



INDUSTRY INSIGHTS

GLOBAL PACKAGING

As the Industry heads to Pack Expo in September, Mazzone & Associates provides our semi-annual update on Mergers & Acquisitions activity in the Packaging Industry. Key observations for this edition of Industry Insights:

- Transaction Volumes are down from 2022: -7% for the trailing four quarters (June 2023) and -13% for the annualized run rate. There are signs, however, that volumes will bounce back in the second half of this year (p. 2).
- EBITDA Multiples are down year-over-year, normalizing to the mean of the last five years. While EBITDA Multiples are down, Revenue Multiples are up, signaling shifts in profitability of transacted companies (p. 4).
- Financial Sponsors, both as strategic add-on acquirers and new platform buyers, remain very active, whereas Private and Corporate Buyers are being less aggressive (p. 5).
- Overall Cross-Regional M&A is consistent with prior years, but shifts in Target Geographies favor EMEA and ROW (Rest of World) versus North America (p. 6).
- Public Company valuations have not shifted significantly over the last year and remain at the lower end of their trading range for the past decade (pp. 6-7).

TRANSACTION VOLUME

Transaction volumes in the first half of 2023 lag the first half of 2022 by 14% and the Trailing 4 Quarters trail 2022 by 7%. Quarterly Transaction Volumes in Q1 and Q2 of 2023 were the lowest since the Covid Year of 2020.



For many packaging converters, over-stocking in the latter part of 2022 continued into 2023, leading many to stay on the sidelines until performance improved. This on top of anxiety over the economy and financing suppressed volumes across the board in packaging.

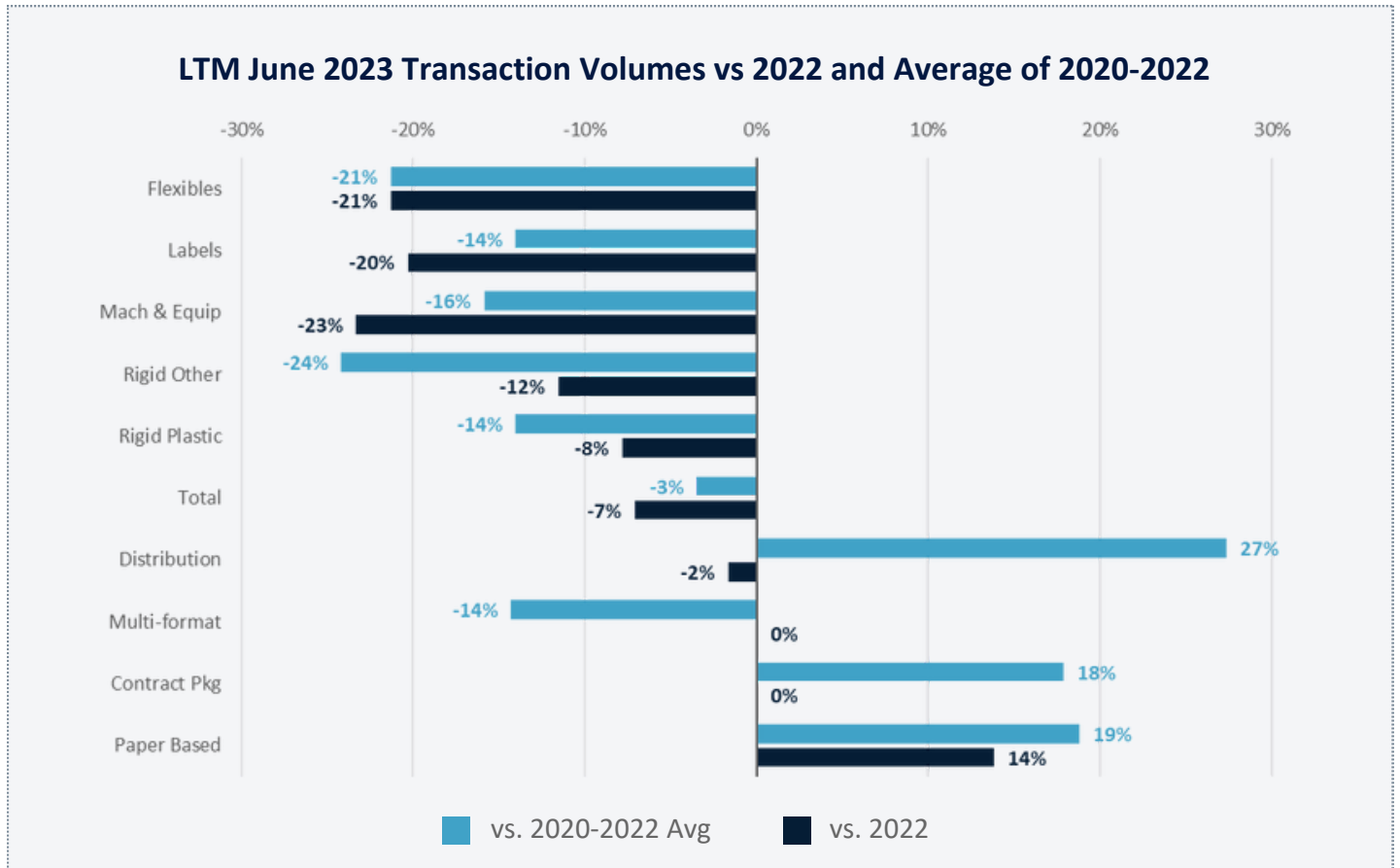
Smaller transactions (defined as Target Revenue less than \$50 million) were down -10% versus 2022 and down -5% from the 3-year average. The largest deals (defined as Target Revenue over \$500 million) were off more significantly: -44% versus both 2022 and the 3-year average. In part, this reflects the constriction of loan syndication markets, that itself a result of increased rates and concern regarding higher degrees of leverage typical of these larger transactions.

Buyers & Sellers of Packaging businesses should take comfort, however, as Packaging once again outperformed the overall M&A market. Per Dealogic, the number of global M&A deals in H1 2023 fell by 25% in comparison to H1 2022 – nearly double the rate noted for Packaging. As we have noted previously in Industry Insights, the underlying structure and dynamics of the packaging market positions it for resilient deal activity, even in uncertain/changing times.

Comfort can also be found in signals for a rebound in activity in the second half of 2023. We are aware of a number of sponsor transactions that are in process or scheduled to come to market later this year, which should help reset valuation expectations and unlock further deal activity. Also, carveout situations are also being rewarded to large strategics who are looking to de-lever their balance sheets (e.g., Berry Global and Mativ). Lastly, while it is only one month of data, July was by far 2023's best month in transaction volume. Annualizing July's volume would bring activity close to 2022's level.

VOLUMES BY PACKAGING SEGMENT

There are significant transaction volume disparities among packaging segments. Bucking the overall trend, Paper-based transactions for the Trailing 4 Quarters increased by 14 % over 2022 and by 19% versus the average for 2020 through 2022. All other packaging segments are flat to down versus 2022. The segments with the most significant decreases are Flexibles (-21% versus both 2022 and the 3-year average) and Labels (-20% for 2022 and -14% for the 3-year average).

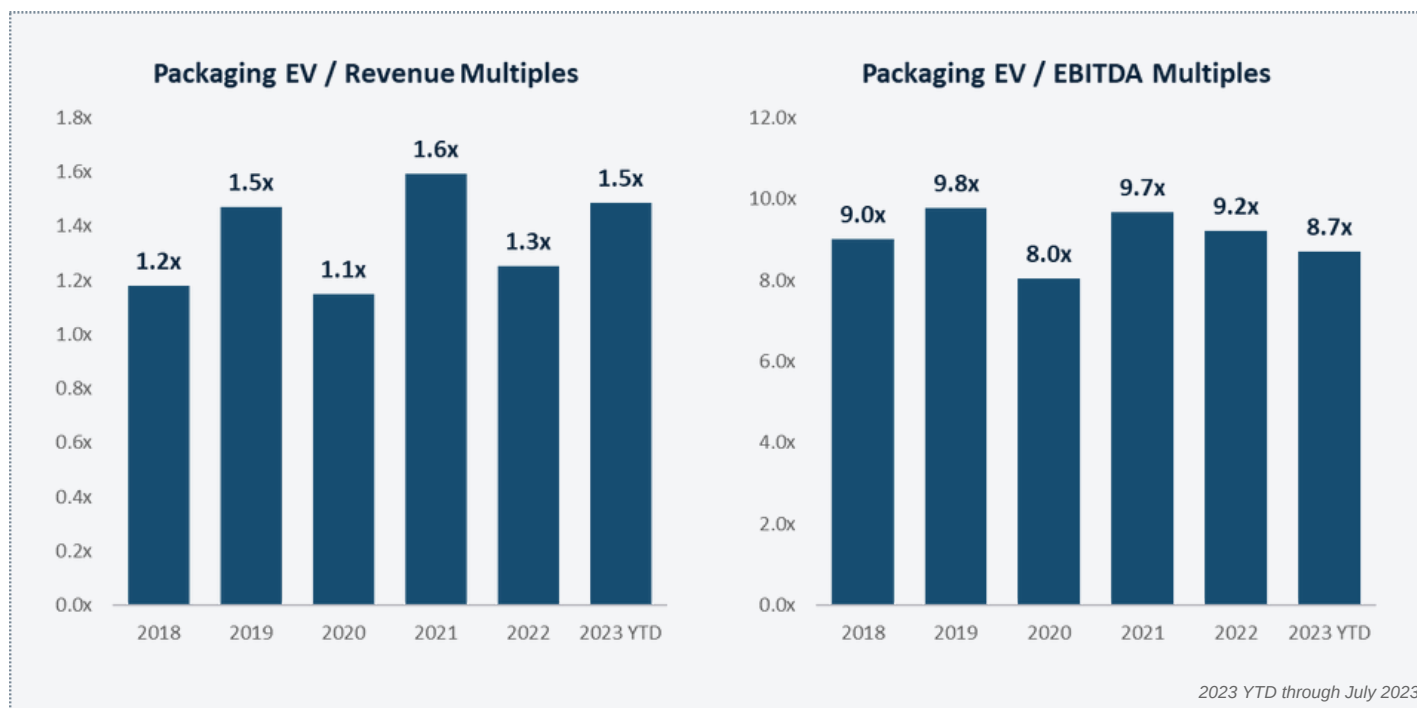


Analysis of the data and conversations with Buyers and Sellers in the market indicate the following:

- Concern regarding sustainability of plastic packaging, particularly Flexibles, is weighing on plastics segments. Conversely, Paper-based Packaging is viewed as more sustainable, which encourages further investment in the segment.
- Consolidation in the Label Segment continues with this segment still comprising 17% of all transactions. Nevertheless, the Labels marketplace has been “over-shopped” in recent years, as no less than 39 Sponsor-led platforms have been active in the label space for 2018-2023 (please reference our [Label Industry Insights](#) from Spring 2023). The falloff in activity may indicate that the recent sponsor-led consolidation effort may be losing steam.
- Conversely, sponsors now favor the folding carton space and this contributes to the increased activity in the Paper Segment. Since 2022, a number of financial sponsors have sought Mazzone’s thoughts and data regarding this segment. Perhaps this will be the new “Labels” for 2023+.
- Distribution has emerged as a major consolidation play by Financial Sponsors, with six platforms accounting for 50% of transactions in the space for 2022 – 2023.

DEAL PRICING

Revenue Multiples and EBITDA Multiples have moved in different directions in 2023, with mean Revenue Multiples up 0.2x turns (19%) and EBITDA Multiples down 0.5x turns (-6%). This holds true for the longer review period, with Revenue Multiples up 0.3x versus the 5-year average and EBITDA multiples close to the 5-year average of 8.5x.



The decrease in EBITDA valuation multiples was expected and 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.

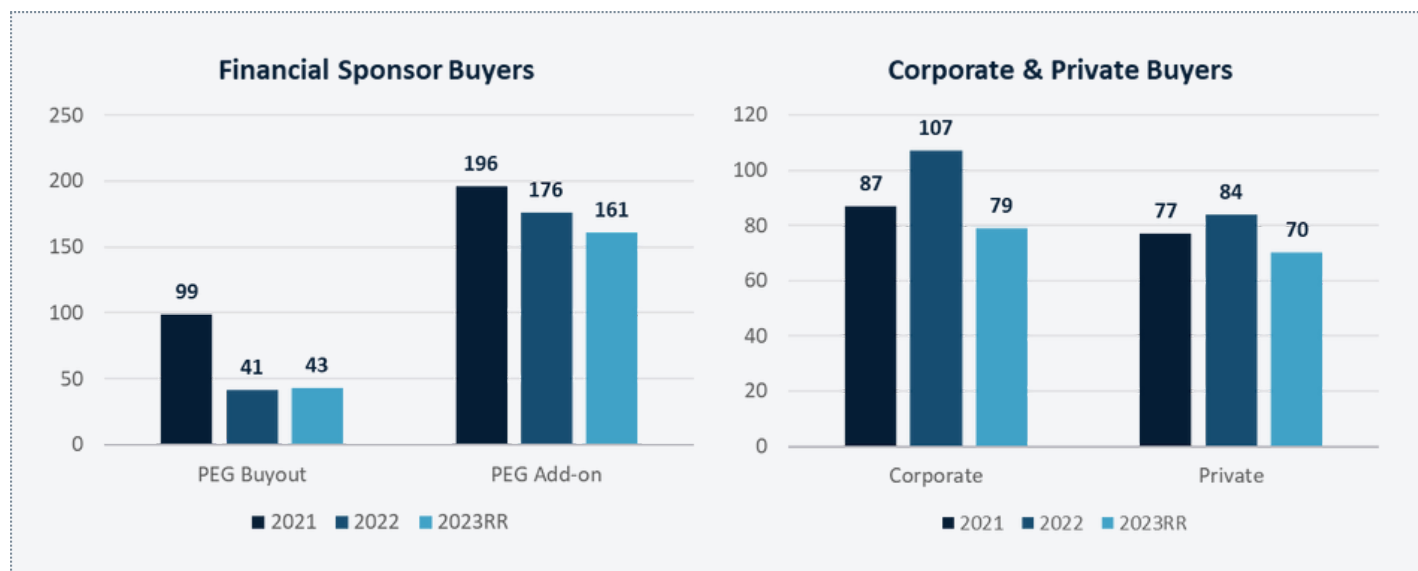
But Revenue Multiples are up. We attribute this disconnect with EBITDA multiples to a notable increase in EBITDA margins in year-to-date 2023 to 20% from the long-term average of 15% in our transaction sample. Over the last two years, inflation and supply chain anxiety allowed converters to “take price” in the market. Even as input prices (resin, paper) have come down in 2023, converters had yet to pass these savings on to their customers by mid-year 2023.

Savvy Buyers are apparently seeing through this and not rewarding sellers for transitory margin improvements. Strategics and Sponsors are continuing to focus on volume growth (versus revenue) as a major driver to valuation and are focusing diligence where margin capture may prove only temporary as a result of delayed cost pass-through to customers.

We also see that 2023's closed transactions (with those higher margins) are reflective of higher quality company transactions, while lesser quality transactions have struggled to close. Conversations with private equity groups, corporate buyers and advisors have noted quite a few transactions (often quoting > 50%) that were brought to market but did not meet the expectations of the Sellers and are still on hold. This “sampling bias” to higher quality assets may be disguising an overall reset in EBITDA multiples applied to lower quality assets and thus the overall market.

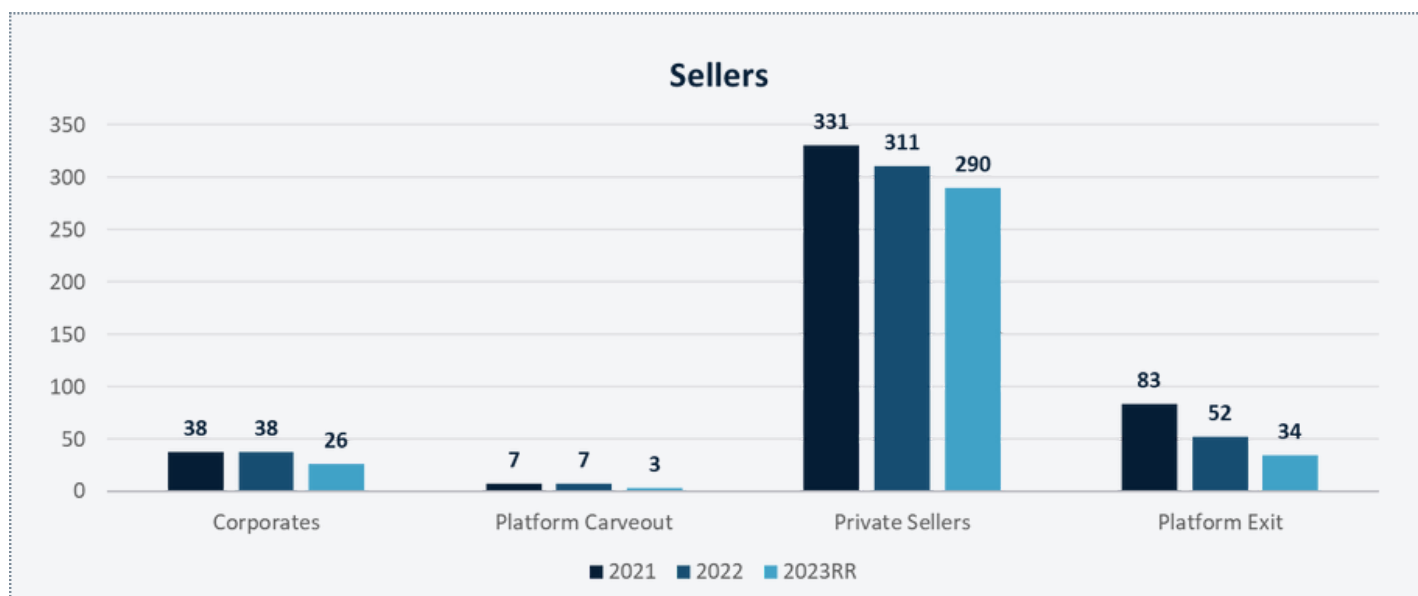
BUYERS...

Financial Sponsors have proved nimble in adjusting to the changed financing environment. While far short of 2021's blow-out year for new Sponsor Platforms, year to date 2023 is on track to exceed 2022's new platform volume. Add-ons to existing platforms have also proved resilient, with run-rate deal count down only 8%. Compare this to Corporate and Private (non-sponsor) acquirers, where acquisition activity decreased by -26% and -16% respectively.



...AND SELLERS

Despite a challenging environment (or perhaps because of), Private Sellers are still coming to market, with 2023 run-rate volume off by only 21 transactions (-7%) versus 2022. Corporates and Sponsor Platforms, on the other hand, have been more inclined to stay on the sidelines, with 2023 run-rate volumes down 31% for both segments. We believe that this could indicate a backlog of Sponsor and Corporate transactions to hit the market in the second half of 2023 and early 2024. While assets that need performance improvements will continue to stay on the sidelines, we are speaking with a number of sponsors preparing to go to market with well-performing assets.



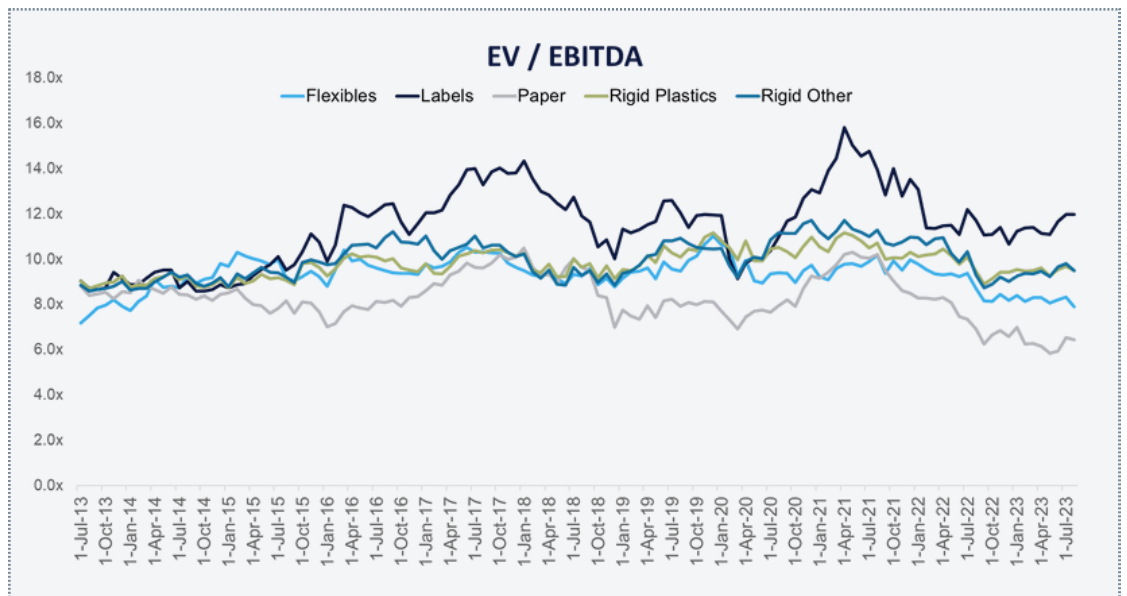
CROSS-REGIONAL TRANSACTIONS

Cross-regional deals are 18% of our sample, which is on par with 2021 and 2022. Yet below these top-line figures there are interesting divergences among our three tracked regions (North America (NA), Europe/Middle East/Africa (EMEA), and Rest of World (ROW)):

- NA buyers are favoring transactions within their region – NA targets represented 85% of all deals by NA acquirers in 2023, up from 80% in 2021. For NA Buyers' cross-regional transactions, they favor EMEA over ROW by a ratio of 7:1 in 2023, up from 3:1 - 4:1 in 2021-22. This behavior supports the “reshoring” and “friendshoring” themes prevalent in North America.
- As opposed to their NA counterparts, EMEA Buyers have expanded their deal activity in 2023 vs. 2022. With intra-regional and NA target volumes generally flat versus 2022, the increase in activity has been in acquisitions of ROW targets, particularly South America and Australasia.
- ROW Buyers are more cross-regional in their acquisitions, with only 50% of transactions within their region. ROW Buyers largely favor EMEA over NA, with very few acquisitions into NA noted in 2023.

PUBLIC MARKET

A review of public company EV/normalized EBITDA multiples reveals that valuations have remained relatively flat to slightly positive over the last year for Labels, Rigid Plastics and Rigid Other Formats, while the Flexibles and Paper segments have been relatively soft over this period. The paper index is currently trading well below the long-term trends as there are a few laggards with European footprints trading at lower valuations due to their respective headwinds.



PUBLIC MARKET (CONT.)

Most indices were at or near their 10-year peak in Q3/Q4 2021, and all have declined since, ranging from -10% (Rigid Plastics) to -36% (Paper). Current trading also trails the 10-year average, overall by -8%, and with the most capital intensive segments of Rigid Other (Glass, Metal) and Paper down by -20%. Aside from Labels, which are trading in the middle of their 10-year range, current EBITDA multiples are trading near their 10-year lows.



AREAS OF FOCUS FOR PREMIUM VALUATIONS

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 for near-shoring geographies such as Mexico (for the US/Canada) and Turkey (for Europe). Preparation in advance of marketing a transaction along with clear communication around volume trends and cost/price changes are crucial components to driving an efficient, effective process in today's market.

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.

MASS CUSTOMIZATION As new SKU introduction fell during the pandemic, legacy "big brands" 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 was 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.

MAZZONE & ASSOCIATES UPDATES

RECENT SPEAKING ENGAGEMENTS

- [AWA Mergers & Acquisition Executive Forum](#) June 6 (online)
- [Global Release Liner Conference](#) March 20 (Denver, CO)

Click [here](#) to request presentation materials from our recent speaking engagements. Please note that we will be attending Pack Expo in Las Vegas, NV in September 2023 and the R2R Conference in Milwaukee, Wisconsin in October 2023. If you would like to meet with us at either event, please contact Stuart Sanford at ssanford@mazzoneib.com or (404) 995-1711.

MAZZONE CURRENT & PIPELINE PACKAGING MANDATES

Category	Description
Flexibles <i>North America</i>	Advising a private client in acquisition of flexible packaging extruder and/or converter
Flexibles <i>North America</i>	Advising a private client in the sale of a flexible packaging extrusion operation
Machinery & Equipment <i>North America</i>	Advising a private client in the sale of an equipment manufacturer
Coated Paper Products <i>North America</i>	Advising a private client in acquisition of extrusion coating assets and/or paperboard
Fiber-Based <i>Europe</i>	Advising a publicly traded client in the sale of sustainable, barrier paper carton business
Non-woven Products <i>North America</i>	Advising a private client in acquisition of non-wovens substrate manufacturer

PACKAGING HUB & PUBLICATIONS

You can find all Packaging-related news and publications, including the below editions of Industry Insights, on our website at mazzoneib.com/news/packaging. You may also [subscribe](#) to our packaging mailing list to receive these updates as they are released.

- [Industry Insights: Global Packaging, Winter 2023](#)
- [Industry Insights: Labels](#)

RECENT INDUSTRY EXPERIENCE



Advised TSC Auto ID Technology with respect to the acquisition of a producer of labels and shrink sleeves located in Poland



Advised INDEVCO North America on its acquisition of Perma R Products, Inc.



Advised Mativ (NYSE: MATV) on the sale of the Filtrex, 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



Advised a European rigid packaging client on its North American expansion

CONTACT

Mazzone & Associates, Inc. is a mergers and acquisitions advisory firm with offices in Atlanta and Chicago. We provide comprehensive transaction services for middle market companies, private equity groups, and individuals buying and selling companies, raising capital, and structuring debt. With over a century of combined corporate finance experience, the professionals at Mazzone utilize their investment banking and operational backgrounds to maximize the value of your hard work and deliver closed transactions.

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APPENDIX: PUBLIC COMPANIES IN PACKAGING INDEX

Company Name	Ticker	Market Cap	LTM Revenue	LTM Adj. EBITDA	GM %	Adj. EBITDA %	EV / Rev	EV / EBITDA
(\$ in millions as of 08/17/2023)								
Flexibles								
Amcor	NYS: AMCR	\$ 13,862	\$ 14,694	\$ 2,017	18.5%	13.7%	1.4x	10.1x
Berry Global Group	NYS: BERY	7,562	12,998	1,998	17.7%	15.4%	1.3x	8.3x
Huhtamaki Oyj	HEL: HUH1V	3,383	4,584	623	16.4%	13.6%	1.1x	8.1x
Sealed Air Corporation	NYS: SEE	5,129	5,536	1,094	30.4%	19.8%	1.8x	9.1x
Transcontinental	TSE: TCL.A	806	2,257	334	45.1%	14.8%	0.4x	5.0x
Winpak	TSE: WPK	1,869	1,187	224	28.3%	18.8%	1.2x	6.5x
Labels								
Avery Dennison	NYS: AVY	14,288	8,499	1,228	26.1%	14.4%	2.1x	14.3x
CCL Industries	TSE: CCL.A	8,014	4,879	974	27.5%	20.0%	1.9x	9.4x
Paper								
BillerudKorsnas	STO: BILL	1,896	4,272	598	49.5%	14.0%	0.6x	4.2x
Cascades	TSE: CAS	921	3,439	377	51.5%	11.0%	0.7x	6.7x
DS Smith	LON: SMDS	5,118	9,867	1,518	32.1%	15.4%	0.7x	4.8x
Graphic Packaging Holding Company	NYS: GPK	6,719	9,667	1,820	21.4%	18.8%	1.3x	6.7x
Interntational Paper Company	NYS: IP	11,844	20,237	2,542	28.3%	12.6%	0.9x	6.8x
Mondi	LON: MNDI	7,884	8,662	1,471	37.4%	17.0%	1.1x	6.6x
Packaging Corporation of America	NYS: PKG	13,191	8,033	1,725	23.0%	21.5%	1.9x	8.9x
Sonoco Products Company	NYS: SON	5,460	7,001	1,072	20.2%	15.3%	1.2x	8.0x
WestRock Company	NYS: WRK	8,319	20,724	3,147	18.2%	15.2%	0.8x	5.4x
Rigid Plastics								
Amcor	NYS: AMCR	13,846	14,694	2,017	18.5%	13.7%	1.4x	10.1x
AptarGroup	NYS: ATR	7,984	3,389	635	35.1%	18.7%	2.7x	14.4x
Berry Global Group	NYS: BERY	7,562	12,998	1,998	17.7%	15.4%	1.3x	8.3x
Crown Holdings	NYS: CCK	10,610	12,354	1,638	18.2%	13.3%	1.5x	11.0x
O-I Glass	NYS: OI	2,977	7,107	1,464	20.9%	20.6%	1.0x	5.0x
Silgan Holdings	NYS: SLGN	4,934	6,271	914	16.4%	14.6%	1.4x	9.7x
Sonoco Products Company	NYS: SON	5,460	7,001	1,072	20.2%	15.3%	1.2x	8.0x
Rigid Other								
Ball	NYS: BALL	17,454	14,554	1,913	17.1%	13.1%	1.8x	14.0x
Crown Holdings	NYS: CCK	10,610	12,354	1,638	18.2%	13.3%	1.5x	11.0x
O-I Glass	NYS: OI	2,977	7,107	1,464	20.9%	20.6%	1.0x	5.0x
Silgan Holdings	NYS: SLGN	4,934	6,271	914	16.4%	14.6%	1.4x	9.7x
Sonoco Products Company	NYS: SON	5,460	7,001	1,072	20.2%	15.3%	1.2x	8.0x