

European Plastic Packaging M&A update

Spring 2012



Europe dominates
global M&A activity

European plastic packaging on the road to consolidation

The plastic packaging industry in Europe is valued at €38 billion annually, accounts for a quarter of global supply and generated nearly half of all M&A transactions in the sector.

This report highlights both the opportunities and challenges for European companies in the sector.



“Plastic packaging is becoming a global affair, innovation is ongoing as companies strive to satisfy demanding customers and end users. These factors are driving consolidation”

Jean-Pierre Brice, Partner

Highly fragmented
industry creating
consolidation
opportunities

The key observations from our research:

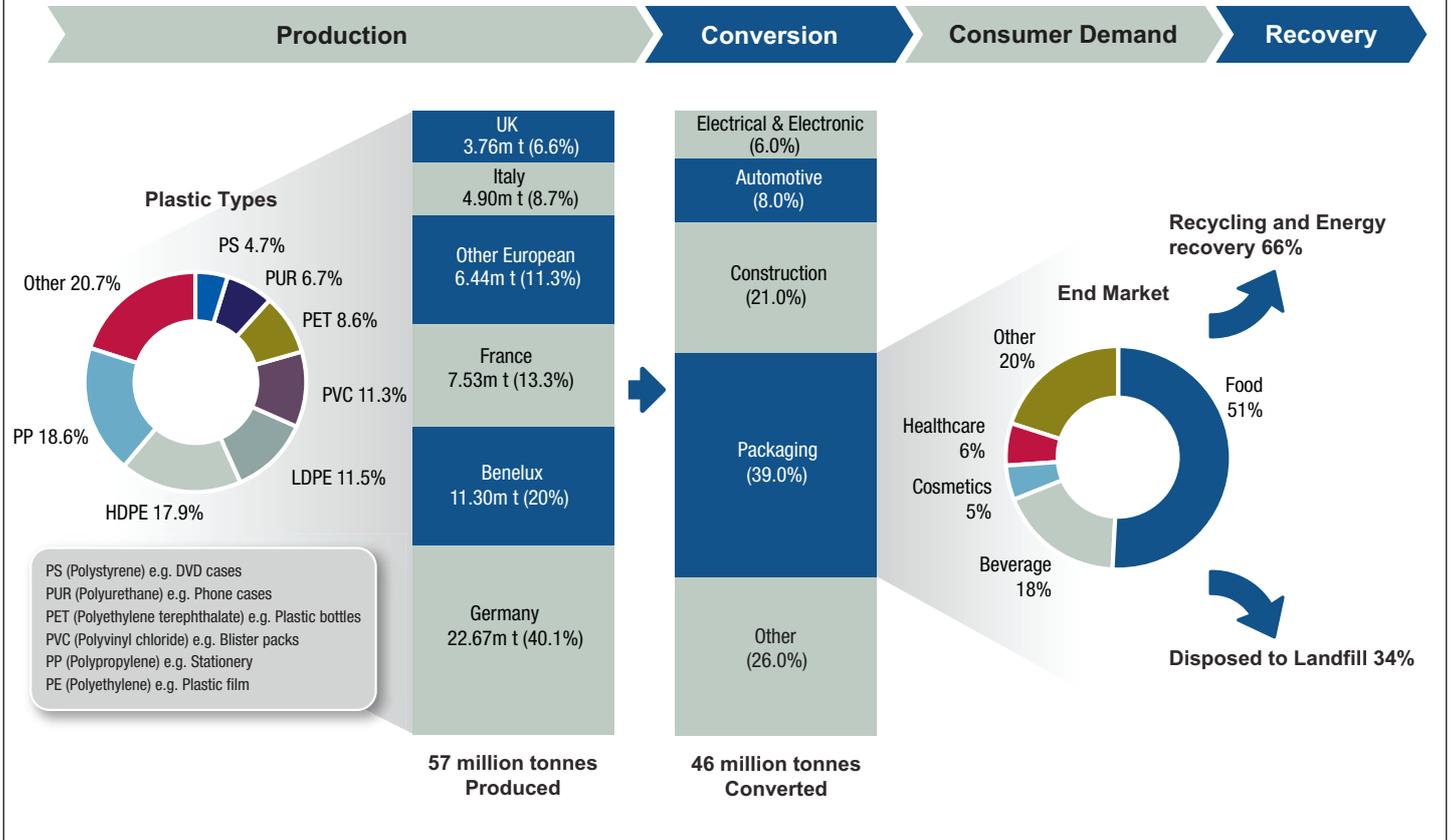
- Over the past three years almost half of all global M&A deals in the plastic packaging sector took place in Europe, attracting both trade acquirers and financial investors.
- Whilst some segments of the industry, such as flexible food packaging, are dominated by a few large players the European industry as a whole remains highly fragmented. We expect consolidation trends to continue.
- Private equity firms have been significant investors. The common theme has been for private equity firms

Cross-border deals
are a major feature
of M&A

to grow initial ‘platform’ investments through bolt-on acquisitions, taking advantage of operational synergies.

- Cross-border deals accounted for 40% of all transactions in 2011. Much of this is attributable to the global sourcing requirements of major customers.
- Typical acquisition multiples have remained at between 5x and 7x EBITDA over the past three years. However higher acquisition multiples have been paid for some companies, particularly those offering niche products.

Figure 1: Plastic packaging market structure



Source: Mergers Alliance, Plastics Europe MRG, Rexam

Raw material costs likely to rise in 2012

Industry trends

Packaging is the largest user of plastics in Europe, representing 39% of the overall 46 million tonnes used in plastic conversion (see Figure 1).

Although there are some downsides to plastic packaging (e.g. raw material fluctuations) it also holds many inherent advantages over other packaging materials including flexibility, cost and its ability to adjust to new innovations and technologies. Plastic now accounts for the largest share of the packaging market followed by paper.

Rigid packaging accounts for around 60% of total production volume. The current growth in demand for rigid packaging is largely being driven by the beverage and personal care markets.

Flexible packaging is being boosted from sectors like perishable and convenience foods, healthcare, and industrials.

Whilst the development in end user markets is crucial to the industry's performance there are a number of other important considerations:

- The softening in recycled plastic prices evidenced in H2 2011, partly as a result of weakening export markets, is likely to reverse this year as exports start to recover (see Figure 2). A similar trend in virgin prices is also likely.
- EU legislation is significantly impacting on recycling volumes. The updated directive on Packaging and Packaging Waste coupled with the rising raw material prices are increasing investment in closed loop processes.

- Whilst around half of all consumer goods are packaged in plastic, this amounts to just 17% of all packaging weight, a reduction of 28% in the last 10 years. The significant investment required to achieve these returns is a further contributor to the consolidation in the sector.
- The rigid food and beverage packaging market is forecast to increase in importance, with growth rates forecast at 3.7% over the next three years, twice the industry average.
- PET is experiencing significant growth in volume in the consumer markets. PET's functional and light weight characteristics should ensure steady growth (see Figure 3). It is also increasingly replacing segments that have traditionally been dominated by other materials for example glass beer bottles.
- Certain European consumer companies are moving towards sustainable packaging, with the bioplastics segment in particular experiencing increased demand. Cleaning products brand Ecover recently announced that all of its packaging will be made from plant based plastic made from sugarcane.

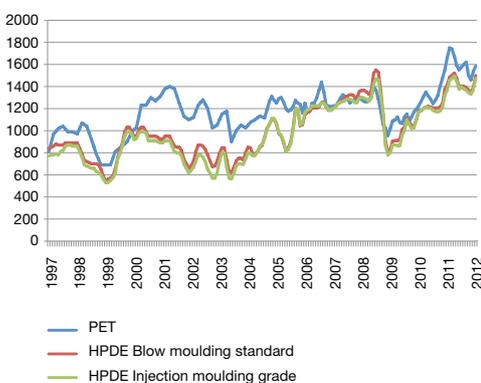
- The emerging markets of Eastern Europe, Asia and South America have all benefited from significant investment from larger international suppliers as opportunities for growth are sought. Evidence of this is seen in AMCOR's growth in these regions of 18% p.a. between 2000 and 2011. RPC Group and Constantia Flexibles are actively seeking mid-market opportunities in these emerging markets. To remain competitive European manufacturers need to ensure they are present in these regions.

Emerging markets are target regions for multinationals



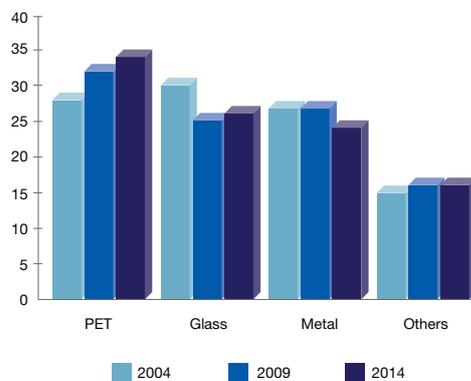
Environmental factors influencing packaging materials

Figure 2: Polymer price € per tonne



Source: Mergers Alliance

Figure 3: Share of total beverage packing (%)



Source: Euro monitor, BPI

Valuations reflect consistent earnings performance

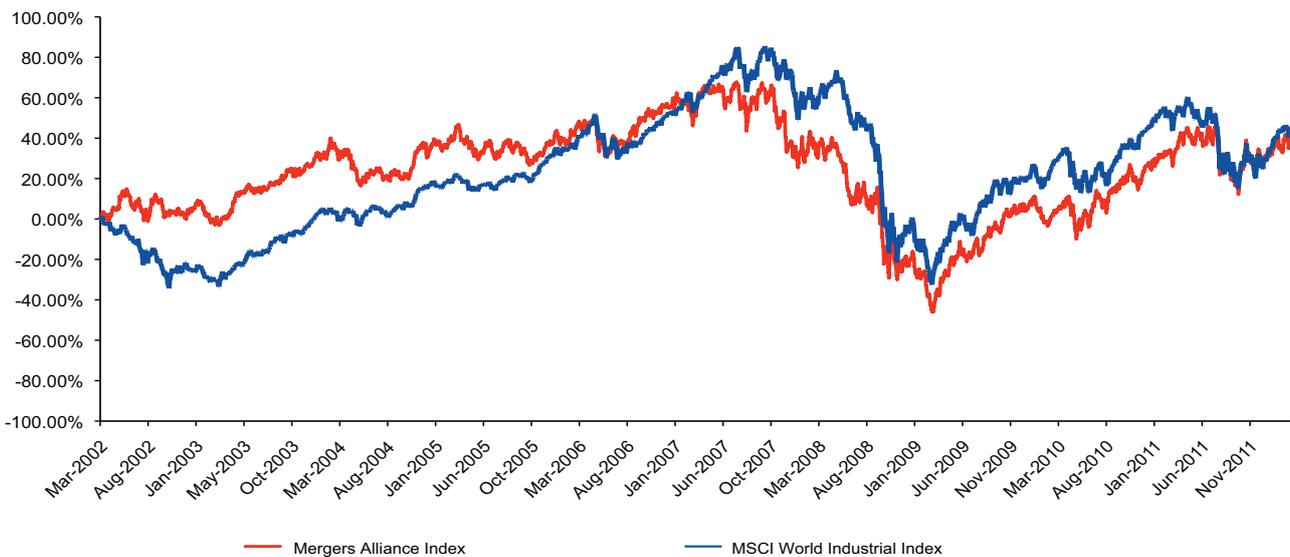
Current valuations

The past decade has seen plastic packaging valuations slightly exceed or track wider industrial market indices, a reflection of the defensive nature of the

companies in our index, which have robust earnings and dividend policies.

The global recession put downward pressure on valuations, however our research has shown a marginal recovery over the last 12 months.

Figure 4: Plastic packaging composite valuation index



Mergers Alliance Index: Amcor, Rexam, DS Smith, Huhtamaki Oyj, MacFarlane Group, British Polythene Industries, Resilux NV, RPC Group, La Seda de Barcelona

Source: Capital IQ

Europe alert to international competition

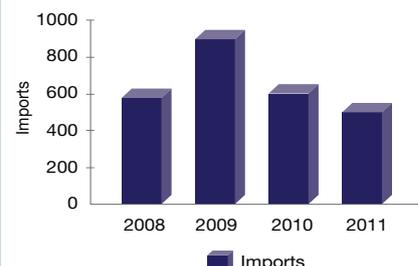
PET recovers

PET imports into Europe from Asia increased dramatically in 2009 to reach 0.9 million tonnes, a historical high. Asian companies were able to escalate their exports at highly competitive prices due to their higher production efficiency and the lower costs of local raw materials.

This, along with slowing demand in Europe, meant that PET prices plunged – 33% below the current price level. The EU initiated anti-dumping laws to counteract the low import prices and protect European companies.

These quasi protectionist measures were effective in bringing down PET imports to around 0.5 million tonnes in 2011 with prices regaining much of the lost ground.

European PET imports (k tonnes)



Source: PCI, BPI and Bloomberg.

Figure 5: Top 15 global plastic packaging companies

Name	HQ Country	Countries of Operation (Primary)	Market Cap (€) Million	Revenue (€) Million	LTM EBITDA (€) Million	3 Yr Revenue CAGR	EV/EBITDA	EBITDA Margin % [LTM]	EBITDA, 3 Yr CAGR % [LTM]	Rigid	Flexible	Comments
Amcor Ltd. (ASX:AMC)	Australia	Global (Australia, the United States, and Singapore)	6,916	9,932	990	6.1%	7.2x	10.0%	2.4%	✓	✓	Dominate European flexible market.
Rexam plc (LSE:REX)	United Kingdom	Global (US, Brazil, Europe)	4,050	5,567	838	3.4%	7.2x	15.1%	4.2%	✓		Recently announced the sale of its plastic lid-making division to Berry Plastics for €267m.
Bemis Company, Inc. (NYSE:BMS)	United States	Global (sub-companies in 13 countries)	2,530	4,096	494	5.5%	7.4x	12.1%	2.5%		✓	Acquired Finnish based Huhtamaki Oyj's South American operations in 2009.
Berry Plastics Corporation	United States	Global (US, Brazil, Germany)	Private	3,494	493	5.6%	na	14.1%	12.4%	✓	✓	Recently acquired Linpac Packaging Filmco from Linpac for €15m.
Sonoco Products Co. (NYSE:SON)	United States	Global (US, UK, China)	2,409	3,444	423	6.8%	8.1x	12.3%	4.8%	✓	✓	Has been acquiring across the supply chain in North America with deal value totalling €508m.
DS Smith plc (LSE:SMDS)	United Kingdom	Europe (UK, France, Belgium)	1,255	3,218	270	7.4%	4.9x	8.4%	9.6%	✓	✓	Planning integration of SCA. May divest plastic operations.
Alpla-Werke Alwin Lehner GmbH & Co. KG	Austria	Global	Private	2,900 est	na	16.1%	na	na	na	✓		Has not engaged in M&A of late, has focused instead on greenfield investments.
Silgan Holdings Inc. (NasdaqGS:SLGN)	United States	Americas, Europe, Asia	2,173	2,593	353	8.9%	8.1x	13.6%	6.0%	✓		European acquisitions have been confined to metal packaging companies of late.
Graham Packaging Holdings Company	United States	US, Europe, China	Private	2,127	394	8.3%	na	18.5%	5.6%	✓		In 2010 it acquired China Roots Packaging, its first manufacturing facility in China.
Huhtamaki Oyj (HLSE:HUH1V)	Finland	Global (Europe, US, Australasia)	973	2,064	203	2.5%	6.7x	9.9%	-1.0%	✓	✓	Sold its European rigid plastic consumer goods operations to Sun Capital for €52m.
Constantia Packaging AG	Austria	Global (Europe, US, China)	1,838	1,838	297	3.9%	na	16.1%	4.3%		✓	Recently acquired Asas in Turkey and Alcan's food packaging operations in Spain.
AptarGroup, Inc. (NYSE:ATR)	United States	US, France	2,642	1,780	322	8.6%	8.5x	18.1%	6.0%	✓		Acquired India based plastic packaging company T.K.H. Plastics for €14m.
FP Corp. (OSE:7947)	Japan	Global	880	1,285	194	6.8%	6.3x	15.1%	6.3%	✓		Has been active in acquiring packaging companies in Japan and China.
Linpac Group Limited	United Kingdom	Global	Private	1,231	108	-0.4%	na	8.7%	5.2%	✓	✓	Has been divesting its non-core operations to both trade and financial buyers of late.
RPC Group plc (LSE:RPC)	United Kingdom	Europe	1200	1,105	122	9.4%	8.3x	11.1%	23.6%	✓		After its acquisition of Superfos Industries it is known to be seeking further acquisitions in Europe.

Companies with disclosed revenue only

AMCOR dominates flexible markets

Trade buyer activity

Over 100 transactions were completed in the past 18 months. Deal volume for 2011 equalled the deal volume for 2010 and surpassed the lows of the recession.

The common theme over the past two years has been for the medium to large sized companies to buy up smaller players to achieve their growth initiatives.

The 'serial acquirers' in Europe have often been the bigger companies, such as RPC and Constantia Packaging (PE owned), seeking to strengthen their position in the production and technology chain, grow market share, 'follow' their clients geographically and react to the 'bulking' trends of the larger global players (see Figure 6).

M&A activity demonstrates two key themes; the consolidation taking place within Europe; and the opportunities arising from distressed situations as a result of the pressures of operating in these markets.

- The largest deal of the past four years involving a European target was completed by an Australian buyer. Amcor, the world's largest manufacturer of plastic bottles, purchased Alcan's flexible packaging business in 2010 for €1.5bn giving Amcor c. 25% market share and further consolidating flexible packaging in Europe.
- Highly acquisitive, Amcor has also bought smaller mid-market companies such as Italian based B-Pack Due (€45m).
- European flexible companies have reacted to Amcor's increasing dominance by making acquisitions of their own, with Constantia being one of the more prominent buyers. They acquired Asas in Turkey (sales of €63m) and Alcan's food packaging operations in Logrono and Burgos, Spain.
- In rigid plastic packaging RPC Group has also employed M&A to meet their growth ambitions. During the past four

years they have made three acquisitions: Superfos Industries; DM Plast; and MOB SAS.

The acquisition of Denmark based Superfos for €240m gives RPC access to a variety of markets including Eastern Europe and Scandinavia. RPC is known to be seeking further acquisitions to expand its pan-European operations.

- The most high profile distressed sales occurred in 2009, including Canal Corporation (formerly Chesapeake Corp) and Budelpack, and failure still occasionally occurs in the small to mid sized market. LIR Packaging, which produces cosmetic product packaging and Sedis, the French confectionery and pastry packager have both recently announced insolvency proceedings. This creates opportunities for 'value' and turnaround acquirers.
- Analysis of plastic packaging industry deals over the last decade shows that the majority (58%) of acquisitions are made of direct competitors. Of the other targets: 13% are distributors; 13% printing companies; 8% competitors in different sectors (majority being paper packaging); and 8% are of other companies (e.g. recycling plants). This shows clear consolidation strategies and that moves into more peripheral sectors are less common.

Majority of acquisitions are of direct competitors



"Superfos was a significant acquisition for RPC and was consistent with our current strategy of growing the business organically and through acquisition"

Jamie Pike, Chairman at RPC

Figure 6: Selected European plastic packaging deals

Date	Target	Description	Plastic Type (Target)	Buyer	Deal Value (€'m)
Jan-12	Geka (Ger)	Cosmetics packaging	Rigid	3i (UK)	ND
Jan-12	SCA Packaging (BE)	Plastics and paper consumer goods packaging	Flexible and Rigid	DS Smith (UK)	1,650
Jan-12	Linpac Allibert (UK)	Plastic returnable transit packaging	Rigid	One Equity Partners LLC (USA)	ND
Oct-11	Johnsen & Jorgensen Group (UK)	Plastic and glass packaging	Flexible and Rigid	Pont Packaging (NL)	ND
Aug-11	Pack2Pack (BE)	Industrial packaging manufacturer	Rigid	Greif Inc (USA)	ND
Aug-11	Interpack (UK)	Plastic packaging distributor	Rigid	Coral Products plc (UK)	5
Aug-11	ASAS (Tur)	Plastic products manufacture	Flexible	Constantia packaging AG (Aut)	ND
Jul-11	Medisize Corporation (Fin)	Pharmaceutical primary packaging	Flexible and Rigid	Phillips Plastics Corporation (USA)	100
Jul-11	Rexam Plc, Beverage and Speciality Closures Business (UK)	Beverage plastic packaging	Rigid	Berry Plastics Corporation (USA)	251
May-11	Sterilin (UK)	Life sciences plastic packaging	Flexible and Rigid	Thermo Fisher Scientific, Inc (USA)	ND
May-11	Pannunion Packaging Ltd (Hun)	Production of plastic packaging materials	Rigid	Sun Capital Partners (USA)	36
Apr-11	Atlantis-Pak Co Ltd (Rus)	Flexible plastic packaging for meat products	Flexible	Agrokom Group (Rus)	73
Apr-11	Britton Group (UK)	Flexible packaging group, plastic and other materials	Flexible	Sun European Partners, LLP (UK)	101
Dec-10	CFS B.V. (NL)	Packaging equipment	Flexible and Rigid	GEA Group AG (Ger)	435
Dec-10	Superfos Industries (Den)	Injection moulded rigid packaging	Rigid	RPC Group plc (UK)	240
Dec-10	Nampak Cartons (now Contego Packaging) (UK)	HDPE packaging for food and drink	Rigid	Platinum Equity (USA)	77
Aug-10	Bilcare Research (Ger)	Pharmaceutical packaging	Flexible and Rigid	Bilcare GmbH (Ger)	100
Jul-10	Albéa (Fra)	Cosmetics and personal care packaging company	Flexible and Rigid	Sun European Partners, LLP (UK)	110
Jan-10	CV Flexible Packaging (Ger)	Flexible packaging	Flexible	Packaging and Technology Ltd (UK)	ND
Jan-10	Kalle (Ger)	Plastic sausage casings	Flexible	Silver Fleet Capital (UK)	213
Nov-09	Petainer (Swe)	Eco PET packaging	Rigid	Next Wave Ventures WHEB VENTURE (UK)	18
Oct-09	Constantia Packaging AG (Aut)	Packaging holding company	Flexible	One Equity Partners LLC (USA)	1,104
Aug-09	Majority of Alcan Packaging Businesses (Sui)	Plastic, aluminium and packaging	Flexible and Rigid	Amtcor Ltd (Aus)	1,497

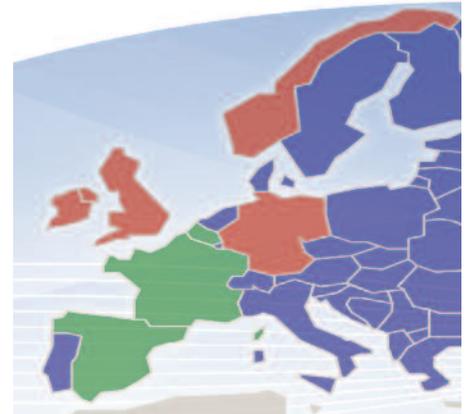
RRP a key target for multinationals

‘Retail Ready Packaging’

Retail Ready Packaging (RRP) or shelf-ready packaging is designed to be easily placed on the shelf without the need for unpacking or repacking and is typically made up of rigid plastic, fibreboard or corrugated board.

- RRP is recognised as delivering higher efficiency in the supply chain and this segment is expected to grow significantly across continental Europe with a tonnage CAGR of 6%.
- While the UK and German markets already have high penetration rates, most of continental Europe is still a relatively immature market and is where most of the growth will take place.

RRP penetration by country



Red: High penetration of RRP
Green: Medium penetration of RRP
Blue: Developing RRP

Source: igd.com

Plastic packaging a target sector for some private equity houses

Private equity investment

Since 2009 a fifth of all European plastic packaging deals have had private equity participation. A large proportion of higher value deals have been completed by financial investors.

- Global private equity investment in Europe has been broad and has had an impact in consolidating both the rigid and flexible market. The most active firms include One Equity Partners, AB Traction, Sun Capital and Platinum Equity. Deal values have ranged from €10m to over €1bn.
- Although their focus has been primarily on consumer goods (FMCG) there has been rising involvement in industrial and commercial end markets.

Private equity firms have backed buy & build strategies

There are two models in evidence in the mid-market:

- PE employ buy and build strategies (building up established companies through smaller bolt-on's) to create value for their 'mature' companies.

Sun Capital for example has assembled a large portfolio of European plastic packaging businesses having made seven mid-market acquisitions in Europe since 2007. Their portfolio now includes Kobusch-Sengewald GmbH, Unterland, Britton Flexibles, Betts Global, Albéa and Acorn SAS.

By combining existing affiliated portfolio companies Sun Capital has created a pan-European flexible packaging specialist, Britton Group, and a pan-European rigid packaging specialist, PACCOR. Annual turnover of the combined businesses will be approximately €680m.

- PE firms are also focusing on niche plastic packaging companies.

Good examples of this included the Next Wave Ventures and WHEB Ventures acquisition of Swedish eco friendly PET specialists Petainer for €18m and Silver Fleet Capital's acquisition of Germany based Kalle, an innovator and producer of flexible plastic sausage casings (€213m). The growth strategy for both these private equity funds is to invest in companies that offer innovative and value adding solutions.

- Financial buyers have also been keenly focused on the plastic packaging machinery segment with a notable interest in the Italian market. Activity included PE house IGI SGR acquiring Italian based plastic film machinery specialists Gruppo Fabbri for €40m in 2011. Meanwhile the Chinese-European PE fund Mandarin Capital Partners acquired a minority stake in one of the leading global manufacturers of machines for plastic packaging, Industria Macchine Automatiche, for €30m.

Private equity
targeting machinery
segment

Prospects for M&A and the industry

The whole plastics packaging industry is closely linked to economic growth and consumer confidence.

As much of Europe is still being affected by sovereign debt issues it is inevitable that the industry's growth prospects in the near term will be affected. Nevertheless, the fact that the sector exhibits a low level of demand volatility should ensure steady growth in the medium term.

- Looking ahead, the high growth in demand for both rigid and flexible plastic packaging – as FMCG companies look for the more versatile options to glass and metal – will encourage acquisitions as businesses seek to meet customer's demands.
- In the flexible market, Amcor/Alcan's industry dominance will continue to drive consolidation as companies acquire to compete.

- As well as the traditional markets we expect a new wave of acquisitions in Eastern Europe where flexible packaging is experiencing an average 6.2% sales growth.
- The increasing demand for recycled and biodegradable products as well as a focus on the afterlife of a package should also encourage vertical integration by firms looking to expand their product portfolio.

Adaptability driving
growth in plastic
packaging



“Plastic packaging in Europe is still a fragmented market. We are constantly evaluating opportunities in new markets and new product lines”

Michael H. Kalb, Senior Managing Director,
Sun European Partners

- The ten largest transactions comprised c.73% of the total value over the past four years. If you exclude these larger deals, average deal size has been below the €50m marker indicating that the mid-market has experienced the most activity. Due to the still fragmented nature of the market we expect this trend to continue.
 - We expect that some of the larger deals in the future will be in the form of the big diversified players divesting either part or all of their plastic packaging operations. This is likely to include Rexam's personal care plastic packaging business and DS Smith's entire plastic division.
 - Almost half of all transactions were cross-border in 2011. The steady rise in cross-border activity since 2009 is likely to continue as companies look to build scale, lower transport costs, increase market share and expand their geographical footprint.
- Specifically, we expect European players to buy other European companies as they seek to consolidate the market and cover any 'blind spots' while US players will look to take advantage of the challenging macro conditions in Europe, surveying companies with high potential.

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Specialist advice on call...

For information on sector trends, valuations and corporate finance advice in plastic packaging



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Country focus M&A

■ Benelux:

European cross-border transactions have been commonplace of late, and includes notable transatlantic interest in the Benelux region. US-Benelux deals included Greif, Inc acquiring industrial packaging specialists Ligtermoet and Alpha Plastics acquiring PET specialists SmartPET.

■ France:

M&A activity has evolved around companies looking to increase their product offering or increase their market share. Regardless of their intentions, companies have been reluctant to overpay for fixed assets.

■ Germany/Austria/Switzerland:

Private equity investment has been broad over the past 18 months. Deals include cosmetics packaging firm Geka acquired by 3i and Bayern LB's PE division's acquisition of a majority stake in Rebhan for an undisclosed amount.

■ Italy:

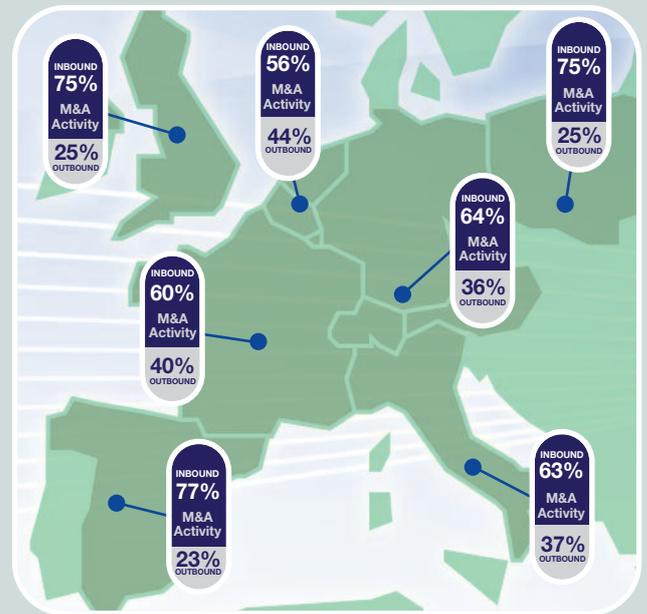
In one of the more notable trade deals of 2011 high density polyethylene specialists Fustiplast was acquired by Dutch industrial packaging company Greif International Holding BV. Fustiplast generated revenues of €472m in 2010.

■ Poland:

Although transactions have stalled recently we expect the high growth domestic plastic packaging market to encourage an upswing in M&A activity over the next 18 months.

■ Spain:

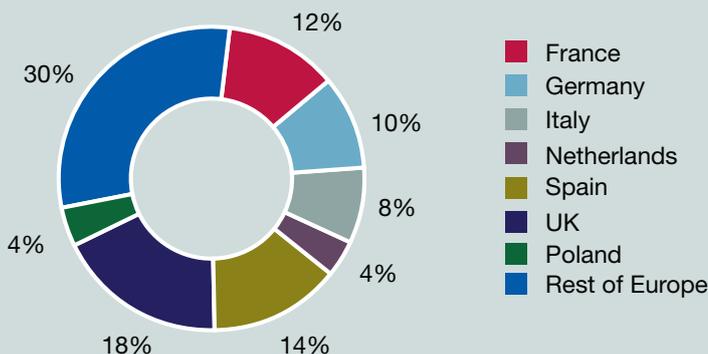
Despite a highly fragmented market in Spain, M&A activity has been moderate and outbound deals few and far between. Distressed macro-conditions and credit restrictions have contributed to this. There are however opportunities to consolidate the market for those with strong balance sheets.



■ United Kingdom:

Over a third of all privately owned plastic packaging companies in the UK are owned by owners/managers approaching retirement. We expect them to drive M&A activity.

Plastic packaging companies by country (%)



Source: Capital IQ

International

corporate finance

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