

Insights

2020 Year-End Review: Paper, Plastics & Packaging

2020: Year-end review

After a sharp decline in share prices and a collapse in M&A activity in late 1Q2020 / early 2Q2020, the packaging sector has experienced a strong recovery with share prices for plastic packaging companies ~15% above those at the beginning of the year, while share prices for paper packaging companies ended up about flat. As the packaging sector overall has performed well during the pandemic, valuations have also recovered and are currently above their past three-year average, especially for paper packaging companies. M&A activity is expected to be strong in 2021, although might be a bit slow initially as buyer and seller valuation expectations adjust to the normalized post-COVID-19 profitability levels (instead of current levels).

Share price performance and public market valuations

Share prices of packaging companies rebounded nicely after their sharp decline following the lock-down in mid-March (Chart 1). Share prices for plastic packaging companies ended up 14% for the year, while those for paper packaging companies ended down 1%.

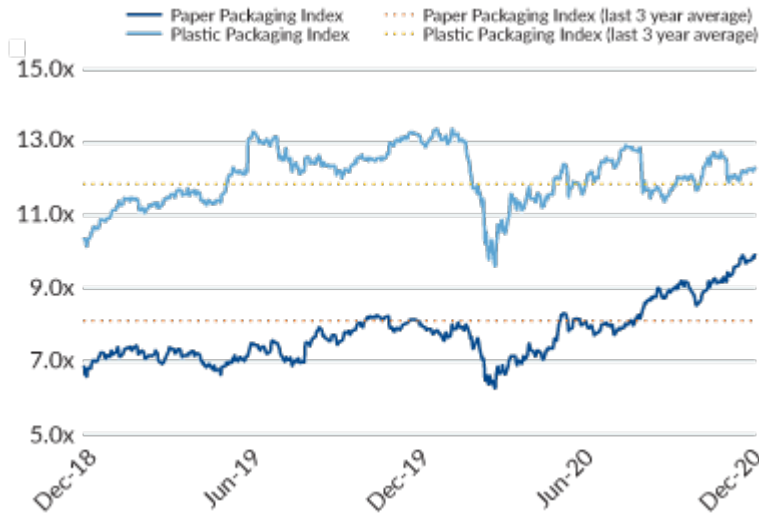
Consequently, public market valuations for both plastic and paper packaging companies have also recovered. Plastic packaging companies' valuations at the end of the year were at 12.3x EV / EBITDA versus their three year average of 11.9x, while paper packaging companies' valuations were at 9.9x EV / EBITDA versus their three year average of 8.1x (Charts 2 and 3).

CHART 1: SHARE PRICE PERFORMANCE: PACKAGING INDICES¹



Source: FactSet as of December 31, 2020. Past performance is not indicative of future results.

CHART 2: TEV / EBITDA: PACKAGING INDICES1



Source: FactSet as of December 31, 2020. Past performance is not indicative of future results.

CHART 3: PUBLIC PACKAGING COMPANY AVERAGE TEV / EBITDA MULTIPLES1



Source: FactSet. Note: Average TEV / EBITDA multiples as of December 31 for 2010-2020.

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Packaging Perspectives

2020 Year-end review

After a sharp decline in share prices and a collapse in M&A activity in late 2020/early 2020, the packaging sector has experienced a strong recovery with share prices for plastic packaging companies +17% above those at the beginning of the year, while share prices for paper packaging companies ended up about flat. As the packaging sector over all has performed well during the pandemic, valuations have also recovered and are currently above their peer three year average, especially for paper packaging companies. M&A activity is expected to be strong in 2021, although might be a bit slow initially as buyer and seller valuation expectations adjust to the normalized post-COVID-19 profitability levels (instead of current levels).

Share price performance and public market valuations

Share prices of packaging companies rebounded well after their sharp decline following the late draw in mid-March 2020. Share prices for plastic packaging companies ended up 16% for the year, while those for paper packaging companies ended down 1%. Consequently, public market valuations for both plastic and paper packaging companies have also recovered. Plastic packaging companies' valuations at the end of the year were at 10.5x EV to EBITDA versus their three year average of 9.1x, while paper packaging companies' valuations were at 8.1x EV to EBITDA versus their three year average of 8.2x (Chart 1 and 2).

Chart 1: SHARE PRICE PERFORMANCE, PACKAGING INDEX

Source: Mesirov Investment Banking, 2020. The chart shows the share price performance of the Packaging Index from 2017 to 2020. The index starts at 100 in 2017, rises to approximately 115 by early 2020, then drops sharply to about 85 in March 2020, before recovering to end the year at approximately 116. The chart includes a three-year average line that remains relatively flat around 9.1x.

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1. Paper Packaging Index: BillerudKorsnäs AB (BILL:OME); DS Smith Plc (SMDS-LON); International Paper Company (IP-US); Mayr-Melnhof Karton AG (MMK-WBO); Mondi plc (MNDI-LON); Smurfit Kappa Group plc (SKG-LON); Stora Enso Oyj (STERV-HEL); UPM-Kymmene Oyj (UPM-HEL); WestRock Company (WRK-US).

Plastic Packaging Index: Amcor PLC (AMCR-US), Aptargroup, Inc. (ATR-US), Avery Dennison Corporation (AVY-US), Berry Global Group Inc (BERY-US), CCL Industries Inc. Class B (CCL.B-CA), Sealed Air Corporation (SEE-US), Silgan Holdings Inc. (SLGN-US).