ESSENTIALS

VERY LOW GROWTH ⟹ ALL INVST IS MAINT CAPEX.

EARNINGS POWER VALUE

EARNINGS POWER: 300 - 350 MILLION $(+45 \times .6 = 27)$.

WACC:

FRACTION DEBT : $30\% \times 7\frac{1}{2}\% \times \overset{60}{\cancel{5}}\%$ = 1.4%

FRACTION EQUITY : $70\% \times 12\%$ = 8.4%

WACC = 9.8% (10%).

EARNINGS POWER = $\frac{305}{.098}$ = 3.1 BILLION. - 3.5 BILLION

ASSET VALUE = 2.5 - 3.0 BILLION.

FRANCHISE VALUE = 0 - 1.0 BILLION

FRANCHISE VALUE

FRANCHISE VALUE = 0.5 BILLION

FRANCHISE EARNINGS (POST-TAX) = .5 × 10% = 50 MILLION

FRANCHISE EARNING (PRE-TAX) = $\dfrac{50}{.6}$ = 80 MILLION

(1 - 40%)

SALES = 2.8 BILLION

FRANCHISE ≃ 3% FOR WHOLE COMPANY.

≃ 15% FOR SYSTEMS (IF SYSTEMS ARE 20% OF SALES).

FRANCHISE VALUE = $\dfrac{0.5}{2.5}$ ≃ 20% OF VALUE

GROWTH VALUE ≃ 0.

(LOW GROWTH, LOW ROC/R).

SEALED AIR - SUMMARY

ASSET VALUE 2.5 - 3.0 B

EP VALUE 3.0 - 3.5 B

MKT VALUE 7.6 B

DEBT 1.1B
COMMON 4.6B
PFD 1.9B

$\left.\begin{array}{l} \\ \\ \end{array}\right\}$ AT 55/SHR.

HISTORY UP TO 65/SHR.

TODAY $52/SHR.

VALUE 3.5B - 1.1B = 2.4B
FIRM DEBT

VALUE/SHR $\dfrac{2.4B}{(83.3+35.8)} \cong \$20$

PAYING FOR MGT.

SEALED AIR VALUATION

- LOOK AS OF DEC 31, 1997 (PRE-MERGER).
- LOOK AT MERGER IN TERMS OF CRYOVAC VALUATION AS OF DEC 31, 1997 (PRE-MERGER).
- LOOK AT JOINT COMPANY AS A "GOOD" INVESTMENT AS OF OCT, 1998.

VALUE LINE ASSESSMENT (JULY 17, 1998)

- EXPECTED TOTAL RETURN 17-29% PA
- DIFFICULT TO ASSESS BECAUSE OF MERGER
- MGT ANNOUNCES STOCK BUY BACK
- SAFETY 3 (PHENOMENAL MANAGEMENT).
- STOCK 60 → 38 (SINCE BY) (MONDAY-OCT 19-33 7/8)

TRADITIONAL VALUATIONS

($ MILLIONS)

MARKET VALUE (DEC, 1997) - EQUITY - 42.8M SHRS @ $60 - 2568

DEBT - NOTES PAYABLE 24

LONG TERM DEBT 51

TOTAL DEBT 76

ENTERPRISE VALUE 2643

(CASH 35)

MV EQUITY 2577

BOOK VALUE 332

MV/BV 8

EARNINGS = 80 P/E - 32

20 - P/E (PACKAGING) 1600*

30 - P/E (SPEC CHEM) 2400*

EBIT = 138 EBIT MULTIPLE - 19

13 - EBIT MULTIPLE (PKG) 1800

18 - EBIT MULTIPLE (SP CHEM) 2500

EBIT-DA = 184 EBIT-DA MULTIPLE - 14

9 - MULT (PKG) 1600

12 - MULT (SPEC CHEM) 2200

CASH FLOW - 184 - CAPEX (24) - ΔNWC (12) CF MULTIPLE - 28

= 148 2435

AFTER TAX (54) = 94 R = 10%, g = 6% - MULTIPLE - 26

VALUE LINE g = 16% R = 8%, g = 6% - MULTIPLE - 50 476

HISTORICAL g = 10% R = 12%, g = 6% - MULTIPLE - 17 16

IMPLICATIONS OF TRADITIONAL VALUATION

BUY? - MANAGEMENT, GROWTH POTENTIAL

HOLD? - FAIRLY VALUED GIVEN BUSINESS SITUATION

SELL? (AND PAY 20-28% GAINS TAX) - OVERVALUED AS A PACKAGING COMPANY (WHAT ABOUT MGT QUALITY, GROWTH HISTORY?)

OFFICERS & DIRECTORS	16.3%
FMR CORP	11.1%
EQUITABLE	10.8%

(FORMER HOLDERS - PRE JULY 1998 - TIGER MGT, OTHER SOPHISTICATED INVESTORS)

WHAT ABOUT AT 35-40 PER SHARE?

ASSET VALUATION
SEALED AIR (31 DEC 97)

ITEM	BOOK VALUE	ADJUST	REPRO VALUE	EXPLANATION
CASH	35	0	35	NONE
A/R	132	6	138	DOUBTFUL ACCTS
OTHER REC	8	0	8	NONE
INVENTORIES	59	4	63	FIFO ← LIFO
OTHER	16	0	16	NONE
TOTAL CURRENT	250	10	260	
LAND, LEASEHOLD, CONSTR	171	54	100	ORIGINAL COST
FURN, FIXTURES, MACH EQUIP		[redacted]	125	EST BOOK VALUE
PATENTS	10	35	45	3 YRS R&D @ 15
GOODWILL	42	73	115	8 MOS SGA @ 1[redacted] 172
OTHER	24	0	24	NONE
TOTAL ASSETS	498	172	670	
SPONT LIABILITIES	166	(10)	156	
NET ASSETS	332	182	514	
PER SHARE	$7 3/4	—	$12	

EARNINGS POWER VALUE

SEALED AIR (31 DEC 97)

HISTORICAL EBIT MARGINS

YEAR	1997	1996	1995	1994	1993	
EBIT (% SALES)	16.3	16.5	15.1	16.2	16.4	(ANNUAL REPORT)
OPER MARGIN	22.8	21.5	17.9	19.0	21.8	(VALUE LINE)

YEAR	1992	1991	1990	1989	1988	
OPER MARGIN	21.5	21.2	21.2	19.2	16.0	(VALUE LINE)

- NO SIGNIFICANT CYCLICAL ADJUSTMENT
- NO SIGNIFICANT TREND ADJUSTMENT
- NO SIGNIFICANT ACCTG ADJUSTMENT (5 YR AVG - $\frac{1.4}{5} = 0.3$; $\frac{1}{.6} = 0.5$)
- NO UNCONSOLIDATED SUBSIDIARIES

⇓

- DEPRECIATION ADJUSTMENT
- INFLATION ADJUSTMENT

EARNING POWER VALUATION

SERVICO AIR (31 DEC 97)

DEPRECIATION ADJUSTMENT	($ MILLIONS)	
DEPRECIATION / AMORTIZATION	46	(1)
CAPITAL EXPENSE	24	(2)
GROWTH IN SALES	53	(3)
PPE PER $ SALES (225 ÷ 820)	.275	(4)
GROWTH RELATED CAPEX	14	(3) × (4) = (5)
MAINTENANCE CAPEX	10	(2) − (5) = (6)
EXCESS DEPRECIATION	36	(1) − (6) = (7)

EARNING POWER (w/o INFLATION) = 138 EBIT

− 55 TAX @ 40%

+ 36 EXCESS DEPRECIATION

119

$$\text{COST OF CAPITAL} = \underbrace{\tfrac{1}{2}}_{\text{FRACTION OF DEBT}} \times \underbrace{8\%}_{\text{INT RATE}} \times \underbrace{60\%}_{\text{1 - TAX RATE}} + \tfrac{1}{2} \times \underbrace{12\%}_{\text{COST OF EQUITY}} \cong 8.4\%$$

$$EPV = \frac{119}{.084} \cong 1400$$

AV ≅ 514

FRANCHISE VALUE (50-DAY) = 83

SEALED AIR VALUATION – DEC 31, 1997

INFLATION ADJUSTMENT TO EARNINGS POWER

NET ASSETS WHICH MUST GROW WITH INFLATION

= NET ASSETS (516) – PRODUCTS (45) – GOODWILL (115) = 356

AT 2% INFLATION REQUIRED INVESTMENT = 7 (356 × 2%)

EARNINGS POWER AT 2% INFLATION = 119 – 7 = 112

REAL COST OF CAPITAL = 8.4% – 2% = 6.4%

EARNINGS POWER VALUE = $\frac{112}{6.4\%}$ = 1750

VALUE	PER SHARE	TOTAL	
ASSET VALUE	$12	514	FREE-ENTRY VALUE
FRANCHISE VALUE	$21	886	FRANCHISE VALUE*
INFLATION VALUE	$8	350	
TOTAL	$41	1750	MKT VALUE $61 (INCL DEBT

⇒ GROWTH $20 OR MORE.

* WITHOUT GROWTH.