

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, 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.



Rick Weil

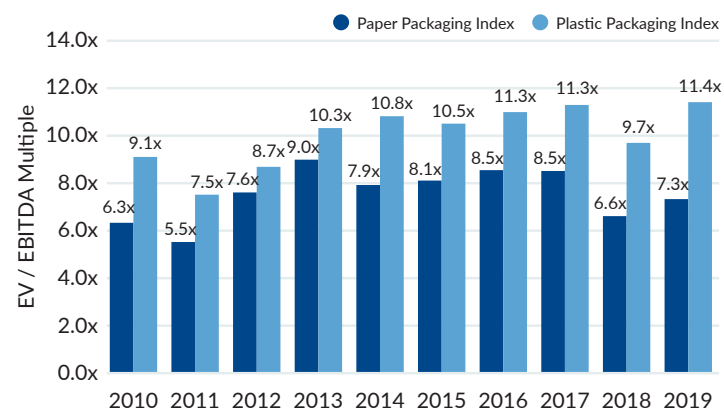
Managing Director
Investment Banking



John Chrysikopoulos

Managing Director
Investment Banking

CHART 1: PUBLIC PACKAGING COMPANY AVERAGE EBITDA MULTIPLES



Source: Mesirow Financial, FactSet

Key themes

The M&A market has been very strong; the recent equity market declines and overall concerns regarding COVID-19 will put a pause on the near-term M&A activity

- Strategic buyers are looking for acquisitions to generate scale, growth, diversification and synergies
- Private equity sponsors have significant equity capital (over \$1.6 trillion of “dry powder”) that they need to deploy
- Significant availability of debt capital
- Very low cost of debt financing

Valuation multiples are at an all time high

- For the first time, private equity sponsors are more aggressive than corporate buyers both in terms of valuations and willingness to preempt processes

Notable trends

- E-commerce: benefiting demand for packaging used in shipping at the expense of high quality retail packaging
- Sustainability: benefiting paper over plastic and lightweighting packaging

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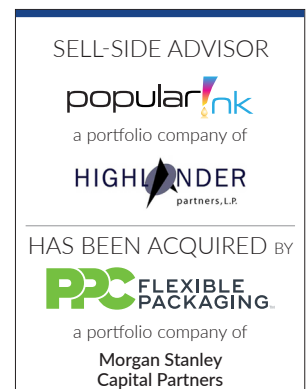
Indicators to watch

Beyond typical indicators — pulp and paper price indexes, resin pricing trends — that affect the packaging industry, here are some other themes that potential buyers and sellers may wish to keep an eye on:

- **Digital printing:** Digital printing provides more latitude in personalization and customization than long-run processes without sacrificing quality. While current technology is typically used to produce smaller quantities, higher quantities should be attainable in the future. In the meantime, digital printing looks to grow at a double digit rate due to companies’ desire for increased customization.
- **Growth in end markets:** Food service, home goods, health care and pharmaceuticals are particularly packaging-intensive sectors. As they grow, so do the companies that produce packaging for their products.
- **Subscription clubs:** Affinity groups — be it cosmetics, home goods, clothes or wine — have made the unboxing of items bought on-line an event worthy of their own YouTube videos. E-commerce continues to gain acceptance among consumers, and e-commerce firms who want unboxing to be memorable for their customers are willing to spend on higher quality packaging as a result.

Select Mesirow advised M&A transactions

- Quad/Graphics, Inc., a large publicly-traded commercial printing business with a packaging division, engaged us to help them sell one of their packaging assets that was no longer a fit despite being profitable and boasting a great stable of customers. It was an attractive opportunity for a buyer looking to put paper mill output into a folding carton operation. The asset was sold to Atlanta-based Graphic Packaging International, a leading provider of packaging solutions to food, beverage, foodservice, and other consumer products companies.
- Mesirow advised Popular Ink, LLC, a Dallas based short-run, high service specialty packaging company for the health & beauty and nutraceutical markets in its sale to PPC Flexible Packaging, a leader in flexographic printing and converting of flexible films, bags and pouches and a recognized pioneer in clean room packaging for healthcare and medical applications.



M&A overview

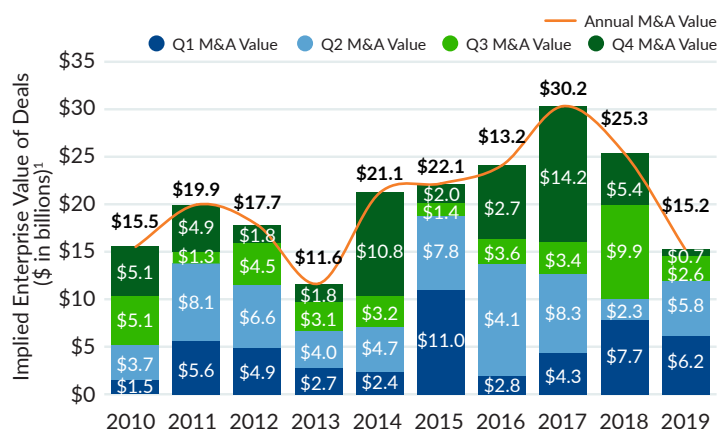
Private equity firms have been a primary driver of M&A activity in many packaging sub-sectors, and established a number of platform companies which subsequently acquired other businesses. Other factors have supported a robust M&A environment:

In most cases, packaging companies are performing well, displaying healthy YOY growth and rebounding quickly from setbacks. This performance has made potential acquirers more confident, and shown potential sellers that solid performance can attract capital.

There continues to be an imbalance between the number of buyers and sellers. High profile packaging M&A deals have been in the headlines, and even companies that haven't been prime targets are entertaining the possibility of selling. This is especially so for family-owned businesses where later generations may not be as enamored of the packaging business.

The lending community has been aggressive in financing acquisitions. Supported by a generally favorable economy over the last decade, packaging companies have grown organically, reinvested in equipment and people, and made acquisitions. As capital has become more available, buyers have been able to pay more. Even firms that have been reticent to sell are wondering whether now may be the right time, given interested prospective buyers and election year uncertainty. If firms continue to perform well, expect M&A support from lenders.

CHART 2: TOTAL GLOBAL PACKAGING M&A DEAL VALUE BASED ON ANNOUNCED DATE



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

Outlook

Flexible packaging — pouches used in food service, nutraceuticals and other applications — may be the fastest growing packaging segment. It keeps products fresher, is easy to store and reseal, uses less materials, weighs less, is easier to ship, and is well suited for e-commerce. A segment characterized by fragmentation, flexible packaging is ripe for acquisitions and offers attractive synergies for buyers and steady growth attributes that can attract capital.

Sustainability efforts, led largely by Amazon, will continue to emphasize reducing waste by simplify packaging, reducing materials, shrinking package size and reducing the number of substrates.

Look for paper supply to increase. With the demise of newspapers, buyers who bought paper mills are converting from newsprint to higher growth grades such as corrugated box, and thus creating a ceiling on prices.

Finally, expect M&A activity to remain strong. Many firms have performed well over the last decade, made acquisitions, paid down debt, optimized and reinvested in their business. Private equity firms in particular are taking notice that packaging, while not a high growth sector, offers strong, stable opportunities at reasonable prices for both buyers and sellers.

TABLE 1: NOTABLE PACKAGING M&A DEALS¹

Date	Acquirer	Target	EV (\$MM)	EV / EBITDA
Dec-19	Sabert Corporation*	LBP Manufacturing	-	-
Oct-19	PPC Flexible Packaging (Morgan Stanley Capital Partners)	Popular Ink*	-	-
Sep-19	Pamplona Capital Management*	Infiana Group	-	-
Aug-19	Warburg Pincus LLC	Pregis Corp.	\$1,300	-
Jul-19	Dunes Point Capital	Vanguard Packaging*	-	-
Jul-19	Berry Global Group	RPC Group	\$5,806	7.6x
Jun-19	Tekni-Plex, Inc	Amcors North American Flexible Packaging Assets	\$215	-
Jun-19	Amcor, Ltd.	Bemis Company	\$6,777	11.8x
Jun-19	WS Packaging (Platinum Equity)	Multi-Color	\$2,523	8.3x
Jun-19	McKinley Paper (Bio Pappel)	U.S. Corrugated	-	-
Jun-19	Charter NEX Films	Next Generation Films	\$1,070	-

Source: Mesiorow Financial, FactSet, S&P Capital IQ. 1. Deals included based on closing dates. *Mesiorow Financial represented the company in connection with a transaction

Leading middle-market M&A advisor to the paper, plastics and packaging sectors

Mesirow Investment Banking continues to be a leader in assisting paper, plastics, packaging and specialty printing companies with their financial advisory needs. With extensive sector-specific expertise and deep long-standing relationships, our dedicated packaging team has completed over 125 packaging transactions in recent years. Our highest priority is helping individuals and organizations reach their financial and strategic goals, and we are consistently focused on elevating the experience for our clients.

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