

European Paper and Packaging Update

Welcome to Pöyry Capital's European Quarterly Paper and Packaging newsletter.

Pöyry Capital has acquired a high degree of industry insights and transaction experience in sectors that usually are not associated with the Pöyry Group, in particular non cellulose packaging, distribution, machinery and packaging converting. We hope that this newsletter is a natural extension of the industry capabilities that we have as a company acquired during the last few years.

1ST QUARTER 2015

2015 has started with a substantial amount of corporate and private equity related M&A activity. In particular, some of the largest transactions in the forestry and packaging industry were announced during the 1st quarter of 2015. The announced merger of MWV and Rock-Tenn (EV of USD 21bn) and acquisition of Rexam by Ball (EV of USD 8.4bn) are important consolidation moves in the packaging and paper industry being carried out by some of the largest industry players in Western Europe and North America.

In addition, during the 1st Quarter of 2015, approximately 30 paper and packaging transactions were announced in Europe (excluding Rexam / Ball and MWV / RockTenn), representing an announced transaction value of approximately EUR 1.8bn. 4 of the transactions this quarter involved a **non-European buyer**.

THE MERGER OF ROCK-TENN AND MWV (ANNOUNCED 26TH JANUARY 2015)

Rock-Tenn, a publicly listed company in headquartered in Norcross, Georgia, USA, announced the merger with MWV. Together, the companies have an enterprise value of USD 21bn. MWV is one of the largest packaging companies in the US, with a presence in Europe, Brazil, India and China.

This transaction was pitched as a merger, but it could be interpreted as an acquisition of MWV by Rock-Tenn. This merger creates a leading company in corrugated and consumer packaging with a strong focus on North America.

What does this transaction achieve from a strategic perspective for Rock-Tenn?

Rock-Tenn is to become the 2nd largest packaging company globally, behind International Paper, with over USD 15.7 billion revenue (LTM to 31st December) and slightly larger (measured in revenue) than the proposed Ball / Rexam combination

- Rock-Tenn would become the 3rd largest containerboard packaging company globally, behind International Paper and Nine Dragons
- Rock-Tenn would become the 2nd largest global cartonboard manufacturing company, behind APP / Sinar Mas
- Allows Rock-Tenn to enter the North American Liquid Packaging board market, a new packaging board grade where it was previously not present
- Allows Rock-Tenn to become the number two player in the containerboard industry in Brazil and a containerboard manufacturing presence in India

- Provides Rock-Tenn with an entry into the plastic packaging industry with the acquisition of MWV Calmar (however, it is to be seen if this asset remains as part of the new combined Rock-Tenn or if it will be divested)

“The combination of Rock-Tenn / MWV and Ball / Rexam have created the 2nd and 3rd largest global packaging players, only behind International Paper in terms of revenue and profitability”



Cele Moncayo
Managing Director

What does this transaction achieve from a financial perspective for Rock-Tenn?

- Approximately USD 300m of annual cost saving synergies available to the merged company; 1.9% of combined revenue or 5.3% of MWV revenue
- The combination of an over-funded pension plan (MWV) and under-funded pension plan (Rock-Tenn) and thus a potential reduction in pension funding contributions of over USD 500m through 2024 by merging the company's US pension plans
- Combined EBITDA of USD 2.9bn (including USD 300m of synergies) and a pro-forma EBITDA margin of approximately 19%
- After the combination of MWV, what are possible next steps for Rock Tenn? The West Coast of North America, Central America and potentially Europe and China appear to be interesting areas to look for additional carton board and containerboard companies. Meanwhile the Rock-Tenn/ MWV transaction may propel paper packaging companies like International Paper, Stora Enso, Smurfit Kappa, Mondi, DS Smith, Sonoco and Graphic Packaging to think about what their next big moves may be.

THE ACQUISITION OF REXAM PLC BY BALL (ANNOUNCED 19TH OF FEBRUARY 2015)

The merger of Rexam with Ball, a publicly listed company headquartered in Richmond, Virginia, USA, represents one of the final consolidation moves in the aluminium can packaging industries in Western Europe and North America. In the last few years Rexam divested a large number of plastic packaging assets that it had acquired in North America and Europe with the ultimate outcome of becoming a pure aluminium can player. A number of these companies were acquired by Rexam and then sold to strategic companies and financial sponsors at what could be considered reasonable transaction multiples. With the sale of Rexam's pharma packaging business to Montagu Private Equity and Berry Plastics Group in 2014, Rexam became a focused aluminium can player, thus increasing the appetite of aluminium can beverage packaging companies like Ball.

What does this transaction achieve from a strategic perspective for Ball?

- Becomes the third largest packaging player globally and the leading aluminium beverage can packaging company
- Leading market positions in the North America beverage can market (Ball 37%

and Rexam 23% market share, respectively), Brazil (Ball –Latapack 23% and Rexam 51% market share, respectively) and Europe (Ball 30% and Rexam 39%)

- Ball is able to expand substantially its presence in growing markets where it has a minor footprint particularly, in Russia, Middle-East and Central America

The parties on this transaction have identified that the transaction has a number of competition authority approvals to pass and so the expected closing date of this transaction is in the 2nd quarter of 2016 (this transaction is expect to take almost a year longer to complete when compared to Rock-Tenn/ MWV). The parties have agreed that if for some reason Ball is required to divest more than USD 1,580m of related revenue in the US and Europe, Ball has the right, but not the obligation to terminate the transaction and pay a 7% break fee (approximately GBP 302m).

What does this transaction achieve from a financial perspective for Ball?

- Approximately USD 300m of annual cost savings available to the merged company (2.0% of combined sales or 5.0% of Rexam sales)
- Combined EBITDA of USD 2.4bn (including USD 300m of synergies) and EBITDA margin of approximately 16%

More importantly this could be considered as the final major move in the European and North American aluminium beverage can industry. Crown Cork, the next biggest player in the aluminium beverage packaging market, may be considering what are their remaining options and would probably be interested in any assets that are to be sold by Ball because of competition concerns.

“CAN WE GET THE DEAL DONE WITHOUT PROVIDING A COMPLETE REPRESENTATIONS AND WARRANTIES PACKAGE?”

Solution: Warranty & Indemnity Insurance

During the last few years we have worked on a number of transactions, both successful and unsuccessful, where there was substantial disagreement between buyers and sellers over representations and warranties in the sale and purchase agreement (on both share or asset purchases). This is often the case when a private equity company sells an asset to a forestry or paper/ packaging company. Due to the limited life fund structure of private equity companies, PE funds may insist on a minimal number of R&Ws. In addition, any sort of cash retention (e.g. warranty escrow,

environmental remediation escrow, tax escrow) that reduces the potential money multiple and IRR on their investment is highly disliked by the European private equity community.

To bridge this gap, Pöyry Capital has worked with our clients and Warranty & Indemnity insurance brokers to find some common ground.

W&I insurance products are available for both the buyer (when the seller is either unable or unwilling to provide the necessary level of warranty cover to the buyer) and the seller (who needs indemnification for any losses suffered as a result of a buyer bringing a valid claim against it for a breach of warranty or covered indemnity). Here are a few relevant details:

- Minimum size for W&I policies - it is our understanding that a W&I insurance policy with a insured limit below EUR 1.0 million is not of interest to most insurance companies or the premium would be too high when compared to the overall transaction consideration.
- Typical premia - this varies by regional market and transaction, but a good rule of thumb is that the insurance premium would be 1 to 2% of the insured limit for both a seller or buyer policy plus any additional underwriters due diligence (e.g legal), broker fees and taxes
- What is the excess? - this means that after de minimis and threshold provisions in the SPA have been reached, insurers will not typically cover the first amount of risk so that the warrantors will have to bear any excess before the policy responds (for example, insurers could ask that the parties bear at least 1% of the deal consideration at their own risk before the insurance policy is triggered). This is dependent on the deal size and claim limitations negotiated in the agreement
- Who bears the premium cost? - this depends, and could either be the seller, the buyer or sometimes the policy costs are shared (50%/ 50% or a different type of fee split arrangement)
- Policy period – this normally mirrors the period provided in the Agreement. It is not unusual for this to be approximately 2 years for all non-tax matters.

In your arsenal of M&A tools W&I insurance should be seen as one additional option that could potentially bridge the gap in difficult SPA negotiation processes.

Source: Capital IQ, Company Information, Ball, Rexam

TRANSACTION UPDATE – Q1 2015

SPECIALITY PAPER/TISSUE

- On 10th February Portucel announced the acquisition of AMS BR Star Paper
- On 2nd March WEPA International announced the acquisition of Lucart
- On 5th March OpenGate Capital announced that it had signed an agreement to sell Kotkamills Oy to MB Funds, an independent Finnish private equity firm

PRINTING AND WRITING PAPER

- On 1st February Reflex paper mill announced that it had been taken over by a group of German investors
- On 27th February Pro-Gest Group announced the acquisition of Burgo's Mantua paper mill
- On 31st March Andlinger & Company's offer to acquire Crown Van Gelder was declared unconditional. Pöyry Capital acted as exclusive financial advisor to Crown Van Gelder

CARTONBOARD

- On 22nd January AR Packaging announced that it had agreed to acquire the European tobacco, chocolate confectionery and consumer apparel packaging operations from MeadWestvaco Corporation
- On 26th January Rock-Tenn Company and MeadWestvaco Corporation announced that they had entered into a definitive combination agreement
- On 10th February it was reported that Abris Capital Partners had agreed to acquire Graf-Poz Printing House

CONTAINERBOARD/SOLIDBOARD

- On 3rd February Opengate Capital announced that they had complete the acquisition of DS Smith Packaging Papeterie de Nantes SAS
- On 13th February VPK Packaging Group announced the acquisition of ICS Europaks
- On 23rd February DS Smith announced the acquisition of Dupopak
- On 23rd February it was reported that Aurelius was acquiring Smurfit Kappa's Solidboard and Graphicboard assets in the Netherlands, UK and Belgium. Pöyry Capital acted as exclusive financial advisor to Aurelius
- On 4th March Pro-Gest announced that it was in advanced negotiations to acquire two corrugated packaging plants from Mauro Benedetti
- On 11th March CorpAcq announced the acquisition of Northern Packaging Ltd
- On 18th March Smurfit Kappa Benelux announced the acquisition of Hexacomb's European and Mexican operations

RIGID PLASTICS

- On 13th January The Röchling Group announced the acquisition of HPT Hochwertige Pharmatechnik GmbH & Co. KG
- On 22nd January Esterform Packaging Limited announced the acquisition of the business of Constar UK
- On 16th February RPC Group announced the acquisition of PET Power B.V.

FLEXIBLE PLASTICS

- On 9th January it was reported that Monimentum GmbH had acquired Ommer GmbH
- On 22nd January Steel Partners L.P. announced a cash offer to acquire the shares of API Group PLC that it did not already own
- On 29th January it was reported that Sirap Gema SpA had acquired Vitembal
- On 18th February it was reported that Storopack Hans Reichenacker had acquired its Italian trade partner Alternative 1999
- On 23rd February Tekni-Plex Europe NV announced that its plan to acquire Gallazzi's Italian-based pharmaceutical blister film and adhesive tape substrate film businesses has been approved by the Italian authorities
- On 2nd March H. Turnauer foundation announced the acquisition of a c. 25% stake in Constantia Flexibles
- On 6th March Promens announced the acquisition of Goiffon

GLASS AND METAL

- On 14th January Vidrala S.A. announced the acquisition of Encirc Limited through one of its subsidiaries
- On 19th February Ball Corporation and Rexam PLC announced that they had reached agreement on the terms of a recommended offer for Rexam by Ball

MACHINE MANUFACTURERS

- On 15th January Valmet Corporation announced the acquisition of Metso Corporation's Process Automation Systems business
- On 29th January IMA Group announced the acquisition of a 60% stake in Teknoweb Converting S.r.l.
- On 27th February IMA Group and Lin announced the completion of the acquisition of OYSTAR Group
- On 3rd March Heidelberger Druckmaschinen AG announced the acquisition of European Printing Systems Group
- On 4th March Tetra Pak announced the acquisition of Miteco

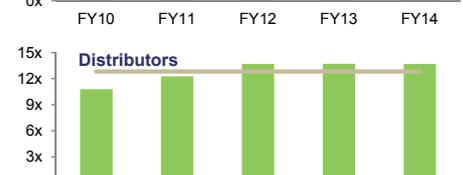
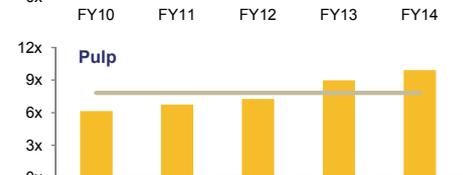
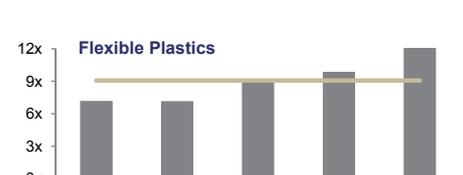
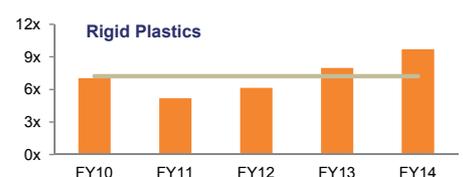
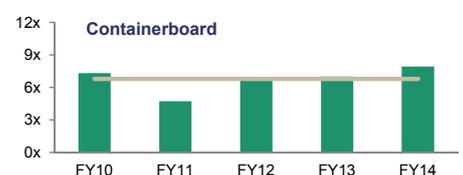
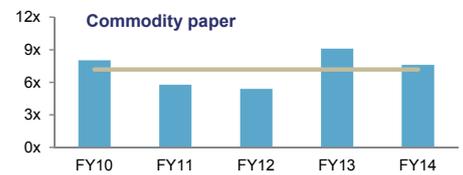
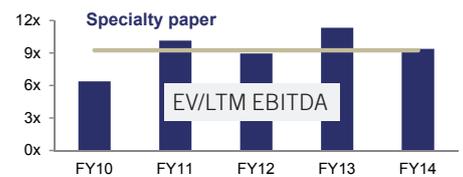
DISTRIBUTORS

- N/a

PULP

- N/a

THE EV/EBITDA MULTIPLES OF RIGID PLASTIC AND FLEXIBLE PLASTIC PACKAGING COMPANIES ARE APPROXIMATELY 30% TO 40% HIGHER THAN THE FIVE YEAR AVERAGE



Source: Capital IQ, Company Information

PÖYRY CAPITAL HAS LONGSTANDING EXPERIENCE ACROSS THE PAPER AND PACKAGING SECTORS

Specialty Paper

ANDLINGER & COMPANY
Has declared its offer to acquire CVG unconditional

CROWN VAN GELDER

PÖYRY
Exclusive Financial Advisor to Crown Van Gelder
March 2015

CROWN VAN GELDER
Pöyry Capital provided a fairness opinion in relation to Andlinger & Company's intended public offer for Crown Van Gelder

PÖYRY
Exclusive Financial Advisor to the Supervisory Board and Management of Crown Van Gelder
October 2014

Ahlstrom
Have divested 100% of shares in Ahlstrom Cores AS Norway

to
abzoc

PÖYRY
Exclusive Trustee to Sonoco-Alcore joint venture
December 2014

Pöyry Capital acted as financial advisor to the lending banks of a leading French paper producer and distributor during the restructuring process

PÖYRY
Financial Advisor to the lending banks
Q1 2014

MYLLYKOSKI and **RHEIN PAPIER**
has been acquired by
UPM

PÖYRY
Financial Advisor to the lending banks of Myllykoski
August 2011

STORAENSO
have divested
Stora Enso North America Inc
to
NewPage

PÖYRY
Financial Advisor to Stora Enso
September 2007

Printing and Writing Paper

Cartonboard Packaging

GRAPHIC PACKAGING INTERNATIONAL LLC
has agreed to acquire
Bensongroup

PÖYRY
Exclusive Financial Advisor to Graphic Packaging
February 2014

GRAPHIC PACKAGING INTERNATIONAL LLC
has agreed to acquire
CARTON
Beer and Beverage Packaging Business

PÖYRY
Exclusive Financial Advisor to Graphic Packaging
December 2012

GRAPHIC PACKAGING INTERNATIONAL LLC
has agreed to acquire
Contego
CARTONS

PÖYRY
Exclusive Financial Advisor to Graphic Packaging
December 2012

Containerboard/ Solidboard

AURELIUS
has agreed to acquire the Solidboard and Graphicboard operations in the Netherlands, Belgium and UK from
Smurfit Kappa

PÖYRY
Exclusive Financial Advisor to Aurelius
April 2015

H2 Equity Partners
Building better business
has agreed to divest
Eska Graphic Board

PÖYRY
Exclusive Financial Advisor to H2 Equity Partner
October 2013

m-real
have divested
M-real Petofi Nyomda Kft
to
STI GROUP

PÖYRY
Exclusive Financial Advisor to M-real Corporation
June 2007

Rigid Plastics

IRVING PLACE CAPITAL and **OAKTREE**
have sold
Chesapeake
Specialty Chemical Packaging

PÖYRY
Exclusive Financial Advisor to Irving Place Capital and Oaktree Capital Management
January 2014

SUN CAPITAL PARTNERS, INC.
has agreed to acquire
HUHTAMAKI
EUROPEAN RIGID PLASTIC CONSUMER GOODS

PÖYRY
Financial Advisor to Sun European Partners LLP
December 2010

REXAM
has divested
Petainer
to
Next Wave Ventures
Independent private equity

PÖYRY
Financial Advisor to Rexam PLC
November 2009

Flexible Plastics

Middle Eastern Packaging Company
Pöyry Capital conducted a rigorous target search for global flexible packaging targets

PÖYRY
Exclusive Financial Advisor
Q1 2014

UPM-Kymmene Oyj
have sold
ROSENLEW
to
Investor Group led by 3i Group

PÖYRY
Exclusive Financial Advisor to UPM-Kymmene Oyj
August 2003

UPM-Kymmene Oyj
have sold
WALKI FILMS
to
Bemis Company, Inc

PÖYRY
Financial Advisor to UPM-Kymmene Oyj
August 2002

Distributors

ALTOR EQUITY PARTNERS
has acquired
PAPYRUS
from
STORAENSO

PÖYRY
Exclusive Financial Advisor to Altor
March 2008

PAPYRUS
have acquired
France
from
International Paper

PÖYRY
Exclusive Financial Advisor to Papyrus AB
April 2005

PAPYRUS
have acquired
S
from
Private Shareholders

PÖYRY
Exclusive Financial Advisor to Papyrus AB
September 2005

Pulp

ENCE
Energia y Celulosa
Has agreed to divest its Uruguayan Operations to
a U.S. institutional fund with forestry operations in Latin America

PÖYRY
Exclusive Financial Advisor to ENCE Energia y Celulosa
March 2013

STORAENSO
have divested
Celulose Beira Industrial (Celbi) SA
to
altri

PÖYRY Morgan Stanley
Exclusive Financial Advisor to Stora Enso Oyj
August 2006

Československá obchodní banka, a.s. P.I.F. a.s. - 1. Privatizační investiční fond První investiční společnost, a.s. TARPA Securities B.V. Triton Development Fund
represented by
Quorum Pro, a.s.
have sold 93.6% of the shares of
CIENCEL
to
Heinzel, Buntz Beteiligungs- und Liegenschaftsverwaltungs GmbH

PÖYRY
Exclusive Financial Advisor to the Investor Group
March 2001

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