INDUSTRY INSIGHTS

Global Packaging

WINTER 2023

INSIDE THIS ISSUE:

UPCOMING EVENTS:

ACG's M&A South: February 6 – 8, Atlanta, GA

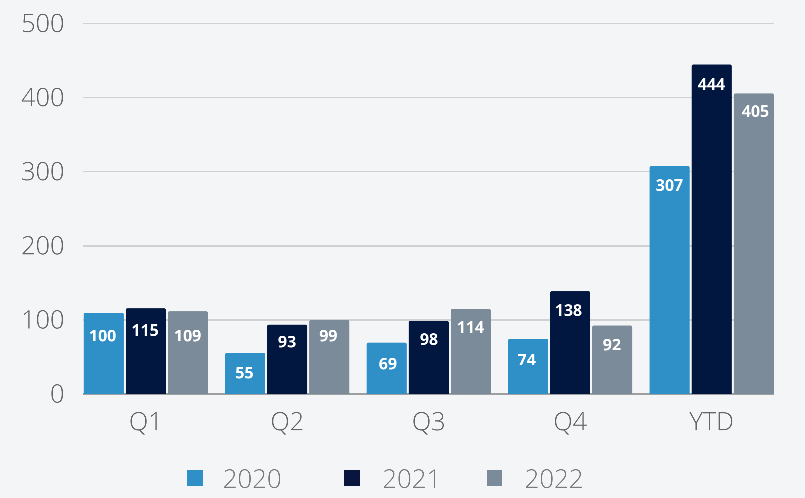
Global Release Liner Conference: March 20-22, Denver, CO

Pack Expo: September 11-13, Las Vegas, NV

2022 M&A ENVIRONMENT

2022 ended on a whimper, bringing 2022's M&A transaction volume down by over 20%[i] across all industries as increases in inflation and interest rates as well as fears of recession dampened appetites for acquisitions worldwide. Similarly, Valuations (measured as a multiple of EBITDA) declined by at least 1.9x from 2021's high point.[ii] Mazzone's universe of Packaging Transactions, however, points to a more resilient marketplace. Overall, our tracked global deal volume declined 9% over 2021 and median EBITDA valuations declined by 0.7x. While not good news, 2022's Packaging Sellers can take solace that they fared better than the overall market.

Transaction Volumes 2020 - 2022



2022 M&A ENVIRONMENT CONT.

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

- **Smaller Deals – 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;

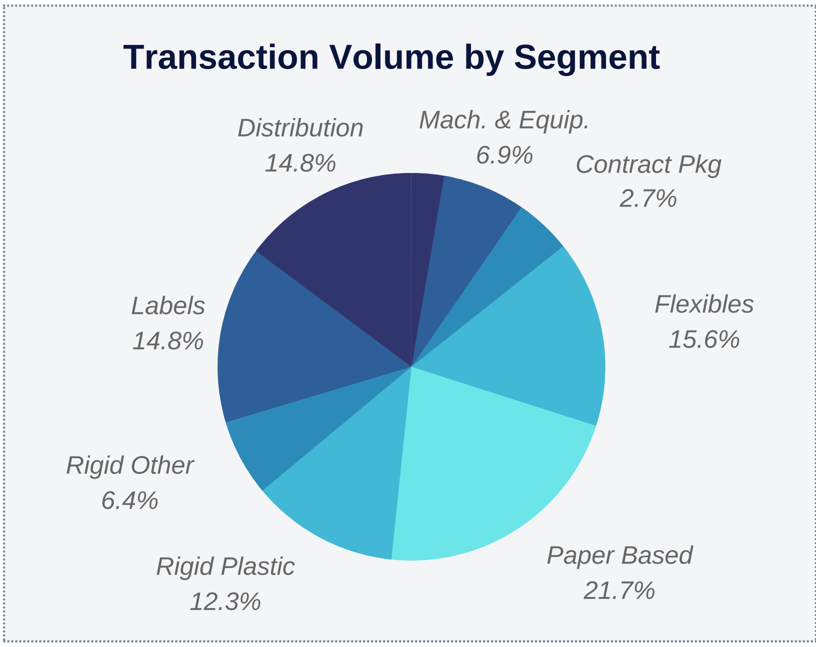
- **Significant Consolidation Activity**: as noted later in this letter, consolidation continues in Labels, Distribution, and other categories which have persistent competitive fragmentation; and

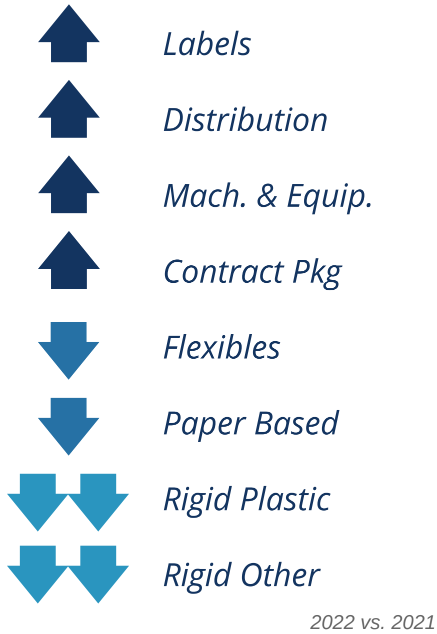
- **Perceived Safe Haven**: as a rule, Packaging is less cyclical, can be less capital-intensive, and is a solid, consistent cash generator, all of which combine to attract investors in more volatile markets.

Up until Q3 2022, it is important to note that deal volume Packaging was on pace to meet or exceed 2021 deal volume, but both the overall market and our Packaging Universe ended 2022 with a poor Q4. Fourth Quarters typically provide an uptick as Sellers look to conclude deals prior to year-end, but this was not the case in 2022. In the Packaging market, Q4 was the weakest quarter in 2022 and the weakest fourth quarter (as a % of the year) in our analysis period. This accelerating decline does not bode well for early 2023, though there are reasons to be optimistic as we look further into 2023 (see page 8).

2022 SEGMENT VOLUMES

2022 featured noticeable activity increases among Labels, Distribution, Contract Packaging, and Machinery & Equipment, all of which saw double-digit volume increases in an otherwise down market. Labels, Distribution, and Contract Packaging were largely propelled by continuing consolidations in these persistently fragmented segments. More surprising was the growth in Machinery & Equipment transactions, as the looming threat of a recession would intuitively suppress demand for capital equipment investments. Strong pipelines and persistent long lead times appear to have outweighed these concerns.





High levels of consolidation within Labels, Distribution, and Contract Packaging were driven by financial sponsor platforms in these persistently fragmented markets. For Labels, we identified 19 separate platforms active in the market in 2022 (included 3 new platforms); for Distribution, 14 platforms, and in Contract Packaging, 7 (with 3 of these being new platforms in 2022). We hypothesize that the heightened interest in Distribution and Contract Packaging 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.

Those segments with less activity included Paper and Flexibles, and those with significantly less activity included Rigid Plastics and Other Rigid formats (metal, glass, wood). In Paper products, following a period of tight supply across paper substrates in 2021, it appears that the current abundance of inventory and on-going capacity adjustments may be weighing on appetite for transactions in the paper segment.

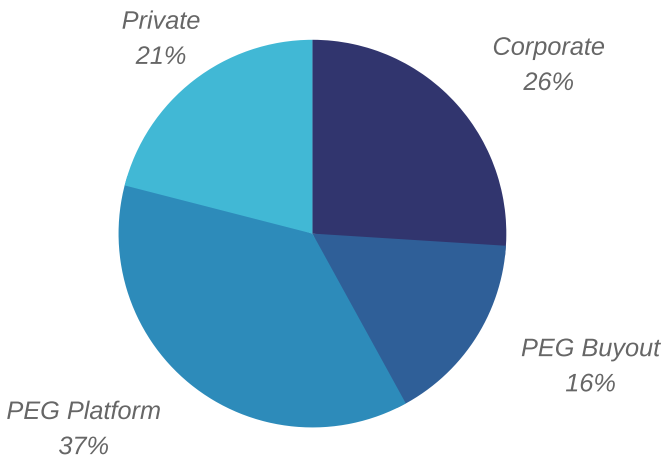
The persistent sustainability call to shift from plastic-based packaging may be beginning to show in M&A. Among substrates (these figures exclude Machinery & Equipment, Distribution, and Contract Packaging), Paper is proportionately represented among transactions (30% of transactions and market share). For the first time in our analyses, Plastics was under-represented in 2022 (37% of transactions and 42% of the market)[iii], led by significant declines in Rigid Plastics transactions and by a lesser but still significant decline in Flexibles transactions. While one year does not constitute a trend, this bears watching (see page 8).

PRIVATE EQUITY CURTAILS NEW INVESTMENT ACTIVITY

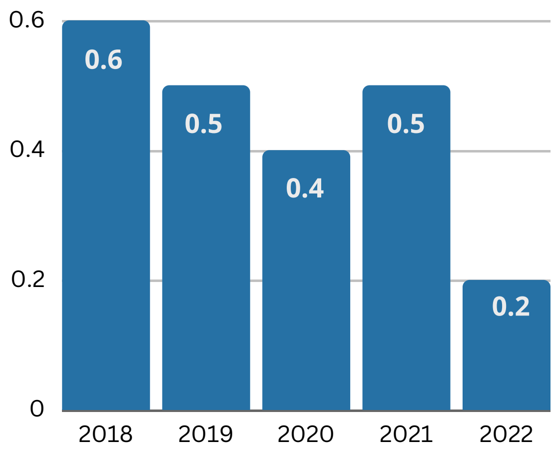
2021 was dominated by sponsor (private equity)-backed activity (see Q1 2022 PE Packaging Newsletter), with new platforms and add-ons both notching their highest levels over the previous five years. 2022, however, brought significant change as private equity investors reduced their new exposure to the market, reducing their share of transactions from 64% in 2021 to 53% in 2022 (including both new Platforms and Add-ons to existing platforms).

Looking deeper reveals an even more cautious sponsor market: new Platforms collapsed by -58% versus 2022, while add-ons to existing platforms fell by -7%. The resulting ratio of New Platforms to Add-ons reached the lowest level in our analysis period:

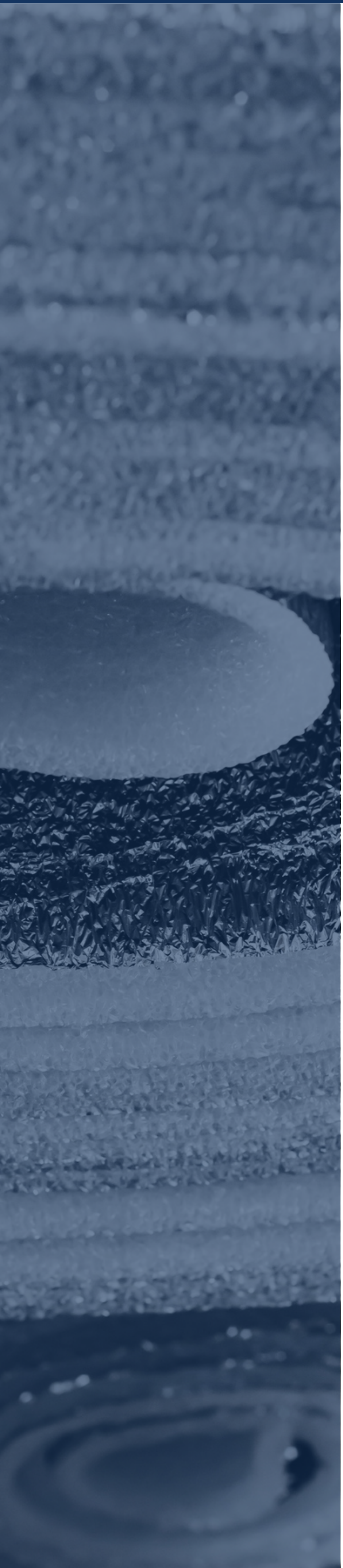
Buyer Composition



Ratio: Platforms / New Add Ons

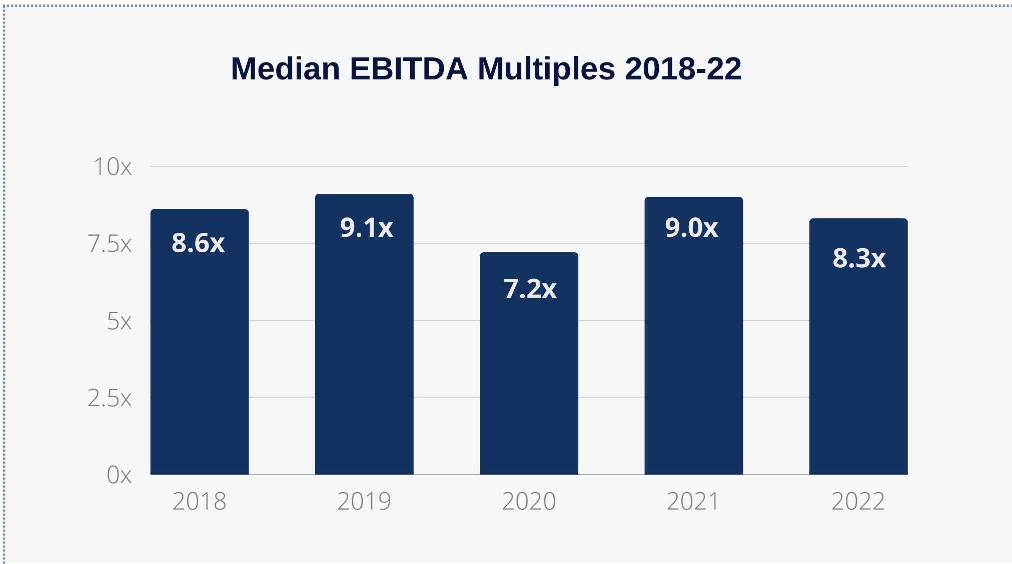


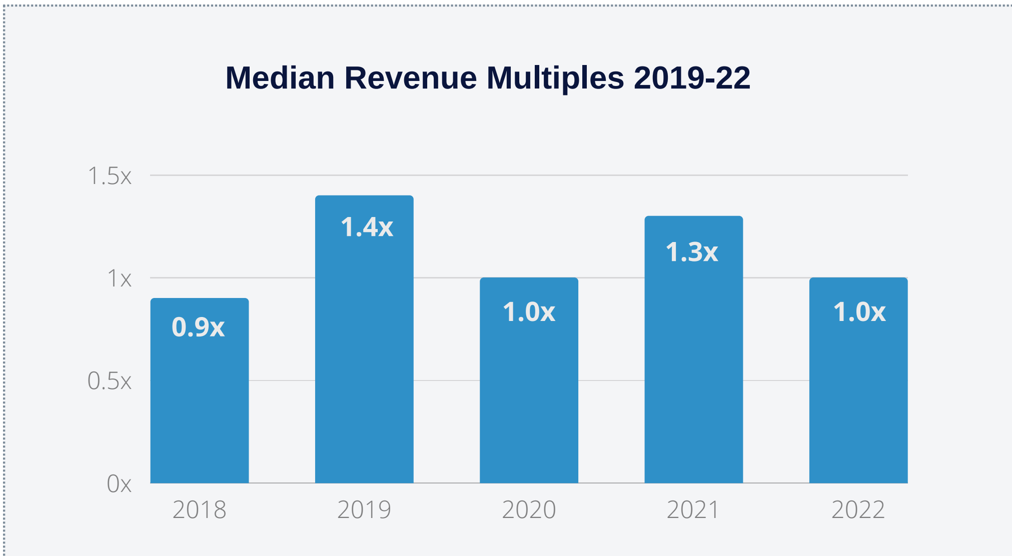
The decrease in new platform formation can traced to sponsor’s higher use of leverage which is more susceptible to recent interest rates increases. This is compounded by generally limited horizons to monetize investments, which decreases the appetite to invest in an unsettled market that requires a longer investment period to generate growth and returns. On the other hand, both Corporate Buyers and Private Buyers have both sufficient available funds and a long-term view of value creation. Thus it is not a surprise that these Buyers not only increased their market share but also increased their absolute number of their investments in the Packaging market in 2022.



PRICING SLIPS

Valuations of Packaging M&A targets (on a multiples basis) also took a step back from 2021's levels. Over the last four years, the market witnessed strong valuations in 2019 (pre-Covid) and 2021 (post-Covid bounce); and weaker valuations in 2020 (height of Covid) and 2022 (economic unease).

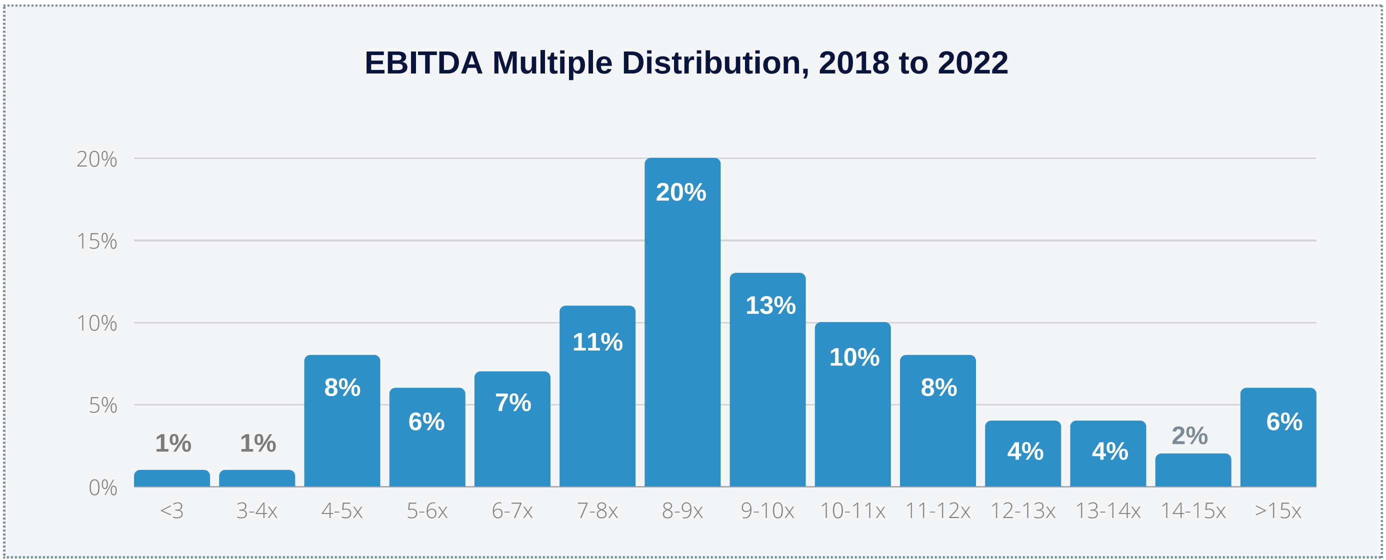




The decrease in valuations reflects today's challenges – an unsettled economic picture, geopolitical risk, and, most directly, increased inflation and the concurrent increase in interest rates. Increases in rates are conversely related to valuations, as the increase in the cost of capital (interest rates) directly impacts the prices that investors can pay for acquisitions. Please note, however, that 2022's lower median multiples remain very close to the longer-term averages of 8.5x (EBITDA) and 1.1x (Revenue).

DISTRIBUTIONS OF VALUATIONS

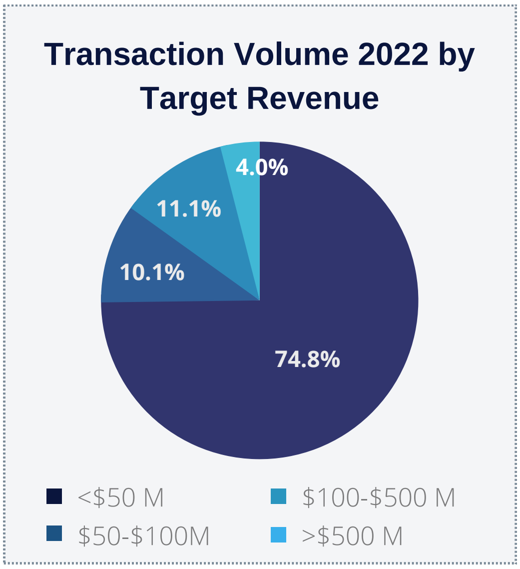
The range of valuations (by EBITDA multiple) runs from less than 3x to in excess of 15x, exhibiting a typical "bell shape" distribution:

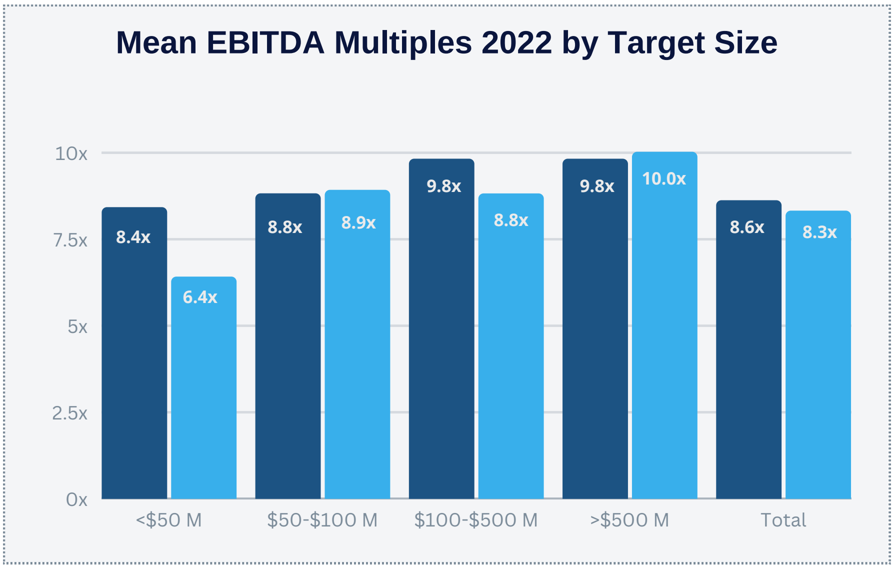


8% of the sample are at 14x and above –begging the question of what is the commonality among these deals? While there is no one consistent theme among these premium transactions, we do note:

- 44% are Rigid Plastics
- 50% are LBOs (or SBOs) by large financial sponsors
- Median Enterprise Value of these transactions is $706 million – though we also point out that these do include smaller targets – half had revenues of less than $100 million
- Generally these were viewed as high quality assets (high market shares, more technologically intense, focused on desirable end markets, etc.). We look for 2023 deal activity to continue to favor deals such as this.

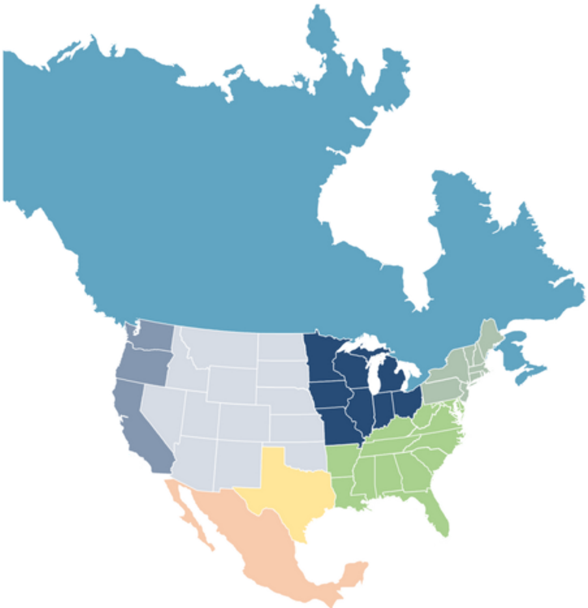
Outliers notwithstanding, overall pricing favors larger deals. For the period 2018 to 2021, Targets with less than $50M of revenue traded at an average discount of 1x EBITDA. For 2022, we had expected pricing on larger deals to suffer more than smaller deals (typically, higher leverage and thus more greatly impacted by interest rates). This, however, was not the case. The small-target discount expanded in 2022 to over 2.5x, as larger deals generally held value while smaller transactions valuations fell to 6.4x EBITDA.



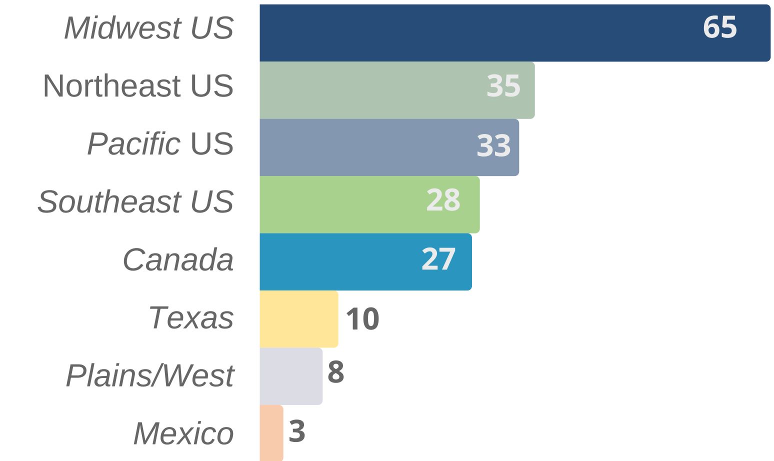


GEOGRAPHIC INTEREST

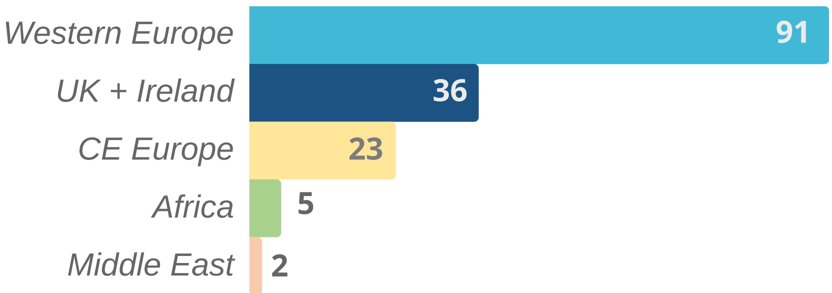
Covid and 2022's subsequent economic uncertainty made cross-regional deals more difficult from 2020 through 2022.[iv] 72 cross-regional transactions were included in our analysis for 2022, with North Americans the most active Buyers and the EMEA being the most active Target geography.

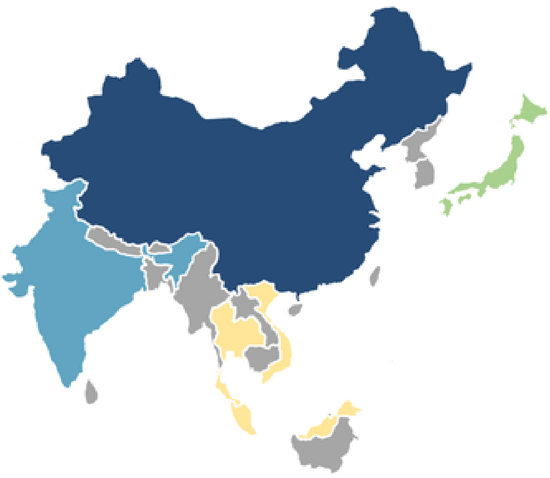


Within North America, the MidWest, Northeast, and Pacific US are the most fertile target markets for Packaging buyers.

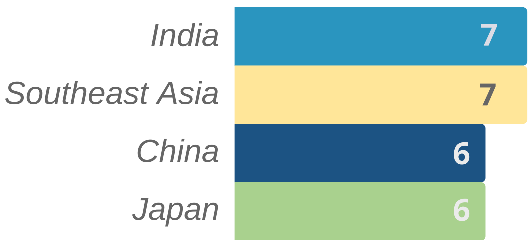


In EMEA, Western Europe dominated the transactions, led by Germany (22), Italy (20) and Spain (14).





The remaining activity was predictably focused on Asia, led by India (7), China (6), Japan (6), and Southeast Asia with 7. Please note that data sourcing from Asia and Latin America is often lacking, and we expect that there are additional transactions not reported from these regions.



LOOKING TO 2023

VOLUMES

Uncertainty is the natural enemy of deals. We expect that continued uncertainty will continue to weigh on deal volume in early 2023. Activity among deal support services (providers of QOEs, Datarooms, real estate services) suggest a slower start to 2023 than we have seen in the last three years. We further believe that this will impact larger transactions (above $500 million in target revenue) moreso than smaller deals, where the “uncertainty” can be more easily defined and mitigated and where non-economic deal motivations can be a factor. Nevertheless, a large amount of capital remains among Corporates, Private Buyers, and Financial Sponsors that needs to be deployed. As conditions become clearer, we anticipate acceleration in deal activity as we enter the latter quarters of 2023, especially among Corporate and Private Buyers.

VALUATIONS

Interest rate increases, depressed public comparables, and recessions risks will continue to constrain M&A valuations. While these increases will impact all sectors, the impact should be more intense for sectors that rely on high growth to derive value (for example, Technology). The more “mundane” world of Packaging has not been impacted as much to date and we do not expect pricing to erode further in 2023. Expect valuations to continue to trade in the longer-term range of ~8.5x EBITDA for 2023.

OPPORTUNITIES

In a soft market there are always opportunities, particularly for higher quality and on-trend assets. One such area for opportunity is Sustainable Technologies. As new extended producer responsibility (EPR) regulations and taxes come into effect in 2023+ for Europe and certain NA markets, those assets providing economical circular technologies and alternatives to traditional formats are poised to command premium valuations.

We also see an opportunity for strategic Buyers to find value from larger Corporates and Sponsor Platforms seeking to divest non-core assets. Non-core businesses that consume ever-more costly capital do not make strategic sense. Carveouts will become more prevalent in 2023.

PROCESS

With such uncertainty in the market, potential Sellers may be reluctant to publicly pursue a “broad auction” until they have a better sense of the market. Continuing the trend we have noticed since Covid, we believe it will be more commonplace to see processes with a limited scope of potential buyers or even to one-on-one conversations with potential partners.

[i] Global Volumes down by over 20% (S&P Global Market Intelligence, 1/17/2023, M&A activity slumped in North America in 2022 after record 2021); NA volume -43%, Europe – 27%, APAC -30%, Reuters, 1/17/2023 Dealmakers brace for slow 2023 recovery after global M&A sinks)
[ii] Valuations down 3.8x through November 2022 (Wall Street Journal, 1/5/2023 M&A Is Expected to Pick Up in 2023 as Companies Adapt to Tougher Conditions); Valuations down 1.9x (RW Baird, 1/12/2023, M&A Recovery Depends on Improved Macro Outlook)
[iii] Market size data per Smithers Pira.
[iv] For the purposes of our analyses, we define Regions as North America (Canada, USA, and Mexico), EMEA, and Rest of World (Asia, Latin America).

MAZZONE & ASSOCIATES UPDATES

UPCOMING EVENTS

- **ACG's M&A South** February 6-8 (Atlanta, GA)
- **Global Release Liner Conference** March 20-22 (Denver, CO)
- **Pack Expo** September 11-13 (Las Vegas, NV)

Click here to request presentation materials from our speaking engagements. Please note that we will be attending Pack Expo in Las Vegas, NV in September 2023. 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 integrated flexible packaging extruders / converters
Coated Paper Products *North America*	Advising a private client in acquisition of extrusion coating assets and/or paperboard
Flexibles *Global*	Advising a publicly traded client in the sale of sustainable, barrier substrate business
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
Protective Packaging *North America*	Pipeline: private client in the sale of packaging converter in cushion packaging (foam, pillow)
Machinery & Equipment *Asia, Europe*	Pipeline: private client in the sale of an equipment manufacturer

RECENT TRANSACTIONS

INDEVCO NORTH AMERICA

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

PERMA"R"PRODUCTS

mativ

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

MKB Stormwater Innovation

Kurtz Bros., Inc. "We make the good earth better!"

RAYVEN INC.

Advised Rayven Inc. on its sale to Duraco Specialty Tapes

DURACO. a portfolio company of OPENGATE CAPITAL

ROPLAST INDUSTRIES INC.

Advised Roplast on the sale of its business to PreZero

prezero