INDUSTRY INSIGHTS

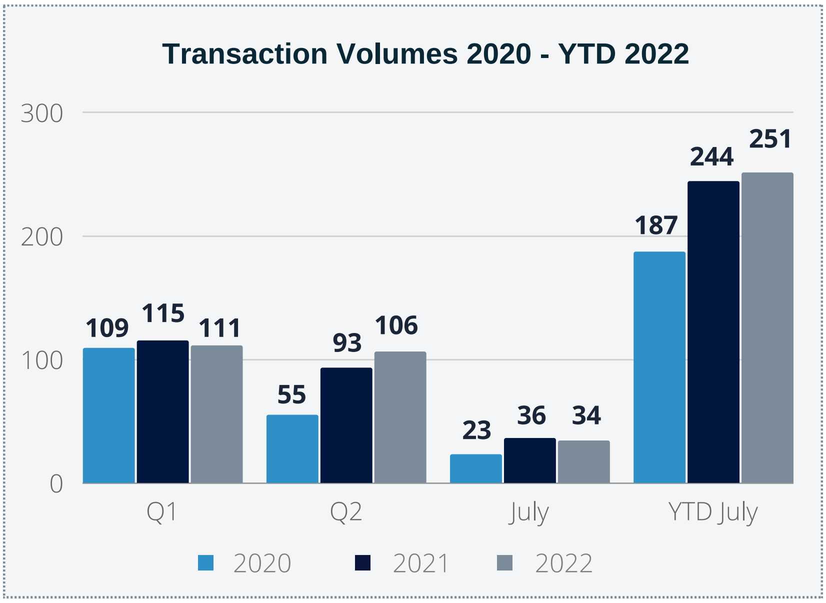
Global Packaging

FALL 2022

TRANSACTION ACTIVITY RESILIENT IN THE FACE OF CHALLENGES

After a banner year for acquisitions in 2021, everyone anticipated a decrease in deal activity. Indeed, broader measures for 2022 suggest deal activity will be down as much as 20%[1] versus 2021. Anecdotally, greater availability among providers of QOEs and Rep & Warranty Insurance indicates capacity in these support industries, which further supports a sense of a softer market.

Year-to-date through July, however, our universe of packaging transactions was up 3% from where we were in July 2021. Early returns from July and August suggest that this trend continued through the summer. As volumes in Q4-2021 were unusually strong, we anticipate overall annual volumes to remain essentially flat with 2021 by year end.



How is this possible, given the headwinds of increasing inflation and interest rates, geopolitical unrest, and continued labor and supply chain issues?

We suggest that there are several reasons for the resiliency of the transaction volumes in Packaging:

- Less Leverage: Packaging is dominated by smaller deals, which are less susceptible to changes in interest rates compared with larger deals, which typically incorporate 6+ turns of leverage on a transaction;
- Availability of Supply: Packaging is dominated by smaller, privately held companies, which have selling motivations independent of market timing;
- Significant Consolidation Activity: as noted later in this letter, consolidation continues in Labels, Distribution, Flexibles, and other categories which have persistent competitive fragmentation; and
- Perceived Safe Haven: as a rule, Packaging is less cyclical, can be less capital-intensive, and is solid, consistent cash generator, which combine to attract investors during periods of volatility.

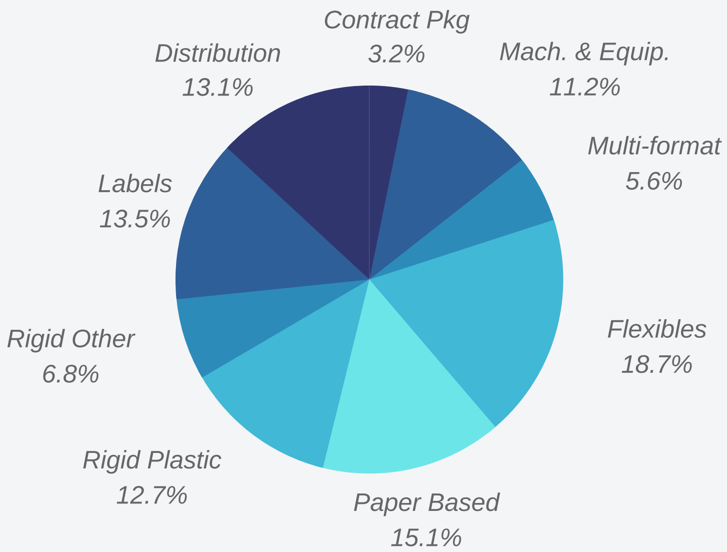
[1] Run rates / forecasts for 2022 down approximately 17% per Dealogic and 22% per PitchBook

VOLUMES BY PACKAGING SEGMENT

The most noticeable increase among segments in the year-to-date figures are for Machinery & Equipment transactions, which account for 11% of all transactions (versus 5% in all of 2021) and are on a pace to double their 2021 volume. Strong pipelines and persistent, long lead times appear to outweigh the perceived risks of buying a capital equipment business under the looming threat of a recession.

On the other hand, the most noticeable proportional decrease was in paper-based transactions, which moved from 22% of transactions in 2021 to 15% in year-to-date 2022. Following a period of tight supply across paper substrates in 2021, it appears that the current abundance of inventory may be weighing on appetite for transactions in this particular segment.

Transaction Volume by Segment



The persistent call to shift from plastic-based packaging has not yet impacted deal-makers' desire for plastic assets. Among substrates (these figures exclude Machinery & Equipment, Distribution, and Contract Packaging), Paper is proportionately represented among transactions (30% of transactions and market share). Plastics, however, is over-represented (over 50% of transactions and only 42% of the market).[2]

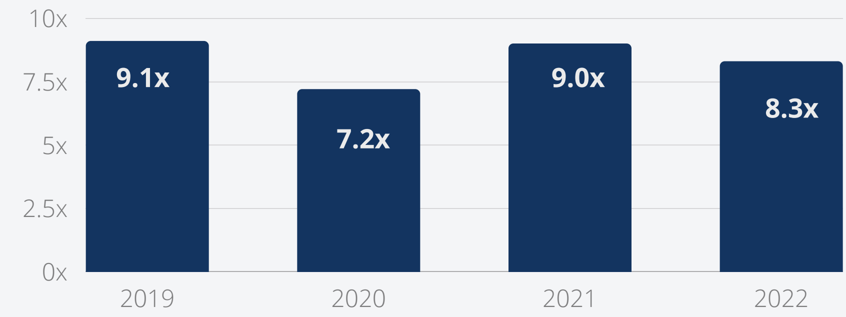
High levels of consolidation continued within Labels and Distribution, with both segments driven by financial sponsor platforms in these persistently fragmented markets. In year-to-date July 2022, no less than 18 sponsor-backed rollups combined for 74% of all deals in the Label segment (including four new platforms in 2022). Distribution has a similar profile – 67% of distribution deals were done by twelve sponsored-backed rollups. We hypothesize that the heightened interest in Distribution is driven by investors seeking a lower-cost exposure to the packaging space, as distributors historically trade at lower transaction multiples versus manufacturers, and as there are many opportunities for consolidation.

[2] Market sized data per Smithers Pira.

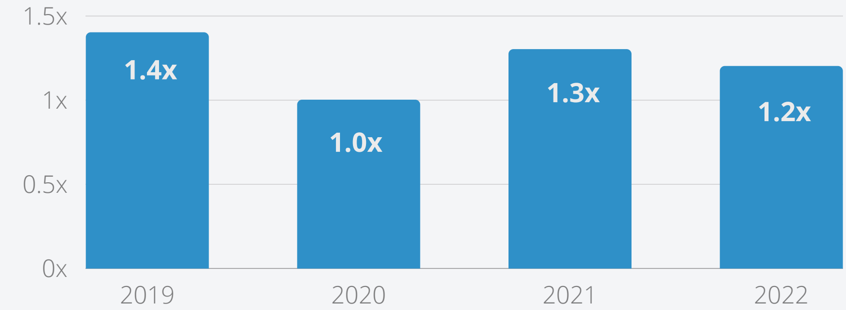
DEAL PRICING SLIPS

Valuations of Packaging M&A targets (on a multiples basis) have eased off 2021 levels. Over the last four years, the market witnessed strong valuations in 2019 (pre-Covid) and 2021 (Covid bounce) and weaker valuations in 2020 (height of Covid) and 2022 (current). Please note, however, that 2022's lower 8.3x median is still within the range of longer-term of multiples.

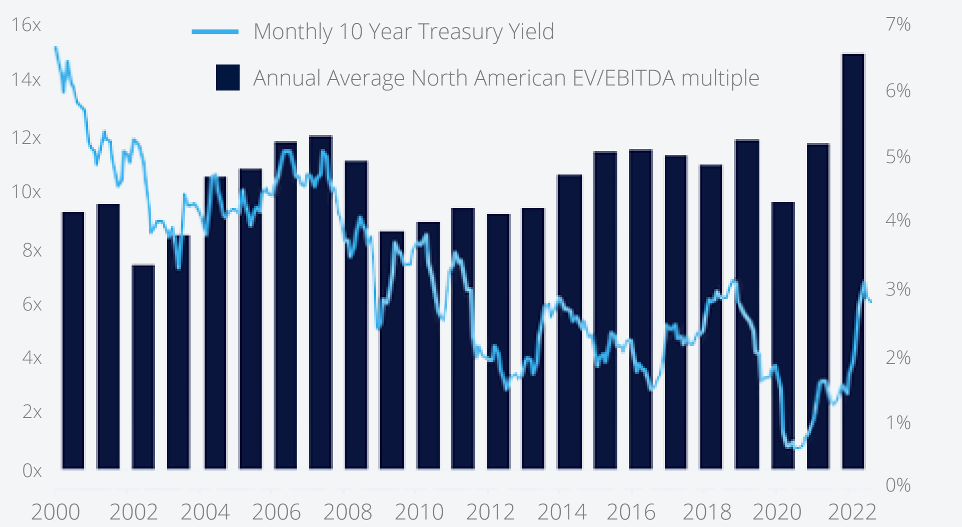
Median EBITDA Multiples 2019-22 YTD



Median Revenue Multiples 2019-22 YTD



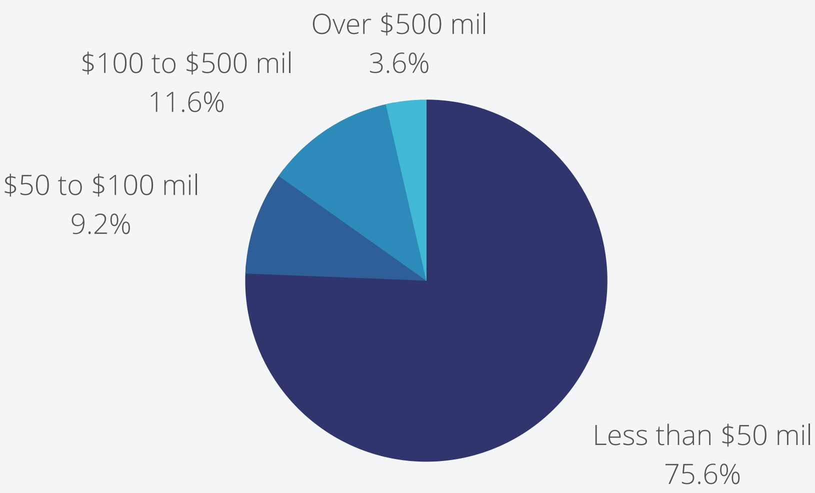
The decrease in valuations reflects today's challenges – an unsettled economic picture, geopolitical risk, and, most directly, increased inflation and the concurrent increase in interest rates. Increases in rates are conversely related to valuations, as the increase in the cost of capital (interest rates) directly impacts the prices that investors can pay for acquisitions, as illustrated below.



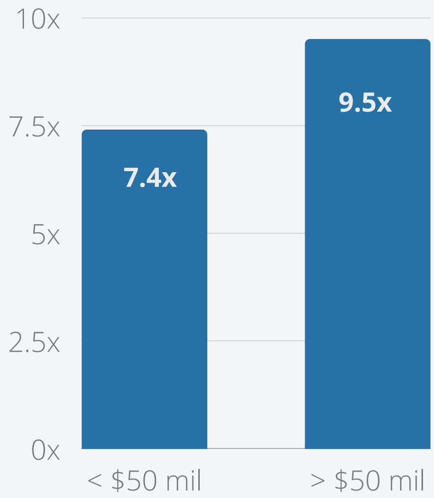
Source: Pitchbook & MacroTrends

Within the broad averages there are significant differences. For instance, pricing greatly favors larger deals. On average, targets with revenue exceeding $50M have traded this year at a two-turn premium to those under $50M. The overall transaction median of 8.3x EBITDA for YTD 2022 reflects that the vast majority of transactions are small targets (75% are less than $50 million of revenue).

Transaction Volume YTD 2022 by Target Revenue



Mean EBITDA Multiples YTD 2022 by Target Revenue



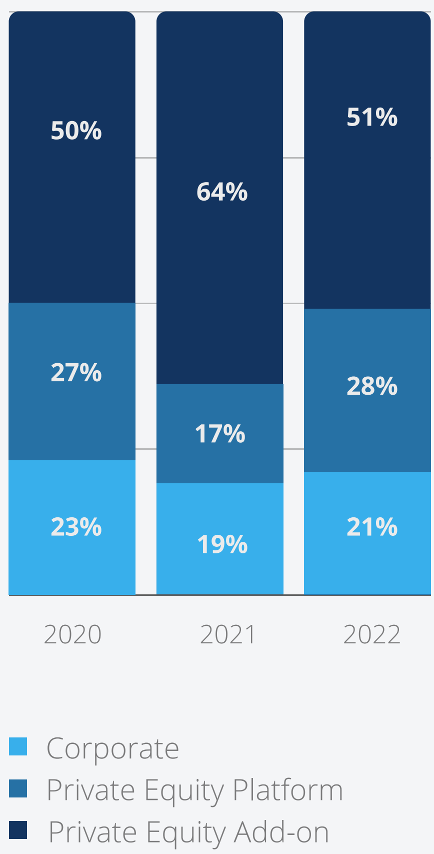
SPONSORS TAKE A BREATHER BUT PRIVATE BUYERS ARE BACK

2021 was dominated by sponsor (private equity)-backed activity, with new platforms and add-ons both notching their highest levels over the last five years. Year to date 2022, however, has seen private equity investors reduce their new exposure to the market, reducing their share of transactions from 64% in 2021 to 51% in year-to-date 2022. New platform formations (buyouts) are down 40% from 2021, reverting to the level noted in 2018 through 2020. We suggest that this is caused by

- generally shorter horizons to monetize investments, which decrease the appetite to invest in unsettled markets that require longer to generate growth and returns;
- after waiting in 2020, a record level of sponsors exited their platforms in 2021 to other private equity groups via secondary buyouts; and
- higher use of leverage which is more susceptible to recent interest rates increases.

While this slight step back creates more opportunity for Corporate and Private Buyers, it bears watching. If headwinds persist and intensify, this reticence to invest may extend to other Buyer types.

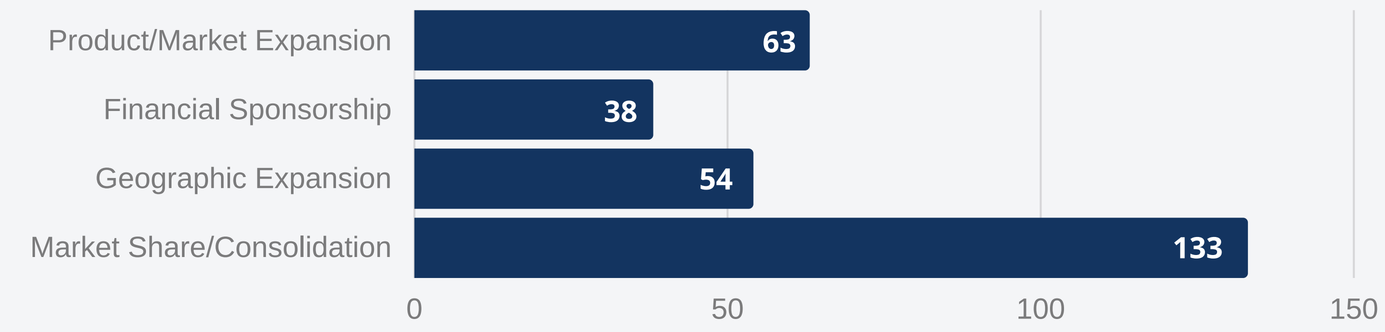
Buyer Composition



TRANSACTION DRIVERS

Consistent with prior periods, motivations for transactions favor Consolidation, with this Transaction Driver reflected in 53% of all transactions. Consolidating activity continues to be most prevalent in the Flexibles, Distribution, Labels, and Paper segments. The other primary motivators (Geographic Diversification, Product / Market Acquisition, and Financial Entry (new platforms) have been fairly split at ~15 – 25% each.

Transaction Drivers YTD August 2022



For 2022, there was a clear premium for transactions driven by Product and Market Expansion, which outpaced other motivations by a considerable margin. And while Consolidation was the most common deal motivator, these transactions traded at a meaningful discount to the overall transaction median.

SERIAL ACQUIRERS IN PACKAGING

2022 THROUGH AUGUST

Flexibles	ProAmpac, TOPPAN
Paper	Smurfit Kappa, Vidya Brands Group, RENGO PACKAGING, INC.
Rigid Plastic	Bliston PACKAGING, Manjushree ADVANCED PACKAGING SOLUTIONS
Labels	All4Labels GLOBAL PACKAGING GROUP, AVERY DENNISON, awt LABELS & PACKAGING, FORTIS SOLUTIONS GROUP, BROOK + WHITTLE, CCL
Distribution	berlin PACKAGING, TRICORBRAUN, 48FORTY SOLUTIONS, NOVVIA GROUP THE NEW WAY OF PACKAGING

AREAS OF FOCUS FOR PREMIUM VALUATIONS

The search for above-average growth and value-add has long led investors to markets such as healthcare/pharmaceutical (which in turn has led to high pricing for these assets). We continue to look not only at these historically popular markets, but also to alternatives to drive premium value:

Supply Chain

This issue arose in the years prior to 2020 and has been exacerbated by both Covid and persistent US/China tensions. We advise all buyers and sellers to carefully understand and proactively manage their supply chain. Redundant sourcing and proven ability to pass through raw material price increases are critical. This may also present growth opportunities and diversification strategies with near-shoring geographies such as Mexico (for the US/Canada) and Turkey (for Europe).

Automation

As we have noted previously, efficiency and reliability of labor became problematic during 2019; with Covid, this only intensified. We believe extra value is warranted for firms that either use or supply a high degree of automation versus focusing on low-cost countries to manage labor content.

E-Commerce

E-commerce sales continue to take share among both established product markets and in new categories. Growth in e-commerce continues to outpace retail substantially while still representing a small percentage of overall retail sales. We like firms providing cost-effective protective packaging and that can effectively bridge from brick-and-mortar to e-commerce presentation.

Mass Customization

As new SKU introduction fell during the pandemic, legacy “big brands” have recently enjoyed a resurgence. Nevertheless, we view as inevitable the long-term trend to smaller brands and more personalized products. E-commerce will accelerate this trend, as our “local store” becomes the entire available market. Find packaging companies that cater to these brands by effectively producing a large number of SKUS in ever shorter runs.

Sustainability

For years, sustainability has been a catchword for packagers, but often relegated to greenwashing and listing down-gauging as “sustainable practices.” This is over. Brand owners, regulators, and consumers demand real change, even though they lack a credible plan to reach their touted commitments. At this point, it remains unclear what path “sustainable” will take – mechanical versus chemical recycling, recycling versus biomaterials or compostables, and other technologies. This lack of clarity is no excuse for Sellers: Buyers seek targets that credibly address the need for sustainable practice in their business strategy.

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MAZZONE & ASSOCIATES UPDATES

2022 SPEAKING ENGAGEMENTS

- **AIMCAL Executive Leadership Conference** April 4-5 (Charlotte, NC)
- **AWA Mergers & Acquisitions Executive Forum** June 7 (virtual)
- **Global Release Liner Conference** June 13-15 (Barcelona, Spain)
- **AWA Label Expo Seminars- Release, Narrow Web, Pouch, Sleeve Label** September 11 (Chicago, IL)

Click here to request presentation materials from our speaking engagements. Please note that we will be attending Pack Expo in Chicago, Illinois in October 2022. If you would like to meet with us at the Expo, please contact Stuart Sanford at (404) 995-1711.

MAZZONE CURRENT PACKAGING MANDATES

Category	Description
Flexibles *North America*	Advising a private client in acquisition of flexible packaging extruder and/or converter
Flexibles *North America*	Advising a private client in the sale of a flexible packaging extrusion operation
Machinery & Equipment *North America*	Advising a private client in the sale of an equipment manufacturer
Coated Paper Products *North America*	Advising a private client in acquisition of extrusion coating assets and/or paperboard
Sustainable Packaging *Europe*	Advising a publicly traded client in the sale of a sustainable substrate technology
Non-woven Products *North America*	Advising a private client in acquisition of non-wovens substrate manufacturer
Labels *Asia, Europe*	Advising a publicly traded client in the acquisition of a VIP label converter

RECENT TRANSACTIONS

Advised Mativ (NYSE: MATV) on the sale of the Filtrexx, Inc. product division to MKB Company, a portfolio company of Kurtz Bros., Inc.

Advised Rayven Inc. on its sale to Duraco Specialty Tapes

Advised Roplast on the sale of its business to PreZero