



Packaging Perspectives



Rick Weil
Managing Director
CHICAGO



Melanie Yermack
Managing Director
CHICAGO



John Chrysikopoulos
Managing Director
NEW YORK



David DiMatteo
Managing Director
LONDON



Nitay Laor
Vice President
MIAMI

2023 Mid-year review

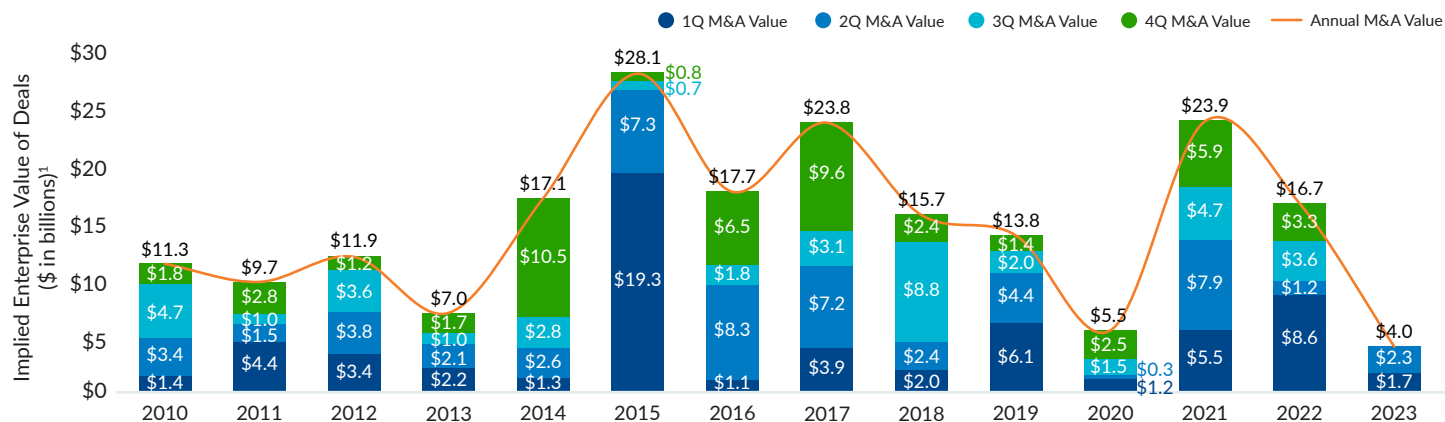
In the first half of 2023, we have seen middle-market packaging M&A remain at respectable levels. Despite broader macro-economic conditions and the current interest rate environment, the packaging market has proven remarkably resilient. The preponderance of packaging used in non-discretionary items such as food, consumables and pharmaceuticals has resulted in market resilience that is attracting significant buyer interest. Buyer appetite, among strategic industry participants, as well as private equity firms seeking platform investments, has remained robust, and multiples are strengthening as buyers compete for quality assets. Mesirow anticipates this trend will continue. Several highlighted deals point to healthy activity across all packaging subsectors.

Macro-trends impacting packaging companies

- **Industry destocking** | Industry wide, packaging companies faced volume softness in the first half of the year as customers worked down excess inventories built up to account for supply chain lead times. Inventory destocking is abating, with order volumes returning to normalized levels heading into the second half of the year.
- **Supply chain and pricing is normalizing** | The supply chain has normalized for raw materials as well, allowing manufacturers to bring down their own inventory levels, reduce investment in working capital and improve turnaround times to customers. After a year and a half of continuous raw material price increases, raw material pricing is stabilizing. Customers that readily accepted price increases during this period are now beginning to seek price reductions. Margin sustainability is a key area buyers are focusing on in sale processes.

While large-cap M&A activity stalled in the first half of the year, packaging M&A activity in the middle-market has remained active. Chart 1 depicts current levels and valuations of packaging M&A.

CHART 1: TOTAL GLOBAL PACKAGING M&A VALUE BASED ON ANNOUNCED DATE



Source: S&P Capital IQ. | Only includes deals with disclosed deal value for containers & packaging industry.

TABLE 1: 1H 2023 HIGHLIGHTED PACKAGING M&A ACTIVITY BY SUB-SECTOR

Date	Acquirer	Target	Sub-Sector
Jun-23	PaperWorks	The Standard Group	Folding Cartons
Jun-23	Resource Label Group	Pharmaceutical Litho & Label	Labels
Jun-23	AWT Labels & Packaging	ASL Print FX	Labels
May-23	Gelpac	Standard Multiwall Bag	Flexible Packaging
May-23	DRG Technologies	La Fiesta Label & Packaging Systems	Labels
Apr-23	B2B Industrial Packaging	Millennium Packaging	Packaging Distribution
Apr-23	The Royal Group	Innovative Fiber	Corrugated Packaging
Apr-23	Omni Systems	ITW Labels	Labels
Mar-23	B2B Industrial Packaging	Brown Industrial Packaging	Packaging Distribution
Feb-23	Welch Packaging	Nashville Box	Corrugated Packaging
Feb-23	Mill Rock Packaging Partners	Keystone Paper & Box Company	Folding Cartons
Feb-23	Brook + Whittle	Laser and Label Technology	Labels
Feb-23	PPC Flexible Packaging	StePac L.A. Ltd.	Flexible Packaging
Feb-23	Imperial Dade	Focus Packaging and Supply Company	Packaging Distribution
Jan-23	Sealed Air (NYSE: SEE)	Liquibox Corporation	Flexible Packaging
Jan-23	Summit Plastics	Fredman Bag Company	Flexible Packaging
Jan-23	Oliver Printing & Packaging	Tap Packaging + Design	Folding Cartons
Jan-23	S. Walter Packaging	Pulver Packaging	Folding Cartons
Jan-23	Welch Packaging	Knoxville Box	Corrugated Packaging

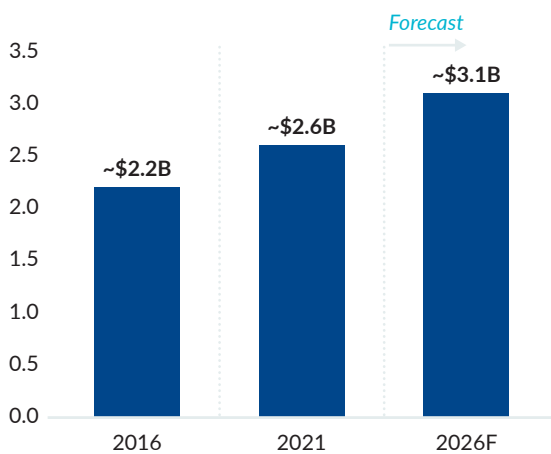
Source: S&P Capital IQ. Highlighted rows represent Mesirow-led deals.

Sector spotlight: Pharmaceutical Packaging

Printed pharmaceutical packaging represents a \$2.6 billion U.S. market,¹ which is expected to grow at a CAGR of 4% to \$3.1 billion by 2026. Pharmaceutical packaging has been characterized as a highly resilient sub-sector that has fared well through economic downturns, particularly through COVID.

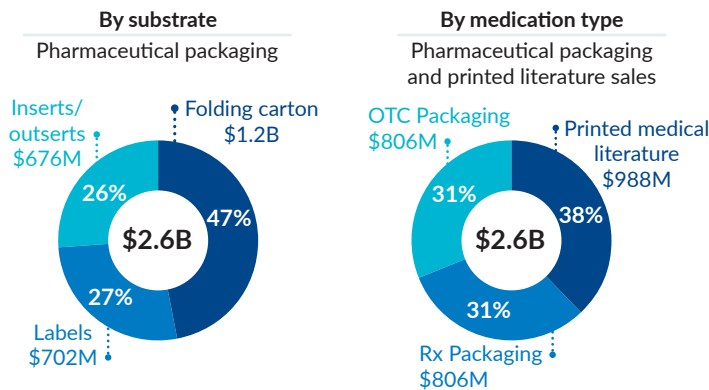
CHART 2: U.S. PRINTED PHARMACEUTICAL PACKAGING MARKET

Size, by category, 2016–2026 (USD billion)



Source: LEK Consulting.

CHART 3: U.S. PRINTED PHARMACEUTICAL PACKAGING MARKET



Source: LEK Consulting.

New entrants face significant barriers to entry given the high-precision requirements in a highly regulated subsector, necessary certifications and ongoing customer audits.

Key growth drivers

Prescription drug spending in America is expected to increase to \$600 billion by 2023, up from an estimated \$500 billion in 2019², which will drive concurrent growth in pharmaceutical packaging.

KEY DRIVERS OF THE INCREASE IN PRESCRIPTION SPENDING

- Volume growth in doses and new drugs
- Aging customer base
- Increasing healthcare spend per capita
- Shift from branded to generic drugs

Pharmaceutical packaging trends: making staid smart

While the pharmaceutical industry puts tremendous resources into researching and developing new drugs, packaging has not enjoyed the same level of investment. This is largely because, while drug making is concentrated among a handful of major multinationals, drug packaging is typically contracted out to commercial packaging companies. The result is a fragmented, highly competitive market where firms offer differentiated products and services, plus customized solutions.

To understand why the sector is so active, a brief primer may be in order. Pharmaceutical packaging generally consists of three layers: primary, secondary, and tertiary. Primary packaging contacts the drug, so it must not affect the drug's chemical composition or efficacy. Primary packaging includes vials, strips, ampoules, containers, bags, syringes, and blister cards. Secondary packaging surrounds the primary packaging and acts as an additional containment or a physical barrier – folding cartons, trays, and film and flexible packaging. Tertiary packaging is designed to facilitate transportation.

1. LEK Consulting. | 2. STAT.

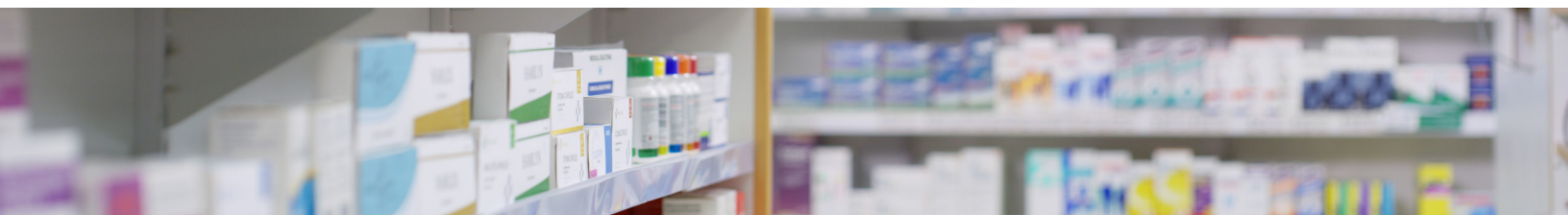
All levels offer opportunities for improvement, making it a fertile ground for acquirers who increasingly believe assets in this area of the market are “must haves.” Indeed, Mesirow is seeing increasing M&A activity in the space, a reflection of how buyers see each level of pharmaceutical packaging as an opportunity to benefit from emerging the industry trends:

- **Sustainable:** Packaging businesses are taking the lead from consumers, who want more sustainable packaging for their drugs. To that end, packaging companies are introducing a range of recycled and recyclable materials, such as recyclable plastic, biodegradable plastic made from plant-based resin and compostable packaging. This general trend also continues to push the overall shift from plastic-based to paper-based packaging.
- **Smart:** Smart technology – Bluetooth, QR codes, RFID and NFC (near-field communication) chips that wirelessly communicate with smartphones – have the potential to redefine pharmaceutical packaging in multiple ways. Manufacturers can track and adjust to demand levels and inventory. For example, firms can identify damaged drugs by monitoring temperature during transit by incorporating Bluetooth when shipping temperature-sensitive drugs. Smart technology can also help combat counterfeiting, a persistent problem in the pharma industry, with NFC and RFID (radio-frequency identification) tags on packaging.
- **Accessible:** Accessibility covers all the ways a drug interacts with the end user. It is a critical component in pharmaceutical packaging and goes far beyond the traditional usage instructions, allergy warnings, disposal instructions and expiration dates.

Modern pharmaceuticals often eschew the traditional vial and come to the user in prefilled mechanisms such as cartridges and syringes, wearables, and auto-injectors. In addition, many are self-administered by the user without a medical professional present. That makes easy to use, foolproof, durable, highly accurate packaging paramount.

- **Ease of Adherence:** As the global population continues to age, there is a growing need to limit wasted medication and reduce incidences of medication nonadherence, thereby driving growth in adherence products with technological advancements, such as remote dispensing systems. Manufacturers are focusing on key product categories, including calendar blister cards and smart caps to improve the medical nonadherence issues in patients.

The rapid growth of the pharmaceutical packaging industry, and the need for improved packaging at the primary, secondary and tertiary levels, creates a multitude of M&A opportunities for firms looking to grow, consolidate or diversify their packaging operations. Given the regulatory environment and specialization required, companies prefer to enter a new product category or add a new capability via acquisition, rather than building it organically. For private equity firms, pharmaceutical packaging has shown strong resilience throughout the pandemic and forward, giving investors comfort over its defensive characteristics in uncertain economic times. Mesirow believes pharmaceutical packaging will be a driving force in the packaging M&A world for years to come, both from a valuation and deal volume standpoint.



Highlighted deals

Sale of Pharmaceutical Litho & Label Company to Resource Label Group

Headquartered in Winston-Salem, NC, Pharmaceutical Litho is a premier manufacturer of printed inserts, labels and packaging components for the pharmaceutical, medical device and biotechnology markets.

Founded in 1928, Pharmaceutical Litho serves an impressive, global customer base from its two strategically-located manufacturing plants in Simi Valley, CA and Winston-Salem, NC, establishing itself as one of the largest pharmaceutical printers in the country with a 90+ year history.

In June 2023, Pharmaceutical Litho was acquired by Resource Label Group, a portfolio company of Ares Management Corporation.

SELL-SIDE ADVISOR


Litho & Label Company

a portfolio company of

 SAUGATUCK CAPITAL®
A PRIVATE INVESTMENT FIRM

HAS BEEN ACQUIRED BY


RESOURCE LABEL GROUP

a portfolio company of

 ARES

Sale of Medlit to Resource Label Group

Headquartered in Garner, NC, MedLit is the leading provider of a broad range of pharmaceutical packaging, labeling, printing, design and fulfillment solutions.

Founded in 1986, Medlit operates two strategically located facilities supported by best-in-class technology and innovative digital storefront integration serving blue chip customers in the pharmaceutical, healthcare, and education markets. MedLit is differentiated from other market participants due to its single-source-solution service offering, its ability to fulfill exacting customer requirements and its industry-leading margin profile.

In October 2022, Medlit was acquired by Resource Label Group, a portfolio company of Ares Management Corporation.

SELL-SIDE ADVISOR


MedLit SOLUTIONS

a portfolio company of

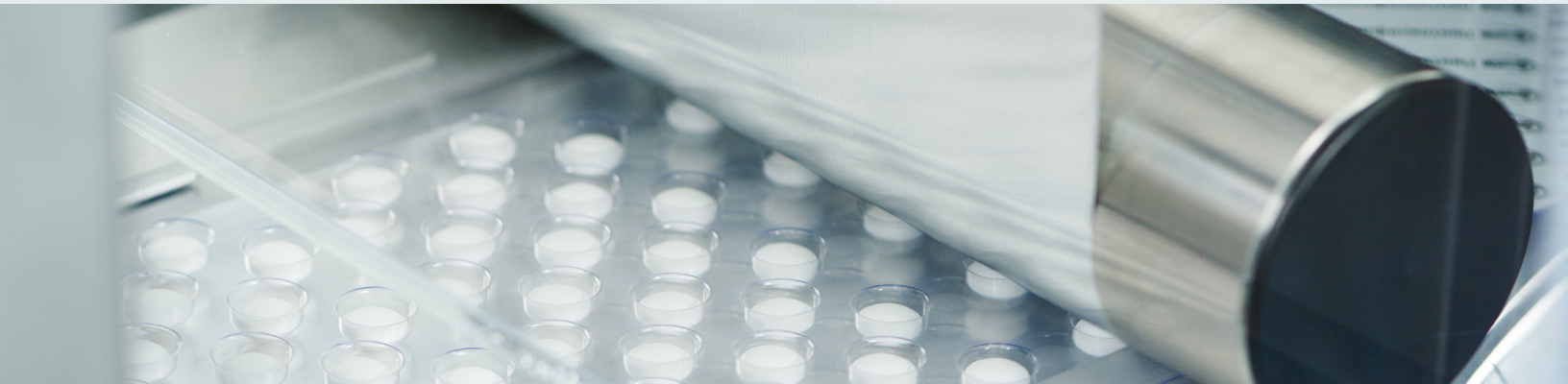

CORE INDUSTRIAL

HAS BEEN ACQUIRED BY


RESOURCE LABEL GROUP


a portfolio company of

 ARES




Other Mesirow Pharmaceutical Packaging Transactions

SELL-SIDE ADVISOR



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a portfolio company of




HAS BEEN ACQUIRED BY FUNDS ASSOCIATED WITH




combines with existing investments in

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Plymouth Printing Co. Inc.

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Outlook: Not boxed in

As stated above, the M&A market has remained resilient in 2023 in face of rising rates and uncertainty regarding GDP growth. Packaging for non-discretionary items such as food, consumables and pharmaceuticals should attract strong interest among strategic industry participants and private equity firms drawn by the sector's resilience. Mesirow anticipates a continuation of this environment, particularly among high-quality packaging businesses.



Recent Mesirow Packaging Transactions

<p>SELL-SIDE ADVISOR</p>  <p>HAS BEEN ACQUIRED BY</p> 	<p>SELL-SIDE ADVISOR</p>  <p>a portfolio company of</p>  <p>HAS BEEN ACQUIRED BY</p>  <p>a portfolio company of</p> 	<p>SELL-SIDE ADVISOR</p>  <p>HAS BEEN ACQUIRED BY</p>  <p>a portfolio company of</p> 	<p>BUY-SIDE ADVISOR</p>  <p>HAS ACQUIRED</p> 
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Leading middle-market M&A advisor to the packaging sector

With extensive sector-specific expertise and deep long-standing relationships, our dedicated packaging team has completed over 190 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.

Contact us

CHICAGO

Rick Weil

312.595.6131

rick.weil@mesirow.com

Melanie Yermack

312.595.7903

melanie.yermack@mesirow.com

NEW YORK

John Chrysikopoulos

212.351.8172

jsc@mesirow.com

LONDON

David DiMatteo

+44 (0) 20.7851.1723

david.dimatteo@mesirow.com

MIAMI

Nitay Laor

312.595.3291

nitay.laor@mesirow.com

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