Mesirow

Market Update

M&A 3Q2020 review: Packaging sector

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 recovery with share prices for plastic packaging slightly above those at the beginning of the year. As the packaging sector overall has performed well during the pandemic, valuations have also recovered and are currently above their past three-year average. M&A activity is expected to be very active in 2021.

M&A activity is gradually picking up and is expected to be quite strong in 2021 for the following reasons:

- Packaging in general is a primary beneficiary of the impacts resulting from COVID-19
- Pent-up demand due to lack of M&A transactions in 2020
- Private equity sponsors have significant equity capital (over $1.7 trillion of "dry powder" [Chart 6]) that they need to deploy
- Strategic buyers looking for acquisitions to obtain growth, scale, diversification and synergies
- Availability of debt capital at very attractive cost from a historical perspective

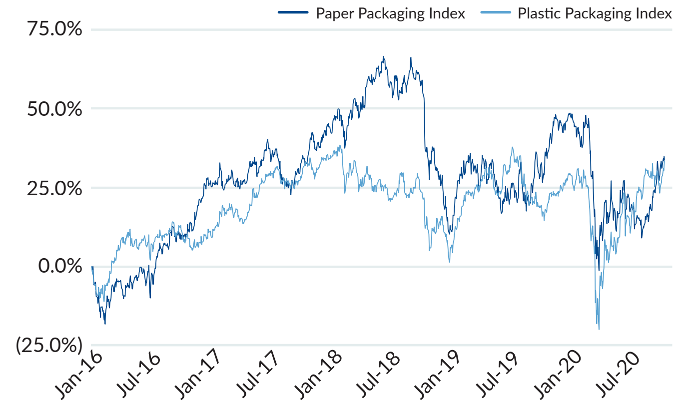
Share price performance and public market valuations

Share prices of packaging companies have begun to rebound nicely after their sharp decline following the lock-down in mid-March (Chart 1). These share prices are currently slightly above the levels at the beginning of the year with plastic packaging up 4% on average YTD, though they are down 10% on average YTD for paper packaging.

Consequently, public market valuations for both plastic and paper packaging companies have also recovered. Plastic packaging companies' valuations are slightly above (1%) their past three year-average, while paper packaging companies' valuations are up 19% from their past three-year average (Charts 2 and 3).

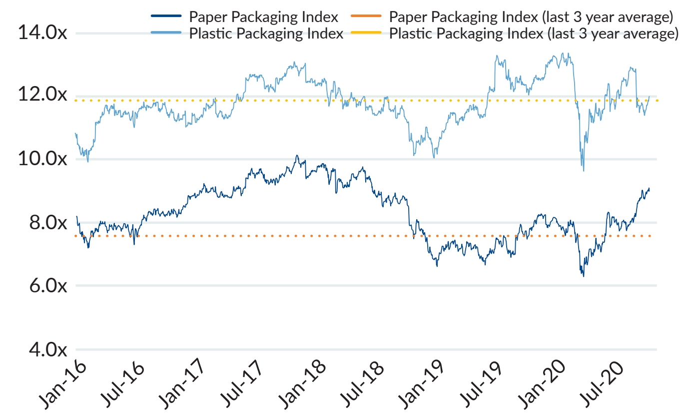
In this issue

CHART 1: SHARE PRICE PERFORMANCE: PACKAGING INDICES[1]



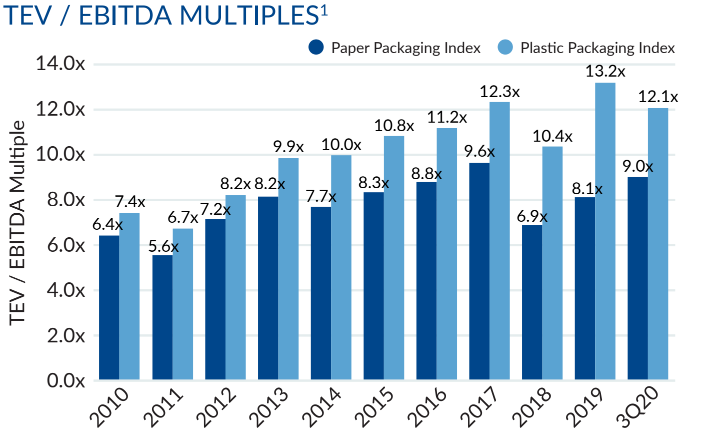
Source: FactSet as of October 8, 2020. Past performance is not indicative of future results. Please see last page for important information.

CHART 2: TEV / EBITDA: PACKAGING INDICES[1]



Source: FactSet as of October 8, 2020. Past performance is not indicative of future results. Please see last page for important information.

CHART 3: PUBLIC PACKAGING COMPANY AVERAGE TEV / EBITDA MULTIPLES[1]



Source: FactSet as of October 8, 2020. Note: Average TEV / EBITDA multiples as of December 31 for 2010-19 and September 30 for 3Q2020. Please see last page for important information.

Sector spotlight: Nonwovens

An attractive sector benefiting from COVID-19 with consolidation opportunities

- The nonwovens sector (both consumer and industrial) has been experiencing above-average demand growth rates globally due to megatrends and more recently is benefiting from COVID-19 with the increased emphasis placed on hygiene, in particular masks, wipes and higher quality air filters.
- Relative to other substrates, nonwovens has comparatively favorable margins (on average around 15% EBITDA margins) and therefore is able to attract sufficient capital (both industrial and private) to finance sector growth
- The sector is characterized by a handful of very large producers (top 3 accounting for ~30% of the global market) and a long tail of medium and small producers (about 100 representing the balance of 70%) who often compete in local or regional markets
  - Most of producers are focused on very specific end markets, for example, wipes, diapers / feminine care or filtration
- Size, scale, geographic diversification, technology, innovation and R&D are critical success factors, especially on the consumer side
  - Two leading technologies in the sector are spunbond and spunlace; there are examples of single-technology firms as well as those who have multi-technology product offerings
- Limited pure play, listed players with a significant free-float means publicly available sector multiples are difficult to determine
- Consolidation has started and is expected to accelerate with the recent increase in demand due to the pandemic; furthermore, a number of the medium-sized producers are owned by non-strategics or have financially-oriented reference shareholders

Shifting consumer buying habits and preferences post-COVID-19…

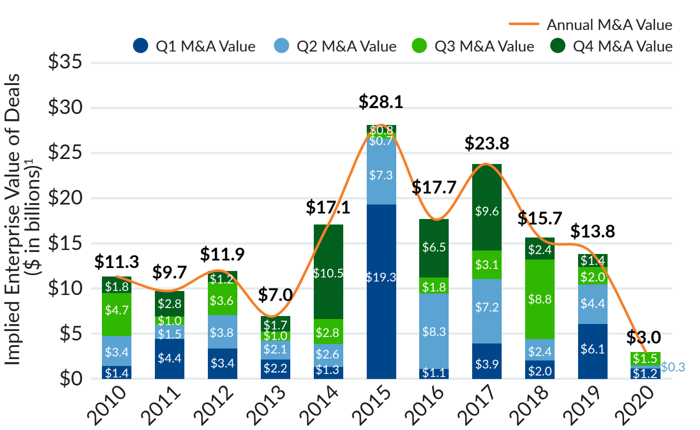
- Post-COVID-19, more people will be using online shopping than before
- More than three-quarters of consumers are waiting to see indicators beyond lifting of restrictions before restarting out-of-home activities
- Consumers are shifting back to basics and value – shopping intent is on essentials
- Consumers expect/demand hygiene transparency
- Consumers, when making purchasing decisions, are placing emphasis on availability, convenience and value
- Consumers will be spending more time at home and intend to eat more at-home

…Benefiting the packaging sector

There has been an explosion in online shopping and e-commerce since mid-March. More specifically, in the eight weeks following the lock-down, the e-commerce penetration as a percentage of retail sales increased as much as it did during the past 10 years.

Virtually all product categories are expected to show an increase in online purchasing, particularly OTC medicine, groceries, household supplies and personal care products. The packaging substrates that will benefit the most include corrugated shipping boxes, other forms of protective packaging, flexible films, rigid containers, plastic bottles and tubes, metal aerosol cans and jars.

CHART 4: **TOTAL GLOBAL PACKAGING M&A DEAL VALUE BASED ON ANNOUNCED DATE**



Source: FactSet. 1. Only includes deals with disclosed deal value.

M&A activity

M&A activity in the packaging sector declined precipitously in 2Q2020 but has started to recover (Chart 4). Most of the M&A processes that were underway were put on hold due to the significant level of uncertainty at the onset of COVID-19 coupled with the shut down of the debt capital markets. Most packaging companies have demonstrated that their performance continues to be strong while the debt capital markets have been simultaneously improving, although leverage levels are lower and borrowing costs are higher now than before COVID-19.

Private equity continues to be a very active M&A participant in the packaging sector, as many packaging sub-sectors exhibit:

- Above-average demand growth rates
- Defensive demand characteristics, especially during periods of economic downturns
- Attractive margins
- Relatively low margin volatility as typically packaging companies pass-through raw material cost changes
- Low capital expenditure requirements and high free cash flow generation
- High degree of fragmentation resulting in numerous opportunities for consolidation and growth

There have been numerous and successful examples of private equity firms making an initial acquisition, establishing a platform company and subsequently making add-on acquisitions that have resulted in increased scale, enhanced manufacturing capabilities and product offering, expanded geographic presence and improved cost structure; all of these characteristics have also resulted in higher valuation multiples.

The outlook for M&A activity in the packaging sector is very favorable, especially in light of the additional demand growth that numerous packaging sub-sectors are experiencing due to the shifting consumer buying habits as a result of the pandemic.

Market snapshot: Middle-market mergers & acquisitions

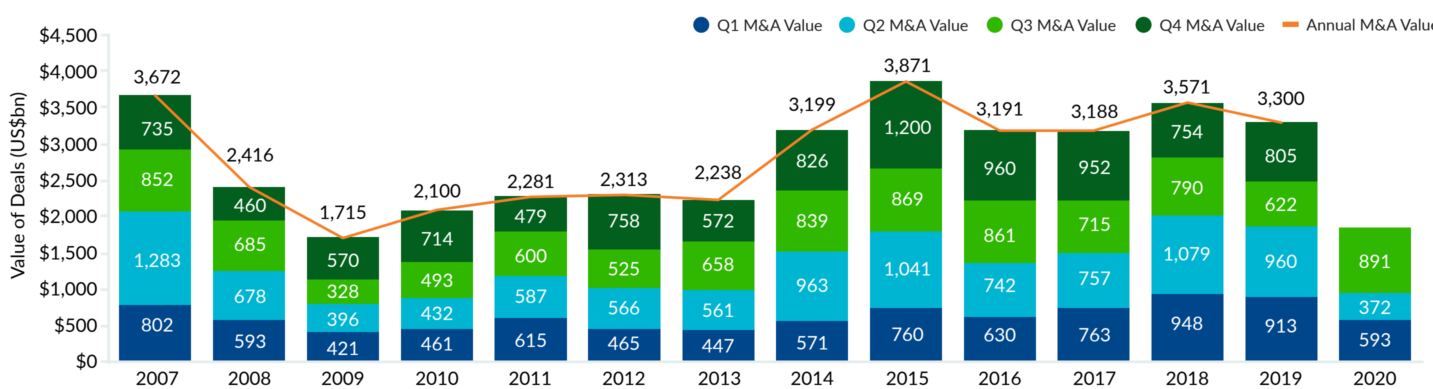
3Q2020 At a glance

- The global deal value in 3Q2020 has increased 139.5% over 2Q2020 deal value
- 1H2020 was marked by a large number of lapsed and canceled deals because of the uncertainty over COVID-19 as well as financial distress that led to a lack of overall activity and lower numbers. Despite the initial decline due to harsh economic conditions, a stunning resurgence in M&A activity in 3Q2020 was driven by large and complex deals
- "The overall anemic deal volume could be a sign that, although dealmakers have forged ahead with high value transactions, plenty of uncertainty remains in the global economy." – Mark Druskoff, Data-Driven Content Coordinator

Financial Sponsors patiently wait for new opportunities while sitting on record amounts of dry powder:

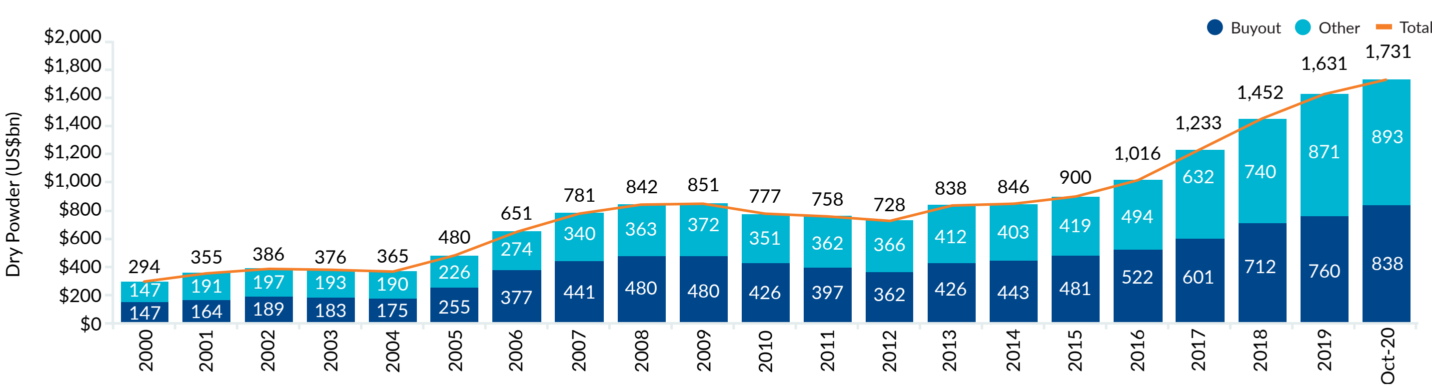
- Private equity recorded its highest global market share compared to corporate buyers on record, accounting for almost one-fifth of all deals by volume
- An abundance of dry powder enabled private equity to take advantage of the downturn, and in the third quarter, PE continued to raise its activity level to 700 deals (vs 638 in 2Q2020) and increase the total deal value to $141 billion, a 46% increase over the $96 billion of the previous quarter
- Key sectors including technology, chemicals, consumer and business services, have realized higher median EBITDA multiples through 3Q2020 when compared to 2019

CHART 5: QUARTERLY GLOBAL M&A COMPARISON



Source: MergerMarket.

CHART 6: GLOBAL PRIVATE EQUITY DRY POWDER OF BUYOUT FUNDS



Source: MergerMarket, Preqin. Others include venture, growth, early stage, fund of funds, early stage, expansion, co-investment, among others

Market snapshot: Municipal bonds

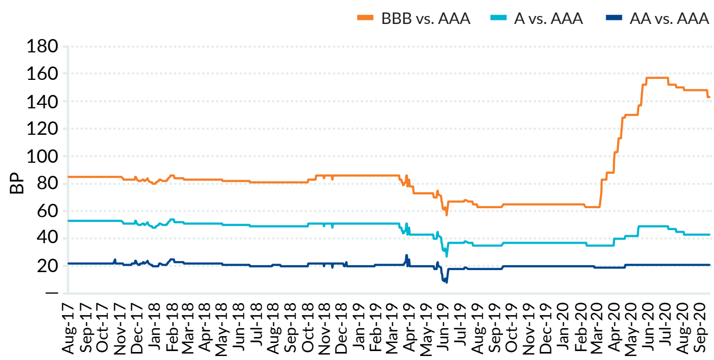
In March 2020, municipal fund flows experienced a short period of record-setting outflows after 60 prior consecutive weeks of inflows. Between March 4 and May 6, net outflows totaled over $26.248 billion. This volatility was almost entirely attributable to the coronavirus pandemic and coincided with a sharp spike in MMD rates, with the 30-year MMD peaking at 3.37% on March 23.

Since April, muni fund flows have more or less found their rhythm that had been prevalent going into the pandemic, with inflows averaging $926 million per week since the start of May 2020. In fact, outflows of approximately $667 million on election week marked the end of a 25-week period of positive fund flows, signaling that demand for municipal bonds remains healthy despite challenges posed by the ongoing pandemic.

National municipal supply for 2020 is on track to be the highest in recent years. Average weekly issuance for YTD 2020 has exceeded that of 2017, 2018, and 2019 by over $1.5 billion. This is likely due at least in part to the extremely favorable interest rate environment created by the Federal Reserve, which in March lowered benchmark rates to the zero bound for the first time since the 2008 financial crisis. The Federal Reserve has signaled that it is willing to leave rates at near-zero levels for up to several years in order to stimulate the as-yet-incomplete economic recovery. Given this factor, combined with increased capital needs from municipalities working to combat the pandemic, it is reasonable to expect that municipal issuance will remain elevated for quite some time.

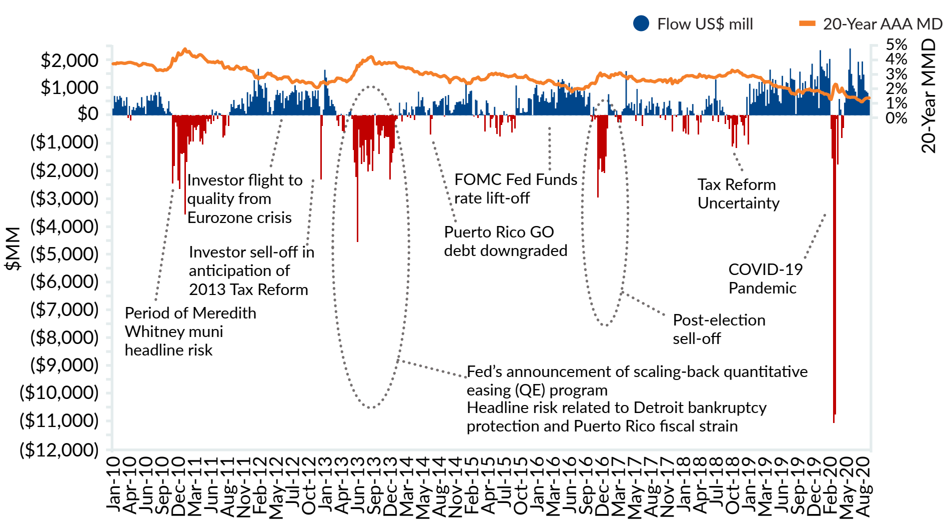
Taxable issuance has been a higher-than-usual in recent years thanks in part to the 2017 tax law that eliminated tax-exempt advance refundings. YTD 2020, taxable issuance has made up nearly 24% of all new issuance. This compares with about 14% in 2019 and approximately 7% in 2018. This increase represents a change in the municipal landscape that has the potential to bring in new investors.

CHART 7: **30-YEAR CREDIT SPREADS**



Source: The Municipal Market Monitor (TM3).

CHART 8: **MUNICIPAL BOND FUND FLOWS AND 20-YEAR MMD**



As of the weekly reporting date 9/16/2020. Data Source: EPFR Global Fund Flows and Allocations Data – All Muni Funds (Retail and Institutional Funds).

TRAILING 16-WEEK DATA

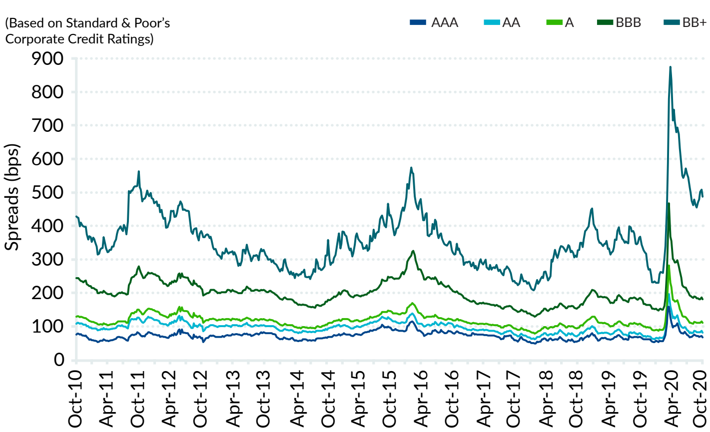
Muni Fund Reporting Date	Weekly Fund Flow ($MM USD)	20-Yr AAA MMD (%)
5/27/2020	879.56	1.44
6/3/2020	1,642.45	1.44
6/10/2020	2,404.85	1.41
6/17/2020	1,490.43	1.43
6/24/2020	1,071.40	1.43
7/1/2020	969.28	1.43
7/8/2020	852.72	1.41
7/15/2020	670.68	1.30
7/22/2020	1,930.93	1.25
7/29/2020	1,448.22	1.22
8/5/2020	1,299.87	1.12
8/12/2020	1,939.65	1.12
8/19/2020	1,467.83	1.24
9/2/2020	855.82	1.37
9/9/2020	813.98	1.37
9/16/2020	555.15	1.38

Market snapshot: Corporate debt and infrastructure finance

Corporate debt finance

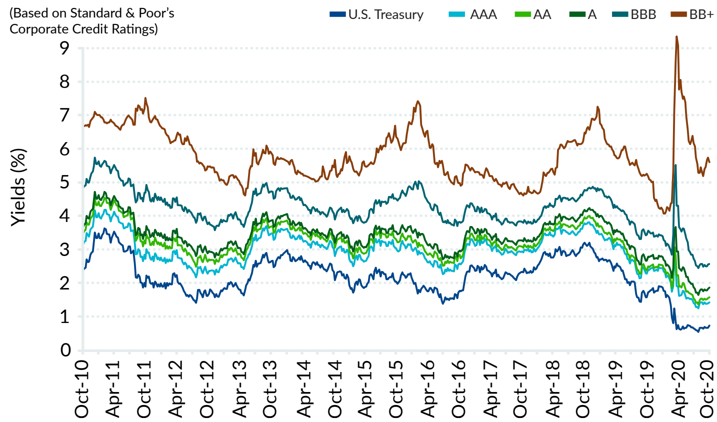
- Due to COVID -19 related stresses and economic uncertainty, treasury yields have fallen significantly from 1Q2020 levels. 10-year U.S. Treasury yields ended Q3 at approximately 0.70%, a decrease of approximately 110 basis points compared to the start of 2020, and at roughly the same levels as Q2. The yield on the 30-year U.S. Treasury bond rose to 1.65% in Q3, its highest level since the beginning of June, though still approximately 70 basis points below where it started the year. The yield on the long-bond has gone against its 200-day moving average in the midst of stimulus talks.
- The low yield environment has caused a surge in corporate issuance as firms retired debt with higher interest rates. Investment-grade corporate issuance through the end of Q3 was at a record high of approximately $1.6 trillion year-to-date, according to SIFMA. However, issuance slowed in Q3 to approximately $383 billion for the quarter compared to $793 billion in Q1 and $741 billion in Q2. As investors search for yield, the high yield sector has seen a lot of demand from investors. The S&P Corporate Investment Grade ("IG") Corporate Index tightened approximately 15 basis points since Q2 ending Q3. The S&P BB High Yield index outperformed the S&P IG index with spreads tightening by 69 basis points from Q2. Future interest rates are potentially volatile given the economic uncertainty created by COVID-19 and the overall political environment.

CHART 9: HISTORICAL CORPORATE BOND SPREADS TO 10-YEAR U.S. TREASURIES



Source: S&P Global Fixed Income Research.

CHART 10: HISTORICAL CORPORATE BOND YIELDS – 10-YEAR MATURITY



Source: S&P Global Fixed Income Research.

U.S. Infrastructure – Market update

- According to a report released by the American Road & Transportation Builders Association, $9.6 billion in infrastructure public-private partnership ("P3") projects have been delayed or canceled due to the COVID-19 pandemic. 16 states announced a total $5 billion of cancellations, while 20 other local governments have delayed $4.6 billion in projects. Markets expect an infrastructure stimulus program to be implemented after the presidential election which could reinvigorate P3 activity.
- Some states have announced their own infrastructure legislation and plans. The Minnesota House passed a $1.9 billion infrastructure bill, which, if passed, would authorize borrowing for statewide construction, and would aim to create thousands of jobs. Meanwhile, the state of Illinois recently announced a $21.3 billion, five-year infrastructure plan to improve approximately 3,300 miles of roadway and 8 million square feet of bridge deck.
- Despite the slowdown across the country in P3 activity, in August Mesirow acted as senior underwriter a $150 million healthcare P3 financing. As a member of the winning development team, Mesirow assisted the University of Illinois to implement a strategy that outsourced the development, design, financing, and maintenance of an outpatient healthcare facility. Mesirow strategically navigated through several unique challenges in structuring and marketing the Illinois hospital credit during COVID-19, reaching oversubscription levels before the marketing period concluded.

Mesirow featured deals

Bifi's
Bifurcated Ground Leases

$83,000,000

Permanent acquisition financing
Multiple tranche structure

NORTHERN NEW JERSEY
(MULTI - TENANT OFFICE)

Bifurcated ground lease financing for Northern New Jersey Office acquisition

Mesirow successfully structured the bifurcation of a Northern New Jersey office property acquisition and arranged cumulative financing in the amount of $83 million on behalf of the purchaser of the property. The ground owner, or "Leased Fee" interest, entered into a 99-year Ground Lease to the owner of the office building sitting atop of it. Ground Rent was initially set at approximately 38 percent of the property's in-place net operating income. The Ground Rent payments directly service the debt placed to finance the acquisition of the ground—a 14-acre parcel of land which is improved by a 9-story, Class A, multi-tenant office building totaling 470,692 square feet of rentable area. The financing was structured in the form of two tranches: a senior Series A tranche struck at approximately 40 percent loan-to-value ("LTV") rated AA- and fully-amortizing over its term, and a subordinate Series B tranche struck at approximately 53 percent LTV and rated A-, also fully-amortizing. This financing illustrates the structural creativity Mesirow utilizes in its expanding ground lease initiative and exemplifies a successful navigation of a changing regulatory environment.

SELL-SIDE ADVISOR

MAC PAPERS

HAS BEEN ACQUIRED BY

MONOMOY
CAPITAL PARTNERS

M&A sell-side advisor to Mac Papers

Mesirow acted as the exclusive financial advisor to Mac Papers, Inc., Mac Paper Converters, Inc. and All Square Digital Solutions, Inc. (collectively "Mac Papers" or the "Company") on its sale to Monomoy Capital Partners ("Monomoy"), a private investment firm with $1.6 billion in committed capital that invests in the debt and equity of middle market businesses. In addition to fine paper, Mac Papers now distributes packaging materials and equipment, wide format products and equipment, facility supplies and office products. Mac Papers also operates a state-of-the-art envelope converting facility in Jacksonville, Florida, that sells envelopes through Mac Papers and directly to third parties. The Company distributes products from 19 branches located throughout the Southeast U.S. and through a sales force of over 200 dedicated team members focused on unmatched product quality and customer service. With a well-regarded reputation in the industry, Mac Papers will join Monomoy as its platform investment in the paper and packaging distribution sector. Monomoy plans to invest significant capital into the Company to facilitate and accelerate its continued growth.

University of Illinois
Health System

$149,845,000

Health Services Facility Lease
Revenue Bonds, Series 2020

SENIOR MANAGER

Mesirow assists the University of Illinois on a public-private partnership financing for a new outpatient surgery center on its Chicago campus

Mesirow acted as the senior underwriter for one of the first tax-exempt healthcare public-private partnership ("P3") financings in the United States. Mesirow acted as the financing arm of the winning development team that was assembled by the Board of Trustees of the University of Illinois to implement a strategy to outsource the development, design, financing, and maintenance of the University's Outpatient Surgery Center and Specialty Clinics building. This unique ownership and transaction structure allowed the Board of Trustees to exercise control over several aspects of the operation, without bearing the burdens typically associated with the ownership and financing of such a project. By incorporating a 501(c)(3) ownership structure, the bonds were able to be secured on a tax exempt basis at very competitive borrowing levels. Such P3 financings can often allow issuers to expedite the delivery of essential assets in a more timely and efficient manner while mitigating certain risks that are typically borne in a traditional public finance offering.

Capital Markets

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- Fixed Income Sales and Trading
- Public Finance
- Sale-Leaseback Capital
- Structured Debt Products

Investment Banking

Boutique M&A advisor serving the middle-market and providing customized solutions to meet the unique needs of our clients.

About Mesirow

Mesirow is an independent, employee-owned financial services firm founded in 1937. Headquartered in Chicago, with locations around the world, we serve clients through a personal, custom approach to reaching financial goals and acting as a force for social good. With capabilities spanning Global Investment Management, Capital Markets & Investment Banking, and Advisory Services, we invest in what matters: our clients, our communities and our culture. To learn more, visit mesirow.com and follow us on LinkedIn.

Contact Us

Dominick Mondi
Institutional Sales and Trading
312.595.7133
dominick.mondi@mesirow.com

Steve Jacobson
CTL and Structured Debt Products
312.595.7920
stephen.jacobson@mesirow.com

Gerry Levin
Sale-Leaseback Capital
312.595.6070
gerry.levin@mesirow.com

Brian Price
Investment Banking
312.595.6545
brian.price@mesirow.com

Todd Waldrop
Public Finance
312.595.6242
todd.waldrop@mesirow.com

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).