

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



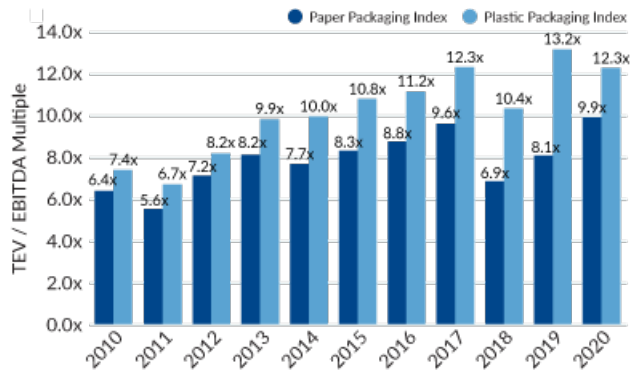
Source: FactSet as of December 31, 2020. Past performance is not indicative of future results.

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 MULTIPLES



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

2020 Year-end review
After a sharp decline in share prices and a collapse in M&A activity in late 2020, early 2021, 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 for the packaging sector overall. Despite performance and during the pandemic, valuations have also increased and are currently above their 2010-2019 average, except 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 reaction may differ to the normalized post-COVID-19 profitability levels (instead of scarce liquidity).

Share price performance and public market valuations
Share prices of packaging companies rose over the last three months following the last issue in mid-November 2020. Share prices for plastic packaging companies ended up 17% for the year, while those for paper packaging companies ended about flat. Consequently, public market valuations for both plastic and paper packaging companies have also increased. Public market valuations at the end of the year were at 11.1x EV / EBITDA versus their 2010-2019 average of 10.1x, while paper packaging companies valuations were at 9.1x EV / EBITDA versus their 2010-2019 average of 8.2x (Charts 2 and 3).

Chart 3: Share Price Performance Packaging Index
100 = 100% (2010) | 100 = 100% (2010)

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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).