2015

PCPIQ1

PRIVATE COMPANY PRICE INDEX

Spotlight on Packaging

M&A STILL GOING STRONG DESPITE ELECTION FEARS BUT STORMCLOUDS LOOM

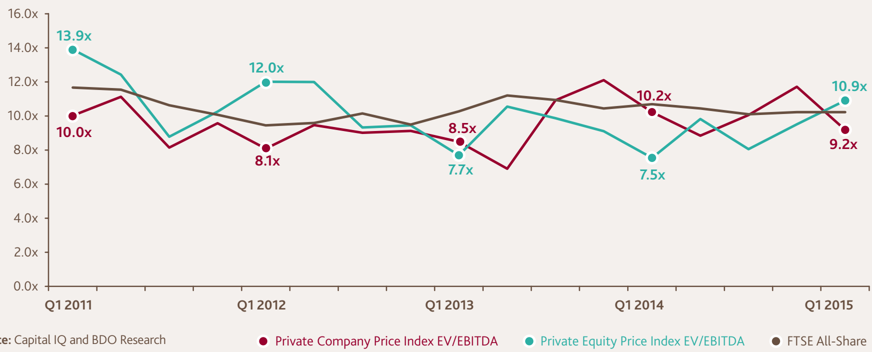
Merger and acquisition activity has held up in the UK during the first quarter of 2015 despite the uncertainty created by the election.

Private equity buyers are paying more than the previous quarter – 10.2x up from 9.5x while trade buyers are paying less – 9.2x down from 11.7x. The disparity between multiples is explained by the relative growth profiles and size of transaction during the quarter - private equity tended to buy higher growth and larger companies than their trade counterparts.

The number of deals remained high with nearly 500 deals completed, slightly down on the previous quarters' 559 deals but in line with last years average and without an obvious pre-election 'dash for cash'.

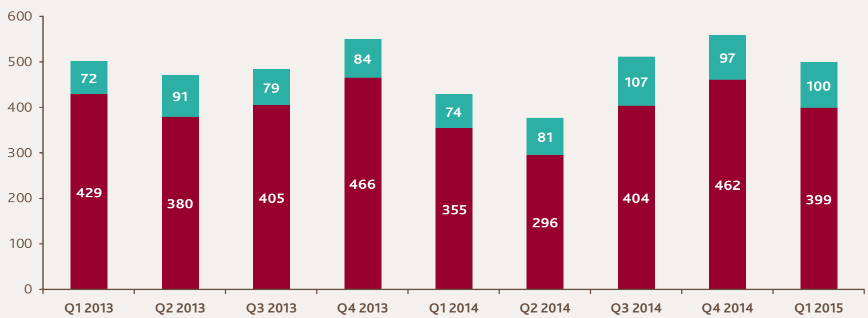
Private business owners are the lifeblood of the M&A market and this year there has been confluence of factors to make this an attractive time for them to sell. Yet despite the strong deal flow, many owners see clouds on the horizon. Private business owners who have thus far been prepared to sell their businesses are becoming increasingly concerned about potential changes to Capital Gains Tax rates post-election that may impact the market.

PCPI V PRIVATE EQUITY | Q1 2011 – Q1 2015



Source: Capital IQ and BDO Research

VOLUME OF DEALS COMPLETED | Q1 2013 – Q1 2015



Source: Corpfin

GLOBAL BUY-OUT FIRMS KICK START THE PACKAGING SECTOR

Packaging M&A has been a rich hunting ground for Global Buy-out firms during the last 12 months, multi-billion deals have included:

- **ONEX CAPITAL ACQUIRING SIG COMBIBLOC FOR $4.8BN**
- **THE CARLYLE GROUP ACQUIRING SIGNODE INDUSTRIAL FOR $3.2BN**
- **CLAYTON DUBILIER & RICE ACQUIRING MAUSER $1.7BN**
- **OAK HILL CAPITAL ACQUIRING BERLIN PACKAGING FOR $1.4BN**
- **WENDEL GROUP ACQUIRING CONSTANTIA FLEXIBLES FOR €2.3BN**

These deals have contributed to the most active M&A market in packaging since 2007 with total global deal volumes reaching $29.9bn according to Mesirow Financial.

The key drivers behind this increased activity are set to remain in place through 2015 and beyond and include:

BANKING APPETITE

The traits of the packaging industry are attractive to both senior and junior debt providers. The market is generally defensive in nature, food and drink packaging has performed robustly even during the recession. The CAPEX intensive nature of the business provides a more secure lend position and this coupled with the long asset life means strong and visible cash flow generation. The recent Oak Hill Capital Partners acquisition of Berlin Packaging had a total debt package of $765m or 7.65x the disclosed $100m EBITDA.

SCALE

Scale can matter in the packaging sector. For example a global packaging business would expect to improve operating margin post acquisition of a regional business by between 1.5-2% based on purchasing power alone. This coupled with rationalising overhead and administrative functions can realise immediate buying synergies before any strategic benefits are factored into the deal – this can potentially mean an extra 1 to 1.5 x EBITDA benefit for owners.

EMERGING MARKETS

Growing consumer demand across emerging market is driving significant M&A as global businesses increasingly look to enter and/or grow their operating footprint in these fast growing economies. These economies are offering lower technology and regulatory barriers, higher margins and faster growth rates – all in all a better return on capital employed than mature Western markets.

TECHNICAL INNOVATION

The UK is one of the most sophisticated packaging markets in the world. Innovations have been driven by the dynamic food and drinks industry and the highly competitive retail environment. Many technical innovations have been driven by niche mid-market businesses and global players have looked to access this 'UK know-how' and export it across their global portfolios.

These positive dynamics are the backbone to much of the M&A activity seen across 2014 and into 2015. The trickle down impact from these global buy-outs across the mid-market and into regional markets has also been marked with all sub-sectors seeing increased activity, from flexibles, paper and rigid through to more traditional glass and metal based packaging.

There is nothing like global strategic buyers paying strategic premiums to concentrate the mind of mid-market owners and we have seen in the UK alone a huge uplift in corporate and private equity activity. Notable deals include:

- Sun Capital backed Coveris acquired St Neots Packaging and Learoyd Packaging, both deals in-filling Coveris's coverage of the UK food and drinks market.
- Plastic Capital (PC) acquired Flexipol Packaging, with PC stating their ambition to continue to acquire IP driven plastic packaging solutions.
- Macfarlane's added to its packaging distributions division with Network Packaging and Lane Packaging and remains keen to look at bolt-on acquisitions.
- Graphic Packaging International (GPI) boosted its European Food and Beverage packaging business with the acquisition of Benson Group from LDC and continues to target geographic expansion along with broadening the products, technologies and services offered by GPI.
- Amcor acquired Zhongshan Tian Cai, a Chinese food, drink and pharmaceutical packaging business. This acquisition provided a strong fit with their existing operations and an opportunity to further expand Amcor's customer base and product offering in South China.

The above examples, along with many others, sit behind the increasingly active packaging M&A market. We expect this trend to continue and for the market to remain a happy hunting ground for consolidating corporates, mid-market Private Equity such as LDC, Endless and Palatine and the larger global packaging and buy-out firms.

MAKING THE MOST OF THE PCPI/PEPI

The PCPI has been updated to incorporate Enterprise Value to EBITDA multiples as the method of valuation, replacing the previously used Price to Earnings ratio. These changes have been made to incorporate the level of debt in deals and to use a less subjective measure of profitability. Historical data has been incorporated to ensure comparability and to identify trends.

The PCPI/PEPI tracks the relationship between the Enterprise Value (EV) to Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) multiple (EV/EBITDA) paid by trade and private equity buyers when purchasing UK private companies.

The private company EV/EBITDA is calculated from publicly available financial information on deals that complete in the quarter. At present, the Private Company Price Index (PCPI) indicates that, on average, private companies are being sold to trade buyers for 9.2x historic EBITDA. The PEPI indicates that, on average, private companies are being sold to private equity buyers for 10.9x historic EBITDA.

As private companies are generally owner-managed, reported or disclosed profits tend to be suppressed by various expenses that may be non-recurring under a new owner. This will have been factored into the price the purchaser paid, but may not be reflected in the profits declared to the public. The effect of this is that the EV/EBITDA paid as calculated from the publicly available information may be overstated.

The PCPI/PEPI is calculated as the arithmetic mean of EV/EBITDA for deals where sufficient information has been disclosed. Over the five years to December 2014, the included deals for the PCPI have had a mean Enterprise Value of £44.1 million and a median Enterprise Value of £40.4 million. The included deals for the PEPI have a mean Enterprise Value of £62.0 million and median Enterprise Value of £57.9 million.

The PCPI/PEPI is an average measure and a guide, not an absolute measure of value, as there are many other factors that can have an impact on value.

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1. Independent research (Mid Market Monitor 2012, 2013 and 2014) undertaken by Meridian West shows BDO has the highest client satisfaction rating among its peers
2. Client Listening Programme 2013/14

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1. US$7bn (€5.62 bn) combined fee income 2014

IF YOU WOULD LIKE TO KNOW MORE ABOUT HOW TO VALUE OR UNDERSTAND M&A MARKET DYNAMICS FOR YOUR COMPANY, PLEASE CONTACT A BDO REPRESENTATIVE (SHOWN OVERLEAF)

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