



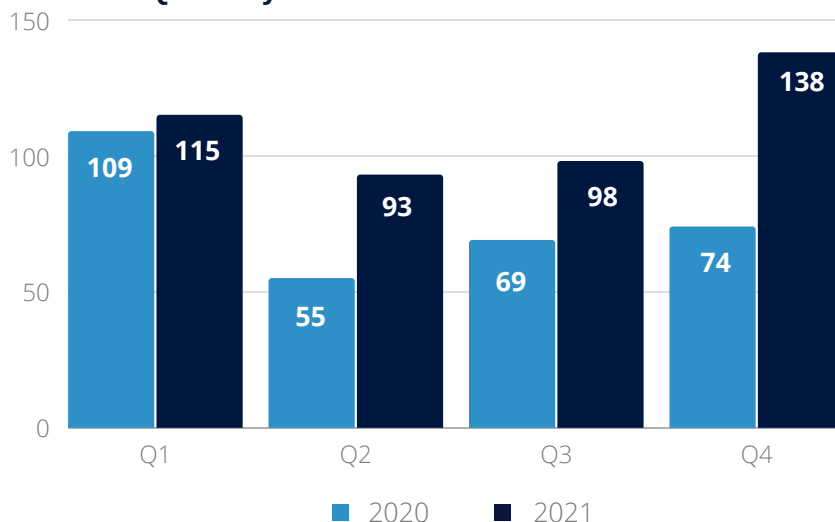
INDUSTRY INSIGHTS

Global Packaging

TRANSACTION ACTIVITY SURGES

2021 was remarkable for the economy, the transaction market overall, and specifically for the Packaging Transaction Market. Packaging companies benefitted from robust demand which grew pipelines and revenue forecasts, with many companies producing record results. There were challenges, however, as many struggled to keep up with material price increases, unavailability of key components, delays in expansion plans and labor shortages. The transaction market looked beyond these issues, however, with our recorded deal volume up 45% in 2021 to a total of 444 deals. To be sure, some of this is a reporting bias as every year brings better data collection. Nevertheless, all market participants agreed that 2021 was an unusually elevated level of activity.

Quarterly Transaction Volumes 2020 & 2021



INSIDE THIS ISSUE:

[Transaction Activity Surges](#) 1-2

[Packaging Segment Volumes](#) 2-3

[Deal Pricing Rebounds](#) 4

[2021: The Year of the Platform Add-on...and Exit](#) 5

[Transaction Drivers](#) 5

[Areas of Focus for Premium Valuations](#) 6

[Leading Acquirers in Packaging](#) 7

[Mazzone & Associates Updates](#) 8

- Upcoming Speaking Engagements
- Current Packaging Mandates
- Recent Transactions

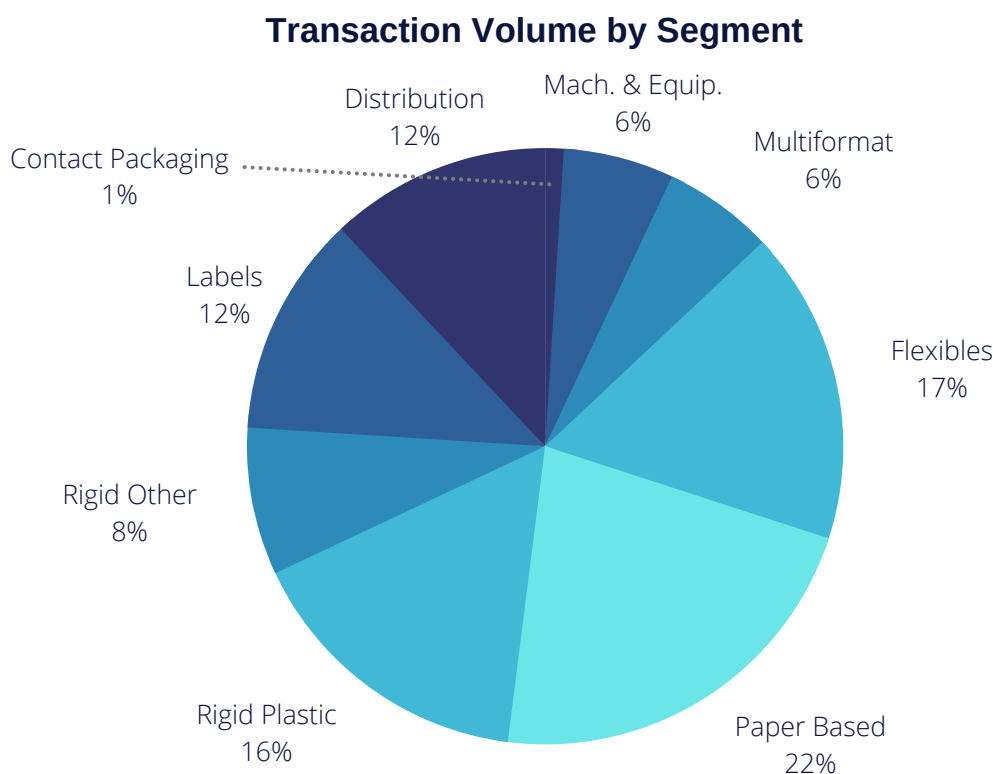
What were the drivers of this surge? We believe it was in part a rebound from constrained deal volume in 2020, that a result of uncertainty surrounding COVID's impact. It turned out that COVID was actually a positive impact for many, as the increase in demand for consumer goods drove demand for more packaging (we really wish we made packaging for wipes and toilet paper). Many sellers recognized this as a prime opportunity to consider an exit. Finally, uncertainty surrounding tax law changes (in the US) precipitated private owners and financial sponsors to monetize their investments ahead of any potential changes.

Beyond these near-term impacts, interest in the packaging market is continuing a long-term positive trend. As opposed to overall manufacturing, which has seen softening interest from investors [1], packaging is less cyclical, can be less capital-intensive, and is a solid, consistent cash generator.

Early 2022 has ushered in new concerns, even as the Omicron Variant of COVID appears to be subsiding. Inflation (and thus interest rates), plus continuing challenges in supply chain, labor availability, and raw material pricing variability are weighing on the minds of operators, buyers, and sellers. Uncertain markets such as this, however, can favor more "mundane assets" such as packaging, which deliver consistent cash flows and feature valuations not overly impacted by higher inflation. While it is only one month of data, early returns indicate that deal volume is equally robust in January 2022 as it was in 2021. We anticipate that the heightened activity will continue through 2022.

PACKAGING SEGMENT VOLUMES

Much is made of preference for more sustainable (i.e., non-plastic) packaging offerings, but we have not seen this preference in deal volumes. Among substrates (these figures exclude Machinery & Equipment, Distribution, and Contract Packaging), both Paper and Plastics are proportionately represented among transactions (Paper at ~30% of the market and deals; Plastics at ~42% of the market).[2]



[1] www.PrivateEquityInfo.com, PE Portfolio Investment Trend: Manufacturing 1990 to 2020

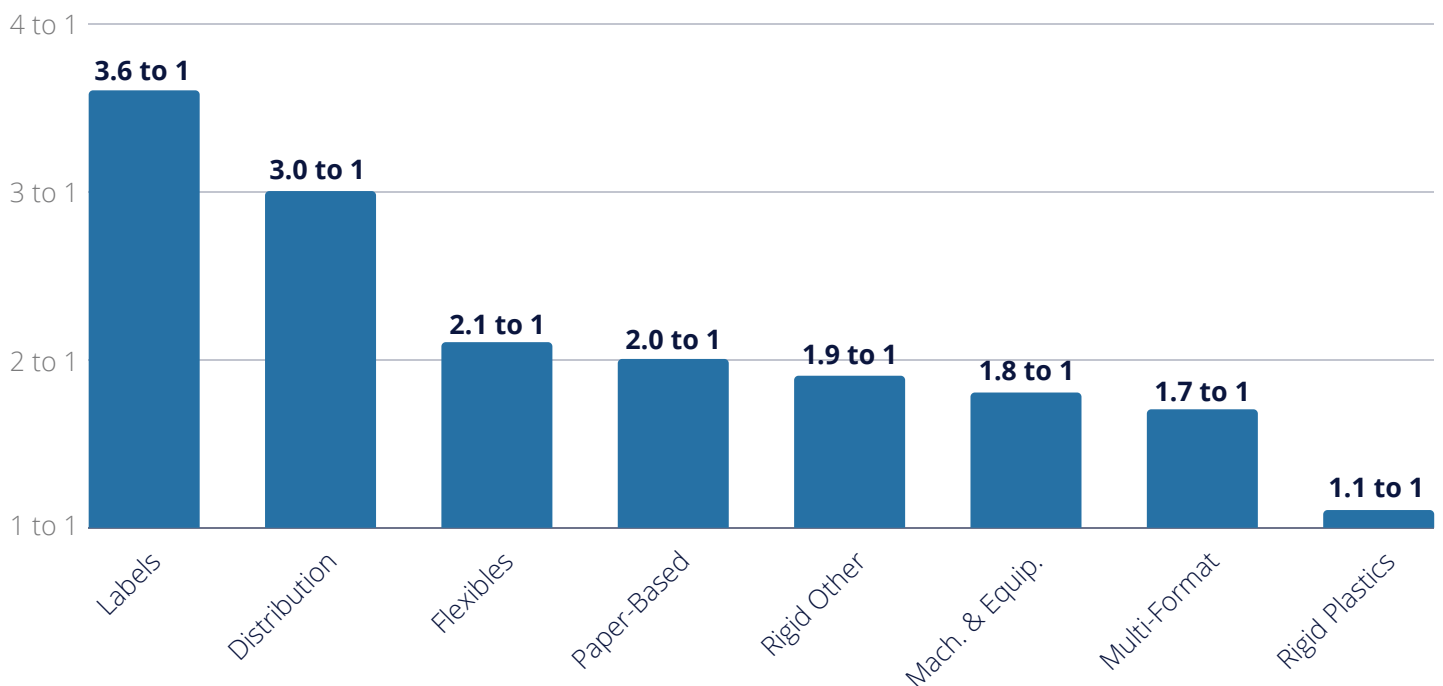
[2] Market sized data per Smithers Pira.

Other notably active segments in 2021 are Labels and Distribution, with each presenting 12% of transaction volumes. Labels are seeing a tremendous amount of activity among both smaller and larger converters, driven by financial sponsor platforms seeking to consolidate this persistently fragmented market. We noted no less than 20 sponsor-backed rollups active in the Label Market in 2021, who combined for 74% of all the deals in this segment. As discussed below, this has resulted in “valuation inflation,” not only among the largest rollups, but also creeping down into smaller companies as well.

The Distribution Segment has a similar profile – 65% of distribution deals were done by 13 sponsored-backed rollups. We hypothesize that the heightened interest is driven by the investment market seeking a lower-cost exposure to the packaging space, as distributors historically trade at lower transaction multiples versus manufacturers, and as there are ample opportunities for consolidation.

Transaction activity by rollups is further borne out by understanding how many add-ons are done for each sponsor platform. While the overall average (2019-2021) of add-ons to platforms for sponsors is 2:1 across packaging, this is significantly higher for both Labels and Distribution:

Ratio of Add-ons to Platforms, 2019-21

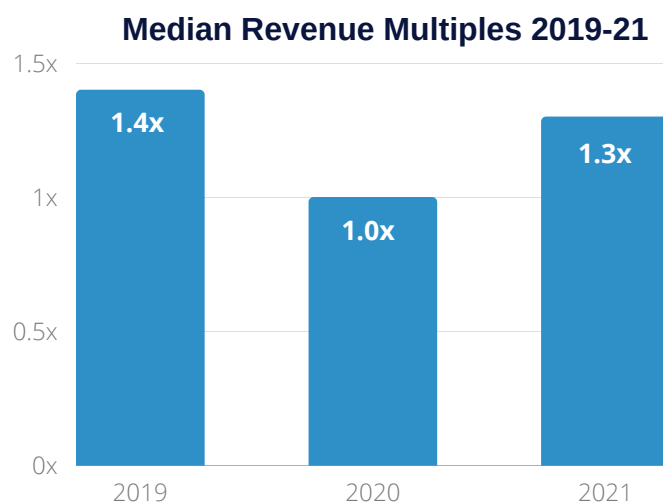
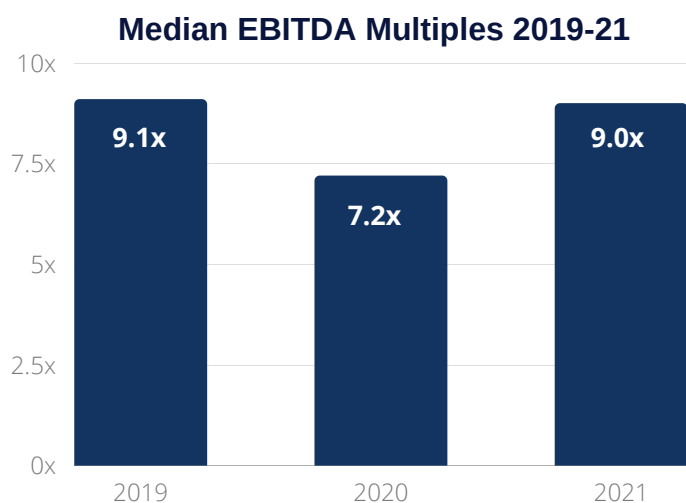


Sign up for our Packaging Newsletter and get access to the full library of Global Packaging Industry Insights at mazzoneib.com/news/packaging.



DEAL PRICING REBOUNDS

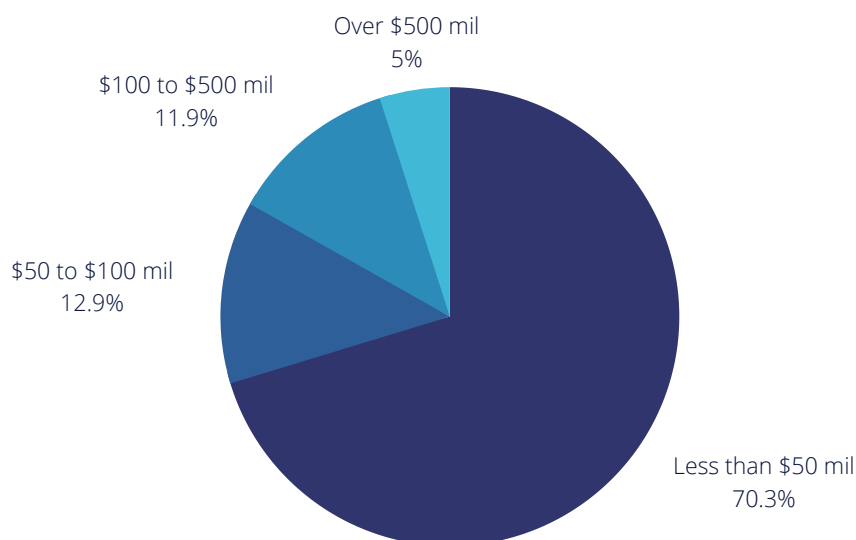
Packaging M&A valuations (on a multiples basis) rebounded over 2020, when there was an across-the-board softening in pricing. Overall, 2021 pricing returned to pre-pandemic valuations.



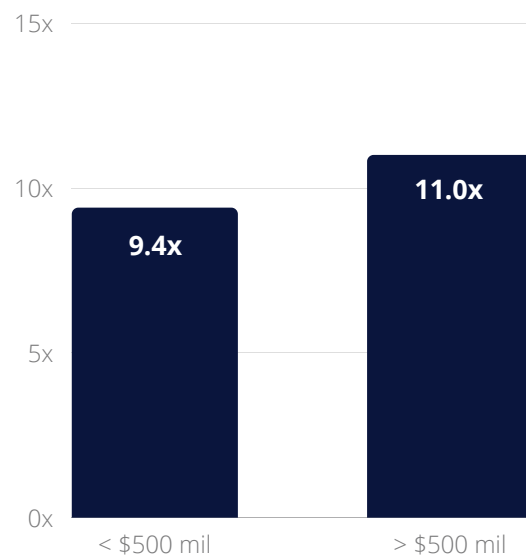
Beneath the overall pricing, however, there are significant differences. The three largest volume categories of Flexibles, Paper-based, and Rigid Plastics rebounded but did not completely regain their 2019 valuation levels (on an EBITDA basis). The bigger increases were in the Label, Distribution, and Other Rigids (Metal, Glass, Wood) categories, each of which increased by multiple turns of EBITDA.

Pricing in 2021 once again favored large deals – for targets with revenue exceeding \$500M, buyers paid on average 11x EBITDA, a 1.5x+ premium to the 9.4x mean of smaller transactions. The overall transaction median of 9.0x reflects that the vast majority of transactions are of small targets (by revenue). 71% of transactions were for targets of less than \$50 million of revenue.

Transaction Volume by Target Revenue



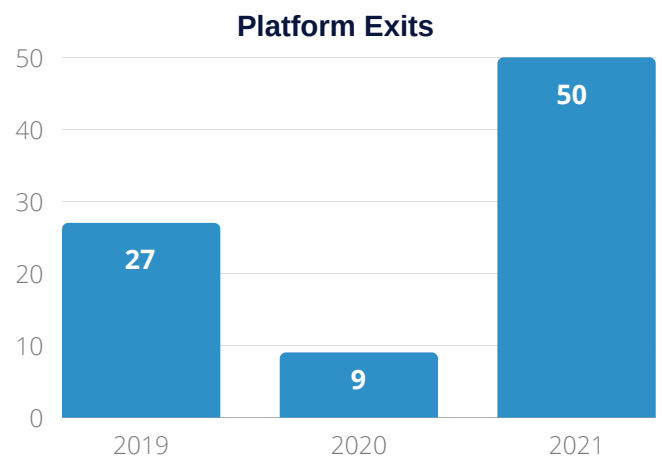
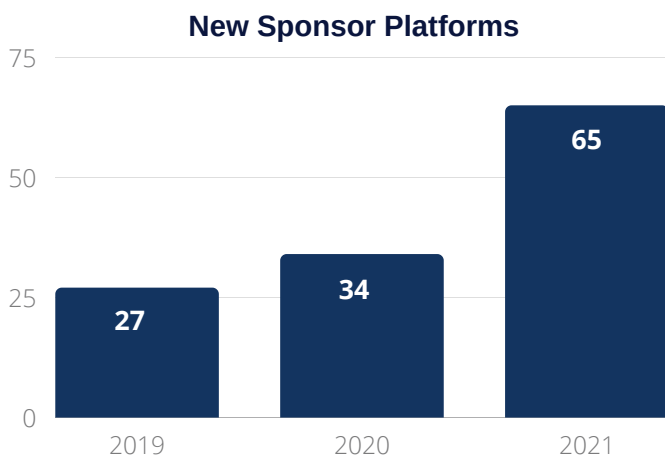
Mean EBITDA Multiples 2021 by Target Revenue



2021: THE YEAR OF THE PLATFORM ADD-ON... & THE EXIT

In our Summer 2021 Edition of Packaging Insights, we noted the elevated level of Add-ons to sponsor-backed Platforms, with these transactions representing 42% of packaging transactions in 2021. Combined with new platforms (buyouts), financial sponsors represented 64% of all packaging transactions.

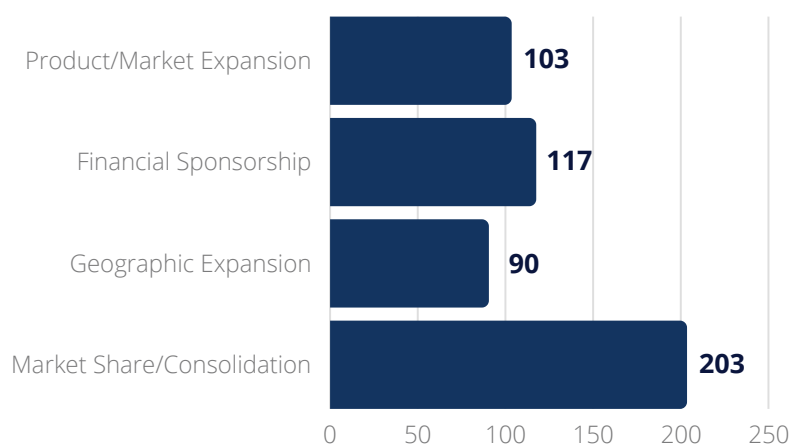
What became evident by the year end was that new platforms were proliferating even as exits by sponsors intensified. 2021 witnessed 65 new platforms being formed in the Packaging Space, slightly more than 2019 and 2020 combined. 2021 also saw, however, a substantial increase in exits, with 50 exits (as add-ons to other platforms, or sales to non-sponsor buyers) versus only 36 in the prior two years. Notably, of these exits, nearly 2/3 were added-on to other Sponsors' Platforms. Not included as "exits" were 31 secondary buyouts (trading ownership of a platform to another sponsor).



TRANSACTION DRIVERS

Reflecting the Platform Add-on dynamic above, motivations for transactions favor Consolidation, with this reflected in 46% of all transactions. Consolidating activity continues to be most prevalent in the Paper, Labels, and Flexibles segments. The other primary motivators (Geographic Diversification, Product / Market Acquisition, and Financial Entry (new platforms) have been fairly split at ~20 – 25% each.

Transaction Drivers 2021



As in previous years, premium valuations are found in transactions driven by Financial Sponsorship (new platforms), which traded at a 1-turn premium to other motivations. Also, as highlighted in a conference panel that Mazzone led in 2021, sustainability is showing up in M&A transactions much more frequently and at center-stage. 22% of transactions we tracked in 2021 included a "sustainability component" – whether that be companies focused on sustainable products and processes or shifting substrates/formats to more sustainable options. We also anecdotally find that these companies can demand a premium in the market compared to those with no sustainability product line or strategy.

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 early 2020 and has been exacerbated by COVID, persistent US/China tensions, and most recently, Russia/Ukraine. 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 for 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 has 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. 2021 e-commerce sales substantially increased over 2020 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 introductions have fallen 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.

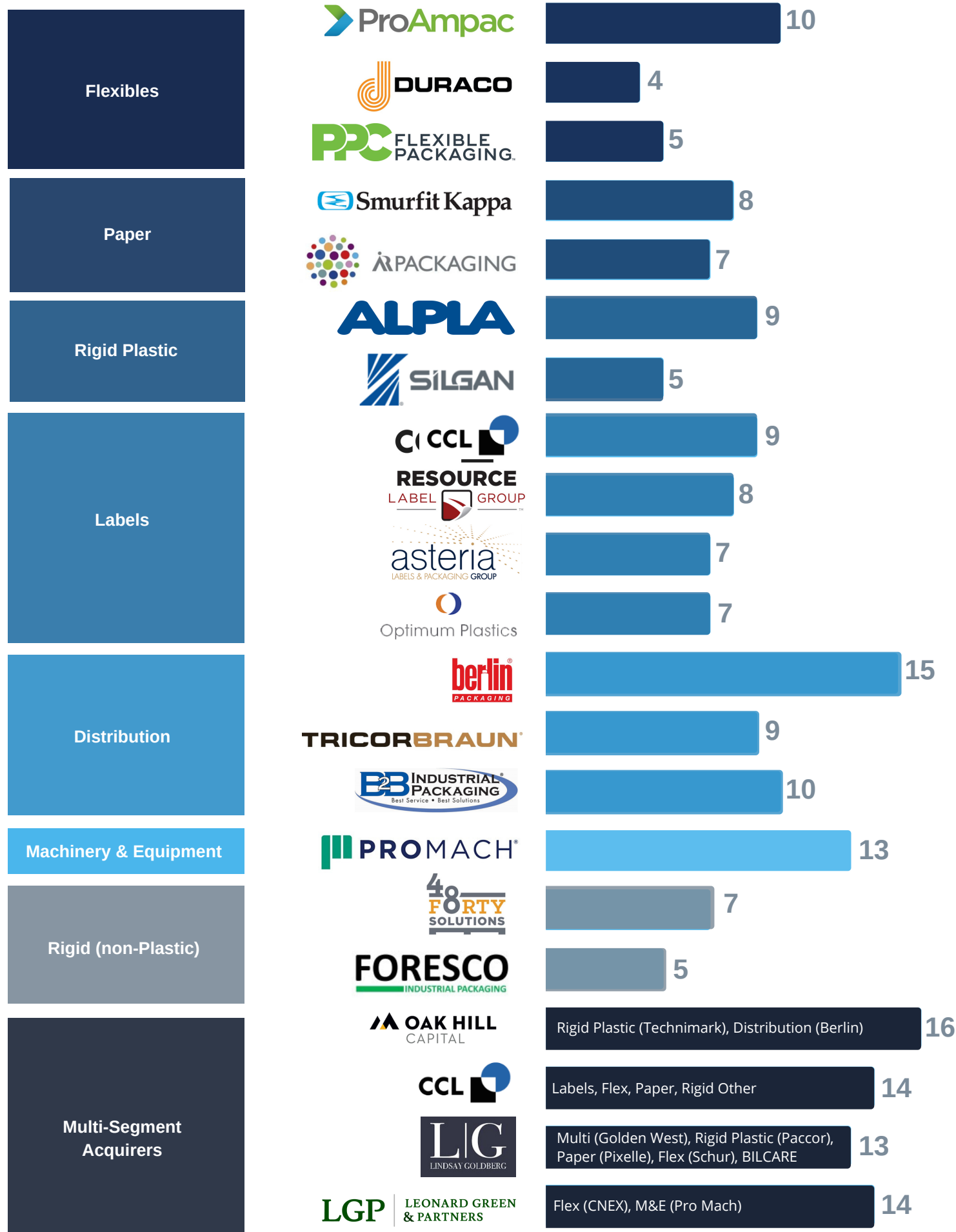
Sustainability

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 bio-materials 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.

For example, in January 2022 The U.S. Plastics Pact, a consortium of packaging players and brand owners, came out with target goals to have 100% of plastic packaging to be reusable, recyclable or compostable by 2025 and develop infrastructure to reuse, recycle or compost 50% of plastic waste by 2025. Within the guidance, packaging players utilizing materials within the [“Problematic and Unnecessary Materials List”](#) need to be aware of the increased scrutiny on their materials. Notably, this list includes PS (including Expanded Polystyrene), PVC, problematic label constructions, colored PET bottles (outside of transparent blue or green), and PFAS. Both customers and buyers will place a premium on companies who are able to provide solution-based design to ensure recyclability as well as drive operational frameworks to ensure sustainability of products.

LEADING ACQUIRERS IN PACKAGING

2019-2021



MAZZONE & ASSOCIATES UPDATES

UPCOMING SPEAKING ENGAGEMENTS

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

MAZZONE CURRENT PACKAGING MANDATES

Category	Description
Flexibles <i>North America</i>	Advising a private client in acquisition of flexible packaging extruder and/or converter, revenue range \$30 to \$200M
Flexibles <i>North America</i>	Advising publicly-traded client in carveout of non-core division, Revenue \$36 million
Coated Paper Products <i>North America</i>	Advising a private client in acquisition of extrusion coating assets and/or paperboard, Revenue range \$20 to \$75
Labels <i>North America</i>	Advising a private equity client in acquisition of a specified prime label target
Labels <i>North America, Europe</i>	Advising a publicly-traded client seeking VIP label converter, revenue range of \$20M to \$100M in revenue
Recycled Plastics <i>North America</i>	Advising a private client in acquisition of plastics recyclers and/or high users of recycled plastic resins with revenue over \$100 million

RECENT PACKAGING TRANSACTIONS


Advised Rayven Inc. on its sale to Duraco Specialty Tapes


a portfolio company of



Advised Roplast on the sale of its business to PreZero




Advised a European Rigid Packaging client on its North American expansion