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PAK FLASH™

News and Events from Cranial Capital, Inc.

M&A Defined: A Multifaceted Tool

M&A is indeed a multifaceted tool. Everyone is intrigued by it. It appears to be a tonic for a company's ills. It can divert investor attention away from a company's troubles and lastly, yes it can create havoc on some companies!

In this version of ***Pak Flash*** we will provide a review of deal making from 2006 thru 2018 YTD. We review both the volume of deals and the valuation of deals, year by year.

We also chose to present M&A transaction in two ways.

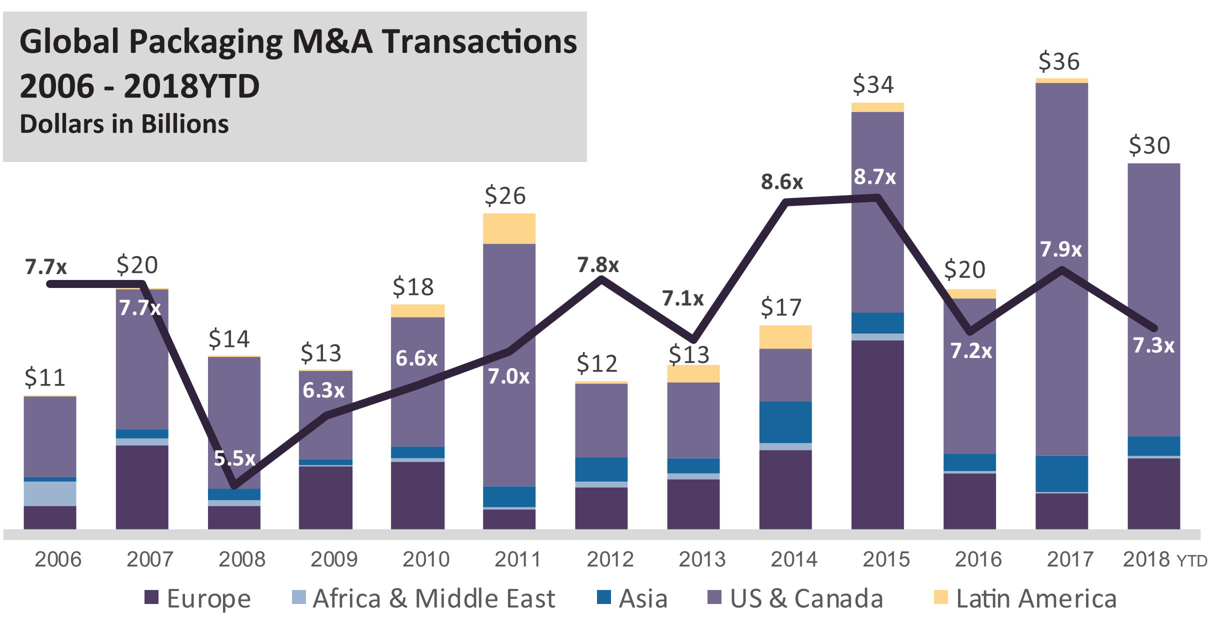
1. The **Global Market** including: Africa & Middle East, Asia, Europe, Latin America and US & Canada.
2. **Europe/North America** (EU/NA)

We excluded deals that were less that $100 mm trying to eliminate the high volatility of such smaller deals which are largely in the emerging market and generally skew average multiples negatively.

Our Global screen (below) on average generated EBITDA multiples of 7.3x for the 2006-2018 YTD period. For the period 2015-2018 YTD Global EBITDA multiples averaged 7.8x

Looking to the Europe/North America screen (next page), we note that the two regions account on average for 82% of total Global deal volume! This drives our decision to separate Europe/North America from the Global screen.

EU/NA on average generated EBITDA multiples of 8.0x for the period 2006-2018 YTD. For the 2015-2018 YTD EU/NA EBITDA multiples average 9.0x



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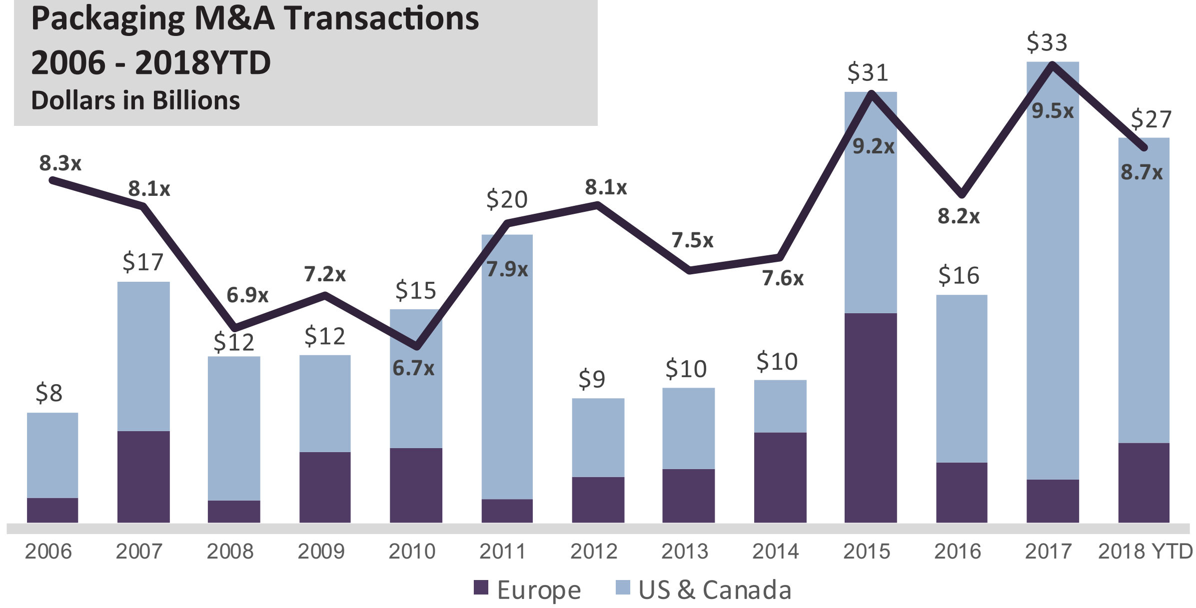
Europe and North America Packaging M&A Transactions 2006 - 2018YTD
Dollars in Billions



In 2017, on a Global basis there was $36.3 billion of transactions done encompassing some 88 deals at an average multiple of 7.9x. Conversely, Europe/North America deals alone amounted to $33 billion made up of 29 deals and an average multiple of 9.5x

Deal volumes and values generally mirror one another trend-wise when overlaying Global Market over Europe/North America. Most notable was the downturn in 2008 due to the "great recession" and 2012-2014, which were noticeably slower periods. Conversely the years 2007, 2011, 2015, 2017 and YTD 2018 were all quite robust.

Fueling the M&A activity is a combination of relatively inexpensive capital, the return to the M&A markets by strategics and large amounts of capital held by private equity investors.

Clearly the old adage concerning the Packaging Industry multiples has been broken. Many industry followers pegged the EBITDA M&A trading range at 6.0x – 8.0x. Today Packaging companies are averaging 9.0x EBITDA. However, this average takes into account transactions occurring in the 10x, 11x, 12x and even 13x range.

Deals are done for many reasons including:

- Elimination of a competitor
- Growing market share
- Acquiring technology
- Entering new markets
- Entering new geographies
- Enhancing the depth of management
- Fending off a takeover attempt
- Nothing better to do

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NOTABLE DEALS OF THE RECENT PAST

Acquiror	Target	EV	EBITDA x	Business	Deal Type
Amcor	Bemis	$6.8 Bil.	10.9x	Flexibles	Global Consolidation
Aptar	CSP Technology	$555 mm	13.0x	Barrier Materials	Technology Acquisition
Crown	Signode	$3.9 Bil.	10.2x	Transit Packaging	New Business Leg
Multi-Color	Constantia Label	$1.3 Bil.	10.3x	Labels	Global Consolidation
Novolex	Waddington	$2.3 Bil.	12.0x	Specialty Plastics	Business line Extension
RPC Group	Letica	$490 mm	8.6x	Rigid Plastics	Geographic Expansion
Transcontinental	Coveris NA	$1.3 Bil.	10.3x	Flexibles	Business Transformation

The chart above, *Notable Deals of the Recent Past*, highlights seven transactions done for five separate reasons. Below we summarize the deals that demonstrate this trend:

- **Amcor's pending acquisition of Bemis** in our judgment is a global Flexibles consolidation play.
- **Aptar's acquisition of CSP Technology** on the other hand is a technology acquisition focused on barrier materials/containers.
- **Crown Holding's acquisition of Signode** encompasses a new business leg in Transit Packaging.
- **Multi-Color purchase of Constantia Label** like the Amcor/Bemis deal was a global consolidation play in Labels.
- **The Novolex acquisition of Waddington** was a horizontal acquisition into rigid packaging.
- **Letica's acquisition by RPC** was a geographic expansion play into NA.
- **Transcontinental's acquisition of Coveris North America** was a transformational event changing TC into a Flexible Packaging concern

SELECT CASE STUDIES

Aptar / CSP Technologies

Aptar paid 13.0x EBITDA and 4.0x PSR. CSP marked ATR's largest deal to date at $555 mm. CSP Technology is more of a technology and materials concern and less a Closures/Dispensing play. CSP's "Active Polymer" Technology will be leveraged in ATR's existing Pharma and Food & Beverage business. ATR will take CSP Technologies global and leverage their product line with its existing customer base. CSP's smart materials/containers is likely to become a profitable new business leg for ATR.

Crown Holdings / Signode

Crown paid 10.2x EBITDA and 1.7x PSR for Signode. It represents a first time CCK investment outside Rigid Packaging. Signode is a leader in Transit Packaging and offers a new silo for CCK. Looking forward growth and available market share for metal cans were minimal. CCK management rightfully so decided to get ahead of the maturation curve of metal containers. Signode provides a highly leverage-able platform across Transit, Protective and Industrial Packaging. Ultimately, Signode could equate to 40-50% of CCK sales over time.

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Amcor / Bemis

Amcor is paying 10.9x EBITDA and 1.6x PSR for Bemis. The combination creates a comprehensive global footprint with greater sale in every region. Amcor has long prized Bemis going back 15-20 years. The attraction for Amcor is Bemis material science, extrusion technology and leading North American market share. For Bemis, Amcor provides a vehicle to increase its participation in Europe, Eastern Europe and Asia Pacific. Combined sales and EBITDA will be $13 billion and $2.2 billion respectively.

Multi-Color / Constantia Label

LABL paid 10.3x EBITDA and 1.9x PSR for Constantia Label. The deal brings together the global #2 (LABL) and #4 (Constantia Label) players in Labeling & Product ID. Their combined footprint is expected to exceed $1.6 billion in sales and $300 mm in EBITDA. It brings together Constantia Labe's high performing Food & Beverage business with LABL's strong Wine & Spirits and Household & Personal Care platforms. The combined entity creates a much greater acquisition pipeline and higher potential synergies from future acquisitions. This highly consolidative initiative must be paired with greater operating consistency by LABL.

RPC Group / Letica

RPC paid 8.6x EBITDA and 1.1x PSR for Letica. Letica is a North American manufacturer and distributor of rigid plastic packaging and food service products serving building and construction, food service, food, chemical and retail markets. Letica fits with RPC's Vision 2020 ie create meaningful RPC presence outside Europe. It can act as a potential buy and build platform in North America and will be earnings accretive after the first full year. Finally it fits nicely with RPC's resin based model and engineering skills.

Sealed Air / Fagerdala

The EV/EBITDA metric was not available. SEE paid 1.3x PSR. Fagerdala is a manufacturer and fabricator of PE Foam with sales of $80 million. Its headquarters are in Singapore and it has 14 manufacturing facilities worldwide including Mexico and the USA. Sealed Air is focused on leveraging Fagerdala's footprint in Asia, expertise in foam and fabrication and commercial organization to grow in consumer electronics, medical equipment and devices, automotive, temperature assurance and e-commerce/ fulfillment sectors. Sealed Air is back in the M&A game 5-years post the Diversey acquisition

SUMMARY

- M&A can be a great tool for value creation
- Some participants are adept at doing deals
- Others must work hard to generate shareholder value
- Common mistakes include:
  - Paying too much
  - Taking on too much debt / financial leverage
  - Overestimating synergies / cost savings
  - Not having the management team to execute the deal
  - Polluting one's culture!

All in all, M&A if properly valued and executed can be an excellent value creator. Conversely paying too much and or not having the team to execute the transaction can destroy value for shareholders. When you look at experienced operators like Ball or CCL, doing M&A is part of their culture. It's part of their strategic plan and they do it well and often. The question is like the chicken or the egg. Do you need to do multiple deals before you become expert at deal making? Hopefully not, but likely so!

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