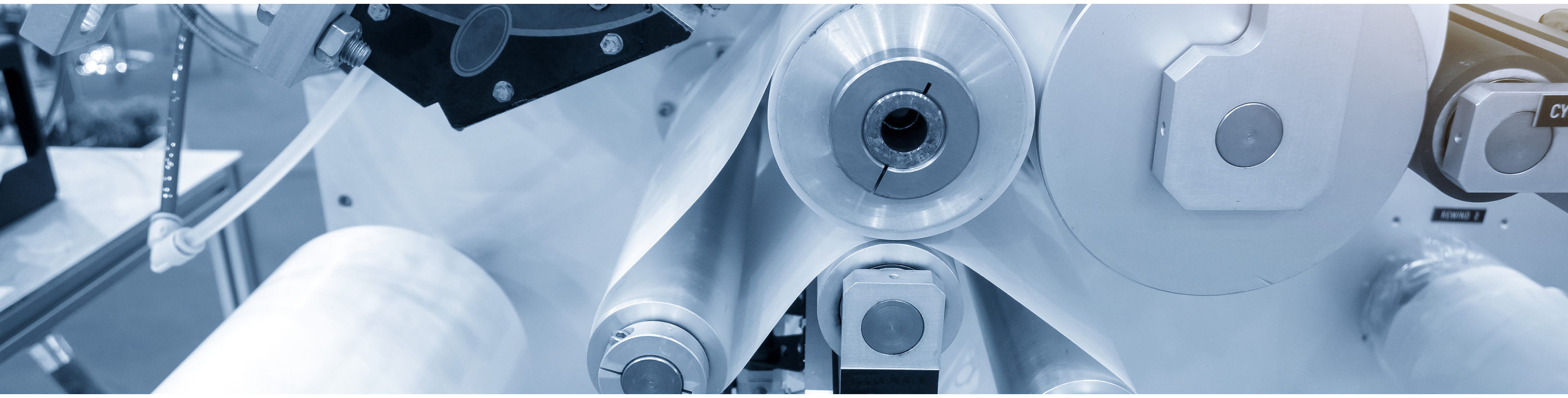
FALL 2021

INDUSTRY INSIGHTS

Global Packaging

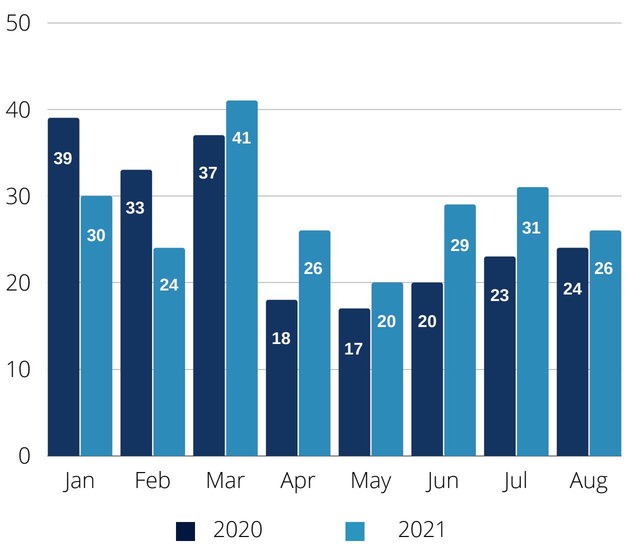


TRANSACTION MARKET

2021 has witnessed remarkable rebounds for the economy generally, the transaction market overall, and specifically for the Packaging Transaction Market. The economy rebounded particularly well through mid-year 2021, with the US GDP growing over 6% in each of Q1 and Q2 and defying the rise of the delta variant, inflationary pressures, supply chain disruptions, and a disconnect between labor demand and willing workers. This success was mirrored in the deal-making marketplace, particularly among financial sponsors (Private Equity), which drove volumes that will surpass 2019's former annual record [i]. Acquirers are riding the high economy, a very favorable lending environment, and sellers seeking to avoid a potential increase in tax rates in 2022.

In the Packaging Transaction market, early year-over-year comparisons lagged early (pre-Covid) deal volumes, but thereafter accelerated significantly. Year-to-date volumes are up 8% for the first eight months of 2021 (227 for 2021 vs 211 for 2020).

Monthly Transaction Volumes 2020 & 2021



One area that still lags pre-pandemic volumes is cross-regional transactions. For the year-to-date period, deal makers “kept it local”, with 76% of our transaction sample within the general regions of North America and EMEA. It appears that the pandemic continues to make cross-regional activity difficult, as these deals represented only 8% of tracked transactions.

We anticipate that the heightened activity will continue through the balance of the year. Overall volumes are still being driven by the attractiveness of the packaging market, plus there is an added urgency by US sellers who wish to transact prior to the end of 2021 and thus avoid the risk of increased taxes in 2022.

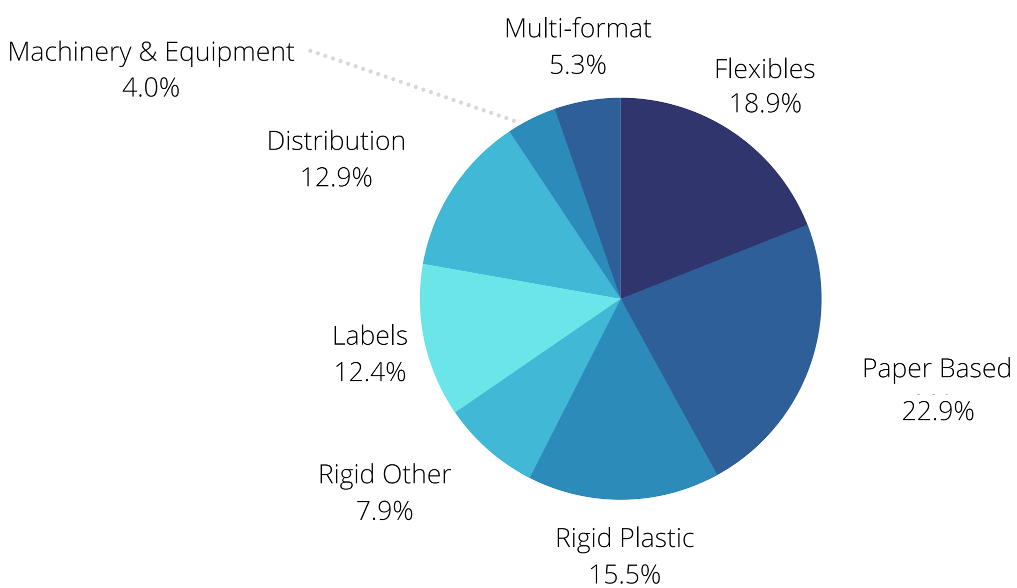
[i] Pitchbook: US Middle Market Report, Q2 2021
Sources: Mazzone & Associates research, Pitchbook, and company filings

PAPER OR PLASTIC?

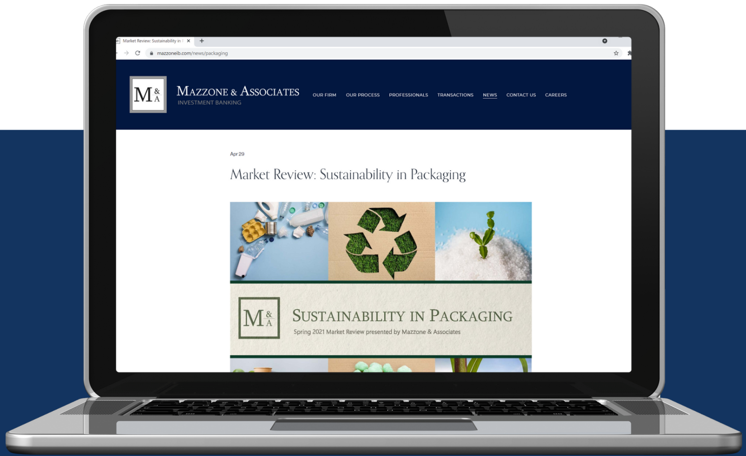
Much is made of preference for more sustainable (i.e., non-plastic) packaging offerings, but this has yet to be evidenced in deal volumes. Among substrates (these figures exclude Machinery & Equipment, Distribution), both Paper and Plastics are proportionately represented among transactions (Paper at ~30% of the market and deals; Plastics at ~42% of the market).[ii] We noted last year that Plastics (Rigid+Flexible) fell in both absolute and relative terms in 2020. It appears that may have been a blip – both segments have rebounded in 2021 and are back in line with 2019’s levels.

Other notably active segments in 2021 are Labels and Distribution. Labels are seeing a tremendous amount of activity among both smaller and larger converters, driven largely by financial sponsor platforms seeking to consolidate this persistently fragmented market. Distribution has grown from 8% of transactions in 2020 to 13% in YTD 2021. 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.

Transaction Volume by Segment



Want more information about sustainable packaging trends? Read our Market Review at mazzoneib.com/news/packaging

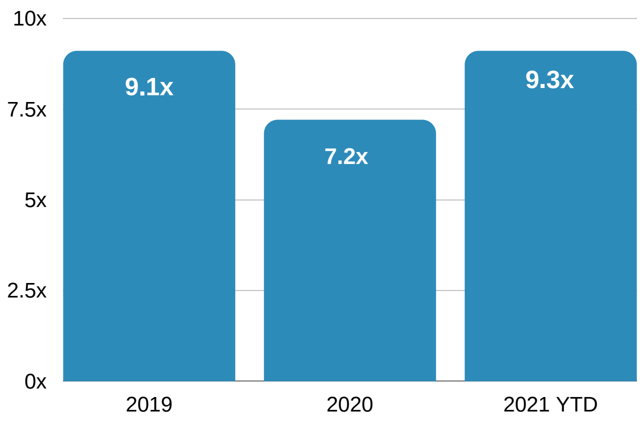


[ii] Market size data per Smithers Pira.

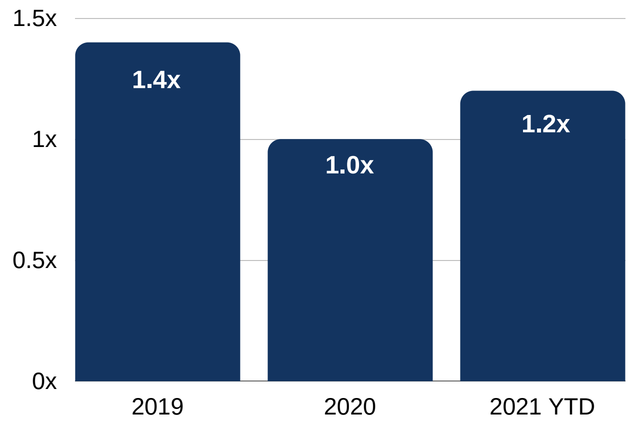
DEAL PRICING REBOUNDS – AND THEN SOME

Pricing in Packaging M&A transactions rebounded in 2021, building on the strength seen at the end of 2020 to surpass the pricing seen in pre-pandemic 2019 on an EBITDA multiples basis.

Median EBITDA Multiples, 2019 to YTD 2021



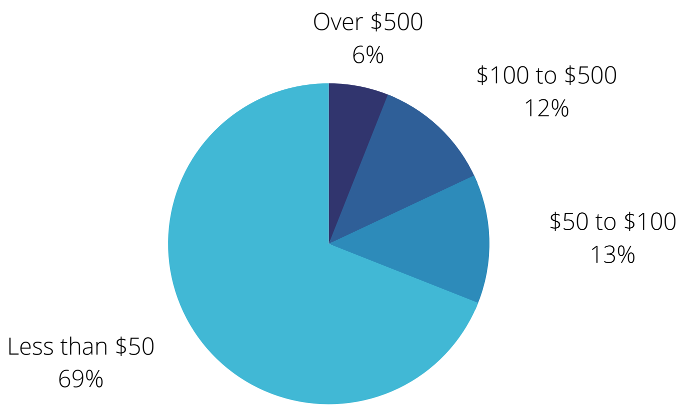
Median Revenue Multiples, 2019 to YTD 2021



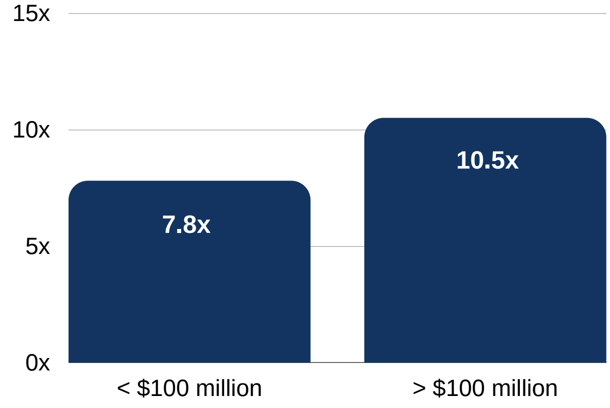
After 2020, when all segments generally saw softer pricing than 2019, transaction pricing was mixed across product segments. Flexibles and Labels have seen increases to near double-digit EBITDA levels; Rigid Plastics held constant at 9.5x, and Paper-based multiples have eased off slightly in 2021.

Pricing in 2021 has so far favored large deals – for targets with revenue exceeding $100M, buyers paid on average over 10x EBITDA; for less than $100M, less than 8x. The overall median of 9.3x reflects that the vast majority of transactions are of small targets (by revenue). This reflects the persistent fragmentation in the industry – where 69% of transactions were for targets of less than $50 million of revenue.

Transaction Volume by Target Revenue



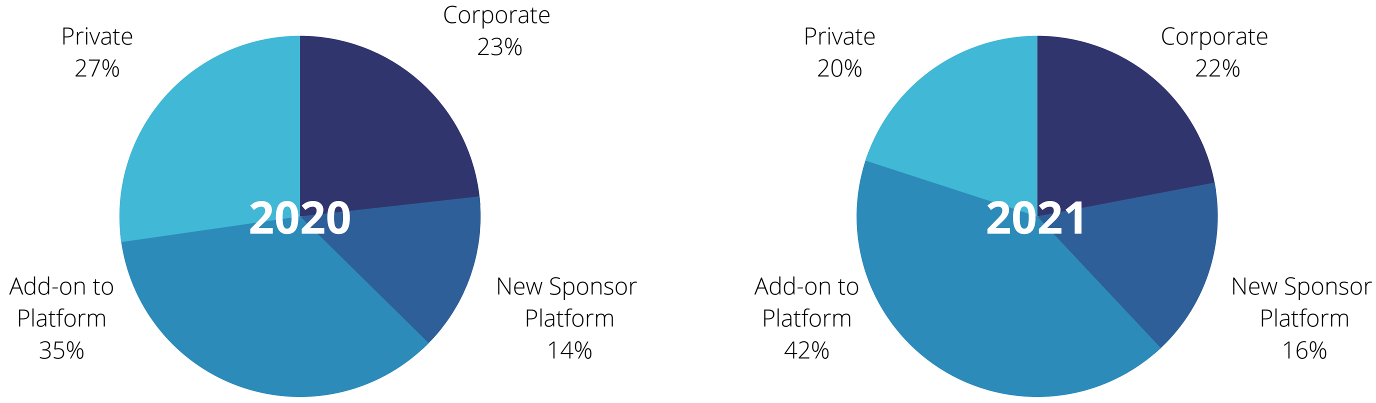
Mean EBITDA Multiples YTD 2021 by Target Revenue



2021: THE YEAR OF THE PLATFORM ADD-ON

Add-ons to sponsor-backed Platforms represented a record 42% of packaging transactions in YTD 2021. Combined with new platforms (buyouts), financial sponsors represented 58% of all year-to-date packaging transactions.

Transaction Types 2020 & 2021



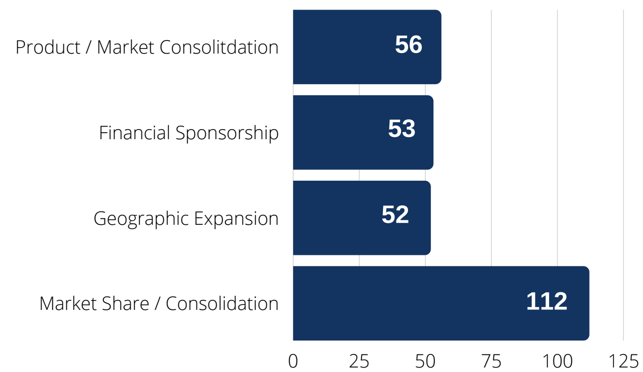
Sponsor's increased share has been largely taken from private buyers, who now represent only 20% of transactions. A clear reason is that of all groups, Financial Sponsors pay the most – on average offering a 0.4x premium to Corporate and Private buyers.

Sellers are overwhelmingly Private, with this group representing 71% of all transactions year-to-date August 2021. Selling financial sponsors are continuing trends that we have highlighted in previous Industry Insights – the preferred exit strategy for financial sponsors remains the secondary buyout, with 63% of selling sponsors sold to another private equity sponsor.

TRANSACTION DRIVERS

Reflecting the Platform Add-on dynamic above, motivations for transactions favor Consolidation, with this reflected in 41% of all transactions. Consolidating activity has been most prevalent in the Flexibles, Labels, Paper, and Distribution segments. The other primary motivators (Geographic Diversification, Product/Market Acquisition, and Financial Entry (new platforms), have been fairly split at ~20% each.

Transaction Drivers* YTD August 2021



As highlighted in a conference panel that Mazzone led earlier this year, sustainability is showing up in M&A transactions much more frequently and at center-stage. 20% of the year-to-date transactions that we have tracked included a "sustainability angle" – whether that be companies focused on sustainable products and processes or shifting substrates/formats to more sustainable options. We also find that these companies often demand a premium in the market compared to those with no sustainability product line or strategy.

**Note: as a transaction can have more than one noted motivation, drivers will sum to more than the total number of transactions in our sample*

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 both Covid and the 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 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 are growing significantly in this economy, among both established product markets and with expansion into new categories (grocery). 2021 e-commerce sales substantially increased over 2020 while still representing a relatively 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

While CPGs have recently enjoyed a resurgence among their big brands, 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 packaging, particularly among resin-based and consumer-facing packaging. Historically, many companies have paid lip service to "sustainability" to address this necessary evil, for example, citing customer-driven, cost saving down-gauging as “sustainable practices.” This was perhaps excusable as end customers (CPGs and consumers) historically showed zero interest in paying for sustainability.

That paradigm has changed. The lip service previously communicated by brand owners is now resulting in “commitments,” and consumers are demanding real change. Although North America lags Europe in regards to recycling infrastructure (lower recovery rates, insufficient sortation and poor consumer education/incentives), increasing investment and innovation are driving a push towards a reality of sustainable packaging models in the North American market. Companies who develop technology and commercialize products which are truly sustainable will separate themselves from the pack. We now see buyers acknowledging this and placing a premium on targets that deliver these products and practices.

SUMMARY

We are publishing this newsletter as we look forward to PackExpo later this month. Attendance at this event will be telling – not only of the degree of comfort with vaccines and other protocols, but also of the degree to which the industry believes opportunities for growth can support an investment in such a conference. It will certainly be different this year.

If you are attending PackExpo this year, or simply would like to speak, we encourage you to reach out to us. With our transaction and industry experience advising clients on sales, acquisitions, and financing activity in companies across the industry, Mazzone & Associates is well-positioned to provide our packaging clients with the expertise needed to create value in today's market.

MAZZONE CURRENT PACKAGING MANDATES

Category	Mandate	Client Type	Geography
Flexibles	Buy Side (search)	Private	EMEA (into N. Amer)
Labels	Buy Side (specific asset)	Corporate	Asia into N. America
Rigid Plastics	Debt Placement	Private	Global
Paper	Strategy / Valuation	Private	North America
Flexibles	Sell Side (pending)	Private	North America

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