

Packaging Perspectives

2020: Year-end review

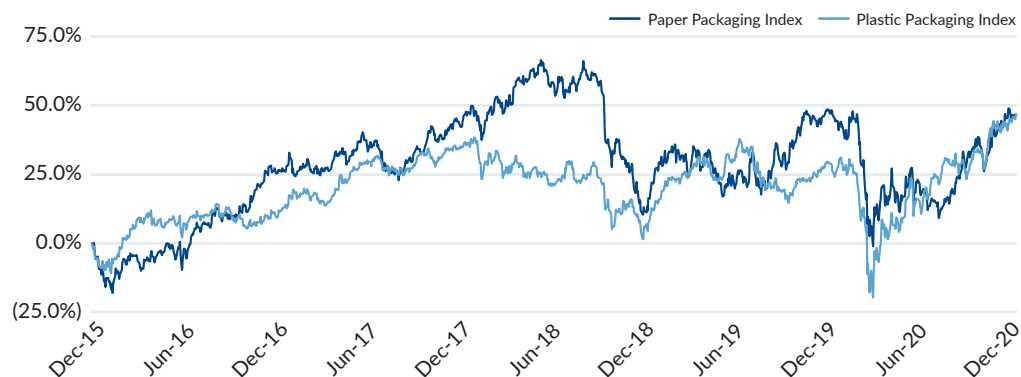
After a sharp decline in share prices and a collapse in M&A activity in late 1Q2020 / early 2Q2020, the packaging sector has experienced a strong recovery with share prices for plastic packaging companies ~15% above those at the beginning of the year, while share prices for paper packaging companies ended up about flat. As the packaging sector overall has performed well during the pandemic, valuations have also recovered and are currently above their past three-year average, especially for paper packaging companies. M&A activity is expected to be strong in 2021, although might be a bit slow initially as buyer and seller valuation expectations adjust to the normalized post-COVID-19 profitability levels (instead of current levels).

Share price performance and public market valuations

Share prices of packaging companies rebounded nicely after their sharp decline following the lock-down in mid-March (Chart 1). Share prices for plastic packaging companies ended up 14% for the year, while those for paper packaging companies ended down 1%.

Consequently, public market valuations for both plastic and paper packaging companies have also recovered. Plastic packaging companies' valuations at the end of the year were at 12.3x EV / EBITDA versus their three year average of 11.9x, while paper packaging companies' valuations were at 9.9x EV / EBITDA versus their three year average of 8.1x (Charts 2 and 3).

CHART 1: SHARE PRICE PERFORMANCE: PACKAGING INDICES¹



Source: FactSet as of December 31, 2020. Past performance is not indicative of future results. Please see last page for important information.



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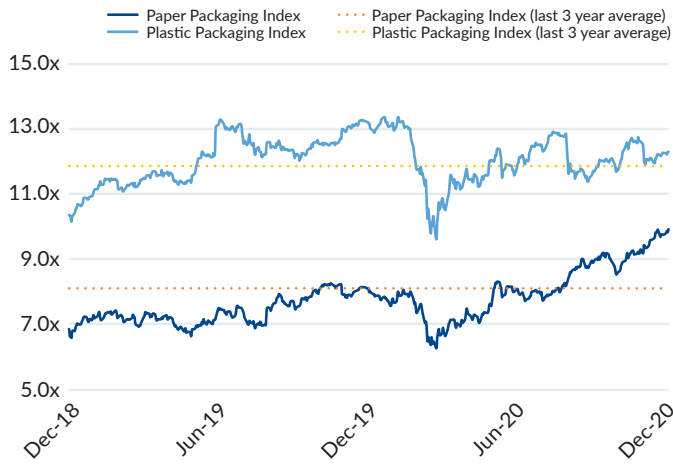


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Managing Director
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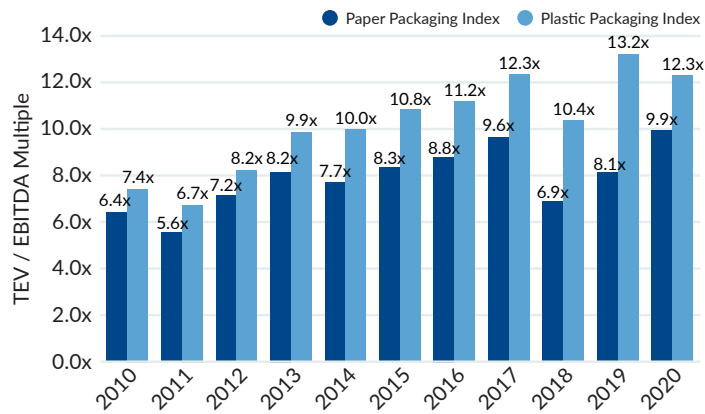
Melanie Yermack
Director
CHICAGO

CHART 2: TEV / EBITDA: PACKAGING INDICES¹



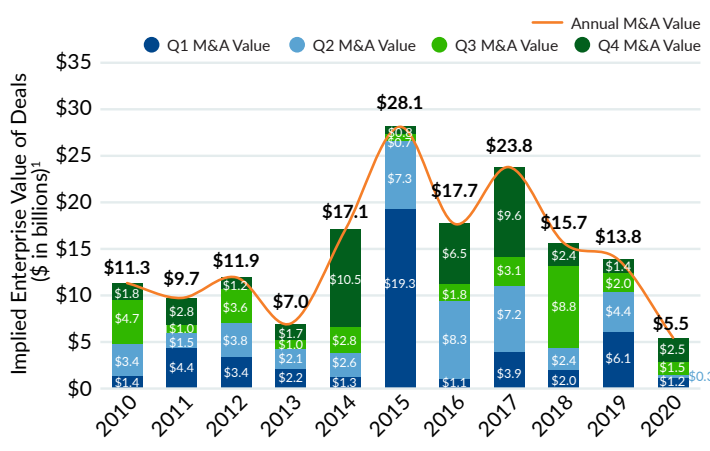
Source: FactSet as of December 31, 2020. Past performance is not indicative of future results. Please see last page for important information.

CHART 3: PUBLIC PACKAGING COMPANY AVERAGE TEV / EBITDA MULTIPLES¹



Source: FactSet. Note: Average TEV / EBITDA multiples as of December 31 for 2010-2020. Please see last page for important information.

CHART 4: TOTAL GLOBAL PACKAGING M&A DEAL VALUE BASED ON ANNOUNCED DATE



Source: FactSet. | 1. Only includes deals with disclosed deal value.

M&A activity

M&A activity in the packaging sector declined precipitously in 2Q2020 but recovered gradually in the third and fourth quarters (Chart 4). Most of the M&A processes that were underway were put on hold due to the significant level of uncertainty at the onset of COVID-19 coupled with the shut down of the debt capital markets. M&A activity in 2021 is expected to recover even further for the following reasons:

- Packaging in general is a primary beneficiary of the impacts resulting from COVID-19
- Pent-up demand due to the low volume of M&A transactions in 2020
- Private equity sponsors have significant equity capital (over \$1.7 trillion of “dry powder”) that they need to deploy
- Strategic buyers looking for acquisitions to obtain growth, scale, diversification and synergies
- Availability of debt capital at very attractive cost from a historical perspective – lower leverage levels and higher borrowing costs now vs. pre-COVID-19

Private equity continues to be a very active M&A participant in the packaging sector, as many packaging sub-sectors exhibit:

- Above-average demand growth rates
- Defensive demand characteristics, especially during periods of economic downturns
- Attractive margins
- Relatively low margin volatility as typically packaging companies pass-through raw material cost changes
- Low capital expenditure requirements and high free cash flow generation
- High degree of fragmentation resulting in numerous opportunities for consolidation and growth

There have been numerous and successful examples of private equity firms making an initial acquisition, establishing a platform company and subsequently making add-on acquisitions that have resulted in increased scale, enhanced manufacturing capabilities and product offering, expanded geographic presence and improved cost structure; all of these characteristics have also resulted in higher valuation multiples.

The outlook for M&A activity in the packaging sector is very favorable, especially in light of the additional demand growth that numerous packaging sub-sectors are experiencing due to the shifting consumer buying habits as a result of the pandemic.

Select Mesirow-advised M&A transactions

Despite the slowdown in M&A activity in 2020, Mesirow completed eight transactions that all highlight the firm's expertise within the paper, plastics and packaging sectors. Mesirow Investment Banking positions middle-market clients as highly strategic targets for the most relevant buyers in each sector, creating a customized and highly efficient process to secure a positive outcome for shareholders.

Mesirow acted as the exclusive financial advisor to Dallas Plastics Corporation ("Dallas Plastics" or the "Company") on its sale to Sole Source Capital LLC ("Sole Source").

- Dallas Plastics is a leading manufacturer of blown polyethylene film with printing, embossing and other valued-added capabilities for the medical, food and industrial end markets. Headquartered in Mesquite, TX with additional facilities in Longview, TX and Wentzville, MO, the Company utilizes cutting edge extrusion technology and a variety of proprietary resin blends to produce best-in-class films for its customers across the U.S.
- Dallas Plastics will join Sole Source, an industrial-focused private equity firm providing capital to North American lower-middle market companies, as a platform for both organic and inorganic growth. By leveraging Sole Source's experience investing in leading industrial companies and its operating and M&A capabilities, this partnership will propel Dallas Plastics' continued expansion across North America.

Mesirow acted as exclusive financial advisor to Advanced Web Technologies Holding Company ("AWT" or the "Company"), a portfolio company of Mason Wells, on its sale to investment funds managed by Morgan Stanley Capital Partners ("MSCP").

- Headquartered in Minneapolis, MN, AWT is a leading provider of labels and flexible packaging solutions focused on healthcare, personal care and food & beverage end markets. Founded in 1976, the Company operates through three facilities in the U.S. and holds a top three market position in the medical device labels and clinical trials labels segments. Through its innovative product design approach and swift speed to market, AWT helps customers address mission-critical application needs.
- MSCP, part of Morgan Stanley Investment Management, is a leading middle-market private equity platform that has invested capital in a broad spectrum of industries for over three decades.

Mesirow acted as the exclusive financial advisor to Nelmar Security Packaging Systems, Inc. ("Nelmar"), Plastixx Extrusion Technologies Inc. ("PET") and Plastixx FFS Technologies Inc. ("PFT"), collectively referred to as the "Nelmar Group of Companies" or the "Company", on its sale to Balcan Plastics Ltd. ("Balcan Plastics").

- Based in Montreal, Canada, the Nelmar Group of Companies is a vertically-integrated producer of extruded film, form, fill and seal ("FFS") films and plastic valve bags used in building materials, chemicals, industrial, packaging and pet food end markets, as well as tamper-evident security packaging solutions that protect high-value items (cash, medicine, etc.) for armored cars, casino, duty free, healthcare, law enforcement, pharmaceutical and restaurant customers
- Balcan Plastics is a premier flexible packaging company that provides extrusion, printing, converting services and products to blue-chip customers in Canada, the U.S. and other international markets. Balcan serves customers across agricultural, construction, food and general industrial end markets (among others)

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OF COMPANIES**



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2020 Mesirow-advised packaging M&A transactions

SELL-SIDE ADVISOR

THE NELMAR GROUP OF COMPANIES

NELMAR
Security Packaging Systems Inc.

plastixx **plastixx**
EXTENSION TECHNOLOGIES INC. FFS TECHNOLOGIES INC.

HAS BEEN ACQUIRED BY

balcan

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LABELS & PACKAGING

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Shifting consumer buying habits and preferences post-COVID-19...

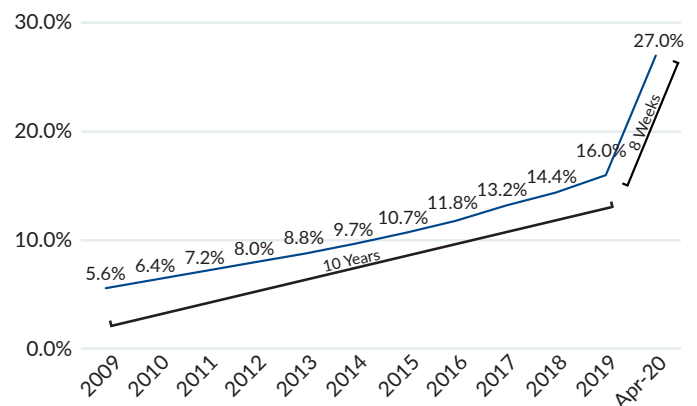
- Post-COVID-19, more people will be using online shopping than before
- More than three-quarters of consumers are waiting to see indicators beyond lifting of restrictions before restarting out-of-home activities
- Consumers are shifting back to basics and value – shopping intent is on essentials
- Consumers demand hygiene transparency
- Consumers, when making purchasing decisions, are placing emphasis on availability, convenience and value
- Consumers will be spending more time at home and intend to eat more at-home

...Benefiting the packaging sector

There has been an explosion in online shopping and e-commerce since mid-March. More specifically, in the eight weeks following the lock-down, the e-commerce penetration as a percentage of retail sales increased as much as it did during the past 10 years (Chart 5).

Virtually all product categories are expected to show an increase in online purchasing, particularly OTC medicine, groceries, household supplies and personal care products. The packaging substrates that will benefit the most include corrugated shipping boxes, other forms of protective packaging, flexible films, rigid containers, plastic bottles and tubes, metal aerosol cans and jars (Chart 6).

CHART 5: U.S. E-COMMERCE PENETRATION AS A % OF RETAIL SALES



Source: Bank of America, U.S. Department of Commerce, ShawSpring Research.

CHART 6: EXPECTED GROWTH % IN CUSTOMERS' PURCHASING CATEGORY ONLINE (BEFORE AND AFTER COVID-19) AND ITS IMPACT ON PACKAGING SUBSTRATES

Category	Expected Growth %	Impact on Packaging Substrates
OTC medicine	+44%	Tubes, bottles, jars and caps / closures
Groceries	+41%	Flexible, rigid plastics and corrugated packaging
Household supplies	+38%	Plastic bottles and metal aerosols
Personal-care products	+38%	Tubes, bottles, jars and caps / closures
Alcohol	+34%	Metal and glass bottles
Furnishings and appliances	+30%	Flexible, rigid plastics and corrugated packaging
Food takeout & delivery	+28%	Food-service packaging (e.g., plastic, paper)
Fitness and wellness	+28%	Corrugated and protective packaging
Vitamins / supplements	+27%	Tubes, bottles, jars and caps / closures
Non-food child products	+25%	Flexible, rigid plastics and corrugated packaging
Snacks	+20%	Flexible films (e.g., oriented polypropylene)
Jewelry	+19%	Folding cartons and paper boxes
Apparel	+19%	Corrugated and microflute packaging and cartons
Skin care and makeup	+18%	Plastics, tubes, glass and jars
Accessories	+18%	Corrugated and microflute packaging and cartons
Footwear	+16%	Corrugated and microflute packaging and cartons
Tobacco	+15%	Cartons
Books / magazines / newspapers	+11%	Corrugated and microflute packaging
Consumer electronics	+10%	Corrugated and protective packaging
Entertainment at home	+4%	Corrugated and protective packaging

Expected Growth %

- Greater than or equal to 30%
- Less than 30%, greater than 15%
- Less than or equal to 15%

Source: McKinsey & Company (August 2020), Mesirow.

Long term themes and their impact on the packaging sector

In addition to the significant increase of e-commerce and increased focus on hygiene that are having an immediate impact on various packaging substrates, longer term, four key trends will impact the packaging sector (Chart 7):

CHART 7: LONGER-TERM DEMAND IMPACT BY END MARKET

Longer-term trends	Key beneficiary packaging substrates
Increased use of e-commerce	> Flexible mailers and Thermoformed containers
Increased emphasis on hygiene	> Nonwovens, flexible, rigid
Increased use of delivery services (groceries, pharmacies, restaurants...)	> Flexible
Increased focus on health and wellness (including medical and healthcare)	> Rigid, flexible, labels
Increased focus on sustainability (shift from plastic to paper)	> Kraft paper packaging / foodservice / grocery bags
Increased focus on domestic supply chain and sourcing of various products considered critical or of national security (for example, pharmaceuticals)	> All packaging



















Source: Mesirow.

“Virtually all product categories are expected to show an increase in online purchasing, particularly OTC medicine, groceries, household supplies and personal care products.”

Sector spotlight: Corrugated

- Corrugated container demand surpassed any historical norms last year due to the pandemic and in particular, due to the explosion of e-commerce sales. Although the near-term demand outlook is favorable, it is end-market specific (Chart 8). Longer-term, demand for corrugated containers will also benefit from the sustainability trends towards more environmentally-friendly forms of packaging materials
- Corrugated container demand is projected to grow about 6% between 2021 and 2023
- Containerboard capacity, however, is rising at unprecedented rates. Part of the capacity increase is driven by paper machine conversions from printing and publication grades (which have experienced a dramatic and mostly permanent decrease in demand due to COVID-19)
- Containerboard capacity, based on projects already announced, is projected to increase almost 10%, or 3.8 million tons, by the end of 2023
 - Approximately half of the new containerboard capacity is represented by new entrants to the North American market that could cause additional disruptions to the industry
- The majority of the new containerboard capacity will need to be integrated, placing a significant premium at independent corrugated container converting operations
 - In particular, the new market entrants that do not currently have any existing converting operations, in our view, will be more aggressive in securing corrugated container operations to minimize their market risk
- As a result, industry M&A activity in the corrugated sector is expected to accelerate and valuations will continue to remain at elevated levels (at or above the pre-COVID-19 levels)

CHART 8: NEAR-TERM CORRUGATED DEMAND OUTLOOK IS END-MARKET SPECIFIC

End market	% of total	Initial Impact	Near-term outlook	Commentary
Food & beverage				
Processed food				Strong immediate demand for shelf stable options; growth moderating after stock up
Beverage				Decline in foodservice demand not offset by strong retail
Protein				Strong retail demand; near term impact of processing plant shutdowns
Fresh produce				Growing retail demand; varies by category
Other non-durables				
Chemicals & pharmaceuticals	30%			Consumer focus on health and sanitation
Paper, towels & tissue				Strong demand for personal care and hygiene products; partly offset by printing papers
Other non-durables				Pullback in discretionary spending and impact of "non-essential" business
Durable goods & distribution				
E-commerce, shipping & distribution	25%			Greater dependence on e-commerce as primary spending channel
Durable goods				Pullback in discretionary spending; growing demand for various categories

Source: Mesirow, International Paper Investor Roadshow (October 2020).

Leading middle-market M&A advisor to the paper, plastics and packaging sectors

Mesirow Investment Banking continues to successfully assist paper, plastics, packaging and specialty printing companies with their financial advisory needs. With extensive sector-specific expertise and deep long-standing relationships, our dedicated Packaging team has completed over 150 packaging transactions in recent years. Our highest priority is helping individuals and organizations reach their financial and strategic goals, and we are consistently focused on elevating the experience for our clients.

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1. Paper Packaging Index: BillerudKorsnäs AB (BILL:OME); DS Smith Plc (SMDS-LON); International Paper Company (IP-US); Mayr-Melnhof Karton AG (MMK-WBO); Mondi plc (MNDI-LON); Smurfit Kappa Group plc (SKG-LON); Stora Enso Oyj (STERV-HEL); UPM-Kymmene Oyj (UPM-HEL); WestRock Company (WRK-US).

Plastic Packaging Index: Amcor PLC (AMCR-US), Aptargroup, Inc. (ATR-US), Avery Dennison Corporation (AVY-US), Berry Global Group Inc (BERY-US), CCL Industries Inc. Class B (CCL.B-CA), Sealed Air Corporation (SEE-US), Silgan Holdings Inc. (SLGN-US).

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