MAZZONE & ASSOCIATES

WINTER 2024

# INDUSTRY INSIGHTS

## GLOBAL PACKAGING

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# M&A OVERVIEW

Relieved that much of the world's economy avoided recession in 2023, many in the packaging industry are nonetheless happy to have 2023 in the rearview mirror. While not necessarily a retraction, many in our industry dealt with uninspiring volume, increasing costs of labor, and increasing costs of financing. This lackluster economic backdrop and recession uncertainty, coupled with significantly increased interest rates, hit the M&A transaction market hard.

Our key observations for this edition of Industry Insights:

- Transaction Volumes continued their decline from 2021, with major segments witnessing double-digit declines. Month-to-month data provide no firm indication that volumes are yet to rebound. There were, however, pockets of positive momentum in Machinery & Equipment, Multi-material Converters, and Rigid (non-plastic) packaging.
- Activity dropped across all Buyer Types (corporate, private, sponsor). The one ray of hope was an actual uptick in new sponsor-led platform formation – with new platforms slightly surpassing pre-pandemic levels.
- Average deal pricing (as measured by EBITDA multiples) slid for the second year in a row, falling by more than one turn of EBITDA to 8.0x. All segments are trading at or below their five-year average pricing. This may signal an opportunity for motivated acquirers to move back into the market (see above – new platforms).
- It is now clear that the aberration was not suppressed numbers in 2023, but rather over exuberance in prior years (primarily 2021). 2023's volumes and pricing more closely resemble the Covid year of 2020. With the market anticipating central banks to cut interest rates in 2024, there's optimism that the opportunities for acquisitions can improve, and a solidifying of demand/pricing could also translate to normalization of the M&A environment. When we will see the results of this, however, is not yet clear.
- There were a number of transactions that were brought to market in 2023 but did not meet the expectations of the Sellers and remain on hold. It remains to be seen what will happen first: (i) Sellers adjust their expectations so that these deals can close, or (ii) if falling interest rates and an improved economic environment return multiples to 9.0x+. If we must wait for an improved environment, deal volumes are not likely to rebound meaningfully until 2025.
- While short of 2021's blow-out year for new Sponsor Platforms, 2023 saw a 15% increase in new platform formation by financial sponsors, bringing new platform formation in line+ to activity in 2019 - 2020. Perhaps sensing a "buy low" opportunity, sponsors executed buyouts at a 2.1x discount to multiples that they paid in 2022. While still early in the cycle, this is an indication that we may have reached a "bottom" and activity may be poised to bounce back.

# TRANSACTION VOLUME

Transaction volumes in 2023 fell by 12% and are off 2021's peak by 22%. Quarterly Transaction Volumes in 2023 show little momentum, either up or down, with approximately 90 deals in each quarter.

*Source: Mazzone Research*

Within the overall volumes, there were some interesting divergences. Larger transactions (defined as Target Revenue over $100 million) were down -27%, with the biggest transactions (over $500 million in target revenue) off by -40%. By contrast, the smallest deals, (target revenue of $50 million or less, which constitute the majority of packaging transactions ) were down only -13%. This disparity reflects the fact that larger transactions, which are more dependent on leverage, were more impacted by constricted loan syndication markets, that itself a result of increased interest rates. This remains the case as of this writing, with large transactions still challenged by the lending environment.

# TRANSACTION VOLUME (CONT.)

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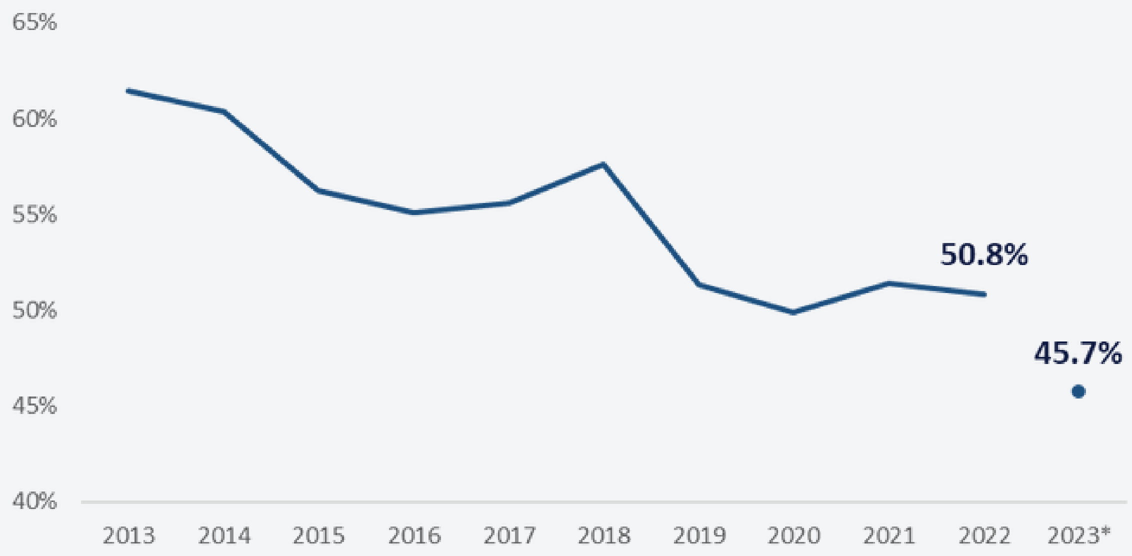
**Median North America and Europe PE buyout EV/EBITDA multiples**

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | TTM 2023* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Median EV/EBITDA | 9.8x | 10.4x | 10.0x | 9.9x | 11.6x | 11.1x | 11.6x | 11.4x | 13.3x | 12.5x | 10.9x |
| Debt/EBITDA (LCD) | 5.3x | 5.7x | 5.6x | 5.4x | 5.7x | 5.8x | 5.8x | 5.7x | 5.8x | 5.9x | 4.9x |
| Debt Percent (LCD) | 61.5% | 60.3% | 56.2% | 55.1% | 55.6% | 57.6% | 51.3% | 49.9% | 51.4% | 50.8% | 45.7% |

*Source: Pitchbook, LCD*

**Debt Percentage (%) of EV – North America and Europe PE Buyouts**

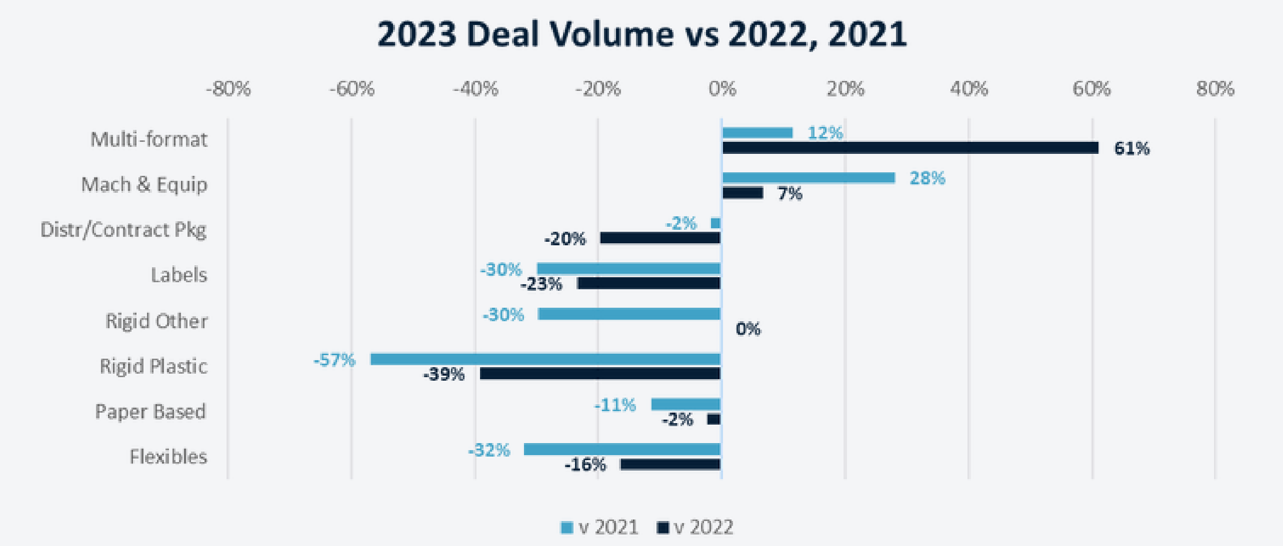



*Source: Pitchbook, LCD*

# VOLUMES BY PACKAGING SEGMENT

Most segments witnessed volume declines in 2023, the second consecutive year of declines.

- Combined Plastics (both rigid and flexibles) were off -27% versus 2022 and off -44% versus 2021. No doubt the shifting regulatory environment for resin-based packaging is weighing on many would-be investors in these spaces. Conversely, Paper-based Packaging, which is viewed as more sustainable, was down by only -2% from 2022.
- Even favorites for sponsor-led roll-ups lost steam in 2023, with both Labels and Distribution showing declines in transactions and perhaps signaling that many of the ready deals in these spaces have been captured.



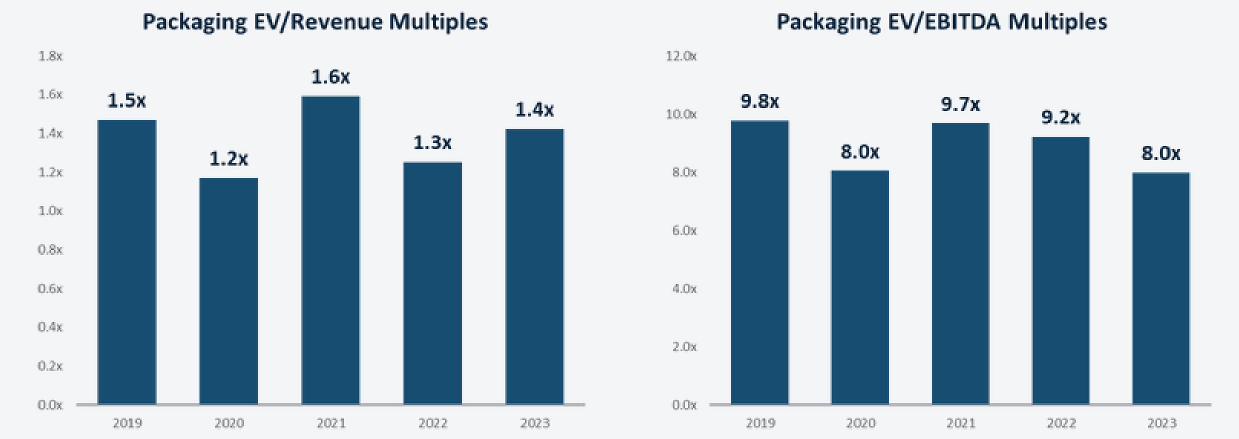

*Source: Mazzone Research*

Bucking the overall trend, three segments showed steady or increased deal volume in 2023:

- Rigid Other: Rigid Other held steady at 2022's levels, driven largely by ongoing consolidation within the Crate & Pallet sub-sector, but also owing to some trading of assets among capital-intensive Glass and Can manufacturers.
- Machinery & Equipment: surprising given higher interest rates, capital equipment maintained and grew volume in 2023, increasing by 7% over 2022 and continuing a steady increase since 2018. We noted a wide base of 30 active acquirers in this segment in 2023 – no one company made more than a few transactions.
- Multi-format: this small segment increased by 11 deals in 2023 (+61%), posting even higher volumes than 2021. There are various strategies pursued in this segment, but generally they answer needs for multi-disciplinary packaging for specialized niches such as packaging of pharmaceuticals, hazardous materials, or beauty; for specific, challenging geographies (Russia, Africa); as well as industrial protective packaging generally.

# DEAL PRICING

Revenue Multiples and EBITDA Multiples moved in different directions in 2023, with mean Revenue Multiples steady (0.1x turns) and EBITDA Multiples down 1.2x turns. This divergence holds true for the longer review period, with Revenue Multiples approximately equal to the 5-year average and EBITDA multiples down 1.0x versus the 5-year average.



*Source: Mazzone Research*

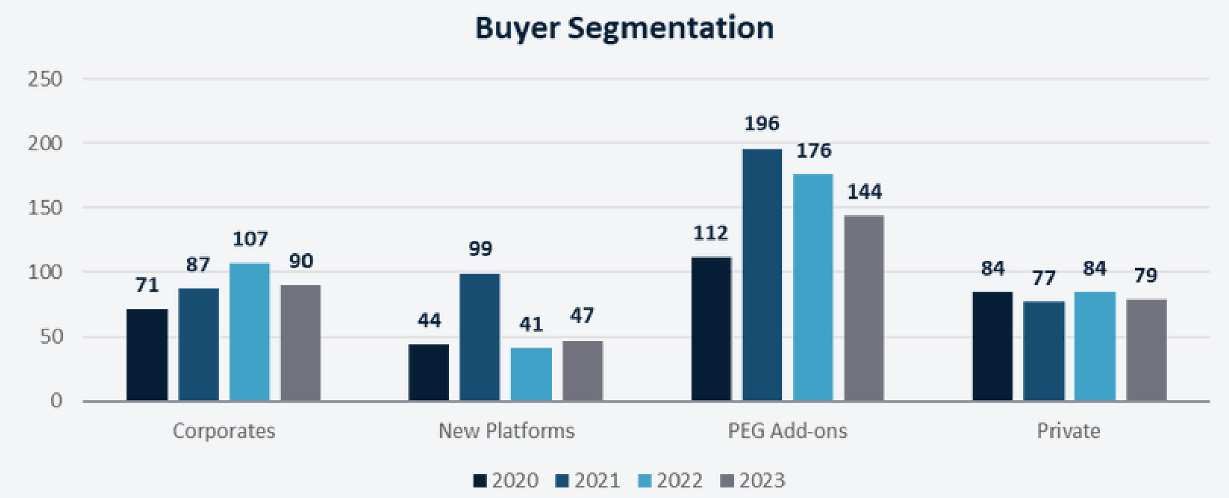
The decrease in EBITDA valuation multiples was expected and reflects today's challenges – an unsettled economic picture, geopolitical risk, and, most directly, increased inflation and the resulting increase in interest rates. Increases in rates are conversely related to valuations, as the increase in the cost of capital (interest rates) directly impacts the prices that investors can pay for acquisitions. Across all industries, EV/EBITDA valuation multiples for private equity buyouts in North America and Europe were down 1.6x in 2023 vs. 2022. (Pitchbook)

But Revenue Multiples are up. We attribute this disconnect to transitory effects of inflation and supply chain anxiety which allowed converters to "take price" in the market. Even as input prices settled, converters held on to these savings rather than passing them on to their customers through mid-year 2023. Buyers are apparently seeing through this and not rewarding sellers for transitory margin improvements. Strategics and Sponsors focus on volume growth (versus revenue) as a major driver to valuation and are focusing diligence to see if margin improvements are sustainable, or if they are only the temporary result of delayed cost pass-throughs to customers.

We also note that many companies that came to market in 2023 simply did not 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. It remains to be seen what will happen first: (i) Sellers adjust their expectations so that these deals can close, or (ii) if falling interest rates and an improved economic environment return multiples to 9.0x+. If we must wait for an improved economic environment, deal volumes are not likely to rebound meaningfully until 2025.

# BUYERS

All industry incumbents retreated from acquisitions in 2023, with Corporates, Sponsor-led Platforms, and Private Companies all completing fewer transactions. Interestingly, and while short of 2021's blow-out year for new Sponsor Platforms, 2023 saw a 15% increase in new platform formation by financial sponsors, bringing new platform formation in line+ to activity in 2019 - 2020. Perhaps sensing a "buy low" opportunity, sponsors executed buyouts at a 2.1x discount to multiples that they paid in 2022. The 2023 vintage platforms will certainly have an easier path to generating returns versus the 2021-2022 vintages, which overall paid an average of 10.0x to 11x EBITDA. While still early in the cycle, this is an indication that we may have reached a "bottom" and activity may be poised to bounce back.




*Source: Mazzone Research*

# SELLERS

While all Seller categories closed few deals in 2023, Corporates were relatively more active (-8% versus a general decrease of -22%). A number of Corporates, and to a similar degree, larger Sponsor-led platforms, are contending with higher interest costs and/or are approaching debt ceilings. To address this, we anticipate an increase in carveouts or recaps among these participants. As further evidence of this, Mazzone has noted a significant increase in this activity, having conducted four carveout transactions in the last 18 months and launching refinancings for two family office clients in 1H 2024.

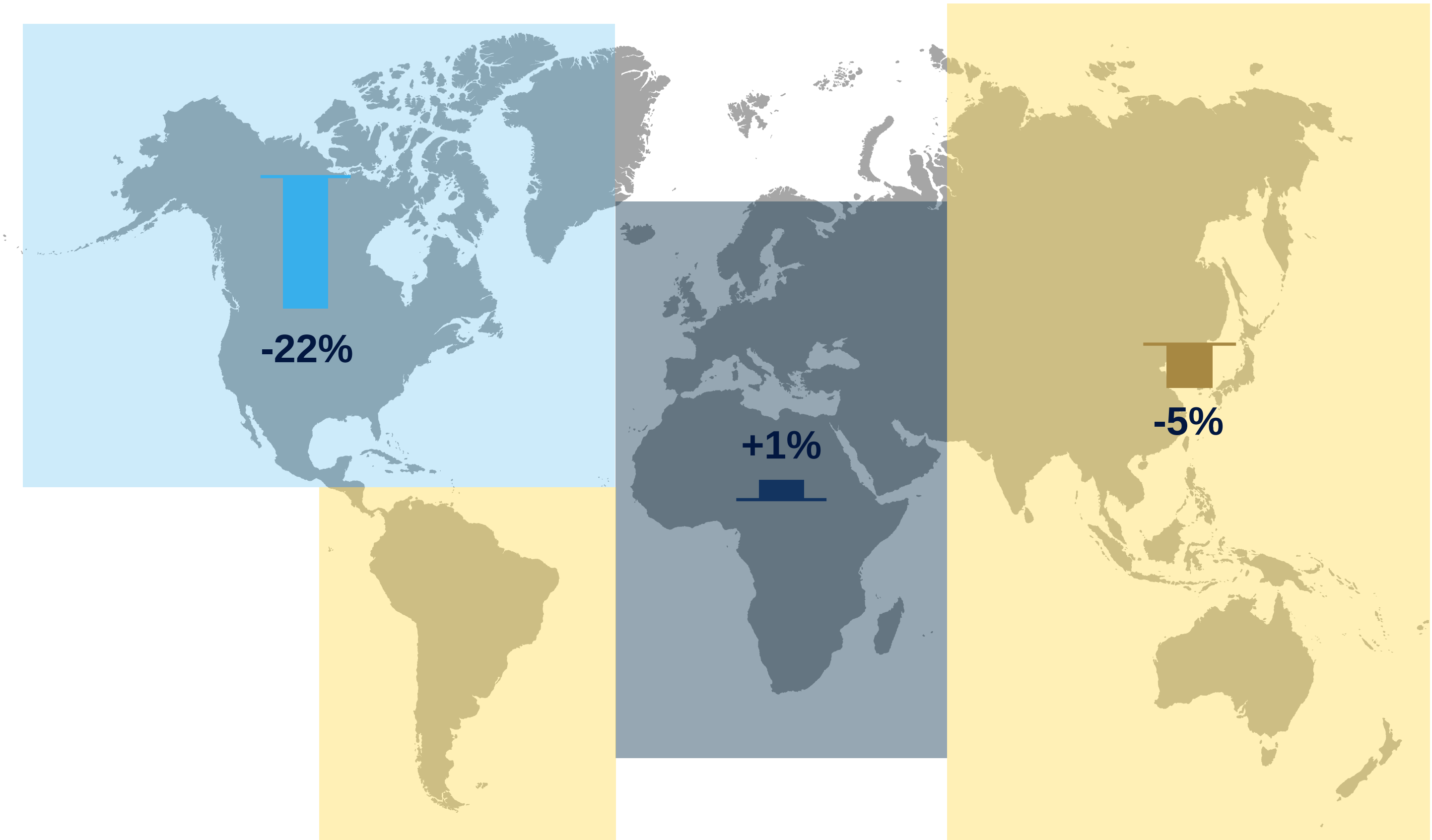
# CROSS-REGIONAL TRANSACTIONS

Cross-regional deals are 19% 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 Targets suffered the greatest decline in transaction volume, off by -22% versus 2022 and only 8% above the Covid year of 2020. By comparison, ROW targets saw only a -5% decline in activity.

EMEA targets held steady (+1%) versus 2022, which we attribute to this stronger performance to an easier comparison period. Deal volumes in EMEA fell considerably in 2022, the result of Russia's invasion of Ukraine and this lower base of EMEA transactions made year-on-year comparisons more favorable for that region. Notably, Mazzone recently completed two cross-region transactions of an EMEA target, one each for a North America and an Asia based client and are currently working with a European-based client to bring another transaction into the market in 2024.

Intra-regional deals are the norm across the world – 93% of NA targets are acquired by NA buyers and 78% of EMEA targets are acquired by EMEA buyers. The exception is ROW, where less than half (48%) are acquired by a buyer within their same region. There is no premium provided by cross-regional deals, however, with cross-regional transactions trading at a 1.0x discount to intra-regional deals in 2023.

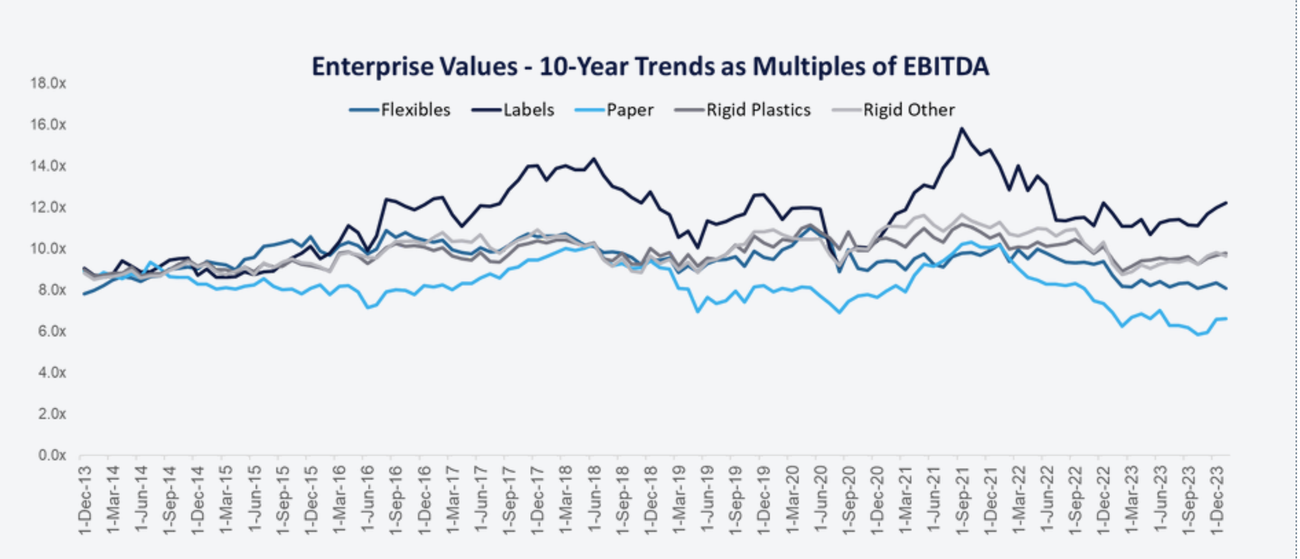



*Source: Mazzone Research*

# PUBLIC MARKET PERFORMANCE & VALUATION TRENDS

Reflecting the soft demand cited above, our universe of publicly traded packaging companies witnessed a trailing 12-month revenue decline of 2.1% since our Summer 2023 Industry Insights (August 2023). The declines ranged from -1.6% (Rigid Plastics) to -2.8% (Paper). This includes both destocking early in 2023 and decreased material inputs (e.g., containerboard, resin) later in the year. Fortunately, margins remained steady at ~25% Gross Margin and ~16% Normalized EBITDA.

Public company enterprise values (as measured by normalized EBITDA multiples) closely track to the trends among transaction multiples: overall down by 1.2x of EBITDA (January 2024 to January 2023), with decreases shared among all segments.



*Source: Pitchbook*

Most indices reached their 10-year peak in Q3/Q4 2021, with an overall decline since that peak of -2.4x turns of EBITDA, ranging from 3.2x to -3.3x (Paper and Labels) to -1.8x (Rigid Plastics). Moreover, these valuations are below the long-term (10-year) averages. Aside from Labels[1], which are trading in the middle of their 10-year range, current EBITDA multiples are trading at -1.3x to their longer-term average.

*Source: Pitchbook*

*[1] Labels segment is comprised of CCL Industries and Avery Dennison; with the outperformance driven by Avery Dennison, the single positive outlier in our universe, which is trading at over 4x its 10-year average.*

# AREAS OF FOCUS FOR PREMIUM VALUATIONS

***SUPPLY CHAIN*** This long-simmering issue was exacerbated by both Covid and continues with geopolitical tensions. We advise all buyers and sellers to carefully understand and proactively manage their supply chain. Furthermore, there is higher scrutiny in the supply chain around "forever chemicals" and regulatory / liability risk. Preparation in advance of marketing a transaction along with clear communication around volume trends, cost/price changes, and environmental liability 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, that only intensified. Then 2022-2023 witnessed wage rate increases across nearly all markets. 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. Since many packaging assets have long lives, owners and operators are actively looking to find improvements in throughput, quality controls and automation to drive further operating efficiencies and seek higher outputs within volumes.

***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 towards 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 many, EPR is here; if not yet for you, consider yourself lucky to have time to prepare. 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. The consensus appears that all approaches will have their place; however, certain geographies, applications and end markets will lean in more to certain approaches versus others. 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

## UPCOMING SPEAKING ENGAGEMENTS

- **AWA Mergers & Acquisition Executive Forum** June 4 (online)
- **International Sleeve Label Conference** October 17-18 (Miami, FL)

Please note that we will also be attending Label Expo in Chicago, Illinois in September and Pack Expo in Chicago, Illinois in November. If you would like to meet with us at either event, please contact Stuart Sanford at (404) 995-1711.

## MAZZONE CURRENT & PIPELINE PACKAGING MANDATES

| Category | Description |
|---|---|
| **Flexibles** *North America* | Advising a financial sponsor in acquisitions of flexible packaging extruders and/or converters |
| **Machinery & Equipment** *North America* | Advising a private client in the sale of an equipment manufacturer and provider of related engineering services |
| **Coated Paper Products** *North America* | Advising a private client in acquisition of extrusion coating assets and/or paperboard |
| **Rigid Sheet / Fiber Based** *Europe* | Advising a private client in acquisition of extrusion coating assets and/or paperboard |
| **Recycled Resins for Packaging** *North America* | Advising a private client in strategic alternatives / investments in a mixed plastics recycling venture |
| **Machinery & Equipment** *North America* | Advising a private client in the sale of die-cutting equipment business |
| **Distribution** *North America* | Advising a private client in the sale of specialty paper and film products value-added distribution business |

## 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, Summer 2023**
- **Industry Insights: Labels**

# RECENT INDUSTRY EXPERIENCE

| | | | |
|---|---|---|---|
| Advised Pamarco on the divestiture of its Palmyra operations to Precision Roll Solutions, a portfolio company of Guardian Capital Partners | Advised Pamarco on its acquisition of TLS | 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 Filtrexx, 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 | Enterprise Value | LTM Revenue | LTM Adj. EBITDA | GM % | Adj. EBITDA % | EV / Rev | EV / EBITDA |
|---|---|---|---|---|---|---|---|---|---|
| ($ in millions as of 08/17/2023) | | | | | | | | | |
| **Flexibles** | | | | | | | | | |
| Amcor | NYS: AMCR | $ 13,687 | $ 20,787 | $ 14,425 | $ 1,998 | 18.7% | 13.9% | 1.4x | 10.4x |
| Berry Global Group | NYS: BERY | 7,791 | 16,093 | 12,664 | 1,999 | 18.2% | 15.8% | 1.3x | 8.1x |
| Huhtamaki Oyj | HEL: HUH1V | 4,133 | 5,652 | 4,524 | 594 | 17.0% | 13.1% | 1.2x | 9.5x |
| Sealed Air Corporation | NYS: SEE | 5,250 | 9,933 | 5,517 | 1,086 | 30.1% | 19.7% | 1.8x | 9.1x |
| Transcontinental | TSE: TCL.A | 881 | 1,550 | 2,179 | 319 | 46.1% | 14.6% | 0.7x | 4.9x |
| Winpak | TSE: WPK | 2,101 | 1,624 | 1,158 | 225 | 28.9% | 19.4% | 1.4x | 7.2x |
| **Labels** | | | | | | | | | |
| Avery Dennison | NYS: AVY | 16,189 | 19,293 | 8,280 | 1,203 | 26.3% | 14.5% | 2.3x | 16.0x |
| CCL Industries | TSE: CCL.A | 7,612 | 8,907 | 4,870 | 994 | 28.1% | 20.4% | 1.8x | 9.0x |
| **Paper** | | | | | | | | | |
| BillerudKorsnas | STO: BILL | 2,217 | 2,803 | 4,096 | 494 | 47.6% | 12.1% | 0.7x | 5.7x |
| Cascades | TSE: CAS | 1,095 | 2,661 | 3,433 | 418 | 40.5% | 12.2% | 0.8x | 6.4x |
| DS Smith | LON: SMDS | 4,949 | 7,414 | 9,168 | 1,338 | 32.1% | 14.6% | 0.8x | 5.5x |
| Graphic Packaging Holding Company | NYS: GPK | 7,758 | 13,197 | 9,565 | 1,881 | 22.0% | 19.7% | 1.4x | 7.0x |
| International Paper Company | NYS: IP | 12,633 | 17,470 | 19,448 | 2,421 | 27.9% | 12.4% | 0.9x | 7.2x |
| Mondi | LON: MNDI | 8,816 | 10,579 | 8,662 | 1,471 | 37.4% | 17.0% | 1.2x | 7.2x |
| Packaging Corporation of America | NYS: PKG | 14,922 | 17,021 | 7,843 | 1,631 | 22.2% | 20.8% | 2.2x | 10.4x |
| Sonoco Products Company | NYS: SON | 5,679 | 8,945 | 6,822 | 1,065 | 20.7% | 15.6% | 1.3x | 8.4x |
| WestRock Company | NYS: WRK | 10,371 | 18,578 | 20,310 | 2,968 | 17.6% | 14.6% | 0.9x | 6.3x |
| **Rigid Plastics** | | | | | | | | | |
| Amcor | NYS: AMCR | 13,687 | 20,787 | 14,425 | 1,998 | 18.7% | 13.9% | 1.4x | 10.4x |
| AptarGroup | NYS: ATR | 8,672 | 9,745 | 3,445 | 675 | 35.6% | 19.6% | 2.8x | 14.4x |
| Berry Global Group | NYS: BERY | 7,791 | 16,093 | 12,664 | 1,999 | 18.2% | 15.8% | 1.3x | 8.1x |
| Crown Holdings | NYS: CCK | 10,997 | 17,964 | 12,164 | 1,725 | 19.4% | 14.2% | 1.5x | 10.4x |
| O-I Glass | NYS: OI | 2,316 | 6,564 | 7,157 | 1,505 | 21.3% | 21.0% | 0.9x | 4.4x |
| Silgan Holdings | NYS: SLGN | 4,672 | 8,575 | 6,103 | 894 | 16.5% | 14.7% | 1.4x | 9.6x |
| Sonoco Products Company | NYS: SON | 5,679 | 8,945 | 6,822 | 1,065 | 20.7% | 15.6% | 1.3x | 8.4x |
| **Rigid Other** | | | | | | | | | |
| Ball | NYS: BALL | 17,887 | 26,674 | 14,174 | 1,957 | 17.6% | 13.8% | 1.9x | 13.6x |
| Crown Holdings | NYS: CCK | 10,997 | 17,964 | 12,164 | 1,725 | 19.4% | 14.2% | 1.5x | 10.4x |
| O-I Glass | NYS: OI | 2,316 | 6,564 | 7,157 | 1,505 | 21.3% | 21.0% | 0.9x | 4.4x |
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*Source: Pitchbook*