2022 | BDO MERGERS & ACQUISITIONS

SECTOR INSIGHTS
PACKAGING

The shift towards a sustainable future

IDEAS | PEOPLE | TRUST

BDO

CONTENTS

THE SECTOR PUSHES ON DESPITE PERVASIVE PRESSURES	01
PACKAGING SECTOR IS INCREASING ITS ROLE IN THE CIRCULAR ECONOMY	02
THE SUSTAINABILITY BALANCING ACT	04
WILL GREEN REGULATION DRIVE ENOUGH CHANGE?	06
NOVEL ADVANCEMENTS: ARE WE CLOSER TO A TRULY SUSTAINABLE SOLUTION?	08
BDO FUTURE VIEWPOINT	09
PACKAGING MATERIALS: UK MARKET OVERVIEW	10
WILL MARKET PRESSURES IMPACT SUSTAINABLE OBJECTIVES?	12
DIGITAL PACKAGING: MEET INNOVATIONS THAT OVERCOME KEY CHALLENGES	14
PUBLIC COMPANY MARKET MAP	16
UK DEAL VOLUMES	18
VALUATIONS IN PACKAGING	20
INTERNATIONAL PACKAGING M&A ACTIVITY	22
UK PACKAGING M&A ACTIVITY	23
BDO GLOBAL – ADVISOR TO OVER 100 PACKAGING DEALS	24
CASE STUDIES	26
YOUR M&A CONTACTS	30

THE SECTOR PUSHES ON DESPITE PERVASIVE PRESSURES

Across the globe, there are few sectors as ubiquitous as Packaging. Almost every person in the world will have at some point in their lives interacted with packaging, being a vital medium in modern human existence (food, drink, medicine), and corporate survival (brand awareness, transporting goods, safety).

With the sector providing such a widespread impact, it is no surprise that the question of sustainability has been increasing in importance. Corporates have been embedding new capabilities to reduce the environmental impact and enhance circularity within the economy.

Governments have imposed policy changes to fast-track the shift, making it more onerous for those companies who cannot keep up. Across the ever-changing sector landscape, suppliers have been making a name for themselves, implementing novel technologies to combat sustainability concerns, and revolutionising the way packaging interacts with the consumer and across the supply chain through embedded intelligence.

In times of such change, the sector has also battled with Brexit, COVID and ongoing inflationary pressures, where shortage of supply and unprecedented price increases have brought about a need for companies to reassess business models and consider the resilience and practicality of supply chains.

In such dynamic times – with disparate effects across end sectors – M&A activity has been a necessity to expand capabilities, capture synergies, combat supply chain pressures and drive value creation across a fragmented market. Deal volumes reflect the ongoing attractiveness of the UK packaging sector.

ROGER BUCKLEY
PARTNER, HEAD OF M&A INDUSTRIALS

ALAN CHAN
DIRECTOR

UK PACKAGING DEAL FLOW REMAINS STRONG AND SAW **RECORD VOLUMES** IN 2021

88% OF DEALS IN 2022 SO FAR HAVE BEEN BY STRATEGIC **TRADE ACQUIRERS**

PLASTIC ACCOUNTS FOR **32%** OF M&A DEALS ACROSS 2018 - 2022 SO FAR FOLLOWED BY PAPER & CARDBOARD AT **24%**

DIVESTMENT OF **NON-CORE** ASSETS INCREASES

AVERAGE SECTOR EV/EBITDA IS **8.3X**

BDO has advised over **100 Packaging Deals** | BDO IS RANKED **No.1** M&A Advisor **GLOBALLY** IN EUROPE AND ACROSS THE UK*

*Pitchbook League tables 2021

PACKAGING SECTOR IS INCREASING ITS ROLE IN THE CIRCULAR ECONOMY

The packaging sector is vast, serving a number of end-sectors and with an array of different material types. Each material has its own merits and drawbacks, with no one material inherently more sustainable.

The constant remains that packaging's primary function is to protect the contents within it, although a number of other use-cases are present and becoming increasingly more important.

PRIMARY MATERIALS

- Aluminium
- Glass
- Paper and board
- Plastic
- Steel
- Wood

KEY MARKET THEMES

- Sustainability
- Cost increases of raw and recycled materials
- Energy, wages and logistics cost rises
- Innovation
- Increasing regulation in a bid for a greener economy

FUNCTIONS

- Protection
- Containing the product
- Handling and distribution
- Branding and differentiation
- Contributing to a circular economy

SUSTAINABILITY

- Key focus – how materials can promote the highest levels of recyclability and how packaging can embed less virgin plastic content whilst retaining the same structural qualities and at an economic price point for companies and consumers
- How to create the necessary and appropriate infrastructure to enable the highest levels of recycling – all leading to a focus on Refusing, Reducing, Reusing and Recycling

REFUSE

Despite growing consumer preference for sustainability, consumers are still price sensitive and favour convenience

GOAL

Refuse and limit single use packaging where possible

REDUCE

Removing unnecessary packaging drives reduced costs and supports sustainability

GOAL

Reduce packaging whilst maintaining performance

REUSE

The roll-out of refill stations, schemes such as reusable coffee cups, and new innovative ideas can reduce single use packaging

GOAL

Accelerate on a larger scale in order to reduce the amount of packaging we put into the system

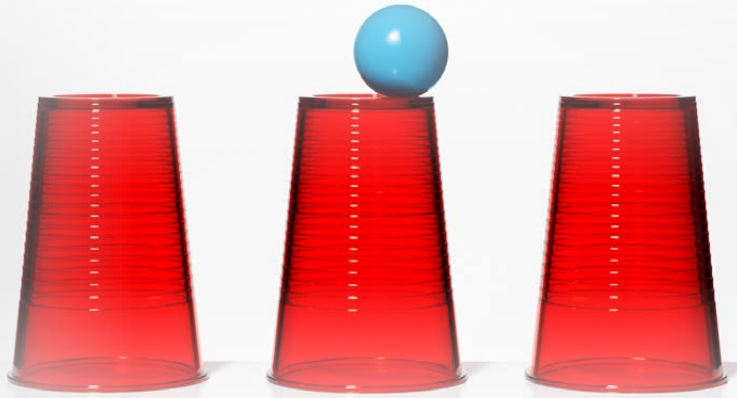
RECYCLE

The current rate of recycling in the UK is 44% (UK GOV) with the goal to increase this to 72% by 2040 in order to halve residual waste

GOAL

Develop infrastructure to facilitate recycling and support consumers to recognise what recyclable is and how they can recycle

THE SUSTAINABILITY BALANCING ACT



Over the past 40 years, the industry has enjoyed continuous growth and improving margins thanks to the cost and convenience of plastic, but it is now at the forefront of debates around sustainability and environmental impact.

It's estimated that plastic packaging placed on the market in the UK totals 2.3Mt per year[1], and accounts for nearly 70% of our plastic waste[1]. This scrutiny has driven innovation, for example, recycled plastic reduces CHG emissions by 79% compared to virgin plastic[5] – but more needs to be done.

The focus of consumers and corporates continues to shift towards operating within a circular economy but which materials will come out on top?

PLASTIC OR PAPER: WHAT'S THE REAL ENEMY?

While consumer preference has shifted to more sustainable sources requiring alignment from the retailers and corporates, the environmental costs of producing more 'sustainable' materials are often overlooked.

Paper-board materials have long been considered a more sustainable packaging solution due to recyclability, with The Confederation of Paper Industries stating that c70% of UK production is derived from recycled materials. However, the amount of water required for production far exceeds plastic, along with deforestation (habitats and carbon sinks). Awareness of the impact of these materials from cradle to grave – and more importantly, promoting a shift to cradle to cradle – is necessary if the goal is sustainability and promoting a circular economy.

We anticipate an increase in higher recycled content plastic packaging for the majority of goods, with paper-based materials seeing increased use especially for more premium products. Ultimately, both materials have their strengths in different use cases, but the fact remains that continued innovation is required to create more sustainable solutions.

	PAPER	PLASTIC
PROS	Biodegradable and easily recyclable	Durable and repeated use, with superior barrier properties
	Reduced environmental impact on wildlife	Increasingly enhanced recycled content – 41% recycled in Europe[3]
	Reduced time to decompose in landfill	Lighter than paper, reducing carbon footprint in logistics
CONS	Accounts for 25% of landfill waste[3]	Wildlife impact and prevalence in oceans and landfill
	Requires 4x the amount of energy to create a paper vs plastic bag	Public perception
	Paper & pulp is the 3rd largest industrial polluter of air and 91% more energy to recycle equivalent weights of paper vs plastic[3]	Policy penalises producers using virgin material
	Weighs more than plastic, increased carbon footprint in logistics	Can be hundreds of years for some plastics to decompose
	4 billion trees cut down each year for production	Current infrastructure makes it hard to recycle and problematic when separating by material types

19%

OF CONSUMERS WOULD STOP USING A RETAILER THAT DID NOT USE SUSTAINABLE PACKAGING[2]

52%

WOULD BE PREPARED TO PAY MORE FOR PLANET FRIENDLY PACKAGING[4]

73%

OF RETAILERS USING RECYCLABLE PACKAGING UP FROM 39% IN 2019[2]

CORPORATE ADVANCEMENTS

Ineos and PolyClear have teamed up to deliver novel solutions for shrink film applications through their new ready-to-use compound containing 60% post-consumer recyclate.

Polyclear INEOS

SOURCES: [1]WRAP; [2]Macfarlane Unboxing Survey; [3]Swiftpak; [4]Aquapak; [5]Alpla

RECYCLABILITY ON THE RISE, BUT NEED FOR REFORM?

Plastic use within packaging will remain given its structural properties, ease of print and design options, and cost compared to other material types. We expect to see more paper-board and a shift to higher recycled content plastic packaging; the real war is on virgin and single plastic use.

The use of these materials marks a strong move towards a circular economy but consumer buy-in and awareness of what can be recycled (and how) is fundamental. The Macfarlane 2021 Unboxing survey noted 73% of consumers believed their goods arrived in recyclable packaging, yet 14% were unsure if this packaging was recyclable, demonstrating the need for clear labelling on packaging.

INCENTIVISING RECYCLING

The Scottish Government are pressing ahead with a Deposit Return Scheme (DRS) to incentivise the public through paying a small deposit on their drinks bottles and cans, which is then refunded upon returning the item for recycling.

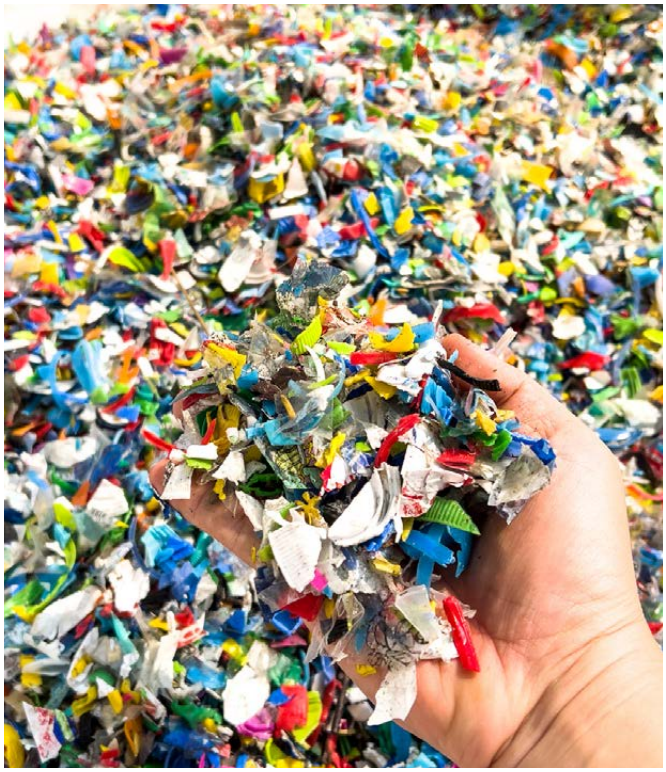
A similar scheme in Germany has had great success with recycling rates for plastic bottles at 98%+ versus 50% in UK. England and Wales have made plans to launch their own DRS scheme in 2024, but once again this highlights the disjointed approach for recycling policies and systems across the UK and internationally.

ALUMINIUM

Given the recyclable qualities of aluminium it's no surprise its use for packaging is growing.

Recent developments could transform the demand for metal-based packaging expanding use-cases into previously untrodden territories, with the likes of Ball who have teamed up with Re:Water, to distribute aluminium reusable cups across the UK. The cup will seek to replace single-use plastic alternatives often used in sports and entertainment venues, whereby cups can be returned, reused or disposed of and recycled just like aluminium cans.

Similarly, canning company HCC is poised to expand capacity, growing by 250% since 2019, with further investment made to supply the rapidly increasing demand.



WILL GREEN REGULATION DRIVE ENOUGH CHANGE?

Green regulation has been rising in recent years, with the Plastic Packaging Tax a major government initiative, designed to change corporate behaviour. But will it be enough to drive change?

We think it's unlikely to work in isolation, and other supporting measures will be essential to drive full adoption.

See what the experts are saying **here.**

PLASTIC PACKAGING TAX

The introduction of the 5p charge for all single-use plastic carrier bags is almost a decade old already. In 2021 this increased to 10p and had a significant impact on changing consumer behaviour, reducing plastic waste and reducing sales of plastic bags by 95% (UK GOV).

Following the success of that scheme, the government has introduced the Plastic Packaging Tax (PPT), which is driving wider change in the use of plastics across a product's lifecycle.

WHAT IS IT?

Aim: Drive wider change in the use of plastics across a product's lifecycle by incentivising recyclable material, and diverting waste away from landfill and incineration.

Date: 1 April 2022

Target:

- Plastic packaging which doesn't contain at least 30% recycled materials
- Packaging produced in, or imported into the UK
- An HMRC threshold of 10 tonnes of plastic packaging produced in or imported into the UK per annum (which exempts small producers/importers)

Tax: £200 per tonne per annum

LONG-TERM IMPLICATIONS

- **Impact:** Importers and manufacturers, but also purchasers and consumers as costs are passed on through the value chain
- **Administrative burden:** Not just the finance team, but given the amount of data capture and detailed product understanding required, a cross-department approach is needed, increasing the administrative burden and associated costs
- **Behaviour:** As demand for recycled material increases, the material will be harder to procure and more expensive. There may be a tipping point where it becomes cheaper to pay the PPT than to buy non-taxable material
- **Recycling:** With many companies lacking the infrastructure to recycle they could have no choice but to return to less sustainable sources due to supply shortage, undermining the PPT aims. Supporting recycling infrastructure is therefore key in driving progress towards a circular, greener economy
- **Drive change in materials:** Multilayer to monolayer and encourage R&D

EUROPEAN PROGRESS

Initiative: the Single-Use Plastics Directive

Target: banning a number of plastic products including polystyrene food and drink vessels

Future progress:

- Many other products have not been outlawed, including single-use bottles, food and drink containers for immediate consumption, and packets and wrappers
- Instead, the use of these items will be restricted with the producers having to pay for the clean-up and continue to raise awareness of the environmental impact through campaigns
- Member States will need to implement and draw up their own laws with many countries adding to the list, proposing bans of fruit and vegetable packaging, and/or enforcing taxes
- Continue change from single use plastic but also within single use that is required to shift to more sustainable materials

UK IMPACT

- The difference in approach from the devolved nations is once again apparent, with the Governments in both Wales and Scotland linking their restrictions to those introduced by the EU, but England and Northern Ireland are yet to formalise plans
- This inconsistent approach across the UK poses a threat to the intended goal of the restrictions as devolved administrations could not enforce the ban against sellers of goods produced in, or imported into, other parts of the UK where legislation is different

GOVERNMENT'S GREEN AMBITIONS

The UK Government announced its strategic ambition to "work towards all plastic packaging placed on the market being, recyclable, reusable or compostable by 2025", and although we've seen some progress through the PPT – not without its implications – much more work is still required. Further schemes which look to be rolled out include:

- Introducing a deposit return scheme (DRS)
- Reforming the UK packaging producer responsibility system
- Embedding consistency across household and business recycling

Although this marks a move in the right direction, most of these ambitions will require further regulations to be made before they can be introduced. With the deployment of such initiatives, comes further problems for businesses to solve, such as Defra's reported transition costs to the industry for the extended producer responsibility scheme of £47m. The legislative landscape for packagers will drastically change, and companies must be ready.

NOVEL ADVANCEMENTS: ARE WE CLOSER TO A TRULY SUSTAINABLE SOLUTION?

A range of solutions have come to market over the years, but their staying power and universal adoption is up for debate, especially given the premium price for some of these materials.

COMPOSTABLE

KEY CHARACTERISTICS

- Materials such as corn starch, bamboo, mushroom, cardboard and paper
- Created with minimalism in mind – less material requirement and lower shipping costs

CONSIDERATIONS

- Consumer awareness of the difference between home compostable versus industrial compostable packaging
- Home compostable solutions require patience and consumer buy-in, taking several months to fully decompose
- Lack of infrastructure for industrial and commercial compostable solutions

DISSOLVABLE/BIODEGRADABLE

KEY CHARACTERISTICS

- Bio-based materials which are water soluble could be a replacement for films and bags

CONSIDERATIONS

- Consumer buy-in to take the time to dissolve the product
- Rain and moisture could distort the structural integrity of the product and use case limited to dry products

EDIBLE

KEY CHARACTERISTICS

- Entirely sustainable solutions
- Innovative suppliers have already offered edible coffee cups, flavoured gelatin wrapping for sweets, and for other dessert treats such as cupcakes

CONSIDERATIONS

- Widespread use is limited to primary packaging: films or protective packaging around the food product itself could be consumed with the core product

RETURNABLE/REFILLABLE PACKAGING

KEY CHARACTERISTICS

- Gaining traction although unlikely to offer the complete solution
- Used in food and drink, health and beauty and personal care markets – retailers incentivising consumers to refill at a discount to buying a new bottle
- Independents and some supermarkets have refill stations where customers bring their own container and fill up at dispensers

CONSIDERATIONS

- Logistics and feasibility to roll out to further SKUs
- What packaging is to be used to transport the product in the first place
- Consumer buy-in and overcoming preference for convenience

EXAMPLE CASE STUDY: NOTPLA

KEY CHARACTERISTICS

- Private Equity and Venture Capital has taken a strong interest in innovative packaging companies looking at sustainability
- Notpla is an exciting company, with revolutionary material made from seaweed and plants, which biodegrades naturally in weeks
- The impressive technology has attracted successful fundraising rounds

CONSIDERATIONS

- The challenge will now be to embed the technology into products at a price the market can buy on a mass scale. This is essential to gain traction in the market and be considered a genuinely viable sustainable solution

BDO FUTURE VIEWPOINT

AT PRESENT

- All materials have their own benefits, not one rules the market, albeit there will be dominant materials within sub-sectors, for example aluminium use for medicine
- Innovation and development have reduced the amount of excess packaging, promoting the re-usability and enhancing the recyclability of packaging

THE FUTURE

- A truly sustainable, circular economy whereby consumers and corporates alike can easily recycle packaging which then flows back through the system to be reused, regenerated or responsibly eradicated from the ecosystem
- As the digital aspect of packaging is rapidly expanding, we expect to see a seamless link up between consumers, packaging and supply chain interactivity

HOW WE GET THERE

- Achieving a circular economy is the responsibility of governments, consumers and corporates
- Reusing is key but the infrastructure needs to be in place
- Clear recycling instructions need to be on packaging and recycling infrastructure is needed to facilitate efficient recycling for corporates and consumers
- Investment in recycling capabilities and technologies (chemical, energy, mechanical etc.)

SHORT-TERM

Consistency across the UK recycling landscape – the same bins used across councils, the same schemes, more availability of bins, easily accessible recycling facilities.

Collaboration between corporates and consumers in identifying the true impact of materials and how recyclable they are.

A continued shift in culture to refuse unnecessary single use packaging where possible, for example single use plastic cutlery.

Consumer behaviour – general sustainability awareness and actions to support this.

LONG-TERM

Global agreement on definitions across industry to promote international co-operation.

Demonstrating the true cost of carbon within products and ease of demonstration of environmental impact to consumer.

Efficient recycling systems for consumers and corporates.

Continued development of cost effective bioplastics and other sustainable materials whilst retaining functional properties.

PACKAGING MATERIALS: UK MARKET OVERVIEW

PLASTIC PACKAGING

KEY DYNAMICS

COVID lockdowns impacted demand in the cosmetics, automotive and hospitality sectors while partially offset by increased demand for groceries, hygiene-related goods and medical supplies.

- The labelling of plastic requires significant improvement to drive significant change at a consumer level
- Although behaviours are changing and levels of recycled content increasing, there is a desire for development of more sustainable materials which have less ongoing environmental impact after use
- This has opened the door to many innovative businesses, leveraging bio-plastic products as a more sustainable solution whilst maintaining the protective properties of its predecessor materials

2018 – 2021 CAGR	**(6%)**
2021 – 2028 CAGR	**4%**
2018 REVENUE	£4.81BN
2021 REVENUE	£4.02BN
2028 REVENUE	£5.16BN

PAPER PACKAGING

KEY DYNAMICS

COVID suppressed demand in the hospitality sector but was outweighed by the rapid shift to e-commerce, further driven by the blue planet effect and changing consumer behaviour.

- It is estimated that 69% of paper and paper-board packaging was recovered for recycling (UK GOV)
- Increased demand outstripping supply makes vertical integration a strategic consideration. Larger players with economies of scale through integration can protect against pricing fluctuations – a trend which could continue given current market conditions (i.e. securing supply and protecting margins)

2018 – 2021 CAGR	**(1%)**
2021 – 2028 CAGR	**2%**
2018 REVENUE	£4.96BN
2021 REVENUE	£4.79BN
2028 REVENUE	£5.47BN

SOURCES: IBIS World, BDO Analysis and UK Gov

METAL PACKAGING

KEY DYNAMICS

- Revenue declined during COVID but is expected to grow its overall market share
- Growing trend away from metal based packaging especially in food with increased implementation of pouches
- With the cost of living crisis, demand will continue to be driven by the countercyclical nature of many canned products, with consumers switching to cheaper tinned goods, as well as the largely non-cyclical nature of the alcohol market (a large portion of the metal packaging end sector)

2018 – 2021 CAGR	**(1%)**
2021 – 2028 CAGR	**1%**
2018 REVENUE	£1.54BN
2021 REVENUE	£1.48BN
2028 REVENUE	£1.64BN

WOOD PACKAGING

KEY DYNAMICS

- Primarily serving the industrial markets via pallets, cases and boxes, with demand consequently influenced by trends in these markets
- Industrial sectors suffered from COVID lockdowns but an influx in demand across sectors such as aerospace will aid in the return to growth
- In the short-term demand is expected to remain flat in line with factory output
- Exports also drive demand as wooden packaging is typically used for longer journeys, including overseas transportation
- With the ONS reporting a fall in exports of 8%, the short-term outlook for demand will be challenging, in-part driven by the fallout of Brexit

2018 – 2021 CAGR	**(3%)**
2021 – 2028 CAGR	**3%**
2018 REVENUE	£0.86BN
2021 REVENUE	£0.79BN
2028 REVENUE	£1.00BN

GLASS PACKAGING

KEY DYNAMICS

- Rebounded well from COVID and will move into positive growth from pre-pandemic levels in 2022 with further growth forecast out to 2028
- Strong demand from the wine, spirits and beer production markets, albeit cartons is growing
- Glass is energy intensive to produce, the high costs of energy may impact price
- Increasing environmental awareness of the detrimental impacts of virgin plastic packaging may shift consumer preference
- Glass is heavy (and has higher associated transport emissions)

2018 – 2021 CAGR	**(1%)**
2021 – 2028 CAGR	**3%**
2018 REVENUE	£0.97BN
2021 REVENUE	£0.93BN
2028 REVENUE	£1.14BN

SOURCES: IBIS World, BDO Analysis and UK Gov

WILL MARKET PRESSURES IMPACT SUSTAINABLE OBJECTIVES?

The sector has experienced a tumultuous few years, with Brexit impacting supply chains, the pandemic reigniting those issues, and further geopolitical tension, amid extremely high demand.

The pandemic and associated supply chain issues have led to many users of packaging reconsidering supply chains and onshoring supply from Chinese providers.

The pandemic brought about unprecedented demand in e-commerce, driving corrugate usage through the roof. It is estimated that in 2020 alone, the equivalent of five years of growth was seen. While the extremely high volumes seen in the pandemic are now dropping off, there has been a structural shift towards e-commerce, which will continue to drive high demand.

Prices for cardboard boxes have increased with reports that the cost of recovered fibre used in recycled paper, have more than doubled. With the price of corrugated paper and paper-board PPI (Producer Price Index) in the UK rising 36% from Q1 2021 to Q3 2022, the majority of players in the market have been fortunate in passing on these costs to their customers, but it is unclear for how long this can last considering the ongoing price rises.

Similar price increases have been seen for polymer, almost doubling in price from January 2021 through to January 2022.

In conjunction with rising raw material costs, suppliers are also facing significant increases in energy and logistics costs. For many energy-intensive operators, electricity prices have soared by as much as 750% to prices at the beginning of the year.

The extent to which these factors may detract from sustainable agendas will soon come to light. Will corporates shift their focus away from R&D efforts to weather the storm and could this prove costly in the long run if competitors develop new technologies to be at the forefront of the market?

The landscape remains murky, but the sector should take confidence from its ability to deal with prior challenges.

FUTURE CHALLENGE

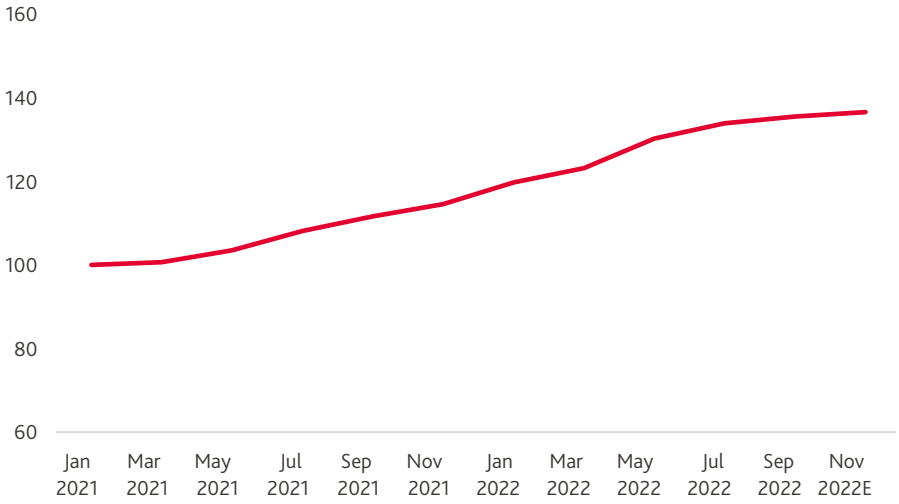
With high inflation and need for innovation can the same quality of product be made at reduced prices sustainably?

Paper-based alternatives are more expensive than plastic counterpart.

Can consumer preference for 'sustainable' materials be serviced cost effectively?

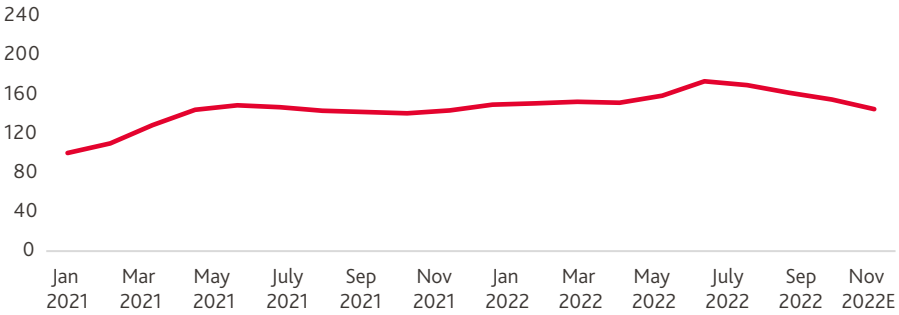
Those that can differentiate themselves and innovate may have opportunity to grow and capture more market share.

CORRUGATED PAPER AND PAPERBOARD – PPI JAN 2021 – NOV 2022[1]



Indexed from January 2021 (Jan 2021 = 100%)

POLYMER PRICE GBP/TONNE JAN 2021 – NOV 2022[2]



Indexed from January 2021 (Jan 2021 = 100%)

SOURCE: [1]Producer Price Inflation - Office for National Statistics; [2]Plastics Information Europe.

DIGITAL PACKAGING: MEET INNOVATIONS THAT OVERCOME KEY CHALLENGES

While much of the innovation focus is rightly around sustainability initiatives, there is plenty more going on in the packaging market.

With companies looking for supply chain efficiencies, reduced wastage, and a need for differentiation, technology has much to offer when wrapped with packaging.

SUPPLY CHAIN

Embedded technology (sensors, tags, codes) capable of data generation can be used for real-time ability to track and trace exact product location, and can enhance efficiency throughout the supply chain through predictive planning and inventory management with automatic reorder and replenishment.

AUTHENTICITY

Can validate the product and provides the customer with comfort that what they've purchased is indeed genuine and not counterfeit or substandard.

USAGE

QR codes already have widespread use, but their role in bringing the product to life enhances the purchasing experience. This could be used to provide the consumer with other add-on products, think of alcohol and cocktails. Or to bring the product to life, with a unique digital experience offered upon scanning.

ORIGIN

The customer is aware of exactly where there product came from which can contribute to ESG agendas and trust in the quality of product.

PERSONALISATION

Similarly to usage, new technology can enhance personalisation, bringing unique interactions with the product through digital form. We are also seeing increases in reusable packaging, where personalised options encourage re-use and enhances brand loyalty.

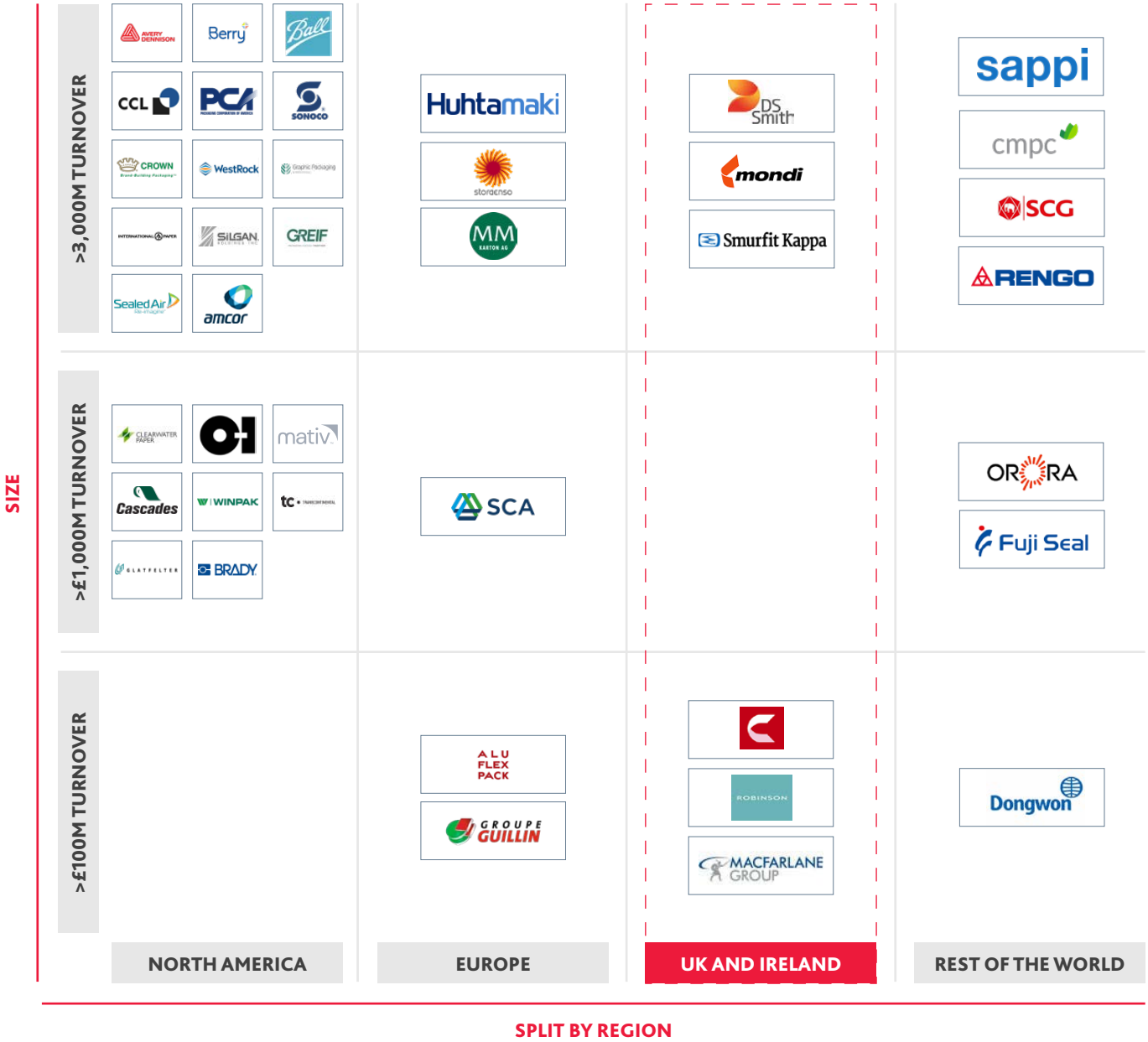
SPOILAGE

Helps to eradicate unnecessary food waste by providing indicators to the customer that the food/drink is still consumable. Similarly, if a product drops below a certain temperature at a point in its life-cycle, the customer can see it is not safe to consume through embedded colour coding.

PUBLIC COMPANY MARKET MAP

LARGE CORPORATES AND A FRAGMENTED TAIL OF SMALLER PLAYERS

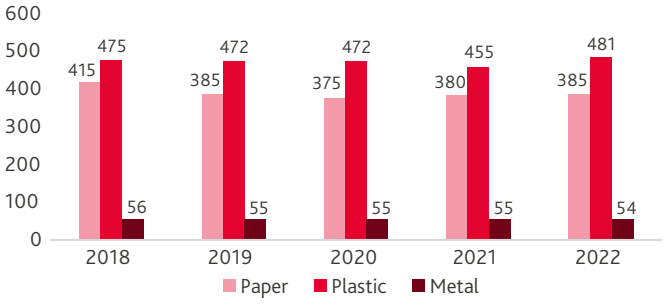
ILLUSTRATIVE NON-EXHAUSTIVE



SPLIT BY REGION

Market map based on listed companies

NUMBER OF UK ENTERPRISES BY PACKAGING MATERIAL



SOURCE: BDO analysis, Capital IQ

A FRAGMENTED UK MARKET

Across the three core material types within the industry, the number of companies operating within the UK has remained broadly flat, with a slight decrease across paper and a slight increase in plastic.

Few large companies dominate these sectors, with the vast majority of companies being SMEs.

This presents strong opportunity to capture market share through consolidation which we have already seen spurring M&A activity within the sector.

UK DEAL VOLUMES

DESPITE COST PRESSURES AND ECONOMIC HEADWINDS, M&A INTEREST REMAINS ROBUST

TRENDS

- Strategic trade acquisitions have dominated M&A activity
- Transactions over the past four years have been mainly domestic versus cross-border reflecting opportunity for consolidation in native markets
- Businesses are acquiring to fulfill a range of strategies, from geographical expansion, to consolidation of fragmented markets, to gaining access to new product verticals
- Plastic providers are the most frequently acquired followed by paper & cardboard, and diversified suppliers
- End market preference has been within manufacturing followed by distribution focused businesses
- Mixed strategies: geographical expansion, new product verticals, consolidating market
- Cross-border activity: new territories or continue to grow their offering within these regions

INNOVATE, OR CONSOLIDATE?

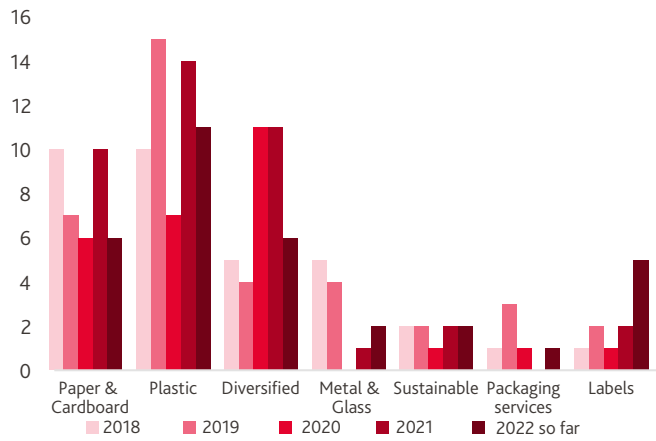
Research and development is essential:

- Navigate increasing cost pressures
- Remaining competitive and aligning with the ever-increasing sustainable agenda

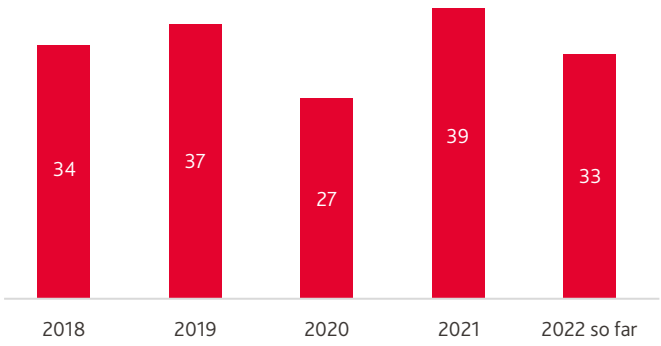
Companies will need to continue investing in R&D or tap into the capabilities through M&A.

As expected, transaction volumes have fallen from record highs in 2021. However, we expect M&A activity to continue, as consolidation remains a necessity while some sellers may seek an exit in a 'hot market'.

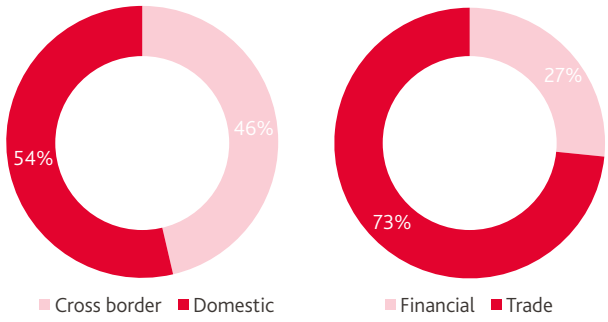
UK TRANSACTIONS BY MATERIAL TYPE (2018 – 2022 SO FAR)



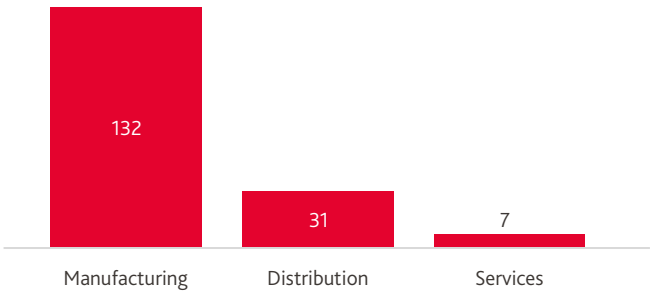
UK TRANSACTIONS (2018 – 2022 SO FAR)

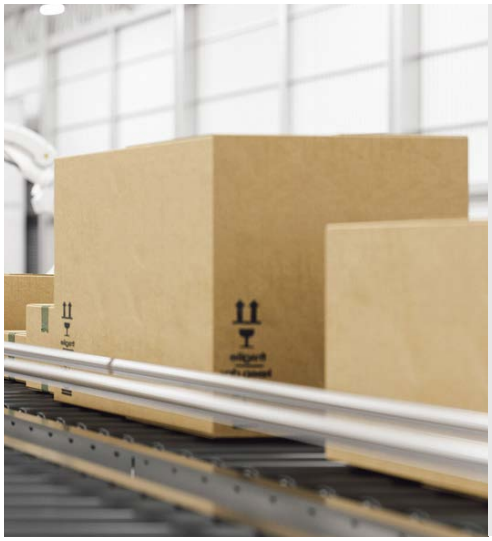


UK TRANSACTIONS BY TYPE (2018 - 2022 SO FAR)



UK TRANSACTIONS BY BUSINESS MODEL (2018 - 2022 SO FAR)





2022 SO FAR

55%

DOMESTIC DEALS

88%

STRATEGIC ACQUIRERS

Plastic packaging remains the biggest sub-sector preference for deal activity over the past four years. This is driven by its widespread use cases, the cheapest packaging medium, and reflecting the relative levels of fragmentation and level of innovation, with M&A being a route to new skills and capabilities.

Based on deal activity over the past four years, it can be expected that consolidation in the plastics packaging segments will continue at a strong pace. Cost advantages through economies of scale are driving consolidation and posing barriers to entry for small and mid-sized business.

SOURCE: BDO analysis, Capital IQ, Market IQ

VALUATIONS IN PACKAGING

TRENDS

- Average EV/EBITDA multiple has remained strong at above 8x
- North America represents the highest number of packaging companies, although European Packaging companies are trading at an EV/EBITDA multiple premium to US peers
- Most sector growth is expected to be in developing countries, specifically Asia

PUBLIC COMPANY INDUSTRY PERFORMANCE

8.1X

AVERAGE EBITDA MULTIPLE

BDO's packaging index includes the biggest global packaging companies and reveals industry performance over the past four years.

The packaging industry has enjoyed steady growth in share price and robust trading multiples, with the UK packaging sector average share price outperforming the FTSE-All Share Index for the most part of 2018 to 2022 so far.

With more pressures and disruption likely to follow, the sector's financial dynamics could be impacted.

For the year so far, packaging M&A activity has ran at lower levels than the elevated 2021 activity and dipping slightly below pre-pandemic volumes, however despite the macro-economic headwinds buyers interest levels and valuations are holding strong.

PRIVATE COMPANY DEAL VALUES

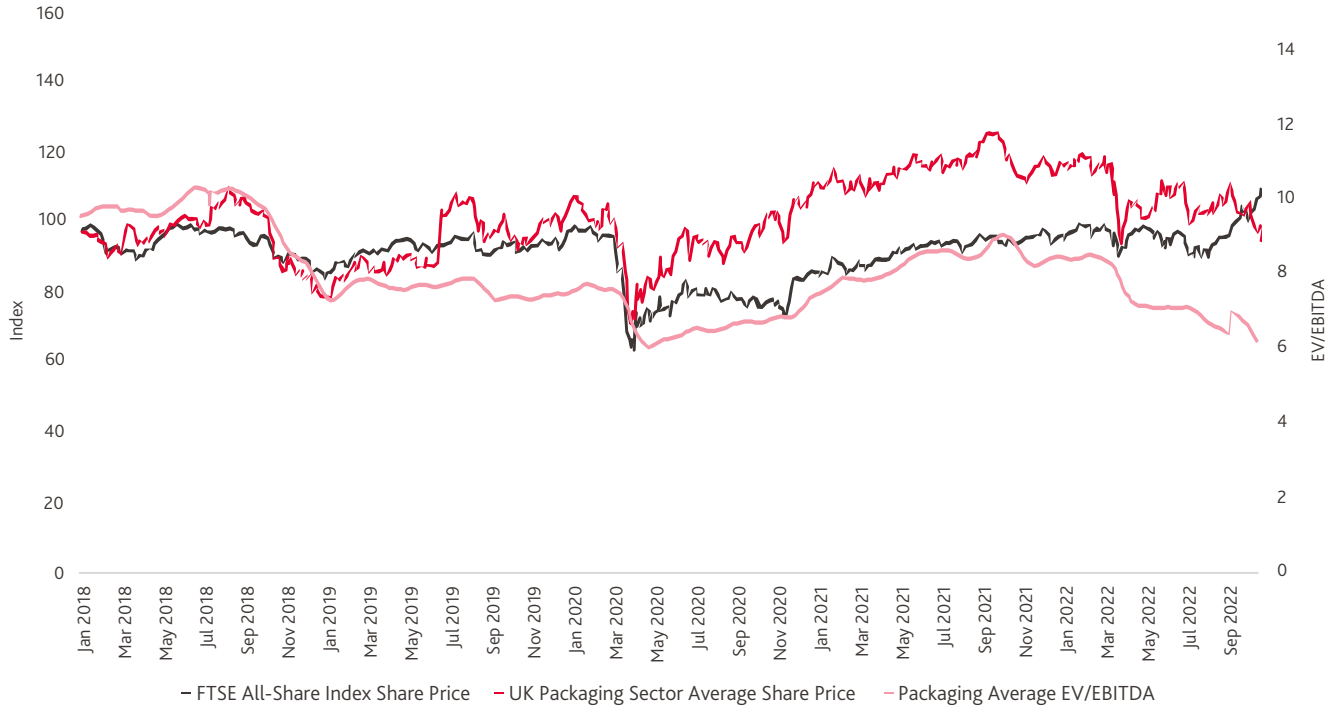
8.3X

AVERAGE EBITDA DEAL MULTIPLE

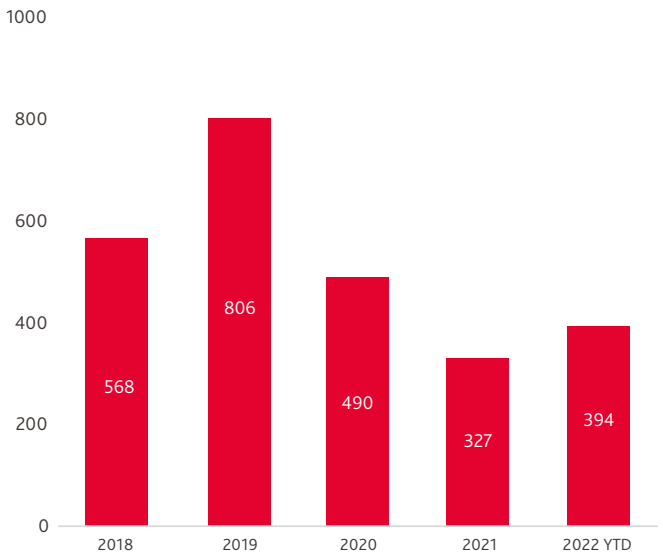
Despite headwinds posed by Brexit, the pandemic and geopolitical factors, the packaging market is proving to be an attractive and resilient market.

Average deal value during the period between 2018 to 2022 so far is £517m with average EV/EBITDA of 8.3x.

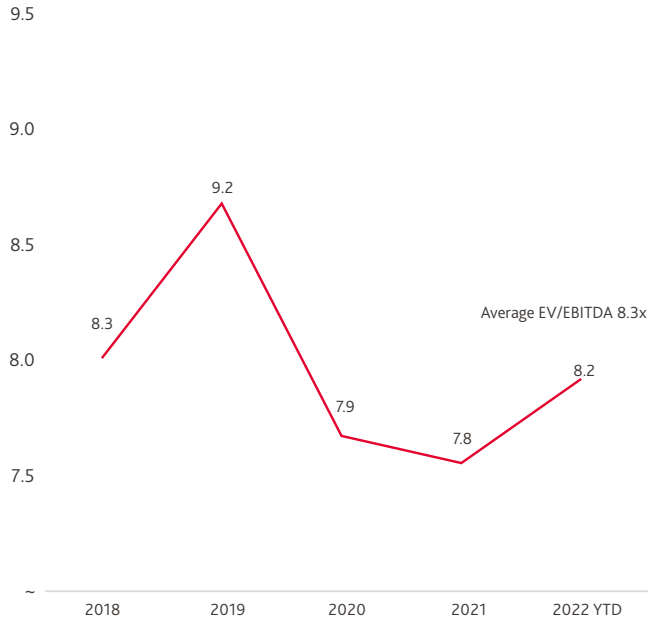
FTSE ALL-SHARE INDEX VS UK PACKAGING SECTOR INDEX



AVERAGE EV ON M&A DEALS 2018 - 2022 SO FAR



AVERAGE EV/EBITDA ON M&A DEALS 2018 - 2022 SO FAR



Note: Data indexed at 2018

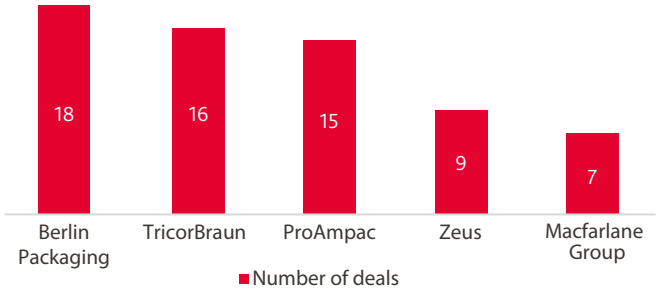
SOURCE: BDO analysis; Market IQ, Capital IQ and Mergermarket

INTERNATIONAL PACKAGING M&A ACTIVITY

PACKAGING M&A ACTIVITY REMAINS BUOYANT DRIVEN BY STRATEGIC BUYERS

Many strategic acquirers are highly active in the market, with consolidators (corporates and PE backed) continuing to seek acquisitions to expand their service offering, both internationally and within domestic markets.

MOST ACTIVE INTERNATIONAL ACQUIRERS 2018 – 2022 SO FAR



RECENT M&A INTELLIGENCE ON NOTABLE TRANSACTIONS

BERLIN PACKAGING

Berlin Packaging is the largest hybrid packaging supplier. The company supplies glass, plastic, and metal containers and closures.

Since 2018, the company has completed 18 acquisitions with recent activity focused on the glass segment of the market.

DATE	TRANSACTION DETAIL
June 2022	**Target:** Vidrierias Perez Compo SL **Activity:** A distributor of glass packaging for the olive oil, home fragrance and spirits markets in Spain.
June 2022	**Target:** Andler Packaging Group **Activity:** A distributor of plastic, glass, and metal containers and closures in USA.
April 2022	**Target:** Panvetri **Activity:** Supplier of glass and metal packaging for wine and olive oil industries in Italy.

TRICOR BRAUN

A US-based designer, manufacturer and distributor of rigid packaging solutions. Since 2018 the company has acquired across continents and assets specialising across a diversified array of material types.

DATE	TRANSACTION DETAIL
Nov 2022	**Target:** Merlot Packaging **Activity:** Canadian rigid packaging distributor.
May 2022	**Target:** Continental Bottle Co **Activity:** UK glass packaging provider.
May 2022	**Target:** DiBro **Activity:** UK glass packaging decoration services.

PROAMPAC

A US-based business specialising in flexible packaging products. ProAmpac acquired a number of businesses within the sustainable, plastic and cardboard sub-sectors. The most highly sought after sub-sector being plastics, followed by businesses specialising in a diversified supply of packaging material solutions.

DATE	TRANSACTION DETAIL
May 2022	**Target:** Specialty Packaging **Activity:** Manufacturer of specialty paper, film and foil packaging products for the fast food and food services industries in USA.
Feb 2022	**Target:** Andler Packaging Group **Activity:** Manufacturer of flexible packaging products in Canada.

UK PACKAGING M&A ACTIVITY

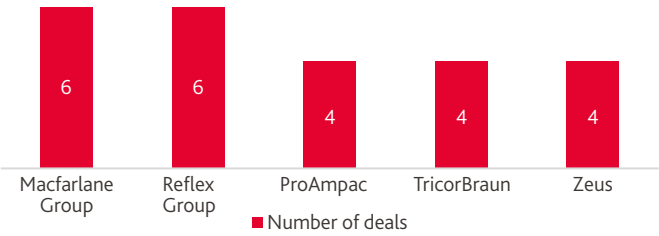
UK MARKET REMAINS ATTRACTIVE FOR DOMESTIC AND INTERNATIONAL BUYERS

Publicly traded and PE backed packaging companies continue to be the most active acquirers domestically and internationally.

Main drivers behind their M&A strategies appear to be pursuing synergies and acquiring know-how from certain end-sectors such as e-commerce, food and automotive.

Alongside these dynamics, carve-outs have become a major feature of the market, as businesses streamline their operations to focus on chosen growth markets.

MOST ACTIVE ACQUIRERS OF UK ASSETS 2018-2022 SO FAR



RECENT UK MARKET THEMES

CONSOLIDATORS CONTINUE TO CAPTURE MARKET SHARE ACROSS FRAGMENTED MARKET LANDSCAPE

COMPANY	SYNOPSIS
MACFARLANE GROUP	▶ M&A has supported expansion across the UK and Europe ▶ During 2022, Macfarlane made its first acquisition in recent years outside the UK, acquiring PackMann, the German provider of protective packaging products for an enterprise value of £5.8m ▶ This marks the 7th acquisition for Macfarlane over the past four years, with the previous six all being UK based assets
Zeus (We Make. We Supply. We Deliver.)	▶ The acquisition of two UK companies, Swanline Group and sister company BoxMart, suppliers of paper-based, gift, retail and ecommerce packaging, has contributed to Zeus' c£70m uplift in revenues ▶ The acquisition provides the Irish-based Zeus with enhanced offering and reach across the UK, with further opportunity to maximise efficiencies across distribution and supply chains, whilst also broadening product and service offerings to their existing customer base

DIVESTMENT OF NON-CORE ASSETS ON THE RISE AS CORPORATES REASSESS BUSINESS MODELS

COMPANY	SYNOPSIS
ESSENTRA	**Carve-out:** Packaging business **Activity and rationale:** The packaging unit contributed c38% of revenue to the overall group. The sale marks a significant step on the company's journey to become a pure play components business. **Buyer:** Mayr-Melnhof Group **Consideration:** £312m
mondi	**Carve-out:** Personal Care Components business **Activity and rationale:** Enables Mondi to focus on growing its core packaging division and eliminates excess cost through the limited overlap of the Personal Care division with the rest of the group. **Buyer:** Nitto Denko **Consideration:** £514m
MACFARLANE GROUP	**Carve-out:** Label business **Activity and rationale:** Focus resources on its growing protective packaging businesses across their core market of the UK, and expand across Europe. **Buyer:** Reflex Group **Consideration:** £12.7m

BDO GLOBAL – ADVISOR TO OVER 100 PACKAGING DEALS

SALE OF WBC TO PREMIER PAPER GROUP

SALE OF SOUTHGATE GLOBAL TO RUTLAND

SALE OF STRATA PRODUCTS TO RPC GROUP

SALE OF WOOD'S PACKAGING TO THE HARRISON FAMILY AS PART OF THE SALE OF ENSOR HOLDINGS

SALE OF DUBOIS BY CABLE CAPITAL

ACQUISITION OF KALA PACKAGING BY FORTIS SOLUTIONS

ACQUISITION OF SAFETY & MEDICAL MANUFACTURERS AND NIKKI PLASTICS BY VISION GLOBAL GROWTH FUNDS

ACQUISITION OF SHORELINE CONTAINER BY KRAFT GROUP AND SCHWARZ PARTNERS

SALE OF CEC PACKAGING TO COVEPA MICHELS PACKAGING

ACQUISITION OF LITTLESTAR PLASTICS BY PARKWAY PRODUCTS

ACQUISITION OF MODERN ASSOCIATES AND ITS SUBSIDIARY, FLYTEC SYSTEMS BY UNISTRUT

SALE OF M'PLAST TO EMBALLAGES (LICAPLAST)

ACQUISITION OF A MAJORITY STAKE OF RIVIÈRA PRODUCT DECORATIONS BY BERK PARTNERS

SALE OF ACODEQ KUNSTSTOFFEN INDUSTRIE TO BEKRO PLASTIKS ASSEN

SALE OF VORMENFABRIEK TILBURG TO ANDERS INVEST

SALE OF BROOKDALE PLASTICS TO PLACON

ACQUISITION OF PROMENS BY KB COMPONENTS

SALE OF INDUSTRIAL THERMAL POLYMERS TO ARMACELL CANADA

SALE OF OPTIMA COLOUR TO RENEUVO GROUP

ACQUISITION OF MVH TECHNIEK AND TRIDO NEDERLAND BY FERRUM FIGURA

SALE OF NETWORK PACKAGING TO MACFARLANE GROUP

ACQUISITION OF OERLEMANS PACKAGING TO HANEGRAAF

ACQUISITION OF AC TAPE BY ZEUS GROUP

SALE OF CORMACK HOLDINGD SALE OF CORMACK TO TRICORBRAUN

SALE OF BEWI DRIFT TO BEWISYNBRA

ACQUISITION OF BRM DISTRIBUTION TO ACE PACKAGING

SALE OF AARTS PLASTICS BV TO AARTS PLASTICS BEHEER

ACQUISITION OF ATLANTIC TRADING BY BEWI DRIFT

ACQUISITION OF ORBO LABELS BY WATERLAND PRIVATE EQUITY

ACQUISITION OF PARKSONS PACKAGING BY INDIA INFOLINE

ACQUISITION OF BIG 3 BY EASTERN COMPANY

ACQUISITION OF MRI POLYTECH BY PLIXXENT

ACQUISITION OF DS SMITH'S EPS PACKAGING UNITS IN SWEDEN AND DENMARK BY BEWI

SALE OF LIBBY MANUFACTURING TO IDEAL POLYMER SOLUTIONS

ACQUISITION OF WI-SALES BY EWALD DÖRKEN

SALE OF LEAROYD PACKAGING TO COVERIS

CASE STUDIES

CASE STUDY	MBO OF SOUTHGATE GLOBAL BACKED BY RUTLAND PARTNERS
Client	A market leading solutions provider within the packaging and e-commerce fulfilment sector.
The buyer	Rutland Partners
Background	From its origins as a regional UK packaging supplier in the 1960s, the business has impressively evolved through strong organic growth and several strategic acquisitions to become Europe's largest trade supplier of machinery, equipment and associated consumables to the industrial packaging marketplace.
Headquartered	Norfolk

DOMESTIC SALE

£63m
TURNOVER

£10m
EBITDA

PREPARED THE BUSINESS FINANCIALS TO ENSURE NO VALUE LEAKAGE

EXCEED VALUE EXPECTATIONS FOR THE SHAREHOLDERS

A – Z ALL-ROUND SUPPORT PROVIDED THROUGHOUT THE TRANSACTION PROCESS

The BDO team did a great job in supporting us during this transaction. The past twelve months have been incredibly challenging for several reasons, but BDO guided us **through each step of the process**, and we would not have been able to achieve the result we did without their support and advice.

BDO have led throughout the transaction and helped to bring together the numerous parties involved to deliver a **great outcome** for all. We would recommend BDO to anyone considering an exit or transitional change."

CRAIG TURNER
CEO
SOUTHGATE GLOBAL LIMITED

CASE STUDIES

CASE STUDY	SALE OF WOODS PACKAGING TO THE HARRISON FAMILY
Client	Distributor of packaging materials.
The buyer	The Harrison Family
Background	Value-added distributor of high quality competitively priced packaging materials underpinned by a focus on customer service. The Business has grown its reputation since formation in 1992 to be one of the UK's leading suppliers of packaging material.
Headquartered	South Kirby, West Yorkshire

DOMESTIC SALE

£3m
TURNOVER

£1m
EBITDA

COMPLEX CARVE OUT

PROVIDED A COMPREHENSIVE LEVEL OF A-Z ALL ROUND SUPPORT

OVERCAME CHALLENGES AND MANAGED ISSUES EFFECTIVELY

An extensive marketing exercise was conducted by BDO in order to present the Board with all available options. There were a number of challenges during the process and BDO had to **manage the issues effectively** and negotiate the best deals possible to **ensure the best outcome** for the shareholders.

Throughout the process BDO provided a comprehensive level of A-Z all-round support including M&A advice, PLC advisory, tax advice and Business Restructuring advice.

The Ensor Board is delighted with BDO's contribution to the sale of Woods. The BDO team project managed the sales process efficiently and creatively."

ROGER HARRISON
CEO
ENSOR HOLDINGS PLC

CASE STUDIES

CASE STUDY	SALE OF STRATA PRODUCTS LIMITED TO RPC GROUP PLC
Client	A market leading UK manufacturer of a wide range of garden, home, office and baby plastic products.
The buyer	RPC Group Plc
Background	Market leaders in many of the product sectors in which the company operates, winning numerous awards from its blue chip customer base and being recognised by leading industry bodies.
Headquartered	Pinxton, Nottinghamshire

DOMESTIC SALE

£29m
TURNOVER

£5m
EBITDA

ARTICULATE THE BUSINESS MODEL IN THE BEST POSSIBLE LIGHT UTILISING IN-DEPTH SECTOR INSIGHT AND BUYER KNOWLEDGE

PROTECTION OF IP VALUE

A – Z ALL-ROUND SUPPORT PROVIDED THROUGHOUT THE TRANSACTION PROCESS

"BDO found not one but two keen buyers and the shareholders were delighted with the end result. It was great to find an **advisor who understood the sector** in general **and our business in particular** and this meant they could tailor the process accordingly. I have enjoyed working with BDO from beginning to end and would thoroughly recommend them to other owners looking to attract the right buyer for their business."

MICHAEL ILSEN
SHAREHOLDER AND MANAGING DIRECTOR
STRATA PRODUCTS LIMITED

YOUR M&A CONTACTS

ROGER BUCKLEY
PARTNER, HEAD OF M&A INDUSTRIALS
+44 (0)7966 373 914
roger.buckley@bdo.co.uk

ALAN CHAN
DIRECTOR
+44 (0)7800 682 871
alan.chan@bdo.co.uk

PATRICK STARRETT
ASSISTANT MANAGER
+44 (0)7827 063 206
patrick.starrett@bdo.co.uk

DANIEL GUTTMANN
PARTNER, HEAD OF INDUSTRIAL PRODUCTS, TECHNOLOGY & SERVICES IN CDD & STRATEGY
+44 (0)7808 056 887
daniel.guttmann@bdo.co.uk

SUSANNAH PERKINS
SENIOR RESEARCH MANAGER
+44 (0)7800 682 066
susannah.perkins@bdo.co.uk

IVA GRIGORAS
RESEARCH ANALYST
+44 (0)7533 583 274
iva.grigoras@bdo.co.uk

BDO ADVISORY SERVICES

SELL SIDE

- Corporate strategy
- Full support through sales processes
- Preparation for sale
- Modelling
- Commercial due diligence

BUY SIDE

- Identification of suitable targets
- Full buy-side support from bid to structuring
- Outsourced M&A offering
- Refinancing
- Modelling
- Commercial due diligence

CAPITAL MARKETS ADVISORY

- Takeovers
- Listing rules
- Buy and sell side advisory

DEBT ADVISORY

- Refinancing
- Structuring
- Expansion of funding options

STRATEGIC ADVISORY

- Growth and Market assessment
- Investment and capital allocation advisory
- Growth capital/fundraising

COMMERCIAL DUE DILIGENCE

- Market Assessment
- Company Scrutiny

BDO GLOBAL CORPORATE FINANCE

2,020 COMPLETED DEALS IN 2021

WITH A TOTAL DEAL VALUE OF **$128.6bn**

36% PRIVATE EQUITY DEAL INVOLVEMENT

26% OF OUR DEALS ARE CROSS BORDER

ONE OF THE MOST ACTIVE ADVISERS GLOBALLY*

2,500 CORPORATE FINANCE PROFESSIONALS

120 COUNTRIES PROVIDING DEDICATED CORPORATE FINANCE SERVICES

*1st most active M&A Advisor Globally – Pitchbook league tables 2020
1st most active Advisor & Accountant Globally 2020 – Pitchbook league tables 2020
2nd leading Financial Due Diligence provider Globally – Mergermarket global accountant league tables 2021

FOR MORE INFORMATION:

Roger Buckley
roger.buckley@bdo.co.uk

Alan Chan
alan.chan@bdo.co.uk

This publication has been carefully prepared, but it has been written in general terms and should be seen as containing broad statements only. This publication should not be used or relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained in this publication without obtaining specific professional advice. Please contact BDO LLP to discuss these matters in the context of your particular circumstances. BDO LLP, its partners, employees and agents do not accept or assume any responsibility or duty of care in respect of any use of or reliance on this publication, and will deny any liability for any loss arising from any action taken or not taken or decision made by anyone in reliance on this publication or any part of it. Any use of this publication or reliance on it for any purpose or in any context is therefore at your own risk, without any right of recourse against BDO LLP or any of its partners, employees or agents.

BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO member firms.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

Copyright © December 2022 BDO LLP. All rights reserved. Published in the UK.

www.bdo.co.uk

42017776