

# Packaging perspectives

## 3Q2020: Quarter-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 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”) 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).



**John Chrysikopoulos**  
Managing Director  
Investment Banking



**David DiMatteo**  
Managing Director  
Investment Banking



**Louis Mitchell**  
Managing Director  
Investment Banking

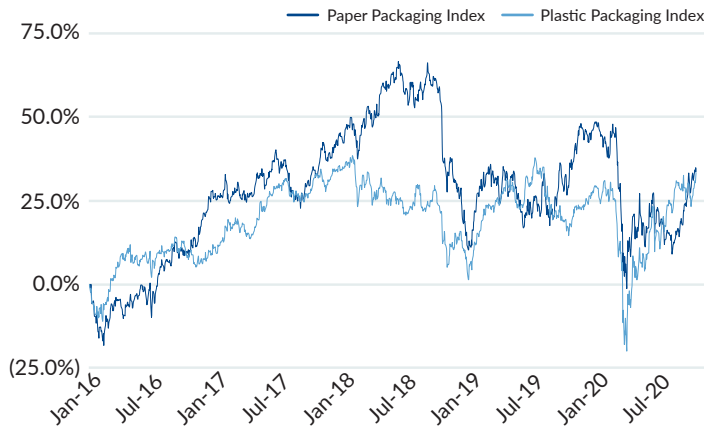


**Rick Weil**  
Managing Director  
Investment Banking



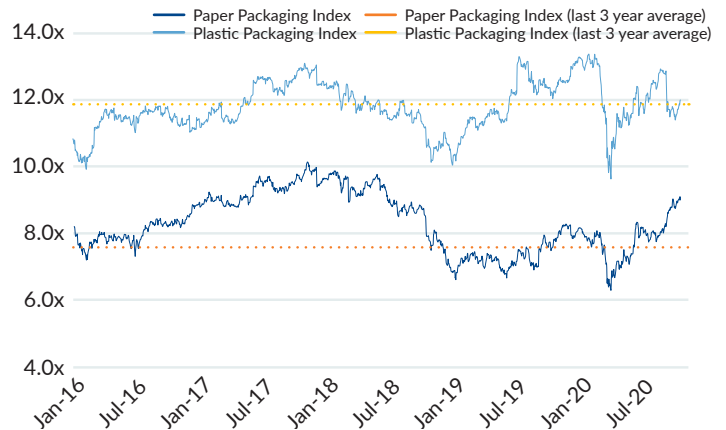
**Melanie Yermack**  
Director  
Investment Banking

**CHART 1: SHARE PRICE PERFORMANCE: PACKAGING INDICES**



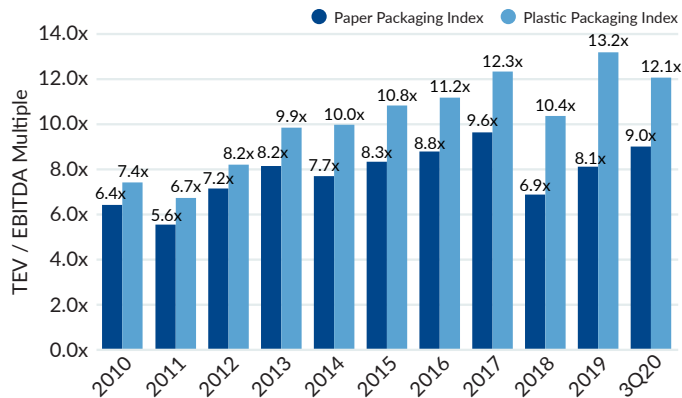
Source: FactSet as of October 8, 2020. Past performance is not indicative of future results.

**CHART 2: TEV / EBITDA: PACKAGING INDICES**



Source: FactSet as of October 8, 2020. Past performance is not indicative of future results.

**CHART 3: PUBLIC PACKAGING COMPANY AVERAGE TEV / EBITDA MULTIPLES**



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

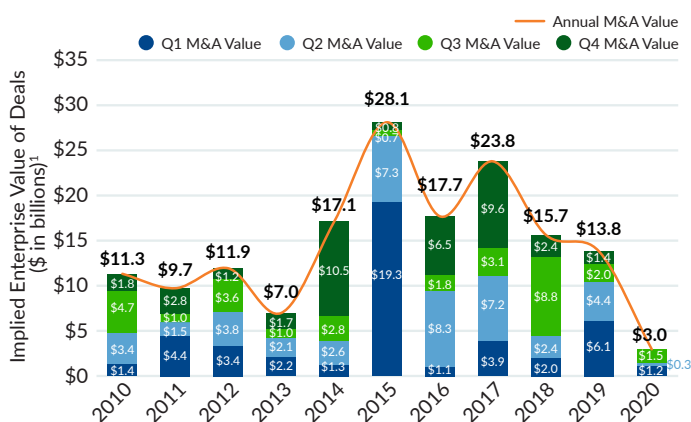
**M&A activity**

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

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



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

“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.”

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.

### Select Mesirow advised M&A transactions

Mesirow acted as the exclusive financial advisor to Genpak Flexible (“Genpak” or the “Company”), a portfolio company of the Jim Pattison Group (“JPG”), on its sale to C-P Flexible Packaging, Inc. (“C-P”), a portfolio company of First Atlantic Capital, Ltd.

- The sale of Genpak, particularly through the unprecedented COVID-19 induced economic slowdown, highlights Mesirow Investment Banking’s ability to position middle-market clients as highly strategic targets for the most relevant strategic buyers in the Packaging industry
- Genpak is a leading international provider of flexible packaging solutions including a broad range of film, foil, and paper packaging products. Based in Canada, the Company serves a variety of industries including coffee, snack, and medical products from its two manufacturing plants in Minnesota and Ontario. JPG, owner and operator of Genpak, represents the second-largest private company in Canada, with approximately \$10.9 billion in annual sales across its portfolio companies
- C-P is a premier flexible packaging company serving stable food and consumer end-markets mainly focused on snacks, baked goods, confections and household chemicals. C-P provides converted and printed rollstock, stretch & shrink sleeves, and pouches to blue chip customers on a regional and national basis

Mesirow acted as the exclusive financial advisor to Sabert Corporation (“Sabert” or the “Company”) on its acquisition of LBP Manufacturing LLC. (“LBP”)

- Mesirow leveraged its deep knowledge, relationships and expertise in the Packaging sector to bring the combination to fruition, resulting in a global manufacturer of innovative, customer-centric, sustainable solutions for the foodservice industry.
- LBP is a leading U.S. provider of environmentally progressive and sustainable paper-based food and beverage packaging.
- Sabert is a leading global manufacturer of innovative food packaging products and solutions. The Company designs, manufactures and distributes a wide spectrum of foodservice packaging solutions, serving foodservice distributors, restaurants and caterers, grocery stores and national food chains. With the addition of LBP, Sabert’s annual sales will exceed \$900 million with approximately 3,000 employees globally.

SELL-SIDE ADVISOR



a portfolio company of




---

HAS BEEN ACQUIRED BY



a portfolio company of

FIRST ATLANTIC CAPITAL

BUY-SIDE ADVISOR




---

HAS ACQUIRED



## Shifting consumer buying habits and preferences post-COVID-19...

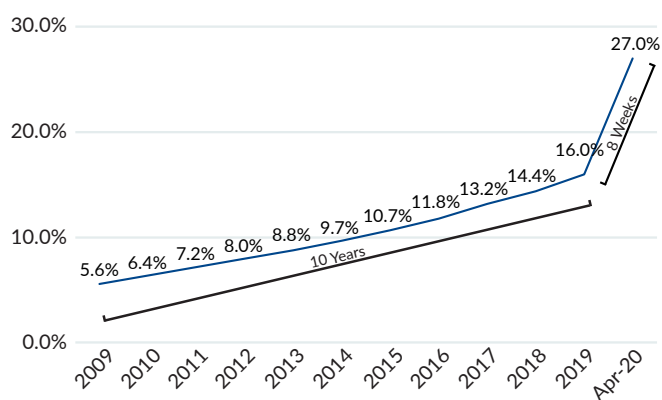
- Post-COVID-19, more people will be using online shopping than before
- More than three-quarters of consumers are waiting to see indicators beyond lifting of restrictions before restarting out-of-home activities
- Consumers are shifting back to basics and value – shopping intent is on essentials
- Consumers 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 (Chart 5).

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 6).

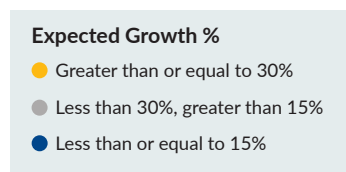
CHART 5: U.S. E-COMMERCE PENETRATION AS A % OF RETAIL SALES



Source: Bank of America, U.S. Department of Commerce, ShawSpring Research.

CHART 6: EXPECTED GROWTH % IN CUSTOMERS' PURCHASING CATEGORY ONLINE (BEFORE AND AFTER COVID-19) AND ITS IMPACT ON PACKAGING SUBSTRATES

OTC medicine	+44%	Tubes, bottles, jars and caps / closures
Groceries	+41%	Flexible, rigid plastics and corrugated packaging
Household supplies	+38%	Plastic bottles and metal aerosols
Personal-care products	+38%	Tubes, bottles, jars and caps / closures
Alcohol	+34%	Metal and glass bottles
Furnishings and appliances	+30%	Flexible, rigid plastics and corrugated packaging
Food takeout & delivery	+28%	Food-service packaging (e.g., plastic, paper)
Fitness and wellness	+28%	Corrugated and protective packaging
Vitamins / supplements	+27%	Tubes, bottles, jars and caps / closures
Non-food child products	+25%	Flexible, rigid plastics and corrugated packaging
Snacks	+20%	Flexible films (e.g., oriented polypropylene)
Jewelry	+19%	Folding cartons and paper boxes
Apparel	+19%	Corrugated and microflute packaging and cartons
Skin care and makeup	+18%	Plastics, tubes, glass and jars
Accessories	+18%	Corrugated and microflute packaging and cartons
Footwear	+16%	Corrugated and microflute packaging and cartons
Tobacco	+15%	Cartons
Books / magazines / newspapers	+11%	Corrugated and microflute packaging
Consumer electronics	+10%	Corrugated and protective packaging
Entertainment at home	+4%	Corrugated and protective packaging



Source: McKinsey & Company (August 2020), Mesirow Financial.

## Long term themes and their impact on the Packaging sector

In addition to the significant increase of e-commerce and increased focus on hygiene that are having an immediate impact on various Packaging substrates, longer term, four key trends will impact the Packaging sector (Chart 7):

**CHART 7: LONGER-TERM DEMAND IMPACT BY END MARKET**

Longer-term trends	Key beneficiary Packaging substrates
Increased use of e-commerce	> Corrugated, flexible mailers and thermoformed containers
Increased emphasis on hygiene	> Nonwovens, flexible, rigid
Increased use of delivery services (groceries, pharmacies, restaurants...)	> Flexible, kraft paper packaging
Increased focus on health and wellness (including medical and healthcare)	> Rigid, flexible, labels
Increased focus on sustainability (shift from plastic to paper)	> Kraft paper packaging (foodservice / grocery bags)
Increased focus on domestic supply chain and sourcing of various products considered critical or of national security (for example, pharmaceuticals)	> All packaging

Source: Mesirow Financial.

## 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

---

## Leading middle-market M&A advisor to the Paper, Plastics and Packaging sectors

Mesirow Investment Banking continues to successfully assist 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.

### Contact us

**John Chrysiopoulos**

212.351.8172

[jsc@mesirowfinancial.com](mailto:jsc@mesirowfinancial.com)

**David DiMatteo**

+44.207.851.1723

[ddimatteo@mesirowfinancial.com](mailto:ddimatteo@mesirowfinancial.com)

**Louis Mitchell**

312.595.6025

[lmitchell@mesirowfinancial.com](mailto:lmitchell@mesirowfinancial.com)

**Rick Weil**

312.595.6131

[raweil@mesirowfinancial.com](mailto:raweil@mesirowfinancial.com)

**Melanie Yermack**

312.595.7903

[myermack@mesirowfinancial.com](mailto:myermack@mesirowfinancial.com)

---

Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow name and logo are registered service marks of Mesirow Financial Holdings, Inc., © 2020, Mesirow Financial Holdings, Inc. All rights reserved. Mesirow Financial does not provide legal or tax advice. Securities offered by Mesirow Financial, Inc. member FINRA, SIPC. Some information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. Any opinions expressed are subject to change without notice. It should not be assumed that any historical market performance information discussed herein will equal such future performance. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security.