

Insights

4Q2019 Packaging Perspectives

Year-end review**Primary influences on the sector**

Active participation by private equity firms continues to shape the packaging sector. Until relatively recently, publicly-traded strategic buyers would nearly always outbid private equity firms. That no longer seems to be the case. The sector has seen many examples of a company being sold by a family, or divested by a corporation, with the prevailing buyer being a private equity firm willing to pay premium valuations.

In addition, whereas private equity firms 5-10 years ago were requiring a 20% internal rate of return, in today's lower overall return environment, firms are content to pay more, accept a lower rate of return, and work to grow the company.

Tariffs on materials sourced in China also continue to have an effect. For the most part, companies have been able to pass increased costs on to customers. But firms are scrambling to find alternative sources in Asia, Latin America or Europe. If tariffs continue, they may find it difficult to maintain margins.

Sustainability remains a powerful trend. With consumers loudly voicing concern about packaging waste, Amazon responded by requiring vendors to meet waste efficiency standards or pay a fee. Given Amazon's outsized influence on the sector, firms are likely to focus on materials science and chemistry to make packaging more recyclable and reusable.

And finally, e-commerce continues to drive box volume at the expense of retail packaging such as high quality bags and boxes.

CHART 1: PUBLIC PACKAGING COMPANY AVERAGE EBITDA MULTIPLES



Source: Mesirow Financial, FactSet.

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Packaging perspectives

2019 Year-end review

Primary Influences on the sector

Active participation by private equity firms continues to shape the packaging sector. Until relatively recently, public-traded strategic business would rarely always opt for private equity firms. That no longer seems to be the case. The sector has seen many examples of a company being sold to a family or chartered by a corporation, with the prevailing factor being a private equity firm willing to pay premium valuations.

In addition, whereas private equity firms 10 years ago were acquiring a 20% interest rate of return, in today's lower interest rate environment, firms are inclined to pay more, accept a lower rate of return, and seek to grow the company.

Finally, an materials sector in China also continues to have an effect. For the most part, companies have been able to pass increased costs on to customers. But firms are beginning to find alternative sources in Asia, Latin America in Europe. If trends continue, this may lead to difficult margins.

Sustainability remains a powerful trend. Both consumer loyalty among concern about packaging waste, firms are required to improve, to meet waste efficiency demands in the U.S. Green demands, continued influence on the sector. Firms are likely to focus on materials, science and chemistry to make packaging more sustainable and reusable.

Chart 1: PUBLIC PACKAGING COMPANY AVERAGE EBITDA MULTIPLES

Bar chart showing Public Packaging Company Average EBITDA Multiples from 2010 to 2019. The Y-axis ranges from 0.0x to 14.0x. The X-axis shows years from 2010 to 2019. Data values are labeled above each bar.

Year	Public Packaging Company Average EBITDA Multiple
2010	6.3x
2011	5.5x
2012	7.6x
2013	9.0x
2014	7.9x
2015	8.1x
2016	8.5x
2017	8.5x
2018	6.6x
2019	7.3x

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