CDI GLOBAL

Buying and Selling Companies in the Packaging Sector

A step-by-step guide to finding the deal that's right for you.

Packaging Sector

www.cdiglobal.com

Executive Summary

The value of this guide

CDI Global has advised companies on mergers and acquisitions (M&A) for 40 years. We have a deep knowledge of the Packaging sector and understand the prime importance of making informed choices in this complex global industry. Opportunities are plentiful, but so are potential pitfalls. Until now you may have been sufficiently concerned by the latter to miss the former. This guide aims to explain both and demonstrate that, with the right expertise, there are deals to be made that can greatly benefit your business.

Who is it for?

Companies throughout the Packaging sector and those seeking investment opportunities, such as private equity firms. In particular, senior executives and owners of smaller and middle market companies who want to know more about mergers and acquisition in Packaging, whether it has been on their 'to do' list or not. If you've never considered acquiring or divesting, we hope this guide will provide a fresh perspective.

Key takeaways

- The state of the Packaging sector M&A current market
- The benefits of buying or selling
- M&A - the promise and pitfalls
- Auctions - is there another way to buy?

Get an experienced perspective on your Packaging sector ambitions

CDI Global works with businesses throughout the world to achieve the very best M&A outcomes. If you are considering buying or selling in the sector, or would simply like to discuss your options, sign up now for a free, no-obligation consultation with our experts by phone or Skype™.

FIND OUT MORE

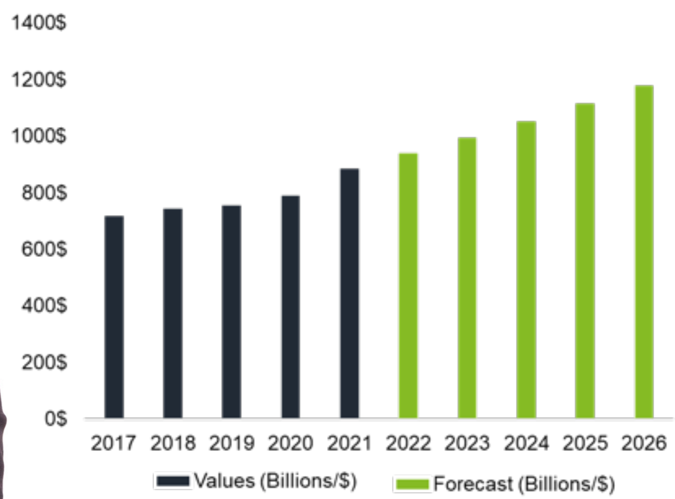
Why buy or sell in the Packaging sector?

In comparison, the Asia-Pacific and US markets grew with CAGRs of 9.8% and 2.8% respectively, over the same period, to reach respective values of $435,794.6m and $188,235.3m in 2021. The market's volume is expected to rise to 349.4 million tons by the end of 2026, representing a CAGR of 2.9% for the 2021-2026 period.

The performance of the global market is forecast to accelerate, with an anticipated CAGR of 5.9% for the five-year period 2021-2026, which is expected to drive the market to a value of $1,177,401.8m by the end of 2026. Comparatively, the Asia-Pacific and US markets will grow with CAGRs of 7.7% and 4% respectively, over the same period, to reach respective values of $630,383.3m and $229,120.2m in 2026.

The Asia-Pacific region is expected to continue to drive market growth over the forecast period. Increases in household income, further growth of urban areas, changes in technology and demographic shifts will encourage consumer spending, which will, in turn, increase demand for containers and packaging. China's private consumption is set to more than double to reach $12.7tn by 2030.

Market Values & Forecasts



Source: "Global Containers & Packaging", MarketLine, March 2021

Positive Key Trends

The value of this guide

Product packaging can serve many purposes, from protecting and preserving your products to positioning your brand and connecting with your customers. Whether you design your packaging for functionality and practicality or creativity and innovation, the choices you make around product packaging can be critical for your brand or business. In fact, 72% of American consumers say their purchasing decision is heavily influenced by the packaging design of the products they buy (or don't).

Shift to sustainable packaging

67.0% of manufacturers are in the process of switching from virgin plastic to recycled plastic, or rPET. The global market for recycled polyethylene terephthalate is expected to be valued at $14.4 billion by 2028 at a compound annual growth rate (CAGR) of 6.7%. The increasing focus on sustainable production is leading manufacturing to move away from plastics, favoring paper and paper-based packaging.

Pulp & Paper Market

The pulp and paper market are supposed to reach USD 679.7 billion by 2027 at a CAGR of 3.5%. The global pulp and paper production reached 490.0 million tons by the end of 2021. The paper manufacturing market consists of three segments:

- pulp and paper machine manufacturing;
- production of paper chemicals;
- paper production.

Of these, paper manufacturing is the largest segment.

E-commerce Packaging

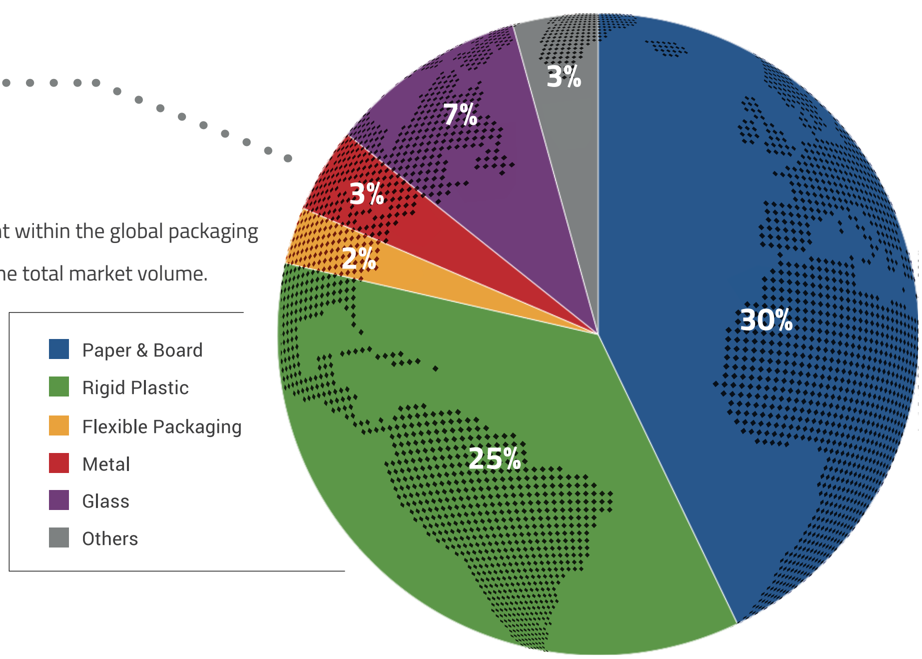
The global market for e-commerce accounts is constantly increasing and expectations are positive until at least 2028 thanks to the possibility to ship different packaging solutions by many alternative channels. Corrugated box demand is projected to grow at a CAGR of 4.3 percent through 2030. This grow is attributed to a surging demand for sustainable and durable packaging.

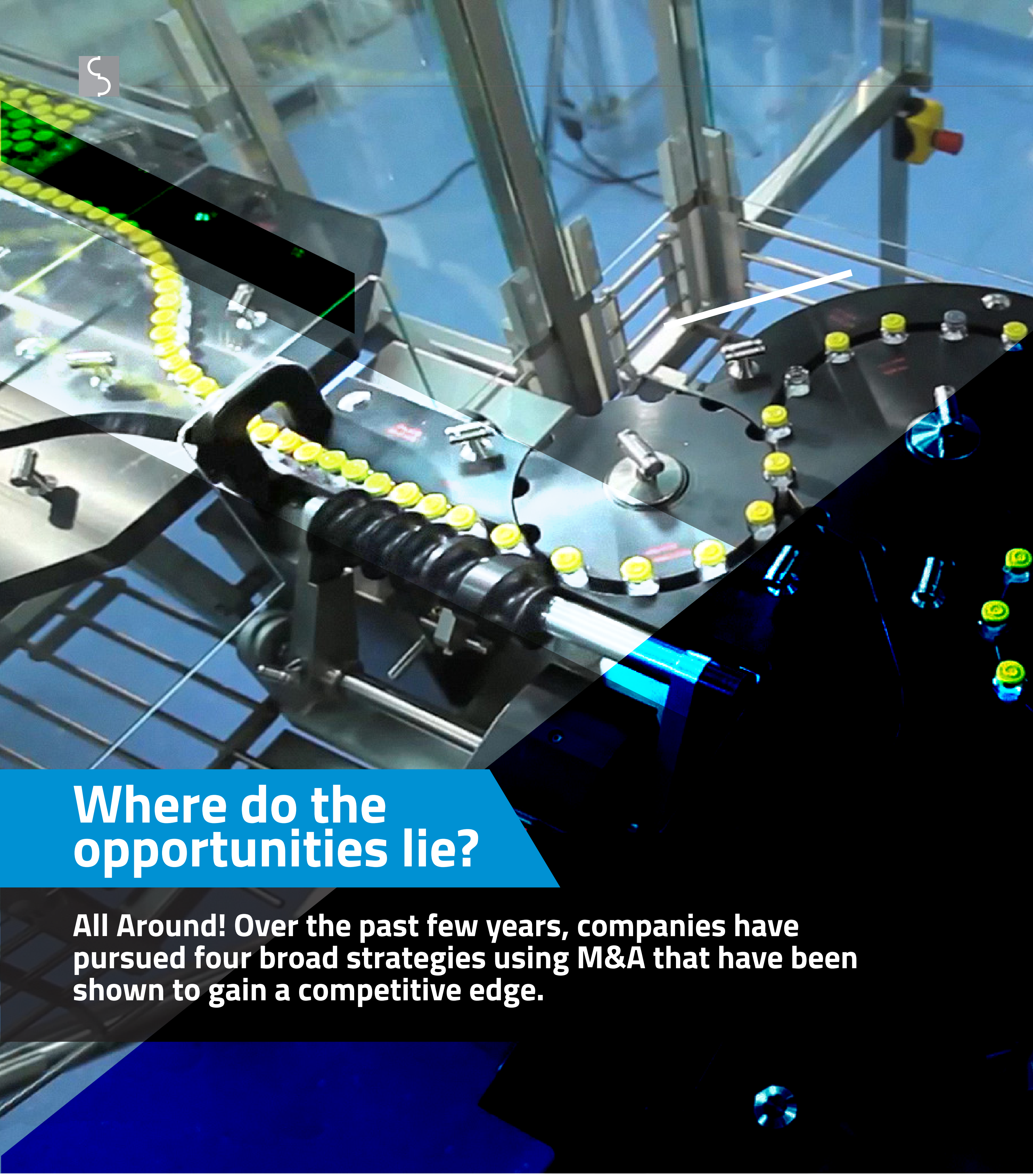
Glass Packging

The global glass packaging market is expected to reach 73.3 billion by 2026 at a CAGR of 4.4 percent. The special feature of glass packaging is that it provides greater environmental safety, taste, and health than other forms of packaging. A growing demand for environmentally friendly packaging has enabled this sector to grow. Glass is the easiest packaging material to recycle and is more durable than other forms of packaging. In addition, the development of lightweight glass requires less use of energy and raw materials.

Market by Material

- Paper and board represent the largest segment within the global packaging market, accounting for approximately 30% of the total market volume.





Where do the opportunities lie?

All Around! Over the past few years, companies have pursued four broad strategies using M&A that have been shown to gain a competitive edge.

As with any area of design, product packaging is largely influenced by creative trends and technological advancements. Product packaging is evolving to be more focused on practicality, sustainability, and organic, handcrafted design.

A decade into the current economic expansion, most financial sponsors are modeling a downturn during their hold periods, raising the attractiveness of the packaging industry. In addition to packaging companies' ability to generate strong cash flow, the packaging industry has displayed a relatively high degree of defensiveness during previous downturns, especially packaging assets with a meaningful presence in the healthcare and/or food and beverage end markets.

Financial sponsors have been particularly aggressive in their pursuit of packaging companies with the scale necessary to serve as a platform asset. In addition to EBITDA in excess of ~$25 million, financial sponsors look for strong management teams, a proven ability to execute on an acquisition strategy, and a focus on less cyclical end markets when identifying potential platform assets.

What are the challenges?

- Rapid changes in technology
- Shortage and Rising cost of raw material
- Costly Skilled Manpower
- Rising input costs
- Highly inadequate credit flow
- Lack of Market Access & Advanced technology
- Lack of exposure to Best Management and Manufacturing Practices
- Lack of 100% commitment to the quality standards
- Lack of Marketing, Distribution and Branding
- Non-availability of skilled man-power

"Identify the Right Opportunity"

What to do if you're looking to buy

"It's vital that you have a clear rationale for seeking an acquisition in the first place, underpinned by your company's growth strategy."

1 The starting point:

It's vital that you have a clear rationale for seeking an acquisition in the first place, underpinned by your company's growth strategy. This will provide the framework for defining the criteria when choosing your target.

2 Next steps:

Specify criteria and decide which are critical/important, then quantify each one (e.g. target size, profitability, growth rate, sales in key segments, etc.). A preliminary list of targets can be drawn up but, at this point, a reality check is crucial. Do you have the time or expertise to locate the best targets? If not, you need help from an expert in the sector who will also advise on how and when to approach the companies in question.

3 Finance:

Engage with potential debt or equity providers to ensure they understand and back the plan, and that you will have sufficient financial firepower to do the deal. Also calculate how any extra leverage might affect the company.

Be mindful of fluctuations in currency exchange rates, they tend to be self-hedging if the changing value of debt and profits go hand in hand. Investing heavily in emerging economies/markets with volatile currencies can be tricky to manage, if they constitute a significant proportion of your corporate earnings. CDI Global's M&A advisors understand global markets and can shepherd you through the landscape and financial ramifications of your deal.

4 Identifying the right opportunity:

As we have said, many companies seek to strengthen their core when acquiring; but other businesses may diversify, either into higher margin sectors or to hedge against shocks in specific markets or geographical areas. M&A here requires a very rigorous approach as almost every opportunity will be different. Whatever the strategy, ideal targets for acquisition will likely have one or more important characteristics:

i. A steadily growing sales and profit profile
ii. Good growth potential based on factors such as holding a niche position and/or valuable intellectual property.
iii. Fragmented supplier and customer bases, relatively immune to cost/price pressures and more able to sustain margins.

5 Auctions:

On the face of it, auctions appear a good solution for time-poor senior executives seeking acquisitions. Initially the selling company does all the work, hiring an investment banker to prepare a glossy prospectus that arrives in the post, to be read at your leisure. But there are three immediate disadvantages:

i. The prospectus will often go to many other potential buyers, thus inviting maximum competition.
ii. You may receive it irrespective of the suitability of the offer, which can distract from the original goals.
iii. The focus for the bank conducting the auction is getting the best price for the seller.

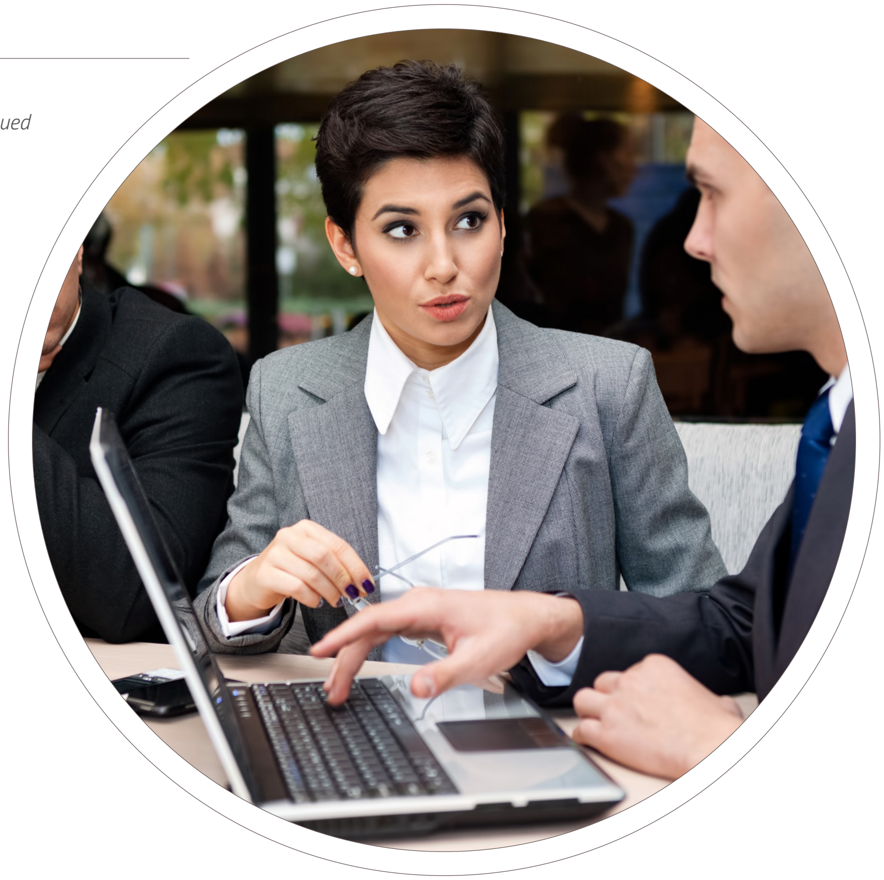
So your chance of acquiring a company that's a good fit at a reasonable price is diminished. And companies can waste a lot of time evaluating prospectuses to discover there would be little strategic benefit acquiring what's for sale.

Following the herd is rarely fruitful. Unfortunately, companies disappointed by auctions can allow this to color their view of M&A as a whole, to their detriment. This is a missed opportunity as other approaches are available, such as specialist search, which can be extremely effective.

6 Why use a specialist?

Serendipity is not an effective strategic tool. You need experienced advisors who will help you diagnose your requirements and know where to find what you need, anywhere. You need someone who understands your sector inside out and talks your language, yet also works cross-border as a matter of course, with a global knowledge and reach. Someone who is also used to managing the whole M&A process, dealing with the myriad of accounting, legal and specialist advisors and driving the deal home.

CDI Global deploys experienced specialists that listen to your needs in order to craft comprehensive strategies based on your precise requirements. Having an expert in your corner means maximizing your team's time and getting the job done to secure the best possible M&A outcome.



"We remove the complexity from these negotiations by having global reach, with local experts that facilitate a smooth transaction."

7 Due diligence:

CDI Global has the experience to recognize the warning signs of a bad deal and works with you to avoid those pitfalls. These warning signs include:

i. The seller appears not to be irrevocably committed to selling.
ii. The seller has limited or poorly prepared due diligence materials.
iii. The seller may not have proper support from professional advisors.
iv. The timetable is unclear or key deadlines in the process are missed or not respected by the seller.
v. The business starts to under-perform or miss key financial targets.
vi. The seller reneges on key aspects that have already been agreed.
vii. Due diligence uncovers one or more 'skeletons in the cupboard'.

However, cross-border deals in the Packaging sector can have specific pitfalls, especially when dealing in certain Asian countries where regulatory and accounting standards are different. Once again expert advice is needed to avoid costly mistakes. If your new acquisition brings with it hidden environmental liabilities, it can have a ruinous impact on your whole business, not just the new company. You need to find these during due diligence, and for that you need expert help. We remove the complexity from these negotiations by having global reach, with local experts that facilitate a smooth transaction.

8 Managing the transition:

With the deal nearing agreement, you will need clear plans (30-day, 90-day or similar) on what will be done immediately once the new business is acquired. It's vital to get role changes and/or redundancies implemented quickly. Will the owner or senior managers continue to be involved? Will you have to act to prevent departures of key personnel? You need to have clear answers to these important questions. CDI Global can help develop a strategy to navigate your post-merger integration to help optimize efficiency and synergies.

What to do if you're looking to sell?

1 The starting point:

For private companies, this often arrives when the owner reaches a certain age and wants to enjoy the fruits of their labor. Is the next generation willing or able to pick up the reins? If not, what are the options to transition the business? Is selling the right answer?

2 Next steps:

Do you sell all the business or keep a stake? The latter could be an attractive option if you're confident about future growth with your shares becoming more valuable in time. Even if you sell everything, be prepared for buyers who want to lock you into the business for a period, post-sale, particularly if they're paying a high price. Typically, buyers will have very well-defined requirements and what they want is usually simple – certainty about what they are buying and the risks and liabilities that come with it.

For your part, be clear about your minimum price and whether you wish to stay involved in the business in future. Don't compromise on these points. There is usually no need for negotiations to become as complex as they often do. Again, an experienced M&A advisor can usually craft a plan based on your desired timing. They also know where to find potential problems in the small print – anything that could claw back money from you as the seller in future years or leave you with residual liabilities (particularly with environmental issues or pension liabilities).

3 Finance:

It is the buyer who ultimately fixes the value of your business based on market, competition, and your unique selling points. It's important that you have a view, and make your calculations accordingly, but in the final analysis what they are willing to pay is the critical determinant of value. Every deal is different, so basing your valuation on what has happened previously can lead to disappointment and disruption to your business planning. Be clear, but also realistic, about your price and expectations and be prepared to walk away if these are not met.

Also, in any deal, be careful about committing to significant investment to make your business more sale-able. This may be necessary to remove an obstacle to sale (e.g. an environmental issue), but investment aimed at producing future growth may not impress buyers, particularly if the future profit uplift is reflected in the expected sale price. Buying on a promise is not attractive to either strategic acquirers or financial buyers, i.e. private equity.

4 Due Diligence:

What does a 'good' buyer look like?:

i. They have the right attitude and commitment to do the deal.
ii. They can provide proof of sufficient finances to complete the transaction.
iii. They have the resources, in particular the right people, to progress the deal.
iv. They have a track record of closing other similar deals.

5 Legacy / Cultural Considerations:

A final important consideration is whether the buyer is willing to meet terms you may set for the treatment of your staff after you depart. You must decide how important that is and be very clear if it is a requirement. In addition, for a privately-owned company, do you want the company name and brand to continue?

Case Study

In March 2022, CDI Global has assisted Industria Litografica Cartotecnica S.r.l. in the sale of 100% of its shares to P. Van De Velde Group, a Belgian manufacturer of ecological cardboard packaging founded in 1935 and operating in 15 plants in Europe and Turkey with over EUR 170M of revenues.

ILC is an Italian company based in Lainate (MI), leader in the production of cards, stickers, catalogues, displays and packaging products in general. The company employs 40 people and reported revenues in 2021 of EUR 8.5M with an EBITDA margin of 16%.

About CDI Global

We hope this guide has stimulated your interest in M&A – and alerted you to both its potential opportunities and hazards. Our 40 years of experience has shown CDI Global how to navigate the shifting marketplace, and guide companies through the process to find opportunities that match their goals.

We have the knowledge.
Would you like to reap the benefit?

CDI Global offers expertise in:

- Packaging sectors – unlike banks and investment advisors, our team has both worked and conducted M&A advisory within various sectors across the industry. We know the industry structure and dynamics inside out.
- Custom-tailored, pro-active approach. We go out and find the best deal for your unique requirements, and offer pragmatic, hands on support.
- Extensive network of contacts, particularly among privately owned companies in the Packaging sector.
- Cross-border M&A expertise and global footprint. CDI Global has expertise on the ground in each territory and operates on the basis of cross-border cooperation.
- We focus on best strategic fit, not just best price.
- Experience in search projects and approaching SME owners on a highly confidential basis, improving closing rates and sourcing "not-for-sale" vs auction opportunities.
- Experience and support in organizing local Due Diligence, managing negotiations and providing results.
- Commitment to the long-term, both in our strategic advice and when working with clients.
- Respect we have earned from both parties in our transactions - based on trust and professionalism.

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