



# Plastics Industry

INDUSTRY UPDATE | 1H 2023





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## Key Insights and Observations

Stout is pleased to present our 1H 2023 Plastics Industry Update. Through our team's in-market experience, conversations with top industry participants, and analysis of subsector performance, we have outlined key takeaways below. This update also provides a discussion of macroeconomic and subsector trends, recent M&A activity, and public company performance.

- ❖ There were 175 plastics industry M&A transactions in the first half of 2023, a 20% decrease from the first half of 2022. Despite this decline, activity rebounded in Q2 2023 and is expected to be active, albeit challenging, for the remainder of the year.
- ❖ The slowdown in M&A activity has been driven by factors such as inflation, interest rate increases, geopolitical issues, and the financial performance of plastics companies over the past six to 12 months. Weak financial performance in many cases can be attributed to inventory “destocking” and slower overall demand for products in certain end market segments.
- ❖ In addition, the ability for buyers to raise capital for acquisitions is more difficult and expensive in the current environment, which is a further drag on the overall M&A market. Specifically, the cost of capital for acquisition financing is meaningfully higher than it was a year ago, which can impact a buyer's ability to meet a seller's value expectations.
- ❖ Not all companies will be equally impacted by the challenging environment, so for business owners looking to exit, the most relevant information driving a decision is their business' performance as well as the health and outlook of the end markets that the company serves.
- ❖ The labor market continues to stabilize for many companies, while raw material pricing for many types of resin have steadied or declined due to improved supply chain dynamics.
- ❖ Despite all the uncertainty, strategic, hybrid, and financial buyers remain active in M&A. Financial buyers, holding near record levels of dry powder, continue to pursue new and add-on investment opportunities.





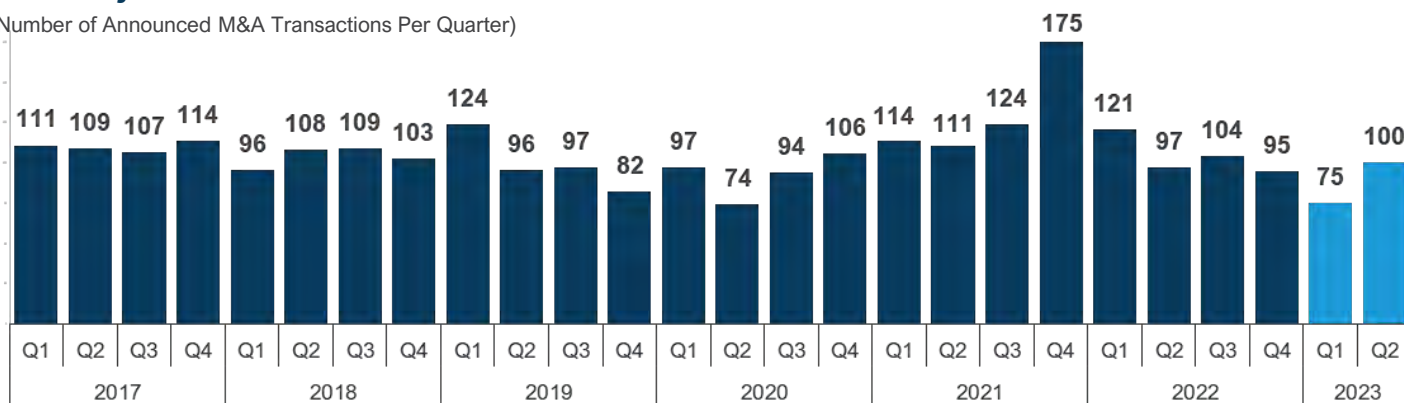
# M&A Activity Trends

## 1H 2023 Key Drivers

- ✓ Weak Q1 2023 M&A activity was largely driven by market uncertainty and the potential threat of a recession
- ✓ Q2 2023 rebounded as some economic clarity began to emerge, along with improved product demand and stronger financial performance and outlook in certain segments
- ✓ Private equity has been resilient during this uncertain period, with activity both as buyer and seller increasing during 1H 2023 as compared to 1H 2022

## Quarterly Plastics M&A Transaction Volume

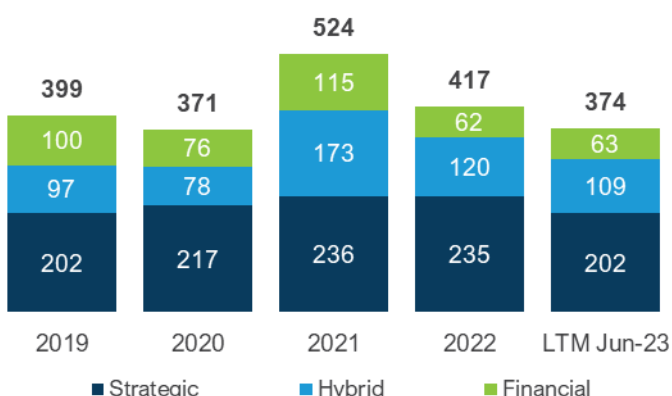
(Number of Announced M&A Transactions Per Quarter)



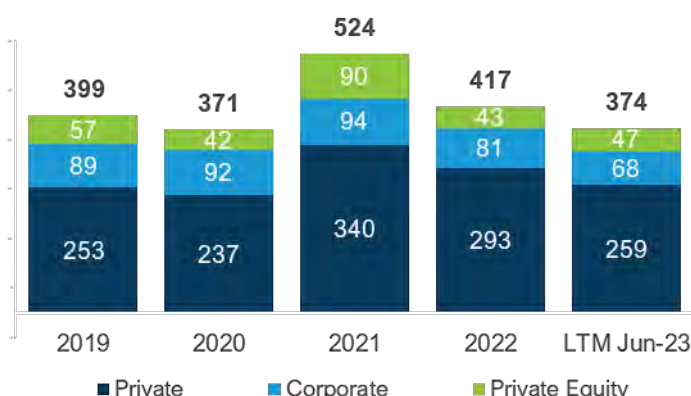
## ACQUIROR AND SELLER TRENDS

Strategic buyer activity represented most of the activity in 1H 2023 despite a 26% decline compared to 1H 2022. Financial buyer activity increased 3% YoY and hybrid (private equity-owned strategic) activity fell 19%. On the sell side, private seller and corporate seller transactions in 1H 2023 decreased 22% and 29% YoY, respectively, in comparison to private equity transactions, which increased 22%.

## M&A Volume by Acquiror Type



## M&A Volume by Seller Type



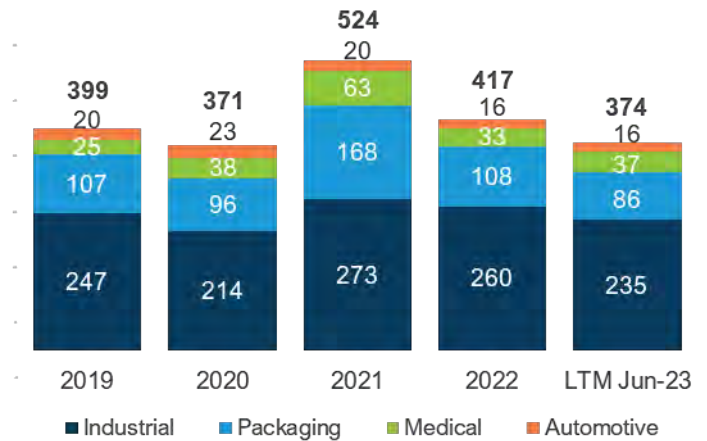
Source: Stout Proprietary Database

# M&A Activity Trends (cont.)

## ACTIVITY BY END MARKET

M&A activity within the plastic packaging and industrial end markets decreased 37% and 19% YoY, respectively, in 1H 2023, while automotive was flat. In contrast, medical end market activity showed notable resilience, growing 24% YoY in 1H 2023. Within the medical end market, injection molding and cross-border activity were both particularly bright spots.

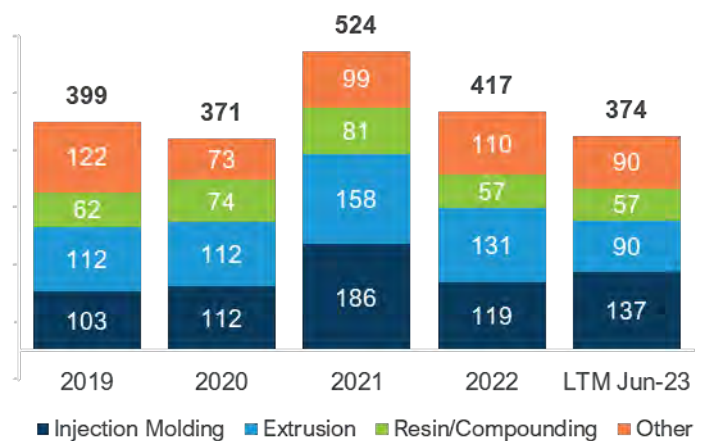
### M&A Volume by End Market



## ACTIVITY BY PROCESS

M&A activity involving seven out of the 10 plastic processes tracked by Stout were down year over year in 1H 2023, with extrusion, rotational molding, and thermoforming experiencing the largest drops. One of the largest process segments, injection molding, demonstrated relative strength, with M&A volumes increasing 32%.

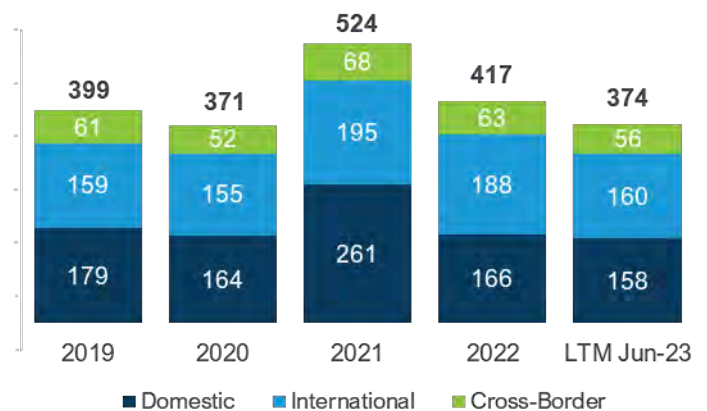
### M&A Volume by Manufacturing Process



## ACTIVITY BY GEOGRAPHY

International M&A activity experienced a material slowdown in 1H 2023, decreasing 27% compared to 1H 2022. Cross-border and domestic M&A activity also decreased 19% and 10%, respectively. Within the U.S. market, plastics M&A activity saw the steepest decline in the packaging end market, as well as the machinery, tool and die, and thermoforming segments. Bright spots within the U.S. market were injection molding, resin/compounding, and distribution.

### M&A Volume by Geography



Source: Stout Proprietary Database

(1) Other manufacturing processes include thermoforming, blow molding, machinery, prototyping, tool and die, rotational molding, and distribution.

# Macroeconomic Update

## RECENT MACRO PERFORMANCE

Despite significant market uncertainty, the global economy has exhibited resilience, with macroeconomic indicators stabilizing. The unemployment rate remains low at 3.6%, with consumer confidence above long-term averages. Real U.S. GDP grew 2%, marking a notable recovery from previous downturns.

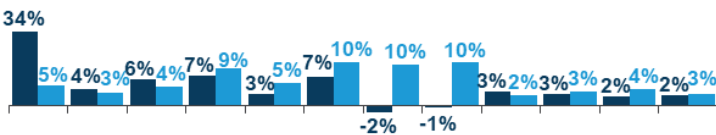
Inflation has shown signs of cooling, largely as a result of the Federal Reserve consistently raising interest rates throughout the first half of 2023, resulting in the federal funds rate reaching 5.3%. This strategy, aimed at economic stabilization, is having an impact as equity markets have rebounded, and the Fed appears to be nearing the end of its rate-hike cycle.

## INDUSTRY TRENDS

While the labor market remains relatively tight, wage growth has slowed as material and other input costs have moderated, providing some relief for U.S. manufacturers. On the demand side, many market participants experienced slower than expected demand in the first half of 2023, yet optimism prevails for a more robust second half. In the broader landscape, reshoring continues to be an industry focus given ongoing geopolitical concerns.

### Real GDP Growth and Inflation

(Annualized quarterly percentage change)

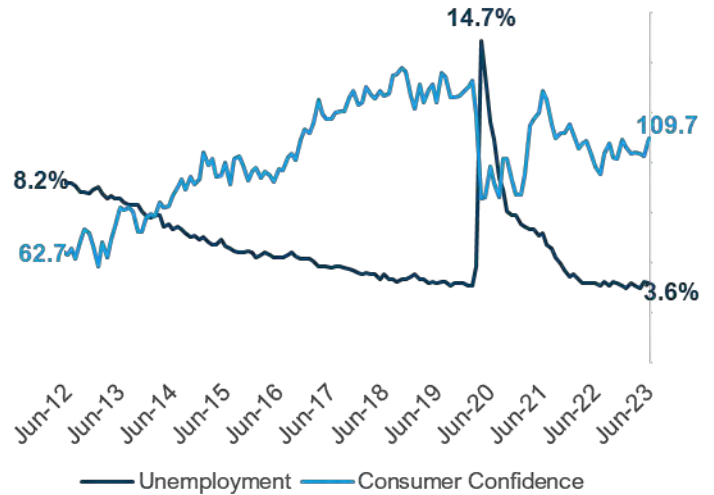


Source: FRED Economic Data

(1) Q2 2023 real GDP growth is based on Federal Reserve Bank of Atlanta's: GDPNow estimate

## Unemployment and Consumer Confidence

(Percentage of unemployed persons in the U.S. labor force)  
(Index of consumer sentiment; long-term average = 100)



Source: Bureau of Labor Statistics; University of Michigan Consumer Confidence Report

## Purchasing Manager's Index

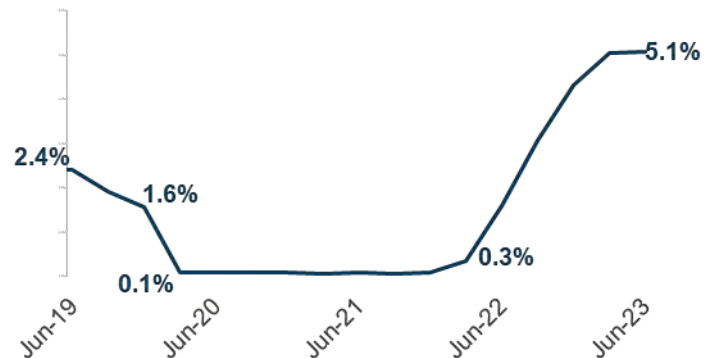
(Measures economic health of manufacturing sector 0 – 100)



Source: Institute for Supply Management

## Effective Federal Funds Rate

(Volume-weighted median of overnight federal funds transactions)



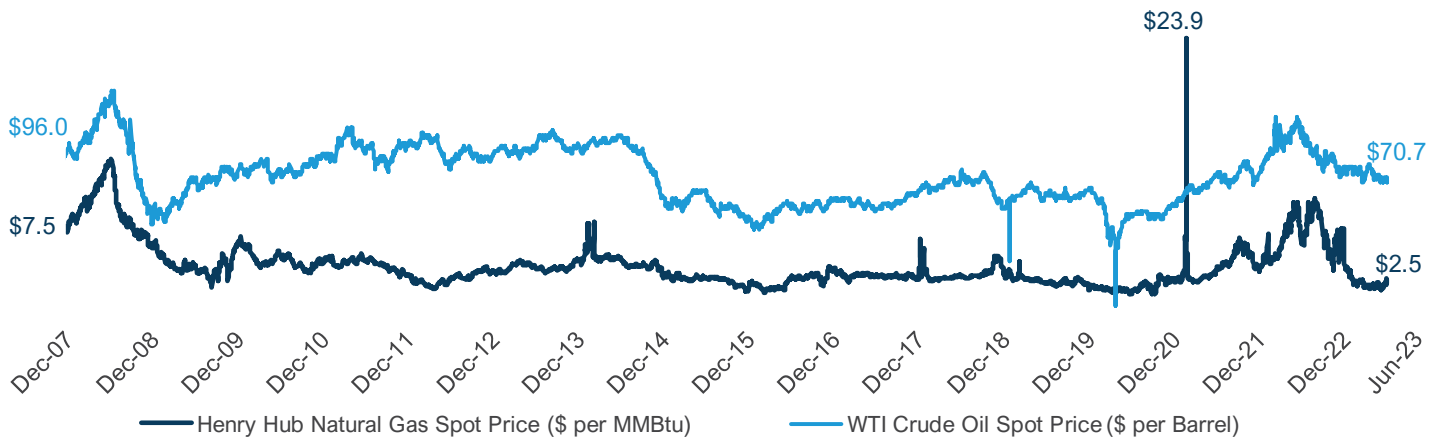
Source: Federal Reserve Bank of New York

# Macroeconomic Update (cont.)

## COMMODITY AND RESIN PRICING TRENDS

Modest softening for natural gas pricing and crude oil occurred during the first half of 2023. Year-to-date, natural gas decreased approximately 29.6%, and crude oil was down 11.9%. Recent price declines are caused by a combination of supply and demand market factors. On the demand side, markets are concerned about global economic growth and a possible U.S. recession. On the supply side, oil flows from Russia have remained higher than expected, increasing global oil prices and putting downward pressure on crude oil prices. However, in April 2023 OPEC members agreed to cut oil production through 2023, forecasting prices to increase in the second half. Overall, resin prices have generally decreased in 2023, with certain commodities seeing modest changes. Factors including inflationary pressure, global growth, and recession fears are leading to an increase in prices.

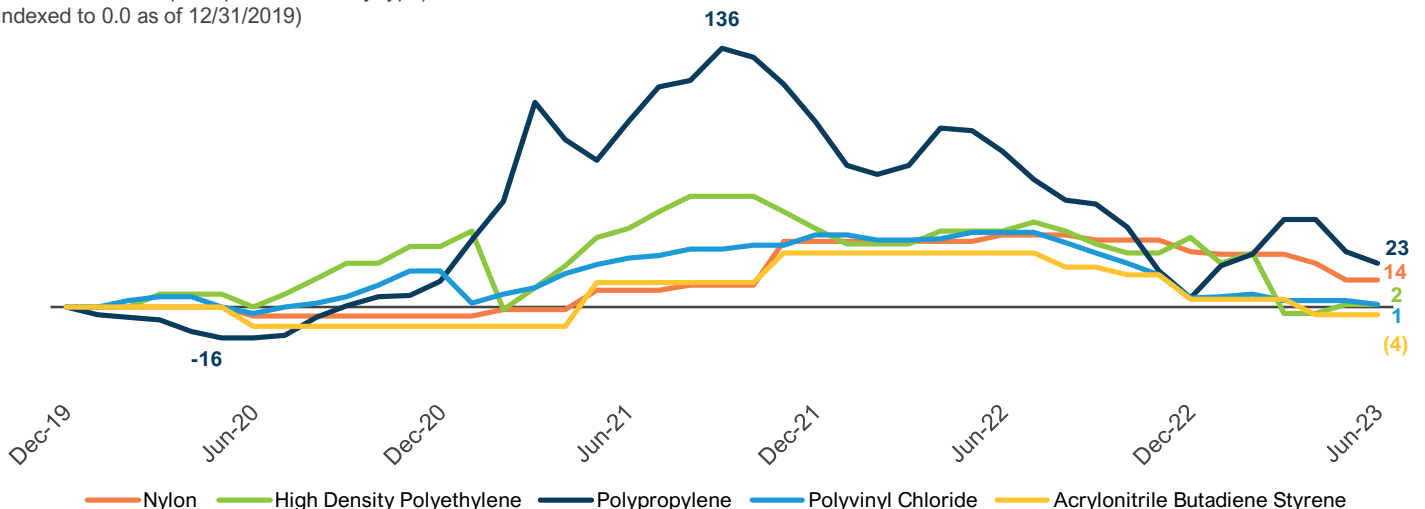
### Natural Gas Pricing and Crude Oil



Source: U.S. Energy Information Administration

### Resin Pricing Index

(L3Y relative index price performance by type)  
(Indexed to 0.0 as of 12/31/2019)



Source: Plastic News

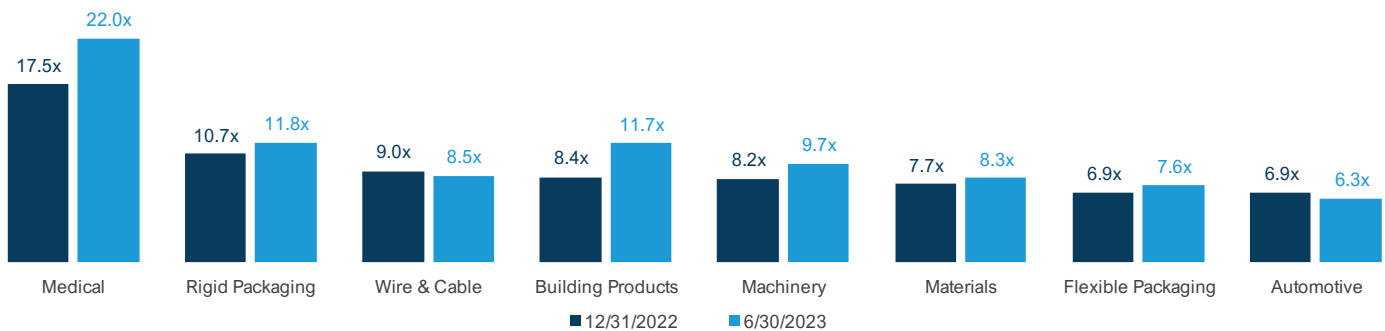


# Plastics Market Trends

## VALUATION METRICS

The U.S stock market has rebounded from a difficult 2022, primarily due to the combination of corporate earnings surpassing expectations, inflation easing, and some visibility on interest rates reaching their peak. For the first half of 2023, the Nasdaq recovered the best among the indices, up 38.2%, while the S&P 500 is up 19.1% and the Dow Jones 5.5%. Within the plastics industry, multiples for six of the eight subsectors that Stout tracks were up in the first half of 2023.

## Subsector Average EBITDA Multiples



Source: S&P Capital IQ and Stout Proprietary Database

## RECENT PLASTICS INDUSTRY TRANSACTION HIGHLIGHTS

Date	Target (Ownership)	Subsector	Acquiror (Ownership)
Jan-23	J-Pac Medical	Medical Plastics	Life Science Outsourcing (PPC)
Jan-23	Mearthane Products Corporation	Industrial Plastics	Compass Group Equity Partners
Jan-23	Airnov Healthcare Packaging (Arsenal Capital)	Medical Plastics	Colorcon
Jan-23	Chem One	Industrial Plastics	Shrieve Chemical (Gemspring Capital)
Apr-23	Innovia Medical	Medical Plastics	Inverness Graham
Apr-23	Ernie Green Industries	Automotive Plastics	Engineered Plastics Components
Apr-23	Parkway Products (Heartwood Partners)	Industrial Plastics	Clayens NP (One Equity Partners)
Apr-23	US Farathane (The Gores Group)	Automotive Plastics	Atlas Holdings
May-23	Spectrum Plastics Group (AEA Investors)	Medical Plastics	DuPont de Nemours (NYSE:DD)
May-23	Stratasys (NasdaqGS:SSYS)	Industrial Plastics	Desktop Metal (NUSE:DM)

# Recent Stout Transactions Spotlight

## CASE STUDIES

### **PARKWAY**

a portfolio company of



has been acquired by



a portfolio company of

**One Equity Partners**

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SELL-SIDE ADVISOR

### Parkway Products

April 2023

Manufacturer of complex, high-performance precision plastic and metal components and assemblies serving a diverse set of blue-chip customers in growth-oriented end markets

#### TRANSACTION RATIONALE

- Parkway Products has multiple manufacturing technologies, advance material expertise, and a diverse set of blue-chip customers
- The acquisition of Parkway Products gives Clayens a significant North American footprint and creates synergies that enable first-class production of high-performance polymers, composites, and precision metals that enhance both companies

### **Paragon Medical**

has sold two plastics manufacturing facilities to



a portfolio company of

**One Equity Partners**

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SELL-SIDE ADVISOR

### Paragon Medical

June 2023

Manufacturer of highly technical plastic components for a broad range of applications across the precision industrial, medical, fluid management, electronics, and aerospace and defense end markets

#### TRANSACTION RATIONALE

- Paragon Medical's two plastic manufacturing facilities will help bolster Clayens' capabilities to include precision injection molding, micro molding, and plastic machining
- The acquisition also provides Clayens with a strategic presence in the Northeast U.S.



# Practice Overview

## ABOUT

The Stout Plastics group leverages deep advisory experience as well as dedicated coverage and expertise across a range of key plastics subsectors, processes, and end markets. The team leverages strong, longstanding relationships with the key strategic consolidators and highly active financial sponsors in the space, which enables us to provide superior outcomes for our clients.

## FOCUS AREAS


### Processes

- Injection Molding
- Extrusion
- Thermoforming
- Blow Molding
- Rotational Molding
- Composites
- Resin/Compounding
- Capital Equipment
- Tool and Die
- Prototyping

### End Markets


- Medical
- Industrial
- Packaging
- Automotive
- Consumer Products
- Electronics
- Appliance
- Building Products
- Machinery
- Wire and Cable

## OTHER RECENT STOUT TRANSACTIONS




Plastic Molding & Extrusion

has been acquired by a subsidiary of



ARCANE CAPITAL PARTNERS

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Finance Facility

Consisting of:  
Sr Sec Financing Facility  
Equity Collar and Loan

Stout acted as the exclusive financial advisor and sole placement agent

FINANCIAL ADVISOR



SEAWAY PLASTICS ENGINEERING

a portfolio company of



TONKA BAY

has been acquired by



ICG

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IN.PACK MACHINERY

A portfolio company of




AMBIENTA

has acquired




KARLVILLE SWISS CONVERTING MACHINES

BUY-SIDE ADVISOR




INTERTECH

has been acquired by



TriMas


SELL-SIDE ADVISOR



EMPIRE PRECISION


WHERE YOUR IDEAS TAKE SHAPE

has been acquired by




KOUZA CAPITAL

SELL-SIDE ADVISOR




plasticcomponents.com

a portfolio company of



MPE PARTNERS

has been acquired by



Rosti

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OMP

has been acquired by




ARGOSY PRIVATE EQUITY

a portfolio company of




CEDAR RIDGE

SELL-SIDE ADVISOR




POLAR PLASTICS

a portfolio company of



SPELL CAPITAL

has been acquired by



Revolution

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## FOR MORE INFORMATION

### David Evatz

Managing Director  
Plastics & Packaging  
[devatz@stout.com](mailto:devatz@stout.com)  
312.752.3328

### Mike Benson

Managing Director  
Plastics & Industrials  
[mbenson@stout.com](mailto:mbenson@stout.com)  
248.432.1229

### Steven Simone

Vice President  
[ssimone@stout.com](mailto:ssimone@stout.com)  
646.810.4309

### Adam Lewis

Associate  
[alewis@stout.com](mailto:alewis@stout.com)  
713.221.5144

### Su Peng Lin

Analyst  
[slin@stout.com](mailto:slin@stout.com)  
646.680.0361



## ABOUT STOUT INVESTMENT BANKING

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