

## TARGETING NEW MARKETS

# Is It Buying Time Again?

In the late 1990s, the flexible packaging industry (and many others) saw an unprecedented surge of mergers and acquisitions—at least one per month. But the pace has slowed dramatically since early 2001.



Keith

### Where did the deals go?

Why has the industry backed away from acquisitions?

Is it the slowing economy? Certainly that's a factor, but flexible packaging has been more consistently profitable through the downturn than other industries. Is it the lack of suitable candidates? Perhaps, the field has narrowed as companies consolidate, but the industry still remains highly fragmented.

Probably the biggest factor in reduced activity is acquirer reluctance to pay the premium prices common in the '90s. Eight to ten times pretax earnings was a frequent price then, but five to six is more typical now.

The lower offering prices are certainly influenced by the precipitous decline in the equities markets early in the decade, but a more significant factor is the poor returns generated by many of these mergers and acquisitions. Certainly very few of these transactions justified the premiums paid.

### Poor results unnerve investors

The most recent example is Plassein, a merger of five small companies backed by investment banker Tri-Vest, followed quickly by its acquisition of Rex to boost sales to \$146 million.

Unfortunately, it was not able to realize sufficient benefits from the consolidation quickly enough to pay down its \$135 million debt, thus was forced to declare Chapter 11 bankruptcy.

Exopack, itself a \$400 million spin-off from International Paper to investor Sterling Group, purchased four of the facilities. One plant was sold to \$251 million UK converter EuroPackaging, another to the prior owner and the remaining two were closed.

Several other highly visible acquisitions such as Printpack buying James River, Sealed Air's purchase of Cryovac and AEP obtaining Borden, provided disappointing returns to investors for a few years. While these companies made solid recoveries, this and other experiences have made investors far more careful.

### There's still action!

Despite the more cautious environment, a few players are staying active

**The flexible packaging industry is likely to see continued mergers and acquisitions.**

in the game. Bemis bought Clysar from DuPont and was expected to be more active had its sale of MacTac not been turned down by European regulators. Australian packaging giant Amcor, which suddenly became a leading flexible packaging converter in Europe and a major PET bottle maker through acquisition, has made a major step toward its goal of being a significant factor in flexible packaging here with its purchase of medical packaging

leader Rexam Healthcare Flexibles.

The acquisition with the biggest potential impact for flexible packaging is now being played out in the aluminum industry. Alcan has offered to acquire Pechiney to become the largest aluminum producer. Combining their flexible packaging subsidiaries would create the third or perhaps even second largest North American converter.

### Opportunities available

While buyers burned by the excesses of the '90s should be more careful, the flexible packaging industry is likely to see continued mergers and acquisitions. The factors that drove acquisitions in the last decade are still in evidence. While the industry is less fragmented than before, there are still hundreds of small and medium-sized converters.

Converters are still being squeezed between huge customers and suppliers, who also experienced a merger frenzy in the same time period.

Economies of scale in research, purchasing, and equipment enable larger converters to meet the demands of large customers more profitably. However, as many have learned, paying too much to achieve this scale erodes the desired profitability. ■

Huston Keith is principal of Keymark Associates, a market research and business development firm in Marietta, GA. He can be reached at (770) 579-5979.