Mesirow

Packaging Perspectives

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2022 Year-end review

After a very strong 2021, last year was characterized by uncertainty and volatility. The packaging sector experienced moderate transaction volumes, with Mesirow completing six total transactions, following 18 in 2021. The key issues affecting the sector were the war in Ukraine, continued supply chain issues and labor availability, high inflation across the board, increasing interest rates, and expectations of a recession. The resulting uncertainty caused declines in the stock market, reduced M&A activity, and lowered public and private market valuations.

In general, the packaging industry outperformed the overall market, with share price and M&A volume declines that were more moderate. For 2023 (at least for the first half), we expect trends similar to those the industry experienced in 2022: modest outperformance with reduced M&A activity, and lower valuations driven mostly by the overall macro environment and the likelihood of a recession.

Packaging industry in solid form overall

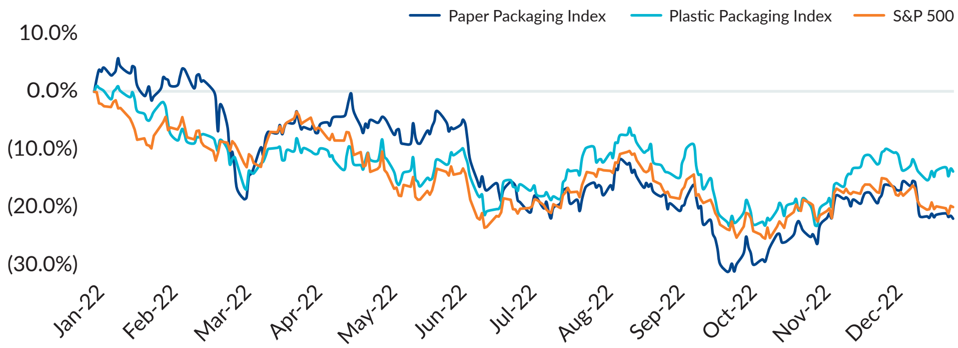
The packaging sector is expected to grow at around 6% CAGR through 2026, primarily due to increased demand for pharma, cosmetics, toiletries, household chemicals, and food & beverage. Paper-based packaging is gaining market share at the expense of plastic primarily due to environmental concerns. Plastic packaging, however, offers significant advantages — increased shelf life for food, increased durability and optical clarity, and reduced wear and tear — making it a preferred substrate for numerous applications. The medical/healthcare end market is also forecasted to experience overall market growth as plastic replaces metal components due to unlimited design options, minimal side effects and options for biocompatibility and recycling.

Share price performance and public market valuations

At Mesirow, we use various internally-created indexes to track packaging sector performance. Over the last year, our plastic packaging index decreased 14% while our paper packaging index decreased 22% compared to the S&P500 decrease of 20% (Chart 1). However, on a three-year basis, the plastic packaging index and S&P 500 saw increases of 53% and 57% respectively, while the paper packaging index increased only 10% over this period (Chart 2).

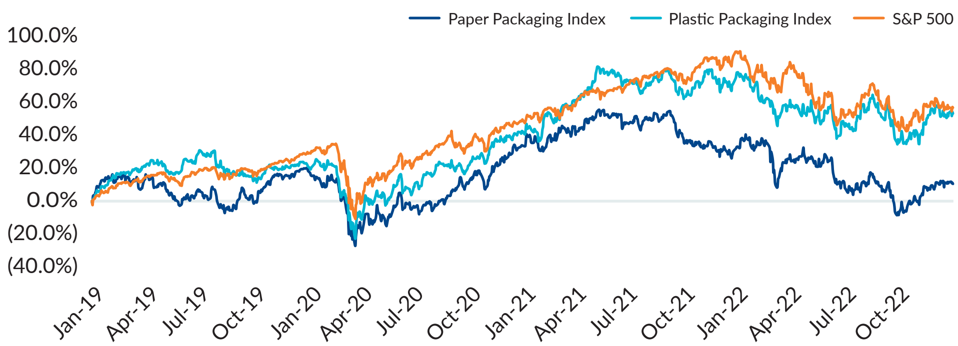
Public market valuations for both plastic and paper packaging companies decreased in 2022 from the previous year's levels. Plastic packaging companies' valuations on an EV/EBITDA basis in 2022 averaged 10.2x versus 11.0x in 2021 and 11.1x average for the past five years. Paper packaging companies' valuations compressed meaningfully, and on an EV/EBITDA basis in 2022, averaged 6.9x versus 9.5x in 2021 and 8.4x average for the past five years (Chart 3).

CHART 1: 1-YEAR SHARE PRICE PERFORMANCE – PACKAGING INDICES[1] 2022



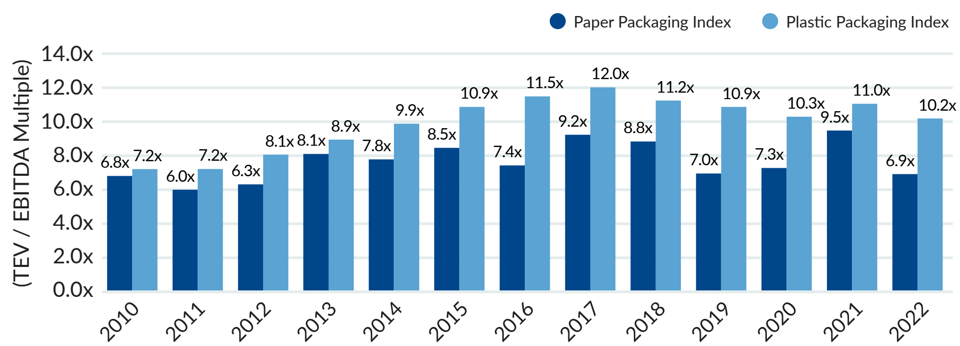
Source: S&P Capital IQ as of December 30, 2022. Past performance is not indicative of future results.

CHART 2: 3-YEAR SHARE PRICE PERFORMANCE – PACKAGING INDICES[1] 2019 – 2022



Source: S&P Capital IQ as of December 30, 2022. Past performance is not indicative of future results.

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

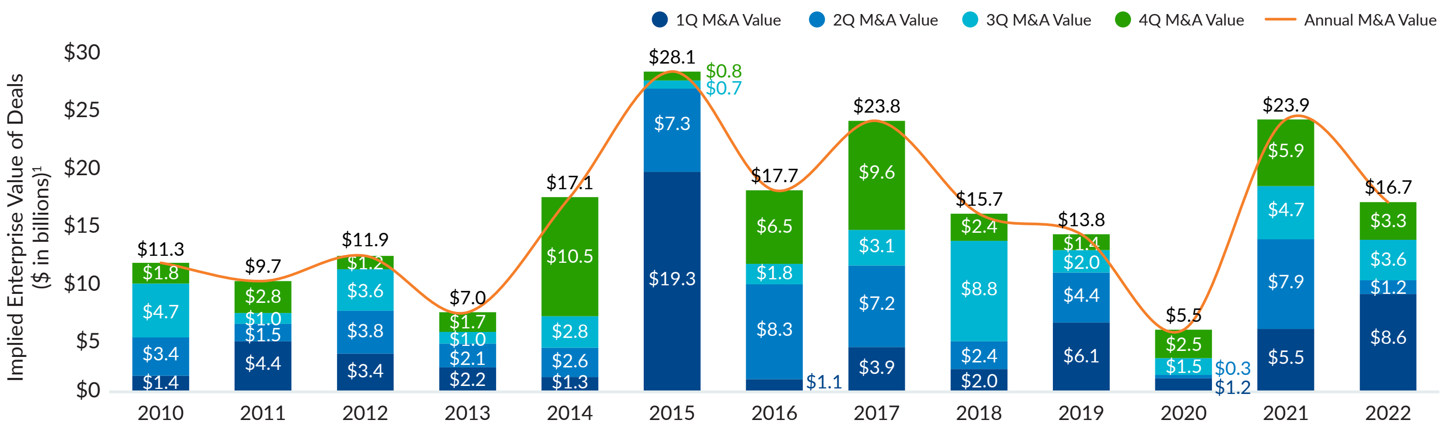


Source: S&P Capital IQ as of December 30, 2022. Note: Average TEV / EBITDA multiples as of December 31 for 2010-2022.

M&A activity

Global packaging industry M&A deal activity in 2022 was approximately 30% lower than 2021. That was to be expected, as 2021 was a banner year in part because of COVID-induced very low volumes in 2020. Deal activity remained very strong through the first quarter of 2022, accounting for more than 50% of the year's transactions; however, overall deal activity levels in 2022 were still higher than the levels experienced in 2018 and 2019 pre-Covid (Chart 4).

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



Source: S&P Capital IQ as of December 31, 2022. Only includes deals with disclosed deal value for the packaging industry. See page 9 for index definititions.

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

- Above-average demand growth rates, with tailwinds provided by e-commerce demands
- Defensive demand characteristics, especially during periods of economic downturns
- Meaningful presence in attractive end markets, including healthcare and food and beverage
- Attractive margins
- Relatively low margin volatility as packaging companies typically 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 several successful examples of private equity firms making an initial acquisition, establishing a platform company and subsequently making add-on acquisitions. These deals have resulted in increased scale, enhanced manufacturing capabilities and product offerings, expanded geographic presence and improved cost structure all leading to higher valuation multiples.

Select Mesirow-Advised M&A Transactions

Mesirow completed six paper and packaging transactions in 2022, including one cross-border transaction, which reflects the firm’s deep expertise within the paper, plastics and packaging sectors along with its strong relationships among global companies.

Mesirow acted as exclusive financial advisor to MedLit Solutions (“MedLit”), a portfolio company of CORE Industrial Partners, on its sale to Resource Label Group, LLC (“Resource Label”), a portfolio company of Ares Management Corporation.

- MedLit offers a broad range of packaging, labeling, printing, design, and fulfillment capabilities primarily for pharmaceutical and healthcare applications. The company serves a loyal customer base comprised of branded and generic pharmaceutical companies, emerging biotech application developers, healthcare service providers, and higher education institutions. Resource Label is a leading pressure sensitive label, shrink sleeve and RFID/NFC manufacturer with diverse product offerings for the food, beverage, chemical, household products, personal care, nutraceutical, pharmaceutical, medical device and technology industries. The acquisition of MedLit will enhance Resource Label’s pharmaceutical and healthcare offerings and expand its network of dedicated customers.

SELL-SIDE ADVISOR

MedLit SOLUTIONS

a portfolio company of

CORE INDUSTRIAL

HAS BEEN ACQUIRED BY

RESOURCE LABEL GROUP

a portfolio company of

ARES

Mesirow acted as the exclusive financial advisor to Israel-based Albaad Massuot Yitzhak Ltd. (“Albaad”) on the sale of its US Wipes Operations to Guy & O’Neill, Inc (“Guy & O’Neill”), a portfolio company of Centre Partners Management LLC.

- Albaad is listed on the Tel Aviv stock exchange and is one of the three largest wet wipes manufacturers in the world with leading production facilities across the globe. The company has contract, private label and institutional manufacturing capabilities that serve an international client base.
- Guy & O’Neill is a leading private label and contract manufacturer of wet wipes and liquid-fill products. The acquisition of the US Wipes Operations of Albaad will expand significantly Guy & O’Neill’s global presence in flatpacks and crossfold wipes and will offer one of the most comprehensive product offerings of cleaning wipes in the industry.

SELL-SIDE ADVISOR

Albaad

US Wipes Operations

HAVE BEEN ACQUIRED BY

G&O GUY & O’NEILL

a portfolio company of

CENTREPARTNERS

2022 Completed Packaging Transactions

SELL-SIDE ADVISOR

SCENTISPHERE®

HAS BEEN ACQUIRED BY

RESOURCE LABEL GROUP

a portfolio company of

ARES

SELL-SIDE ADVISOR

Albaad

US Wipes Operations

HAVE BEEN ACQUIRED BY

GUY & O'NEILL

a portfolio company of

CENTRE PARTNERS

SELL-SIDE ADVISOR

MedLit SOLUTIONS

a portfolio company of

CORE INDUSTRIAL

HAS BEEN ACQUIRED BY

RESOURCE LABEL GROUP

a portfolio company of

ARES

SELL-SIDE ADVISOR

WESTERN SHIELD LABEL AND PACKAGING

HAS BEEN ACQUIRED BY

ALL AMERICAN LABEL & PACKAGING

a portfolio company of

HEARTWOOD PARTNERS

SELL-SIDE ADVISOR

BELLE-PAK PACKAGING INC.

HAS BEEN ACQUIRED BY

ProAmpac

a portfolio company of

PPC Partners

SELL-SIDE ADVISOR

MacArthur

HAS BEEN ACQUIRED BY

awt LABELS & PACKAGING

a portfolio company of

Morgan Stanley Capital Partners

The transactions included above represent transactions where Mesirow served as advisor.

Sector spotlight: Nonwovens

Introduction

The nonwovens sector is emerging from the pandemic in different ways depending on product category, end market (i.e. consumer vs. industrial), geography, and rolled-goods producer vs. converter. There are winners and losers as the industry moves towards more normalized conditions. At the height of the pandemic, industrial-related products faced reduced demand due to a broad-based decline in economic conditions. Meanwhile consumer-related products, particularly PPE-related, experienced a significant 'covid bump'. These conditions have changed, with consumer-facing products — and the rolled-goods providers that supply them — seeing a sudden and significant contraction in demand. We expect it will be in excess of 12 months before market conditions begin to reset and normalize.

Commodity-oriented companies that need to secure significant contracts well in advance of production schedules continue to experience difficult operating conditions. Short-run, highly specialized and technology-focused producers have fared much better as they have been able to control their cost base more effectively. Across the sector, multiple price increases have been achieved, in part as a response to soaring gas and electricity prices, particularly for European operators. Some companies pushed through three or four price increases during 2022. We see initial evidence that those firms who succeeded in negotiating a fewer number of price rises, but for a larger amount, may find it easier to hold them going forward. In 2023, a key question will be how these recent increases will hold up as raw material pricing and shipping costs begin to decline. Moreover, those companies who chose, or were forced, to highlight separate surcharges for electricity and/or gas may find it harder to hold the line when these costs start to stabilize.

Consolidation: Then there were 100 plus…

Despite challenging overall conditions, the nonwovens sector continues to consolidate, although like other industries, currently at a slower pace given wider market uncertainties. The industry structure of a handful of global producers — along with two dozen mid-sized firms plus a tail of approximately 100 smaller, local producers — lends itself to additional consolidation. Large transactions ($250+ million) have dried up due in part to more difficult financing conditions and purchasers' concern over the impact of M&A on their own balance sheet. Over the past 12–18 months the industry saw some significant transactions being completed at seller-friendly multiples (see Table 1). Now we believe the sector has shifted to a buyer's market for the next 6 to 12 months. In particular, larger acquirers with strong balance sheets looking to acquire smaller-sized assets should find favorable conditions for the immediate future. Looking to the medium term, the fundamental structure of the industry continues to suggest significant consolidation ahead.

Overcapacity: We built it, but they didn't all come …

As the pandemic gathered pace, big box retail pushed converters for additional capacity to meet what they believed would be a reset level of demand — or at the very least a longer-lasting period of hyper-focus on hygiene. This affected rolled-goods producers as well as converters; however, converters have felt particularly pressured by overcapacity. They have been squeezed by retailers no longer requiring pandemic stock levels, leaving an overhang of supply that has impacted price levels. When western nations lifted travel bans, mask mandates and other pandemic restrictions, demand fell sharply for meltblown capacity (mask making) and spunlace production (wipes). After the destocking of previous production runs, we expect long-run demand for these products to settle well below peak covid levels but remain above pre-pandemic usage, as a greater attention to hygiene is now ingrained in most consumers and businesses.

End market focus: Air matters …

In our view, the filtration market has and will continue to benefit from a desire for cleaner water and especially cleaner air. An increased focus on improving air quality in schools, offices, hospitals, public transportation and government buildings should translate into increased demand for air filter-related rolled-goods and finished products. There will likely be significant tenders for finished products, — and consequently a requirement for rolled-goods inputs — that can perform to a recommended standard on the MERV scale, which measures a filter's ability to capture larger particles. We already see evidence of companies beginning to repurpose production lines and invest in new capacity to target this market.

M&A valuation levels: Mind the gap …

Until early 2022, low interest rates, stable share prices and manageable inflation meant acquirers had readily accessible, inexpensive financing for their expansion plans. As a result, several larger transactions were completed, as sellers took advantage of these favorable conditions. The table below highlights some of the headline transactions over the past 18 months.

Date	Acquirer	Target	EV	LTM EBITDA multiple*
Mar-22	Schweitzer-Mauduit	Neenah	$1,169m	10.0x
Feb-22	Nitto	Mondi Personal Care Business	€615m	14.6x
Oct-21	Glatfelter	Jacob Holm	$302m	7.1x
Oct-21	Unifrax (Alkegen)	Lydall	$1,300m	13.5x

* Based on historic/LTM EBITDA as disclosed in the press release regarding the transaction

Except for the SWM/Neenah merger, which was an all-share deal, the other transactions were exclusively or primarily debt financed. We contend that in today's market, these transactions would be very difficult to finance at the multiples above, and if so they would certainly attract significantly higher financing costs. Potential acquirers have taken notice of these transactions and wider market conditions, and a valuation gap has reappeared between buyer and seller expectations. This debate is directly linked to the three-year running battle over an agreed level of sustainable, mid-cycle profitability. This point becomes even more important for investors who depend on what levels of profitability lenders are willing to accept and finance. The wider forces of sector fragmentation should continue to drive consolidation and, in our view, it should remain a buyer's market for the next 6 to 12 months.

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

Mesirow Investment Banking continues to assist successfully paper, plastics, packaging and specialty printing companies with their financial advisory needs. With extensive sector-specific expertise and deep long-standing relationships, our dedicated Paper, Plastics and Packaging team has completed over 175 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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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).