Acquisitive dispositions

The plastics packaging industry has seen plenty of mergers and acquisitions in recent months, with more promised for this year. Paul Gander asks what is driving the market, and looks at the role of private equity

If your company is planning acquisitions within the international packaging sector, the chances are that potential targets will include businesses that produce either rigid or flexible plastics.

According to London-based mergers and acquisitions (M&A) adviser Moorgate Capital, recent years have seen around 50 per cent of packaging acquisitions consistently falling in the plastics sector. As partner Nick Mockett states: "This reflects the fact that the plastics segment is one of the least concentrated."

Honey packaging may have sweetened the deal for Lindsay Goldberg

At private equity (PE) firm Sun Capital Partners in the US, managing director Scott Edwards explains: "Glass and metal are already consolidated. And if you think about the plastics value chain, resin supply is pretty consolidated, too. The same is true of the consumer product companies. It's hard to operate in the middle if you don't have enough scale."

The resilience of the packaging sector in general is well-documented. As Moorgate's Mockett puts it: "People don't stop eating, drinking or brushing their teeth just because they're feeling a bit poor. In other words, significant parts of the packaging sector are robust, defensive or even counter-cyclical."

Or as Edwards at Sun Capital puts it: "Packaging tends to be not exactly recession-proof, but certainly recession-resistant."

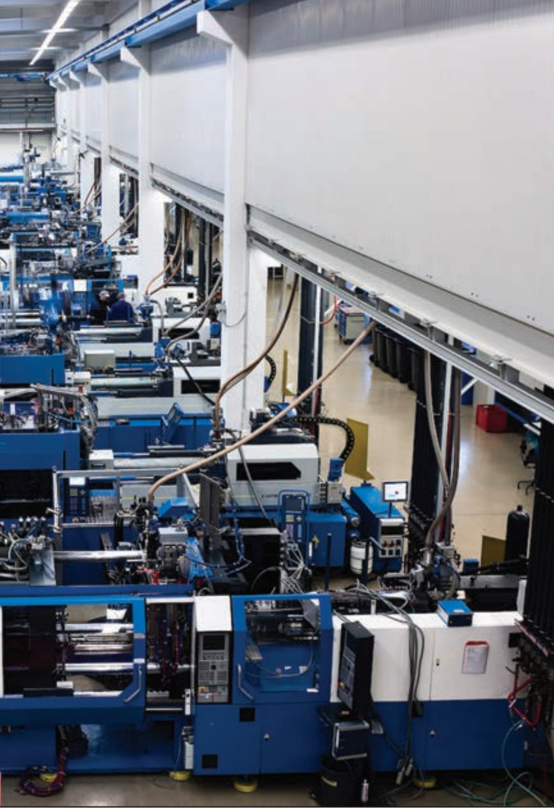
At Deloitte Corporate Finance in Chicago, managing director Will Frame explains the sector's attractiveness to businesses which may have had their fingers burned elsewhere. "Packaging may not grow at 25 per cent a year, but it's not going to shrink dramatically either. It doesn't have the risks of wild volatility of some other sectors."

And of course, there are more positive reasons why plastics manufacturers are singled out for particular attention. Migration from other packaging materials may be more of a trickle than a flood, but growth rates generally tend to be higher. Mockett adds that overall there is more scope for innovation in plastics.

For Sun Capital, too, this is a sector where capital expenditure in new technology can have a decisive impact, benefitting both the company and its customers.

Given its track record in plastics packaging acquisitions (see panel), what has been the dynamic driving Sun Capital's involvement? Edwards says: "Improving performance has been about scale in purchasing, but also about thinking through the scale of each operation. We've been able to move equipment round, for example, to build a more efficient, leaner organisation that can better serve its customers."

As Central European advisor to New York-based private equity investor Lindsay Goldberg, Lindsay Goldberg Vogel (LGV) played a pivotal role in last year's acquisition of the Plasticum and Weener businesses. But managing partner at LGV Dr Thomas Ludwig puts this in a broader context: "It's not so much related to the plastics sector, and more about our interest in packaging. This is a global market that is focused



Left: Private equity investors are enticed by the stable demand that consumer product packaging can offer. Images depict production at Weener

on many areas of day-to-day consumer products. These sectors have stable demand and impressive growth rates in emerging markets."

But of course, given the consolidation opportunities, plastics packaging acquisitions attract further plastics acquisitions. "Since Weener and Plasticum do business in a highly fragmented market, we will be looking at more acquisitions over the next few years," Ludwig confirms.

The role of private equity in plastics packaging M&A deals over recent years is interesting. For a start, a small number of relatively high-profile examples mean that it is easy to overestimate that role.

Mockett at Moorgate Capital states: "In 2007, the market for private equity acquisitions of packaging businesses was roughly one third of the market for public and private company acquirers. By 2011, this had shrunk to about 7 per cent." Since the credit crunch, he explains, it has been harder for private equity firms to raise debt for leveraged buy-outs.

Larger packaging companies, on the other hand, have often been able to continue on the acquisitions trail "thanks to the robustness of their businesses and the cash they may have built up on their balance sheets".

That said, there are sound reasons why private equity players are drawn to the sector. "The idea of a solid business with limited downsides and cash-generative prospects is a classic private equity opportunity," argues Frame at Deloitte.

A second myth about private equity, many would argue, is that investors are only interested in 'flipping' acquisitions, without having any longer-term involvement in business growth. Understandably enough, Edwards at Sun Capital disputes the sector's reputation for short-termism.

"We want to get to our target margin in three-to-five years, as a general rule," he says. "Philosophically, we act as if we were going to own the company forever. But of course, we're in the business of making money for our investors over time, by creating a more competitive and valuable business that can be sold to a new owner."

That point about "target margin" refers to the objective of increasing the margins on gross earnings over the lifetime of the investment. Some investors contrast the 6 or 7 per cent margins they might expect from a smaller, less efficient company with the 12 per cent or so profitability achievable by a larger producer.

Mockett at Moorgate Capital advises caution: "To increase margins significantly, you probably need to rationalise manufacturing footprint to produce packaging more efficiently. Hence, a large, multi-site, perhaps newly-merged business could achieve these [gross earnings] margins. For a small player to do the same would probably require them to be operat- ▶

Sun capitalises

Sun Capital Partners, together with its European arm Sun European Partners, has made more than 30 separate investments in the packaging sector. It first became interested in plastics packaging around 2005.

"We really like this sector," says managing director of the private equity firm Scott Edwards. "We started in flexibles, then more recently went into rigid packaging. Now we're looking more at the beauty and personal care market."

As an example of this new interest, last October, the EU Commission approved the company's acquisition of Rexam's cosmetics, toiletries and household care business for $459 million.

The launch into flexibles came when Sun Capital consolidated around the Exopack group in the US, merging it with Cello-Foil Products and the Packaging Group in 2005. In 2007, Exopack added DuPont Liquid Packaging Systems to its portfolio, followed by Alcan Cheese and Meat in 2010.

With its instinct for finding the common denominator, Sun Capital acquired Huhtamaki's European rigid plastics business in 2010, creating Paccor early in 2011, and adding the Veriplast rigid plastics and Pannunion businesses the same year.

Having several packaging-related balls in the air at any one time has certainly benefited Sun Capital. With the acquisition of the Britton Group in 2011 by Sun European Partners, for instance, the investor was in a position to integrate Veriplast's flexibles arm with the UK-based group.

Even in economic downtimes, consumers will still need products such as deodorant ing in a specific niche market and have some interesting technology as a differentiator."

He does not recognise the charge of short-termism levelled at private equity, underlining several European examples of "long-term private equity success". Before RPC went public in the early 1990s, he points out, it was a private equity investment. "It bought its main European counterpart Superfos in 2011, which itself had been owned by private equity for about a decade," says Mockett. "Clondalkin, which is a major player in flexible plastics packaging, has been in private equity ownership for a similar time."

Frame at Deloitte adds that, nowadays, there are in any case "fewer opportunities for short-term flips" in the industry.

LGV's Ludwig believes that, although there are examples of badly-managed private equity portfolios, the sector's record is generally no worse than public or family-owned companies. In any case, it would be difficult to define a 'typical' private equity operation. As he explains: "We are a long-term investor, since our fund has a duration of 20 years – which is unusual in the private equity world." A key element in this perspective is what Ludwig calls the investor's "buy and build" strategy.

From his US standpoint, Deloitte's Frame serves up a further example of what he sees as private equity long-termism. In October 2012, US converting group Berry Plastics was taken public by private equity backer Apollo Global Management. A list of Berry's owners since 1996 reads like a Who's Who of North American private equity, helping the group to its total of 30 different acquisitions notched up since 1990. Today, it is said to have around 85 production sites internationally, most of them in North America.

Not everyone was impressed with what was on offer. Stock market blogger Robert Broens was downbeat about its public trading debut, pointing to its $4.1bn debt "at a high annual cost of 7.1 per cent". He contrasted the "great deal" for private equity with the prospect of "a debt-laden company with a risky balance sheet" that faced private investors.

But Deloitte's Frame comments: "As a private equity-owned business, Berry has successfully managed to grow consistently while supporting debt. I think most participants would agree that it is a solid operation."

Meanwhile, there is one other part of the plastics packaging landscape which has been seen as an investment opportunity over recent years. Equipment suppliers such as Husky and KraussMaffei are hot property, with private equity again playing a central role. But although the sector shares a similarly fragmented international structure, this is clearly a very different market from plastics packaging manufacture.

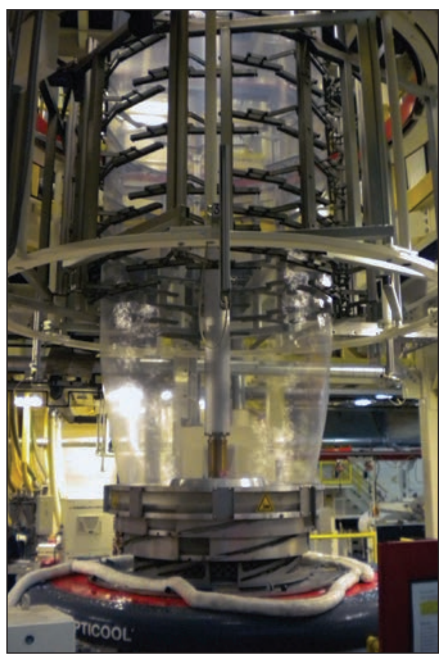
Mockett at Moorgate Capital says: "Equipment manufacturers are dependent on the capital expenditure of the packaging manufacturers. If the converters are conserving cash in the light of the economic downturn, they may defer expenditure on new equipment for a year or two." Then again, those customers might predict a surge in demand after five fallow years, and be ready to invest.

Of its nature, it is a riskier market. "There is much more potential either for risk or return, depending on who you are," says Frame at Deloitte. "There's more potential for dislocation. In the final analysis, no one wants to have to buy a machine."

On the other hand, for now at least, there seems to be no shortage of investors wanting to buy a small-to-medium-sized plastics packaging operation.

Key equity firm acquisitions since 2007

YEAR	BUYER	PURCHASED	DEAL VALUE (US$)
2007	Onex Corporation	Husky Injection Molding Systems	$966 million
2008	Hicks Acquisition	Graham Packaging Holdings	$3.2 billion
2010	Castle Harlan	Pretium Packaging	$200m
2010	Irving Place Capital	Alpha Packaging	$260m
2010	Bertram Capital Management	Extrusion Dies Industries	Undisclosed
2010	Bain Capital Partners	Styron (Dow Chemical's global styrene-based polymers business)	$1.6bn
2011	Berkshire Partners and Omers Private Equity	Husky Injection Molding Systems	$2.1bn
2011	Sun Capital Partners	Britton Group	Undisclosed
2011	Littlejohn	Synventive Molding Solutions	Undisclosed
2012	Sun Capital Partners	Rexam Cosmetics, Toiletries and Household care products business (CTH)	£459m
2012	Onex Corporation	KraussMaffei AG	$730m
2012	Platinum Equity LLC	BWAY Parent Co	$1.24bn
2012	ONCAP	Davis-Standard	Undisclosed
2012	CI Capital Partners	The IntraPac Group	Undisclosed
2012	LA-Holding (One Equity Partners)	Linpac Allibert	Undisclosed
2012	CCMP Capital Advisors	Milacron	Undisclosed
2012	Lindsay Goldberg	Weener Plastik	Undisclosed
2012	Lindsay Goldberg	Plasticum Group	Undisclosed
2013	Milacron (backed by private equity investor CCMP Capital Advisors)	Mold-Masters	$971m



Above: Sun Capital says it wants to achieve its target margin in three-to-five years, as a general rule. Image shows an extrusion line at Exopack's Griffin, Georgia plant. Exopack is a Sun Capital portfolio company

Above right: Nivea: Smoothing the way for further plastics acquisitions?