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Global M&A Trends in Paper, Packaging and Printing: 2003–2004

By Nicholas Mockett

The year 2003 saw the total value of paper, packaging and printing merger and acquisition deals remain flat at \$35 billion. However, the average size of deals increased from \$98.4 million to \$114.1 million. The average deal value in the first quarter of 2004 has increased further to \$139.1 million.

The paper and forestry segment has been the most active sector of the paper, packaging and printing (PPP) industries during 2003 and 2004, accounting for nearly 50% of all deals over \$100m. These deals have been taking place in all geographical sectors. For example, PaperlinX, Australia's largest paper maker, purchased the paper merchanting division of Buhrmann NV in the Netherlands for \$830 million, to complete Buhrmann's exit from paper. Aracruz of Brazil acquired the plantations of Riocell SA for \$680 million, while Riocell's former parent, Klabin, completed their restructuring by selling their 50% stake in Klabin Kimberly SA to Kimberly-Clark for \$150 million.

STRATEGIC TRANSACTIONS

One transaction of particular interest was the Appleton-BemroseBooth deal, which highlighted the convergence of the paper and printing industries. Wisconsin-based Appleton Papers, a paper company specialising in

carbonless, thermal and security papers, moved up the value chain, nearer to the end customer, by acquiring the UK's BemroseBooth, a leading specialist and security printer. It is increasingly common to see paper companies endeavouring to capture more margin by increasing integration and positioning themselves closer to the ultimate consumer.

Most of the other large forestry and paper industry participants concerned themselves with divesting assets, rather than making acquisitions. Georgia-Pacific sold its Brunswick, Georgia and New Augusta, Mississippi mills to Koch Industries Inc. for \$610 million in early 2004 and Weyerhaeuser, International Paper and MeadWestvaco sold forestland to investment groups during 2003.

Another significant development was Stora Enso announcing in December that it would team up with Swedish forest industry group, Korsnäs AB, to form a new company called Bergvik Skog. The Swedish forest assets of Stora and Korsnäs will transfer to this

joint venture, which will have an enterprise value of \$2.6 billion. These transactions reflect the current trend of companies focusing on their core competencies.

The largest European packaging deal in 2003 was the buy-out of Linpac Group, the corrugated box, food packaging and RTP (returnable transit packaging) manufacturer, in the UK by Montagu Private Equity for \$1.5 billion.

Large scale private equity involvement in this sector continued into 2004 with the \$790 million secondary buy-out of the Ireland-based flexible packaging and carton specialist, Clondalkin Group, by Warburg Pincus, which provided an exit for Candover Investments. Private equity houses are viewed as potential consolidators, given their ability to buy-up and combine major competitors as CVC and Cinven did through investee Kappa's transaction with AssiDomän AB in 2001.

PACKAGING DEALS

Most of the other large packaging industry players have spent the last 12 months occupying themselves with small to medium sized deals to improve their market focus. In October, Rexam completed the purchase of Latas de Alumino SA in Brazil for \$565 million as it continued the strategy of building its global capability in aluminium cans. This was in addition to acquiring smaller glass bottle assets in Germany and Poland. Whilst building operations in cans and bottles, Rexam sold its healthcare flexible packaging operations to Australia's Amcor in August for \$248 million. The multiple of 12.3 times EBITDA demonstrates how attractive the healthcare/pharmaceutical market is for the packaging industry. SCA demonstrated its interest in this market by acquiring US blister packaging manufacturer, Alloyd Co Inc. for \$107 million, further diversifying from its core papers and fibre packaging business.

Consolidation continued in the fibre-based packaging sector. Graphic Packaging International merged with Riverwood Holding Inc. to form a \$3 billion folding-cartons business, Graphic Packaging Corporation.

Anglo American, the owner of Mondi Packaging and Frantschach, has a strategy of growing its packaging operations by acquisition. To this end, it spent \$443 million acquiring the corrugated paper and packaging assets of Roman Bauernfeind Holding AG in the final quarter of 2003. It also bought out the 30% minority stake in Austrian-based Frantschach that it did not already own.

Another major corrugated player, DS Smith has recently paid \$313 million to acquire the UK corrugated assets of Linpac, following its acquisition by Montagu. SCA has been suggesting that it could acquire corrugated assets but its attentions have more recently been diverted by its \$666 million acquisition of Carter Holt Harvey's tissue and feminine hygiene businesses.

Elsewhere, Madison Dearborn has recently abandoned its plans to partially refinance Jefferson Smurfit. It had expected to be able to take \$310 million out of the business via a bond issue, but negative investor reaction in both Europe and the USA caused the plans to be put on hold. Moody's commented that although the bond market remained strong, they were not certain that Jefferson Smurfit would have sufficient room under the covenants to pay any cash interest on the notes when due.

PAPER SECTOR

Paper manufacturers may start to feel the effects of a more concentrated customer base as RR Donnelley's recent acquisition of Moore Wallace provides the company with the opportunity to diversify out of commodity book, magazine and directory printing into Moore's transactional mail and direct mail products. The deal was the largest printing transaction of the last 12 months; RR Donnelley acquired Moore Wallace Inc. for \$2.8 billion in November 2003. Similarly, the appeal of the transactional mailing sub-sector was also the driver behind print manager Astron Group's recent \$240 million acquisition of Edotech Limited in the UK. This provided an exit for Barclays Private Equity, who had been invested in Edotech since March 2000. Other areas of the large-scale printing sector have remained quiet in terms of M&A activity, as manufacturers have focused on cutting costs to improve production efficiency in the face of difficult market conditions.

SUMMARY

The paper, packaging and printing industries are well known for their fragmented structure and the M&A activity in 2003, which has continued into 2004, should be good news as overall financial performance is expected to improve as the industries become more concentrated. Beyond concentration, the other emerging trend is the continued focus of companies on their "core competencies" as they consolidate. The returning confidence of the major trade players and the increasing size of the funds managed by private equity houses, combined with the ongoing availability of cheap debt finance, should ensure that the trend in M&A continues.

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