

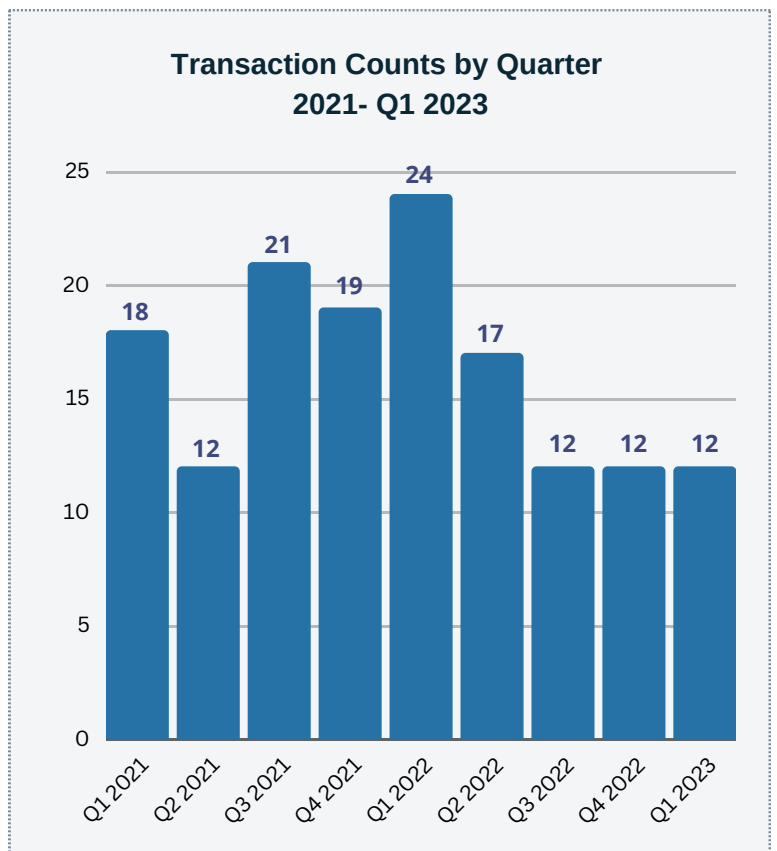
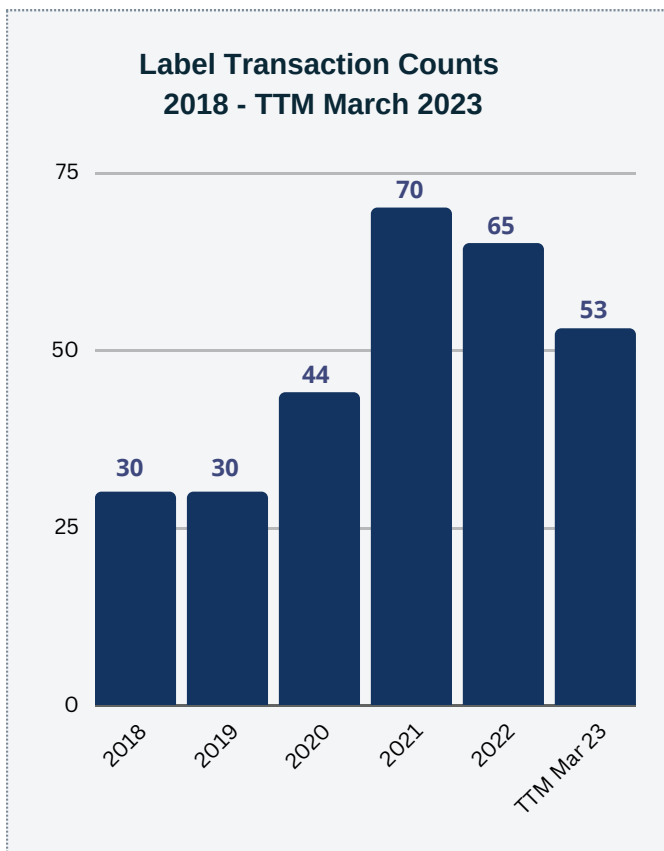


INDUSTRY INSIGHTS

Spotlight: Labels

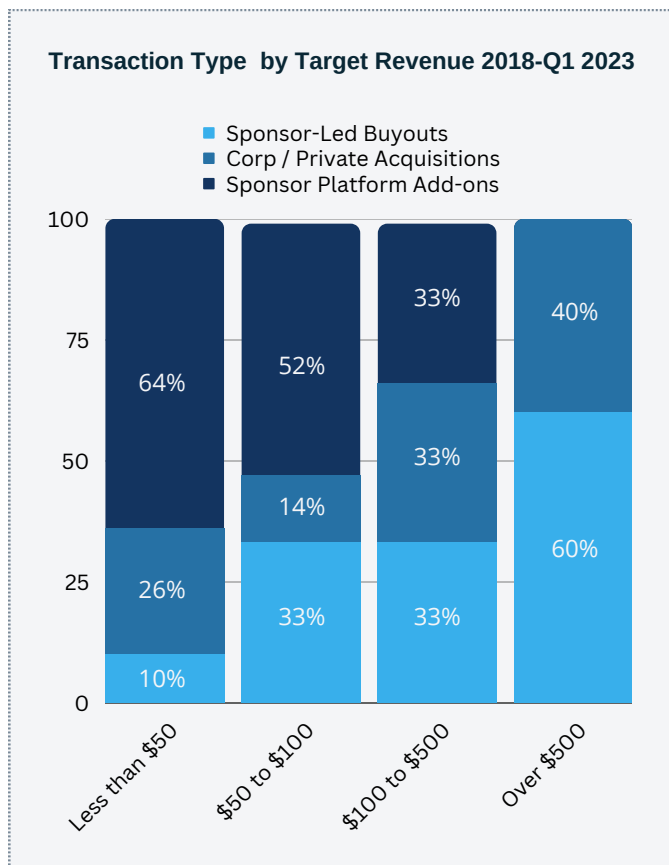
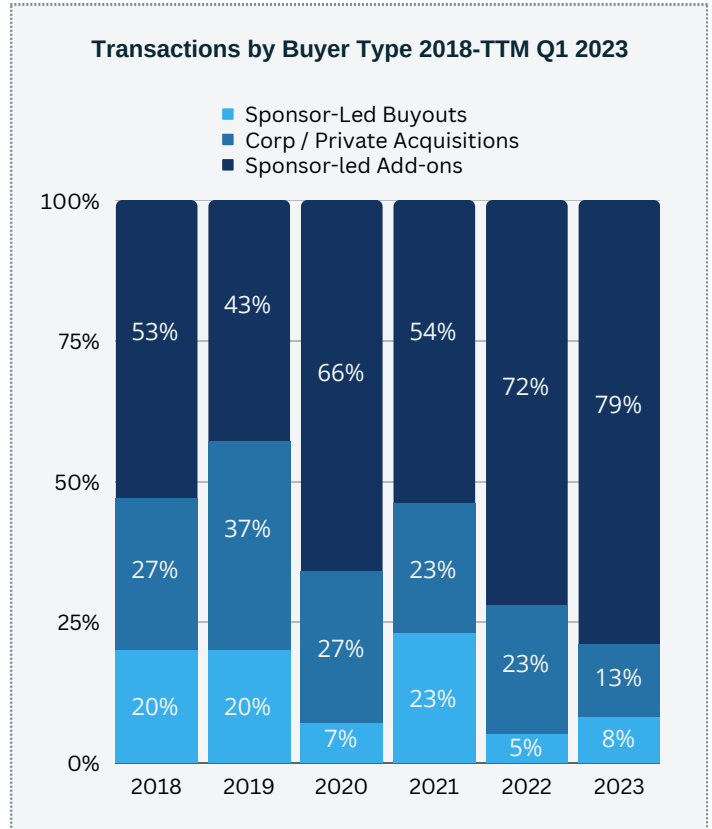
A HOT MARKET FINALLY COOLING OFF

Acquisitions in the Label Market have been on a tear for the last five to ten years, with Mazzone's tracked transaction volumes increasing from 30 in each of 2018 and 2019 to a peak of 70 transactions in 2021. 2022 activity retreated -7%, roughly in line with Packaging Overall (-9%) and relatively resilient as compared to transactions across the broader economy (-20%).



The cooling off reflects increases in inflation and interest rates as well as fears of recession (please refer to Mazzone's [Winter 2023 Global Packaging Insights](#)). This is particularly evident in the quarterly data: in the six quarters beginning Q1-21, the average transaction count was 18.5; each of the last three quarters ending March 2023 had "only" 12 transactions (-35%).

Transaction activity has become overwhelmingly dominated by Add-on Activity for Sponsor-led Platforms, which has grown to over 70% of all Label Transactions. Over the 2018 to 2023 period, no less than 39 Sponsor-led platforms have been active Add-on acquirers. Overall, this group averages 1 add-on per year, but the top five active platforms[1] account for 46% of all sponsor add-ons and 28% of all transactions. Formation of new platforms have slowed since 2021, likely as a result of an already crowded marketplace. The prevalence of Sponsor-led activity has crowded out a number of Corporate/Private Buyers, and it is common to hear complaints of deal pricing reaching prohibitive levels.



Reflective of Label Market structure, 85% of transactions were of companies with less than \$50 million in Revenue. Not surprisingly, Targets with less than \$50 million were typically Add-ons to Platforms or Corporates/Private; Sponsors favored establishing Buyouts of larger targets (over \$50 million of revenue).

2022 saw a rebound in cross-regional[2] deals as the impact of Covid subsided, with cross-regional transactions reaching 21.5% of all deals. While North American Buyers acquired at a fast pace through 2022, Buyers from EMEA countries slowed their activity from 2021 to 2022 (energy crisis/Russia-Ukraine War). Early signs from 2023, however, indicate that EMEA buyers may be accelerating their pace of acquisitions in 2023.

[1] Top Five (most active) Platforms include Resource Label Group, All4Labels, Brook & Whittle, Optimum Group, and Fortis Solutions.

[2] Regions defined as North America, EMEA (Europe, Middle East, Africa), and Rest of World.

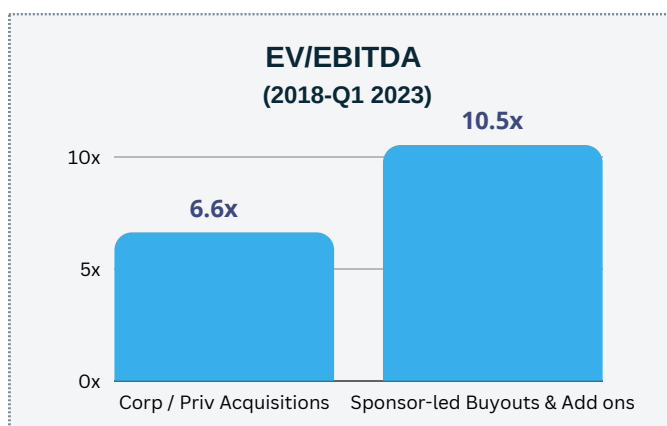
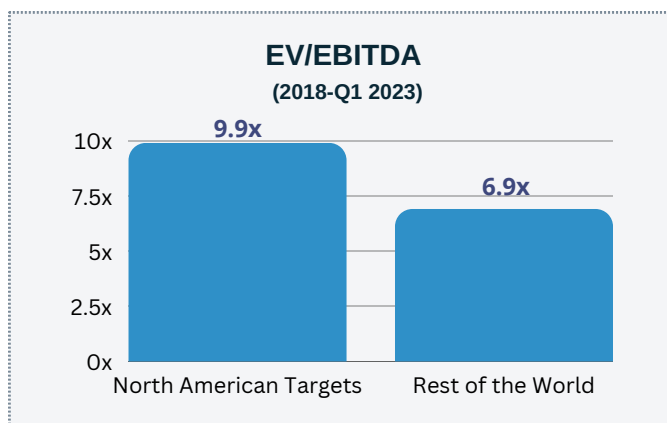
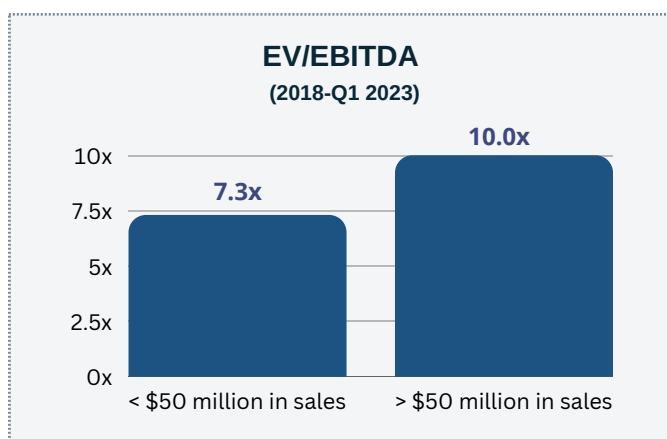
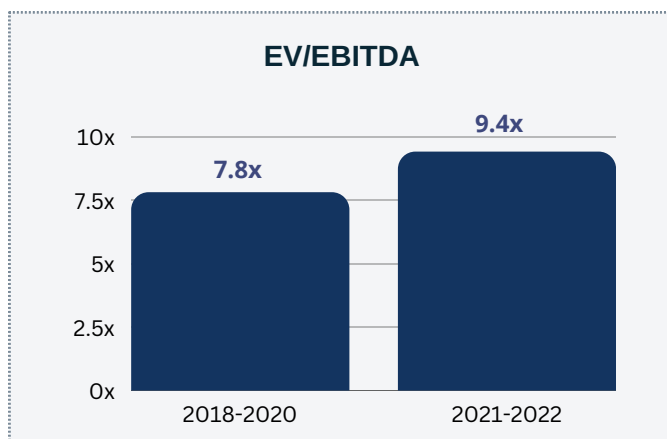
VALUATIONS SHIFTING

Valuations for Label Acquisitions mirrored the increase in Transaction Activity, with Valuations increasing by 1.6x turns of EBITDA from 2018-2020 to 2021-2022. Indications are, however, that Valuations have softened since early 2022, reflective of both an overall market softening. The overall average, however, disguises significant variations in more detailed analysis.

As with all types of Packaging, there are significant differences in Valuation based on the scale of the Enterprise – Label Targets with over \$50 million of Sales trade at a premium of over 2 ½ turns of EBITDA versus smaller targets. This perhaps reflects the relative lack of (and Acquirer demand for) sizeable targets in the market, as the vast majority of Label Converters are smaller entities. On a revenue multiple basis, label deals traded for 1.2x EV/Revenue for smaller targets versus 1.6x EV/Revenue for targets with greater than \$50 million in Sales.

The North American market has been particularly active in M&A and represents over half of our tracked transactions. This highly active market also produces the highest target valuations (by a 3-turn premium) versus other regions.

The North American premium is despite the fact that Sponsor-led activity was consistent across all regions at ~75% of transactions. This point is particularly relevant, as the data indicate a significant premium paid by Sponsors for both Platforms and Add-ons. Sponsors are setting the market for transactions in the Label market.



SUMMARY

Despite recent softening, Acquisitions in the Label market remain vibrant. Why is there this level of interest in a sector that generally shares off-the-shelf technology, often buys from and sells to much larger suppliers / customers, and has relatively low barriers to entry? Our dialogue in the market reveals the following:

- “Stickiness of customers” – the cost of labels is low versus the value to brands and to the ultimate product shelf cost; this makes switching suppliers a low return exercise for many customers
- The ability to drive specialization (or diversification) via acquisition of specialists in certain end markets
- A still highly fragmented competitive marketplace with a wealth of targets
- Ability of consolidators to drive real cost synergies via substrate and ink purchases and overall institutionalization of smaller organizations.

These factors will continue to make the Label Market a priority target for acquisitions in the foreseeable future.

ABOUT MAZZONE

Mazzone & Associates 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.

UPCOMING EVENTS

Our senior professionals will be participating in the following events. Click the title for more information or to register.

- [AWA M&A Executive Forum](#) - June 6 (virtual)
- [Pack Expo](#) - September 11-13 (Las Vegas, NV)
- [Association for Roll-to-Roll Converters R2R Conference](#) - October 2-5 (Milwaukee, WI)

CONTACT

For more information visit mazzoneib.com/news/packaging, where you can access additional *Industry Insights* and subscribe to our packaging industry newsletters and updates, or reach out to one of our professionals below.

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