Oaklins

A sustainable future in recyclable packaging

SPOT ON | FLEXIBLE PACKAGING | MAY 2019

"The latest trends addressed in the European Union's packaging regulation, combined with retailers' opinions and actions regarding single-use packaging products, may further drive consolidation and business valuations in the packaging sector. Valuation trends remain positive in the flexible packaging space overall, especially for companies that focus on growth application markets."

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DEAL COUNT & TRADING MULTIPLES

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Deal count & trading multiples

As a reminder, here are the main market players we have identified to monitor the flexible packaging space:

Film and foil production

All packaging / plastics materials—either reel fed, cut in format or punched—apply that are in direct contact with the filling goods, also bag manufacturers and converters

Slitting, pouch making

The filling goods can be dairy, confectionery, biscuits, snacks, dried food, coffee, wet food, chilled food, pet food, pharma, medical, personal care, household care, tobacco, gardening, agricultural or industrial

Print, lamination, metallizing

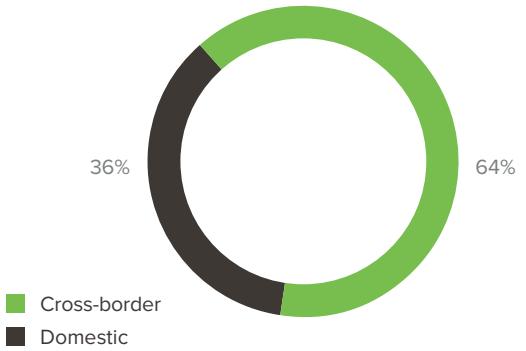
Labels for beer, soft drinks, food, nonfood household and in-mold labels apply

Company	Country
Amcor Limited	
Bemis Company Inc.	
CCL Industries Inc.	
Ergis S.A.	
Huhtamäki Oyj	
Nampak Limited	
RPC Group plc	
Sealed Air Corporation	
Sonoco Products Company	
Tredegar Corporation	
Uflex Limited	
Mondi plc	

Valuation trends have been positive in the flexible packaging space overall, especially for companies that focus on growth application markets. M&A activity in the flexible packaging industry is characterized by a rather strong cross-border focus, representing 64% of all transactions. M&A activity reached a peak in 2016, and the 2018 count of around 20 closed transactions is also promising.

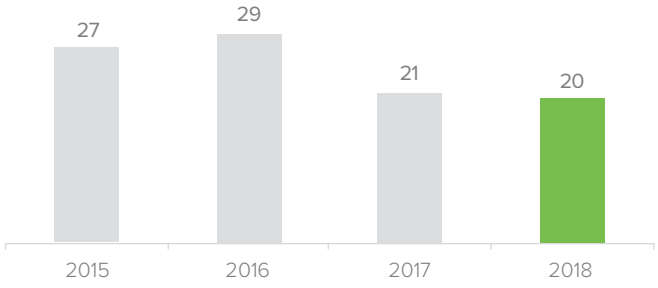
The high volume of M&A activity and the increasing pressure to consolidate signals a positive outlook for potential M&A transactions in 2019.

Cross-border transactions



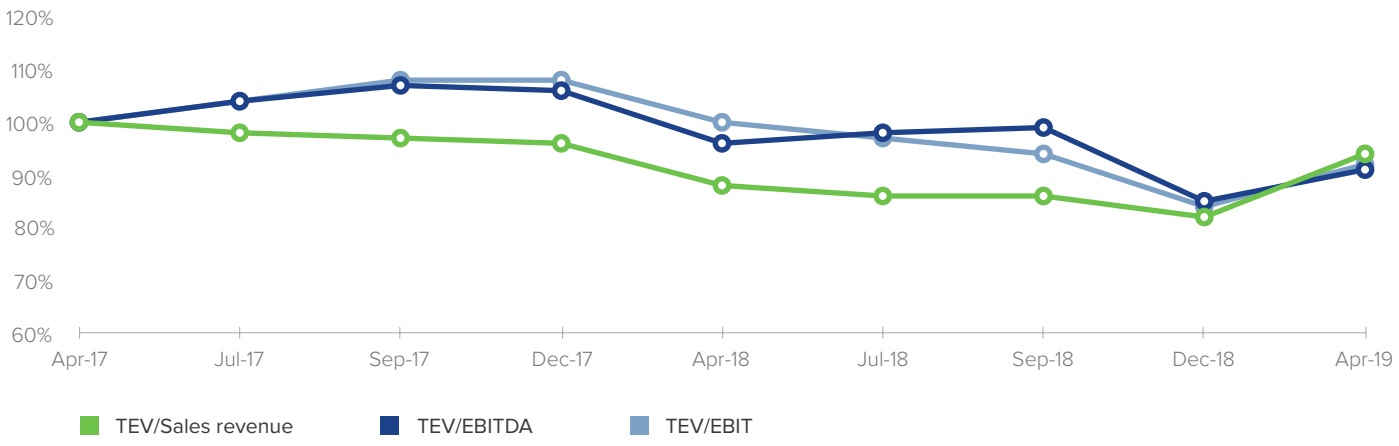
Source: Mergermarket, Oaklins research

Transactions by years



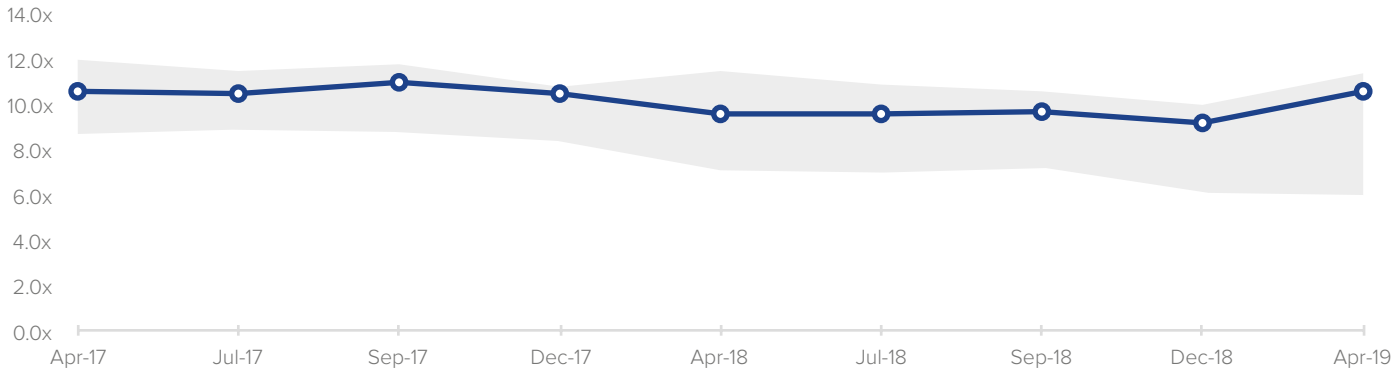
Source: Mergermarket, Oaklins research

Peer group trading multiples in more detail (2017–2018): relative change



Source: Mergermarket, S&P Capital IQ

Peer group trading multiples in more detail (2017–2018): TEV/EBITDA change



Source: Mergermarket, S&P Capital IQ

Market trends

EUROPEAN UNION PACKAGING REGULATION

The EU is taking action to reduce plastic pollution by setting tough new restrictions on single-use plastic products.

On 10 October 2018, the member states' ambassadors in the Permanent Representatives Committee agreed the Council's position on a proposal for a new directive that forms part of the EU's efforts to protect the environment and clean up the oceans.

The new rules will ban the use of certain throwaway plastic products for which alternatives exist. In addition, specific measures will be introduced to reduce the use of the most frequently littered plastic products, especially those that are often found on European beaches. These products, which make up over 70% of marine litter, will be banned from the EU market from 2021, under draft plans approved by Parliament.

Members of the European Parliament added products made of oxo-degradable plastics, such as bags or packaging and fast-food containers made of expanded polystyrene, to this list of plastics to be banned, as well as setting national reduction targets for other non-banned plastics.

The consumption of several other packaging products, for which no alternative exists, will have to be reduced by member states by at least 25% by 2025. This includes single-use burger boxes, sandwich boxes and food containers for fruits, vegetables, desserts and ice creams. Member states will draft national plans to encourage the use of products suitable for multiple use, as well as reusing and recycling.

Other plastics, such as beverage bottles, will have to be collected separately and recycled at a rate of 90% by 2025. In addition, member states agreed that reduction measures should also cover waste from tobacco products, in particular cigarette filters containing plastic. It would have to be reduced by 50% by 2025 and 80% by 2030.

Member states should also ensure that at least 50% of lost or abandoned fishing gear containing plastic is collected per year, with a recycling target of at least 15% by 2025. Fishing gear represents 27% of waste found on Europe's beaches.

On extended producer responsibility schemes, the European authorities stress that the calculation methodology for the costs of cleaning up litter should be proportionate. To reduce administrative costs, member states may set financial contributions for cleaning up litter by agreeing multiannual amounts.

LEGISLATION IN AUSTRIA ON SINGLE-USE PLASTIC PRODUCTS

Every year in Austria, between 5,000 and 7,000 tons of plastic carrier bags are circulating and polluting (littering) cities and communities and are a common threat to the environment, especially oceans, rivers and lakes, as well as to people and, above all, to our posterity.

A package of measures is planned, including the ban on non-degradable plastic bags. The ban comes into force on 1 January 2020. However major retail store chains, such as the REWE Group (Billa, Merkur, Bipa, Penny and Adeg), as well as Lidl and Hofer, have put some effort into reducing the pollution caused by plastic waste. Since January 2016, they have been replacing the traditional single-use plastic carrier bags with ones made of different materials. However, the measures of the EU regulation on the use of plastic will go even further and include:

- A ban on plastic carrier bags, except carrying bags that are fully biodegradable
- A swift implementation of the EU single-use plastic guidelines with corresponding product bans and reduction goals
- A ban on the addition of microplastic particles in cosmetics and detergents, unless a (preferred) European solution has been attained
- A reduction by 2025 of at least 20% to 25% of the amount of plastic packaging: this applies, above all, to the packaging of products for single use and corresponds to a reduction of approximately 60,000 tons of plastic
- Additional measures, rules and guidelines will follow

The alternatives are diverse and are more sophisticated than most people think. Retail store chains set an example. Instead of plastic bags, ecological cloth bags, paper bags, shopping baskets and trolleys will come into use. In addition, through the new regulation, 5,000 to 7,000 tons of unnecessary and unecological garbage from plastic carrier bags can be saved, which will have a tremendous impact on the littering problem. The goal is to reduce packaging materials by a total of 60,000 tons per year.

There will be no exceptions for sausage stalls, kebab stalls or pharmacies. However, EU member state officials are working to ensure a smooth transition, especially for small businesses and retailers.

In Austria, around 300,000 tons of plastic packaging garbage accumulates annually. Just a third of this tremendous amount is currently being recycled; for example, polyethylene terephthalate (PET) bottles.

An initial and sustainable initiative to reduce this plastic waste, therefore, must take care about plastic packaging.

Microplastics are plastic particles with a diameter smaller than five millimeters. Once in the environment, they cannot be degraded and disturb the ecological balance. Infiltrating the natural food chain (in mussels or different marine animals, for example) they are subsequently consumed by humans, harming their personal health. One source is microplastic beads, which are purposely added to products such as cosmetics and detergents for a cleansing effect and which enter the wastewater after usage. Although this source is classified as rather low in volume, substitutes could be used and bans are underway. Tire abrasion is also a major cause of microplastic, and we will see developments in this field.

Spotlight on PET recycling in retail

PRIZED FOR ITS STRENGTH, THERMOSTABILITY AND TRANSPARENCY, PET IS A POPULAR CHOICE FOR PACKAGING.

PET is also inexpensive, lightweight, resealable, shatter-resistant and recyclable.

Recycled polyethylene terephthalate, known as RPET, is the most widely recycled plastic in the world. According to the PET Resin Association (PETRA), the US recycling rate was about 31% in 2012, while it was 52% in the European Union. In 2016, the US recycling rate had fallen below 29%. Almost 1.8 billion pounds of PET were recycled in the US in 2015 and used to make a variety of end products. The US Environmental Protection Agency (EPA) estimates that 1% of municipal solid waste in the US is attributed to PET containers.

PET Recycling Process

After it has been sorted, the PET material is ground into particles known as flakes. Flake purity is central to preserving the value of the reclaimed plastic. Further separation techniques involve washing and air classification, as well as water baths (sink/float) to separate residual foreign materials. Washing can be undertaken at standard or elevated heat levels. The use of disinfectants and detergents aids in achieving a complete cleaning. After the completion of grinding, washing and separation steps, the material is rinsed to eliminate any remaining contaminants or cleaning agents. The recycled PET is then dried before reintroduction as a manufacturing material or before further processing. Melt filtering can further purify material through the removal of any non-melting contaminants that may have survived earlier steps. Extruded material passes through a series of screens to form pellets, while non-melted particulate is blocked. Pelletized plastic provides a uniform-sized material that can be reintroduced into the manufacturing process.

Recycled plastic bottles can be turned into all sorts of useful things, not just new plastic bottles. For example, the flakes made from melting plastic can be spun into a fine polyester fiber, which can be used to make fleece clothing, carpets and duvet filling. Twenty-five recycled 500-milliliter (17.6-ounce) bottles can make one fleece jacket and five two-liter (0.44-gallon) bottles can be turned into 0.09 square meters (one square foot) of carpet.

The durability of recycled plastic also makes it ideal for use in drainage pipes, scaffolding boards and fences, and it's also a cheap material for making street furniture, signs and even bins. In fact, your recycling bin may be made from the contents you put into it. The stationery in your pencil case could be made from recycled bottles too, as the plastic flakes can be reshaped into rulers, pencil sharpeners and other items. In addition, RPET is employed for new products, such as:

- Polyester carpet fiber
- Fabric for T-shirts
- Athletic shoes
- Luggage, upholstery
- Fiberfill for sleeping bags and winter coats
- Industrial strapping
- Sheet and film
- Automotive parts
- Long underwear
- New PET containers
- Sweaters

In summary, we will see a big shift in used packaging materials within the next few years.

Selected listed players

Company	Country	Market cap (US$)	EV/ sales	EV/ EBITDA	EV/ EBIT	P/E	EBITDA margin	EBIT margin
Amcor Limited		12,723.85	1.8x	13.1x	17.8x	19.2x	13.4%	9.8%
Bemis Company, Inc.		5,060.44	1.6x	11.1x	15.6x	22.5x	14.0%	9.9%
CCL Industries Inc.		7,121.87	2.2x	11.5x	16.0x	20.7x	19.1%	13.7%
Ergis S.A.		29.63	0.4x	6.0x	12.1x	7.5x	6.1%	3.0%
Huhtamäki Oyj		3,884.15	1.4x	11.4x	17.9x	22.1x	12.2%	7.7%
Nampak Limited		501.79	0.8x	5.4x	7.0x	6.7x	14.7%	11.4%
RPC Group Plc		4,174.00	1.1x	7.5x	12.1x	12.8x	15.1%	9.4%
Sealed Air Corporation		7,168.44	2.2x	12.1x	14.2x	49.1x	18.2%	15.4%
Sonoco Products Company		6,155.07	1.4x	10.1x	14.8x	19.8x	13.5%	9.1%
Tredegar Corporation		531.88	0.6x	6.0x	9.0x	21.5x	9.3%	6.3%
Uflex Limited		236.80	0.4x	3.2x	5.2x	5.2x	12.5%	7.6%
Mondi plc		10,711.04	1.6x	6.8x	9.2x	11.1x	22.9%	17.0%
	Min		**0.4x**	**3.2x**	**5.2x**	**5.2x**	**6.1%**	**3.0%**
	Median		**1.4x**	**8.8x**	**13.2x**	**19.5x**	**13.7%**	**9.6%**
	Max		**2.2x**	**13.1x**	**17.9x**	**49.1x**	**22.9%**	**17.0%**

Source: S&P Capital IQ

Case study

PAPYRUS NORGE AS (PAPYRUS), A SWEDEN-BASED MANUFACTURER AND SUPPLIER OF GRAPHICAL PAPER, OFFICE PAPER, PACKAGING PRODUCTS AND CONSUMABLES, HAS EXPANDED ITS BUSINESS IN NORWAY WITH THE ACQUISITION OF ARTO EMBALLASJE AS.

The price and terms of this transaction have not been disclosed.

Arto Emballasje is specialized in the wholesale of industrial packaging. The company sells primarily to customers in the Oslo area. Arto Emballasje is going to continue operating under its current name, but it will be an important supplement to Papyrus' commitment in Norway and Europe.

Papyrus is a leading European merchant in paper, facility supplies and industrial packaging. The company is currently present in 22 countries across Europe, with its head office located in Gothenburg, Sweden. The company has a clearly defined strategy, with the aim of becoming the market leader for industrial supplies and packaging in the Nordic region. The acquisition of Arto Emballasje is fully in line with this strategy.

Oaklins' team in Norway acted as the exclusive financial advisor to the shareholders of Arto Emballasje in this transaction.

Arto

has been acquired by

PAPYRUS

M&A SELL-SIDE

Consumer & Retail

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OAKLINS OFFERS A COMPREHENSIVE RANGE OF SERVICES

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- Debt advisory
- Corporate finance services

Flexible packaging is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in the flexible packaging sector, with a large network of relevant market players worldwide. This results in the best possible merger, acquisition and divestment opportunities for flexible packaging companies.

If mergers, acquisitions, or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.

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