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In the push to be eco-friendly, where are investments trending

Spotlight on Cardboard Box & Container Manufacturing

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Welcome to the Strategic Exit Advisors Containers & Packaging Industry Advisor – dedicated to keeping our readers up to date on key developments in the world of mergers and acquisitions in the Containers & Packaging industry.

Executive Summary

The packaging and containers industry is a mature industry driven by consumer demand and governmental regulations. New shifts toward environmentally friendly practices and e-commerce, particularly in the food/beverage/retail industries, has driven innovations in manufacturing to more durable, sustainable, and recyclable packaging materials.

While the production of cardboard is friendly to the environment, corrugated boxes have the benefit of high recovery rates and a well-developed recycling infrastructure. Recycled products are environmentally friendly and lower in cost as opposed to new materials. With little brand distinction, price pressures are expected to drive the market. As a mature industry, anticipated growth is expected in the 1.2% to 2%+ range over the next 5 years.

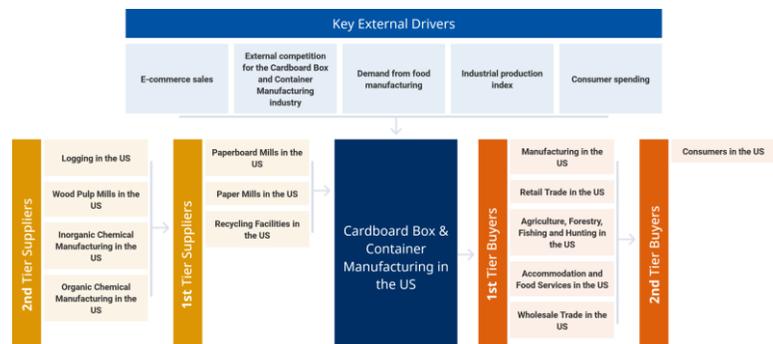
Plastic packaging continues to attract capital investment with over \$12 billion invested over the last 5 years, outpacing the investment in other forms by 4 to 1. As more eco-friendly products come to market and recycling technologies continue to be developed, plastic could become the sustainable packaging of choice.

Spotlight on Cardboard Box & Container Manufacturing - Market Conditions

(Source: IBISWorld)

This industry is a significant consumer of paper, paperboard and old corrugated containers, servicing nearly every sector of the economy. Industry operators produce cardboard boxes, containers, and other packaging solutions including shoe boxes, composite cans, mailing cases and milk cartons. The industry has experienced

steady revenue growth over the five years to 2020. Cardboard continues to be one of the most widely used materials for packaging and shipping. Furthermore, demand for industry products from downstream markets has increased, much of which is attributed to the increase in shipping box



demand from online retailers. Revenue has grown at an annualized rate of 1.2% to \$70.5 billion over the five years to 2020, including an increase of 0.6% in 2020 alone.

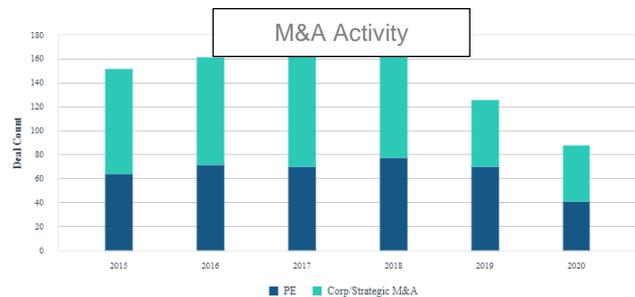
E-commerce is a significant downstream market for industry operators, and its increasing prevalence has propped up industry revenue growth over the past five years. Despite the economic downturn in 2020 due to the COVID-19 pandemic, industry operators have largely been buoyed by the movement of consumers to shop online. Online operators require industry products to ship goods to their customers.

As consumers increasingly opt to purchase goods online rather than in brick-and-mortar stores, demand rises for industry products. Industry profit has also grown slightly over the past five years. However, many substitutes have arisen within the market. The quality of these substitute products, particularly plastic packaging supplies, has improved during the period. These products now require less energy to produce and are more durable than ever, causing heightened external competition for industry operators.

Over the five years to 2025, industry revenue is expected to continue to expand. Food and beverage producers will likely continue to provide a stable source of demand for industry products. Operators are also expected to benefit from heightened demand from e-commerce platforms as consumers continue to purchase more from online stores, requiring more industry products to fulfill their shipping needs. However, the offshoring of manufacturing facilities is expected to continue, reducing domestic demand for cardboard from the packaging and transportation sectors. Industry revenue is expected to rise an annualized 2.3% to \$79.1 billion over the five years to 2025.

M&A Landscape (Source: Pitchbook data)

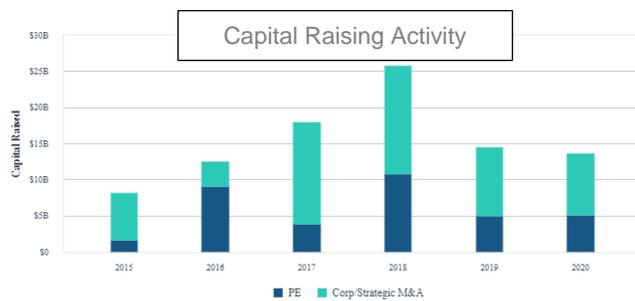
The US M&A market for the container & packaging industry declined in 2018 and 2019. This period followed a 5-year growth period from 2015 to 2018 in which M&A activity grew by 50%, nearly doubling the number of acquisitions. Strategic buyers were the primary force driving the M&A growth through the end of 2018. Softening of the M&A market in 2019 and 2020 was resultant from a pullback in strategic acquirers.



Source: PitchBook Data



Capital raising in the sector followed a similar pattern, peaking in 2018 before significantly declining in 2019. Following the slowdown in 2019 through the 3rd quarter of 2020, where M&A market activity was significantly off, the first three quarters of 2020 has seen a large improvement in capital raising activity. It is expected by the end of 2020, capital raised in 2020 will exceed 2019, increasing the dry powder available for investing in the sector. Could this be an indication that strategic buyers are planning to return to the M&A market and driving a growth of M&A activity in the coming years? This is the same correlation that occurred in the previous 5-year period through 2018.



Source: PitchBook Data



With the stay-at-home quarantine in March 2020, consumers of all types are increasingly shopping from the comfort of home or a home office. The pandemic accelerated the shop at home growth curve. With modest growth anticipated from 2020 through 2025, this event could

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exceed the growth expectation. We believe the accelerant forces will lead to greater growth, and consequently growth in M&A activity across the container & packaging industry. Investors typically refocus on higher growth sectors as they seek opportunities greater returns.

Market Movers

Profiled are the companies that are the most active Buyers in the Market (based on the number of acquisitions) completed during the last five plus years. These are some of the most acquisitive companies in the sector. Contact Strategic Exit Advisors if you would like to learn more about these or other active Buyers in the market.:

WestRock (WRK) manufactures corrugated packaging and consumer packaging such as folding cartons and paperboard. After the merger of RockTenn and MeadWestvaco in fall 2015, WestRock became the largest North American producer of solid bleached sulfate and the second- largest producer of containerboard used in the production of shipping containers.



Graphic Packaging International is a provider of consumer packaging services. The company is a provider of paper-based packaging services to food, beverage and other consumer product companies. The company seeks to strengthen and expand its core business through acquisitions.



Altium Packaging is a developer, manufacturer, and marketer of rigid plastic containers. The company is engaged in the marketing of rigid plastic containers for consumer products and beverage companies. It serves the dairy, water, beverage, food, household chemical, specialty chemical, automotive and distributor markets. The corporate development team of Consolidated Container Company aims to grow their company by making strategic acquisitions and investments.



Genstar Capital is a leading private equity firm that has been actively investing in high-quality companies for over 30 years. Based in San Francisco, Genstar works in partnership with its management teams and its network of strategic advisors to transform its portfolio companies into industry-leading businesses. Genstar targets investments focused on targeted segments of the financial services, healthcare, industrial, and software industries.



TricorBraun is a manufacturer and distributor of packaging products. The company develops and supplies rigid packaging containers and related components, as well as offering services in package design, engineering and development, global sourcing, and logistics management.

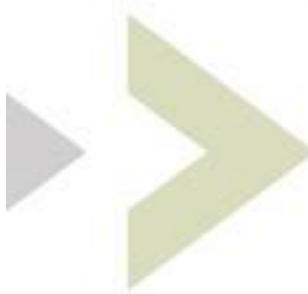


Sonoco Products has assembled a diverse portfolio of industrial and consumer packaging product offerings such as flexible and rigid plastics, reels and spools, pallets, and composite cans. The company serves a variety of consumer and industrial end markets throughout North America.



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About Strategic Exit Advisors

Strategic Exit Advisor is an investment bank for entrepreneurs of mid-size B2B companies. We reduce the anxiety of getting paid for what you put into building your business. Our Team will be with you through the journey. At SEA we don't focus on the transaction but on your transition. To learn more, visit us at www.se-adv.com.

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