PACKAGING – ITS MARKET DRIVERS AND ATTRACTIVENESS AS AN ASSET CLASS

David Powlson & Celedonio Moncayo-Quiros
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PACKAGING DRIVERS
PACKAGING DRIVERS – FROM NOW UNTIL 2025

Pöyry recently completed a large multi-client report on the wider packaging market through The Stationers.
THERE ARE KEY QUESTIONS ACROSS THE PACKAGING SECTOR

To understand packaging it is important to have a good perspective on the following questions:

- What are the key demand drivers for packaging now and in the future?
- Is sustainability more important than cost?
- How do changes in the retail sector and online shopping change the demand for packaging?
- What are the key technological developments?
- Who are the key stakeholders in the packaging sector?
- What is the growth outlook for packaging?
  - By material
  - By geography
- What are the expected impacts of substitution in the packaging sector?
- What will the future hold for the packaging sector?
- What are the major challenges that the packaging sector will face over the next decade?
WORDCLOUD

Which words do we see? What do we not see?
TIMELINE OF PACKAGING DEVELOPMENT

Packaging itself is not new, but there have been a plethora of recent developments, changing the size and shape of the industry.
PACKAGING MARKET SIZE AND SEGMENTATION (BY VALUE)

Packaging is a USD 670 Billion industry which can be segmented in numerous methods – two such ways are by material and by region.
PACKAGING GROWTH BY MATERIAL

There is a positive growth in all packaging materials, however with the rates varying then plastics will come to dominate further.

Bubble size represents market value in 2014 and 2025.
PACKAGING GROWTH BY REGION

Asia is key – the largest market and the highest growth rate

Forecast CAGR 2014-2025

Share of total packaging (by value)

Bubble size represents market value in 2014
KEY DEMAND DRIVERS

There are multiple demand drivers across the sector: They overlap, interlink and intertwine
PACKAGING AS AN ASSET CLASS
INVESTING IN PACKAGING – BETWEEN A ROCK AND HARD PLACE?

Most packaging companies are highly dependent on limited key raw material suppliers and most often have a strongly consolidating client base.

**Raw Material Suppliers**

- Total
- Lyondellbasell
- INEOS
- INORMUS
- Fibria
- cmPC
- INVISTA
- SÖDRA

**Intermediate Suppliers and Converters**

- amcor
- Constantia Packaging
- Graphic Packaging
- WestRock
- RPC
- MM Karton AG
- Multi Packaging Solutions

**Customers**

- ABInBev
- Arla
- L’ORÉAL
- Mondelez International
- Philip Morris International
- P&G

**Focus: branding and product differentiation, packaging product innovation, product protection and mutual dependency**
INVESTING IN PACKAGING – THE PUBLIC MARKET PERSPECTIVE

During the last three years, investments in fibre-based and plastic packaging sector have outperformed the index of European consumer staple and industrial listed companies.

*Fibre based packaging share price performance – 2012 to 2015*

*Plastic and glass & metal based packaging share price performance – 2012 to 2015*
INVESTING IN PACKAGING – THE PUBLIC MARKET PERSPECTIVE (continued)

In general, Enterprise Value multiples have increased and are close to all time highs, but trading at relative lower valuations than consumer staple or industrial indexes.

Fibre based packaging
EV/EBITDA – 2012 to 2015

Plastic and glass & metal based packaging
EV/EBITDA – 2012 to 2015

FY12 FY13 FY14 LTM
EV/EBITDA

Rigid Plastics
Flexible Plastics
Glass and Metal
MSCI Europe Industrials Index
MSCI Europe Consumer Staples Index

INVESTING IN PACKAGING – THE PRIVATE MARKET PERSPECTIVE

Examples of Private Equity Success Stories

*Large Cap Private Equity*

- **Company**: NORDENIA INTERNATIONAL
  - **Private Equity**: OAKTREE
  - **Restructuring**
  - **Trade Exit**: Mondi

- **Company**: Constantia Packaging
  - **Private Equity**: One Equity Partners
  - **Restructuring**
  - **IPO**
  - **Trade Exit**: DS Smith
  - **Secondary Exit**: WENDEL

*Mid – Cap Private Equity*

- **Owner pre Private Equity**: Nampak
  - **Private Equity**: Platinum Equity
  - **Food Carton Packaging**
  - **Trade Exit**: Graphic Packaging

- **Owner pre Private Equity**: Nampak
  - **Private Equity**: Platinum Equity
  - **Pharma Carton Packaging**
  - **Trade Exit**: Essentra
### INVESTING IN PACKAGING – THE PRIVATE MARKET PERSPECTIVE (continued)

Examples of risks that have prevented packaging investments from achieving expected returns

<table>
<thead>
<tr>
<th>Key Risks</th>
<th>Examples</th>
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<tbody>
<tr>
<td>Risk of Insourcing</td>
<td>• PET containers converted by water companies instead of acquiring them from converters</td>
</tr>
<tr>
<td>Technology/Risk</td>
<td>• Three-piece cans replaced by mono-bloc aluminium containers</td>
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<td></td>
<td>• Conversion of paper machines into paper packaging papers</td>
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<tr>
<td>Regulatory Risk</td>
<td>• Returnable PET containers</td>
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<td></td>
<td>• Mineral oil migration risk</td>
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<td>Over-exposure to a Single Customer</td>
<td>• Exposure to customers with very aggressive cost saving initiatives</td>
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<tr>
<td>Culture Shock</td>
<td>• Particularly applicable to Western European or North American companies expanding to new jurisdictions</td>
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INVESTING IN PACKAGING – M&A TRENDS

What are the key M&A trends

1. Continued Consolidation in Europe
2. European Packaging Companies Expanding into Emerging Markets
3. European Packaging Companies Entering the US
4. US Companies Acquiring in Europe
5. Asian Buyers mostly Focus on Acquisition of New Packaging Technologies
6. High Entry Multiples Being Paid for Packaging Companies
7. New Entrants from Adjacent Industries into Packaging
8. Paper Companies Focusing More on Packaging
THANK YOU!

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