



Plastics Industry

ANNUAL UPDATE | 2023

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Key Insights and Observations

There were 344 plastics industry M&A transactions in 2023, an 18% decrease from 2022 and below recent historical averages, largely a product of geopolitical and macroeconomic uncertainty in the face of rising interest rates. 2023 also saw the effects of heightened operating costs, upward wage pressures, continued inflation, the possibility of a U.S. recession, customer destocking, end market softness, and challenges accessing labor, all of which dampened M&A appetite for the majority of the year. Despite these headwinds, the outlook for M&A activity in 2024 remains positive but will vary based on company-specific performance, value-drivers, and end market segments, as well as the U.S. presidential election and broader geopolitical environment, among other factors.

Equity markets regained ground in 2023 amid a challenging economic backdrop. Similarly, debt market activity outpaced 2022 across leveraged loan primary issuance and high-yield primary issuance; however, overall volumes remained subdued relative to historical averages. It is significantly more expensive in the current environment for buyers to raise capital for acquisitions, creating a further drag on recent M&A trends. Rising interest rates have increased the cost of acquisition financing relative to recent years, which can impact a buyer's ability to meet a seller's value expectations.

Overall company performance for many plastics businesses was flat or down in 2023, driven by both (i) continued destocking by end customers, which reduced volumes for suppliers during the year, and (ii) demand softness in certain end markets (e.g., consumer discretionary), which further impacted volumes. As a result, fewer companies participated in M&A throughout the year, and there were also many cases where a transaction was put “on hold” due to gaps between a seller's current valuation, which was down due to performance, and ultimate value expectations. For 2024, we anticipate that stocking levels will stabilize and demand will improve in lockstep with macro and capital market environments.

While labor market volatility has decreased, uncertainty still remains, as U.S. labor force participation is expected to decline in 2024, which may amplify wage growth pressure for business owners. On raw material pricing and availability, pricing for many types of resin have steadied or declined as supply chain dynamics continue to improve. Controlling material supply and labor economics to drive efficiency remains a key differentiator for businesses that have successfully weathered the storm.

Looking ahead to 2024, while megadeals may continue to ebb, we expect a rebound in middle-market M&A activity as the macro and capital market headwinds that muted activity through most of 2023 have begun to stabilize. Interest rates have plateaued and are expected to begin falling during H2 2024, inflation continues to decelerate, both stocking levels and end market demand are normalizing, and fears of an impending U.S. recession have largely subsided. 2024 is also an election year in the U.S., and while we don't anticipate a meaningful impact to M&A activity for middle-market companies, we will continue to monitor this trend throughout the year as it relates to broader macroeconomic, political, and geopolitical implications.

For business owners looking to exit, the most relevant factors to consider are the financial performance, as well as the health and outlook of the end market segments the company serves. Flexibility regarding process launch timing is critical to time market conditions and secure a premium valuation.



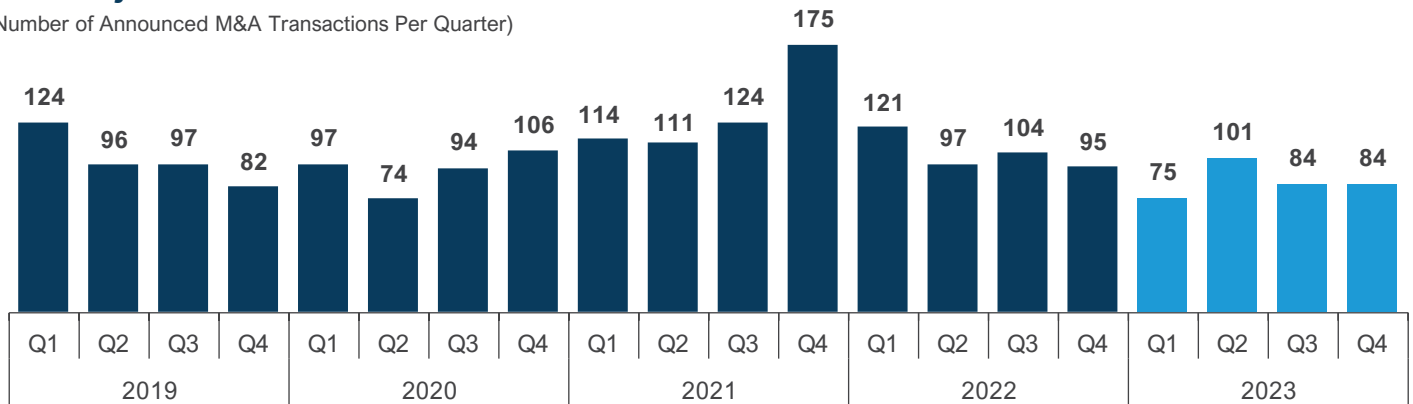
M&A Activity Trends

2023 KEY DRIVERS

- ❖ Deflated 2023 M&A activity was largely driven by market uncertainty, heightened interest rates and operating costs, prolonged impacts of destocking and supply chain dynamics, and the volatile geopolitical environment.
- ❖ Private equity has remained active during this uncertain period, with activity both as buyer and seller being the least negatively affected YoY as compared to strategic / corporate ownership.

Quarterly Plastics M&A Transaction Volume

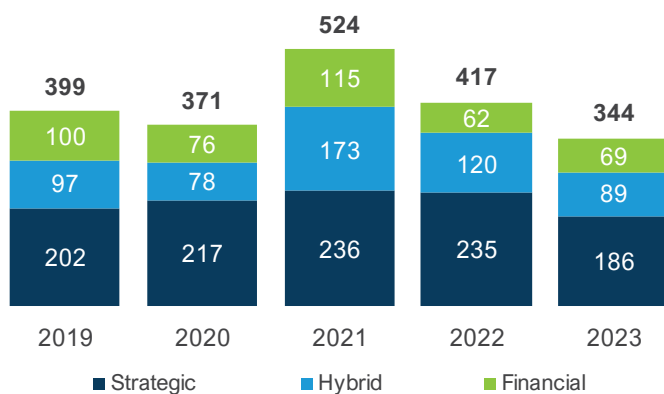
(Number of Announced M&A Transactions Per Quarter)



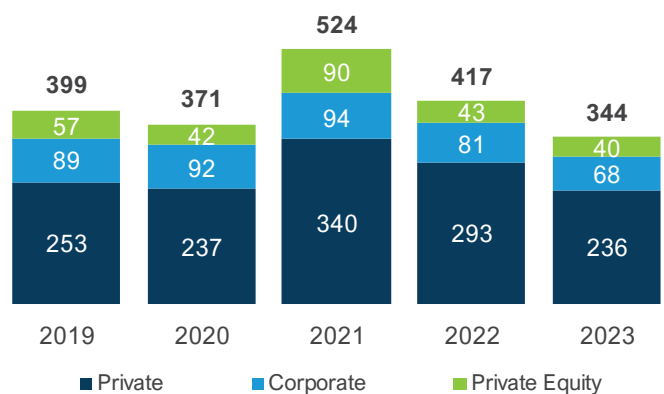
ACQUIROR AND SELLER TRENDS

Volume by buyer and seller type in 2023 decreased on an aggregate basis; however, the general proportion of activity across buyer and seller type remained relatively consistent with 2022. Financial buyer activity increased 11% YoY and hybrid (private equity-owned strategic) activity fell 26%. On the sell side, private seller and corporate seller transactions in 2023 decreased 20% and 16% YoY, respectively, in comparison to private equity transactions, which decreased 7%.

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 segment suffered the most in 2023 with a 26% YoY decrease. Industrial and medical end markets each experienced an ~18% decrease in activity from 2022, while automotive was the sole end market that increased at 38% YoY, but notably on a smaller number of transactions. Within the automotive end market, injection molding and strategic buyer activity were both particular bright spots. Conversely, medical end market activity was driven primarily by hybrid buyers looking to build out sponsor-backed platform investments.

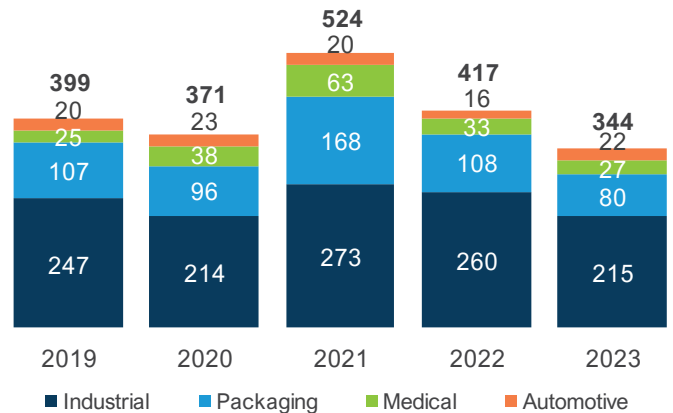
ACTIVITY BY PROCESS

M&A activity involving seven out of the 10 plastic processes tracked by Stout were down year over year in 2023, with extrusion, rotational molding, and distribution experiencing the largest drops. One of the largest process segments, injection molding, demonstrated relative strength, with M&A volumes increasing 6% in 2023. Injection molding's resilience in 2023 was supported by a higher proportion of the process' transactions residing in the automotive and medical end markets.

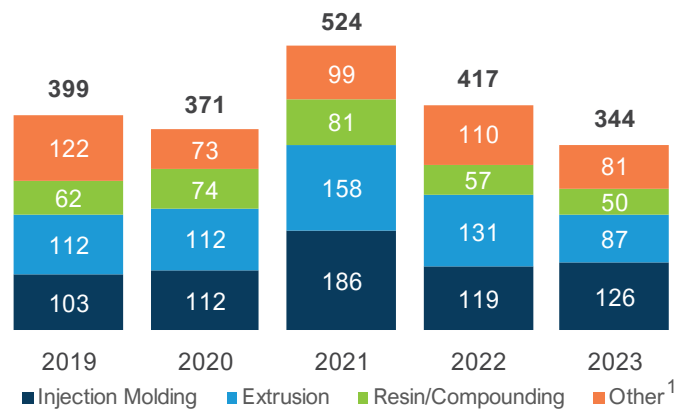
ACTIVITY BY GEOGRAPHY

International M&A activity in 2023 experienced a slowdown on par with domestic M&A activity, decreasing 19% and 23%, respectively, compared to 2022. Cross-border domestic M&A activity was flat year over year and was driven most prominently by strategic buyers leveraging their balance sheet to bolster operations. Within the U.S. market, the industrial end market comprised 70% of domestic M&A activity this year, representing an 11% decline in concentration from 2022.

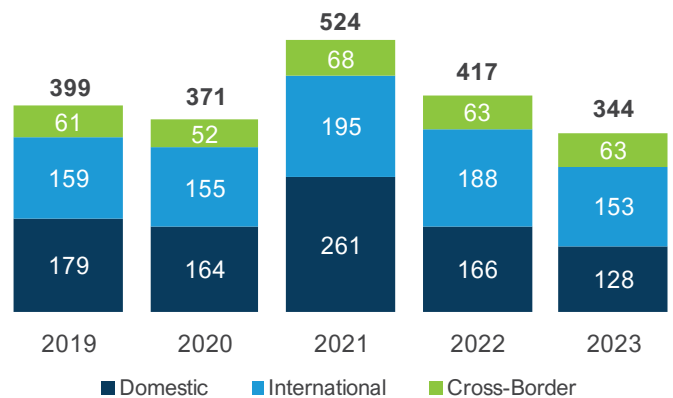
M&A Volume by End Market



M&A Volume by Manufacturing Process



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 market uncertainty, the global economy has exhibited resilience, with many macroeconomic indicators stabilizing. The unemployment rate remains low at 3.7%, with consumer confidence above long-term averages. Real U.S. GDP growth slowed in Q4 2023 following a strong Q3; however, YoY growth for 2023 outperformed expectations of many economists, with modest GDP growth expected for 2024.

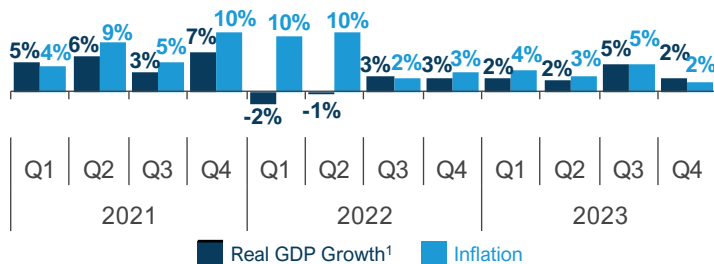
Inflation has shown signs of cooling, largely as a result of the Federal Reserve raising interest rates throughout 2023, resulting in the federal funds rate reaching 5.3% by year-end – the highest seen in 15 years. This strategy, aimed at economic stabilization, has slowed the pace of inflation, a signal that the Fed may be nearing the end of its rate-hike cycle.

INDUSTRY TRENDS

The manufacturing sector concluded 2023 in contraction territory, with the PMI registering 47.4 as of December, marking 14 months of economic contraction driven primarily by macro uncertainty, as well as softness in order volumes and demand for certain segments. Despite the challenging environment, optimism among manufacturers was up meaningfully in December, and looking ahead to 2024, experts expect the PMI to break back into growth territory by the end of Q1.

Real GDP Growth and Inflation

(Annualized quarterly percentage change)

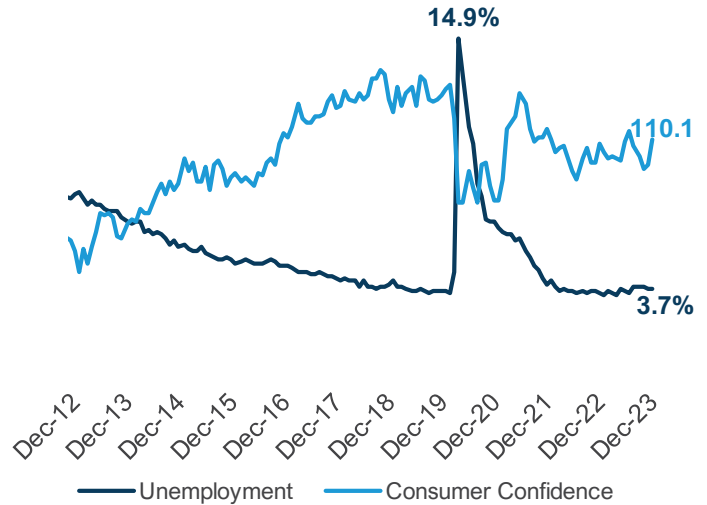


Source: FRED Economic Data

(1) Q4 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

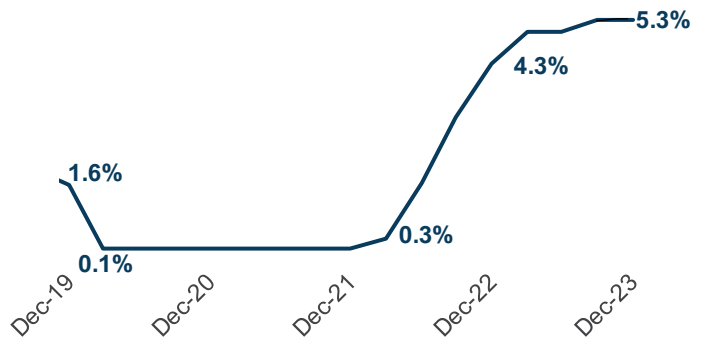
(Measures economic health of manufacturing sector 0 – 100)



Source: Institute for Supply Management

Effective Federal Funds Rate

(Volume-weighted median of overnight federal funds transactions)



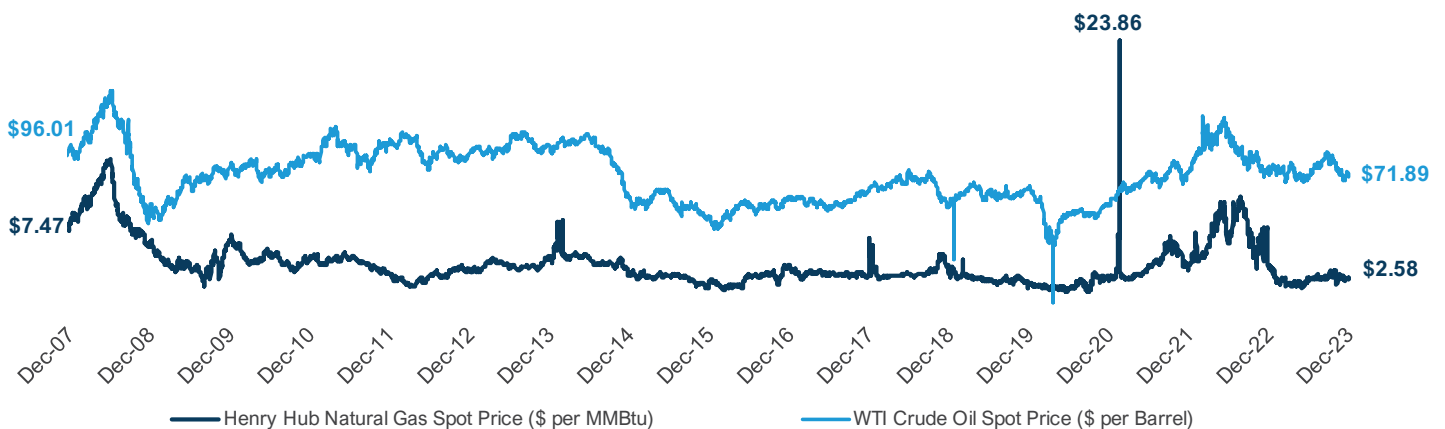
Source: Federal Reserve Bank of New York

Macroeconomic Update (cont.)

COMMODITY AND RESIN PRICING TRENDS

Oil production had a record-breaking year as the U.S., Brazil, and other countries increased supply. Modest softening for natural gas pricing and crude oil occurred during the first half of 2023, in which price declines were caused by a combination of supply and demand market factors. Throughout November and December 2023, non-OPEC+ supply increased, aligning with a deceleration in the global growth of oil demand. Despite the extension of OPEC+ output cuts until Q1 2024, oil prices have remained largely unchanged relative to earlier in the year. Overall, resin prices have stabilized in 2023, with certain commodities such as PVC and HDPE continuing to decline in correspondence with a slowdown in housing/construction demand due in part to seasonality.

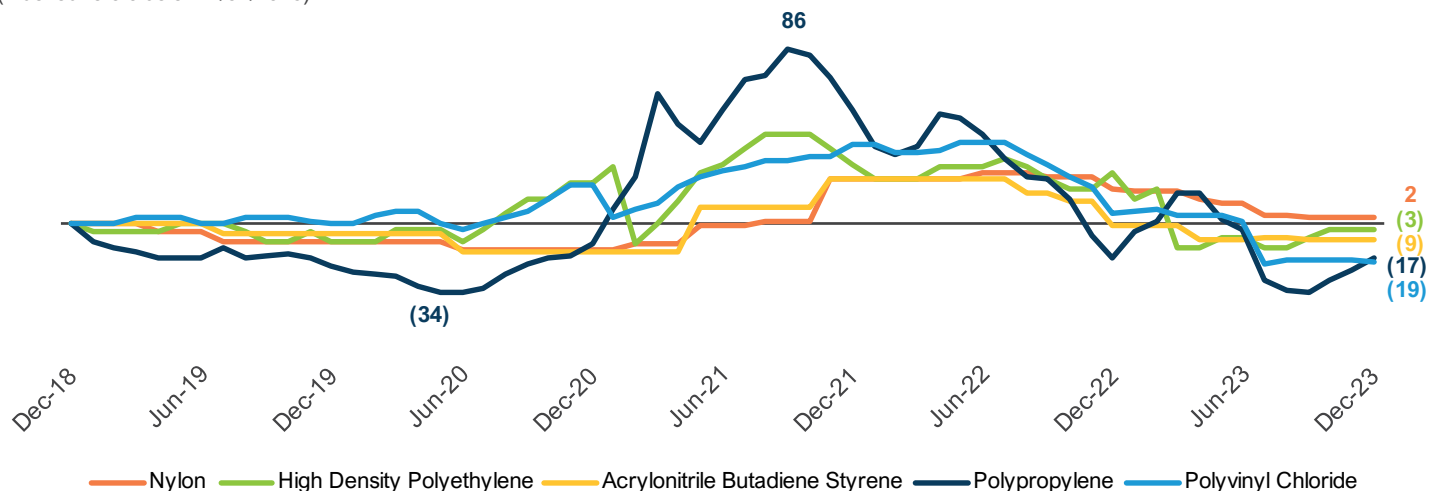
Natural Gas Pricing and Crude Oil



Source: U.S. Energy Information Administration

Resin Pricing Index

(L5Y relative index price performance by type)
(Indexed to 0.0 as of 12/31/2018)



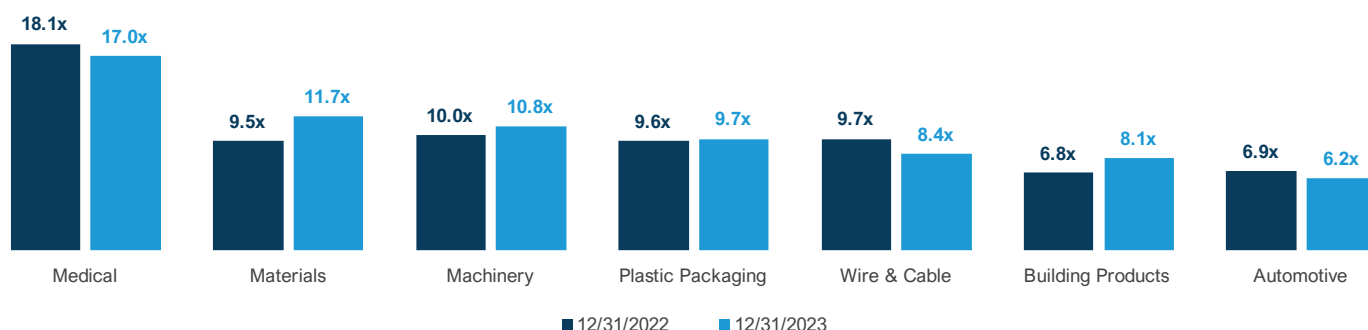
Source: Plastic News

Plastics Market Trends

VALUATION METRICS

The U.S stock market has strongly 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. In 2023, the Nasdaq outperformed among the indices, up 43.4% on the year, while the S&P 500 is up 24.2% and the Dow Jones 13.7%. Within the plastics industry, multiples for four of the seven subsectors that Stout tracks were up in 2023, with the materials subsector boasting the highest YoY multiple growth.

Subsector Average EBITDA Multiples



Source: S&P Capital IQ and Stout Proprietary Database

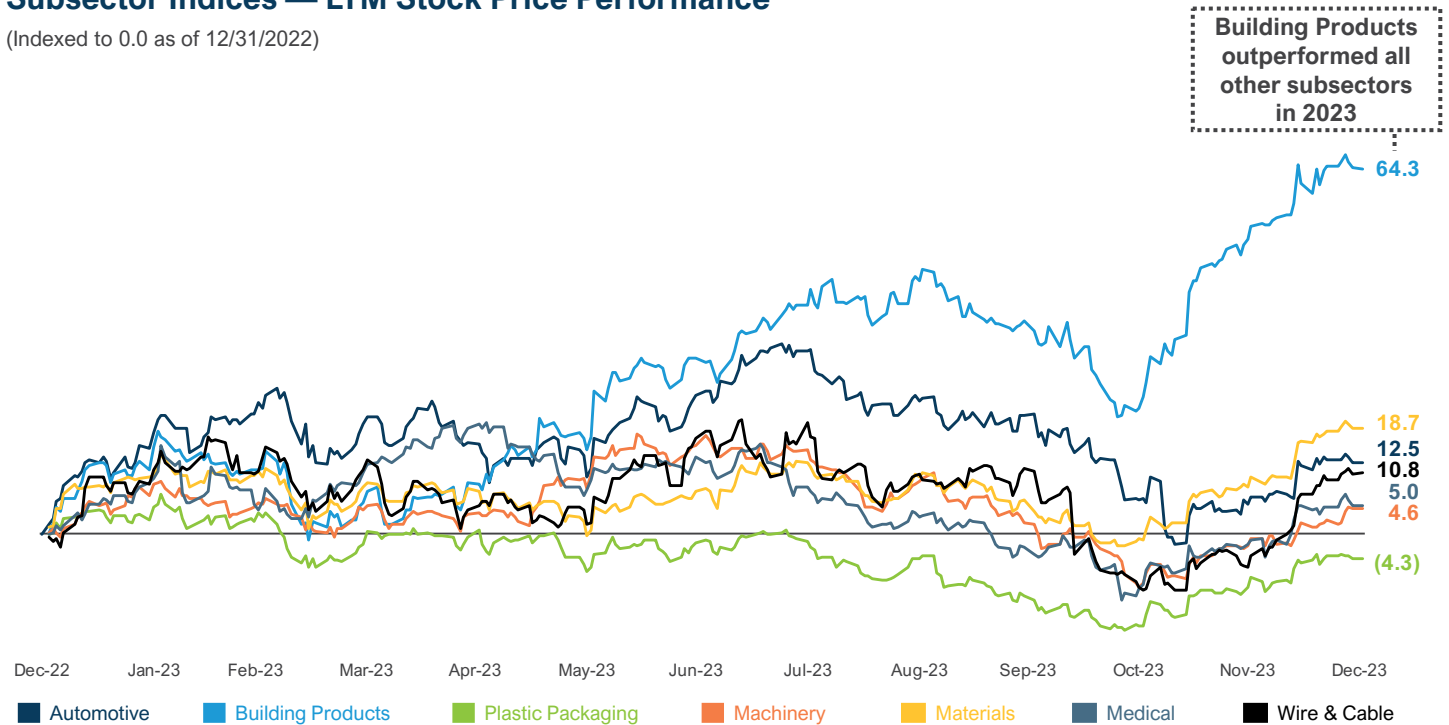
SELECT RECENT PLASTICS INDUSTRY TRANSACTIONS

Date	Target (Ownership)	Subsector	Acquiror (Ownership)
Dec-23	Zeus Company	Medical Plastics	EQT AB (OM:EQT)
Nov-23	Seisa Medical Inc.	Medical Plastics	Tekni-Plex Healthcare (Tekni-Plex, Inc.) (Genstar Capital, LLC)
Oct-23	Ipackchem Group SAS (SK Capital Partners)	Plastic Packaging	Greif, Inc. (NYSE:GEF)
Oct-23	ProFusion Industries	Industrial Plastics	Boyne Capital Management
Sep-23	Harrington Process Solutions (Nautic Partners)	Industrial Plastics	Bain Capital Private Equity
Sep-23	Soteria Flexibles Corp (Ardian)	Plastic Packaging	The Jordan Company
Aug-23	Automotive business of Plastikon Industries (Plastikon Industries, Inc.)	Automotive Plastics	ABC Technologies (Apollo Global Management [NYSE:APO])
Aug-23	M. Holland Company	Industrial Plastics	Ravago Group S.A.
Jul-23	Chase Corporation (NYSEAM:CCF)	Industrial Plastics	KKR (NYSE:KKR)
Jul-23	Constantia Flexibles Group GmbH (Wendel (ENXTPA:MF))	Plastic Packaging	One Rock Capital Partners

Plastics Subsector Performance

Subsector Indices — LTM Stock Price Performance

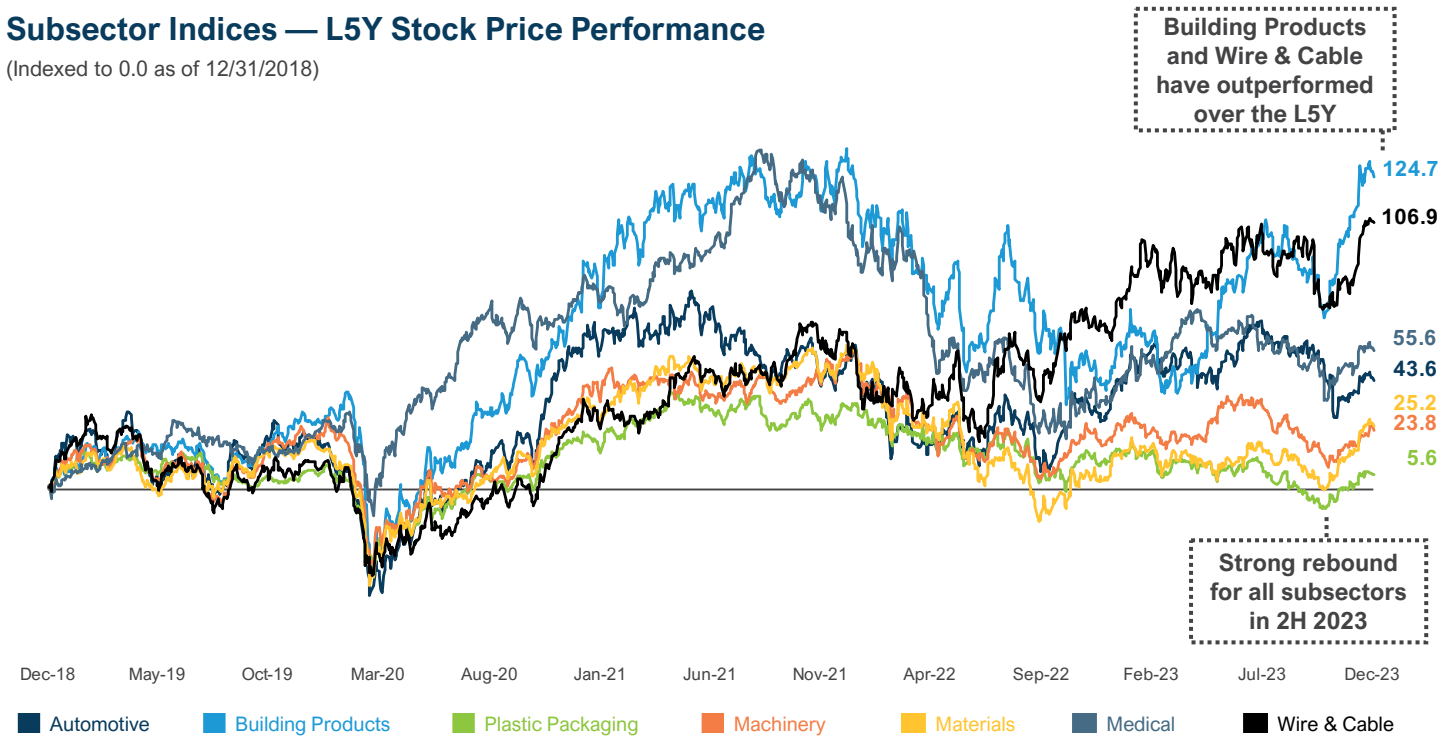
(Indexed to 0.0 as of 12/31/2022)



Source: S&P Capital IQ

Subsector Indices — L5Y Stock Price Performance

(Indexed to 0.0 as of 12/31/2018)



Source: S&P Capital IQ

Operational Drilldown – Capex Spend and Reinvestment Rate

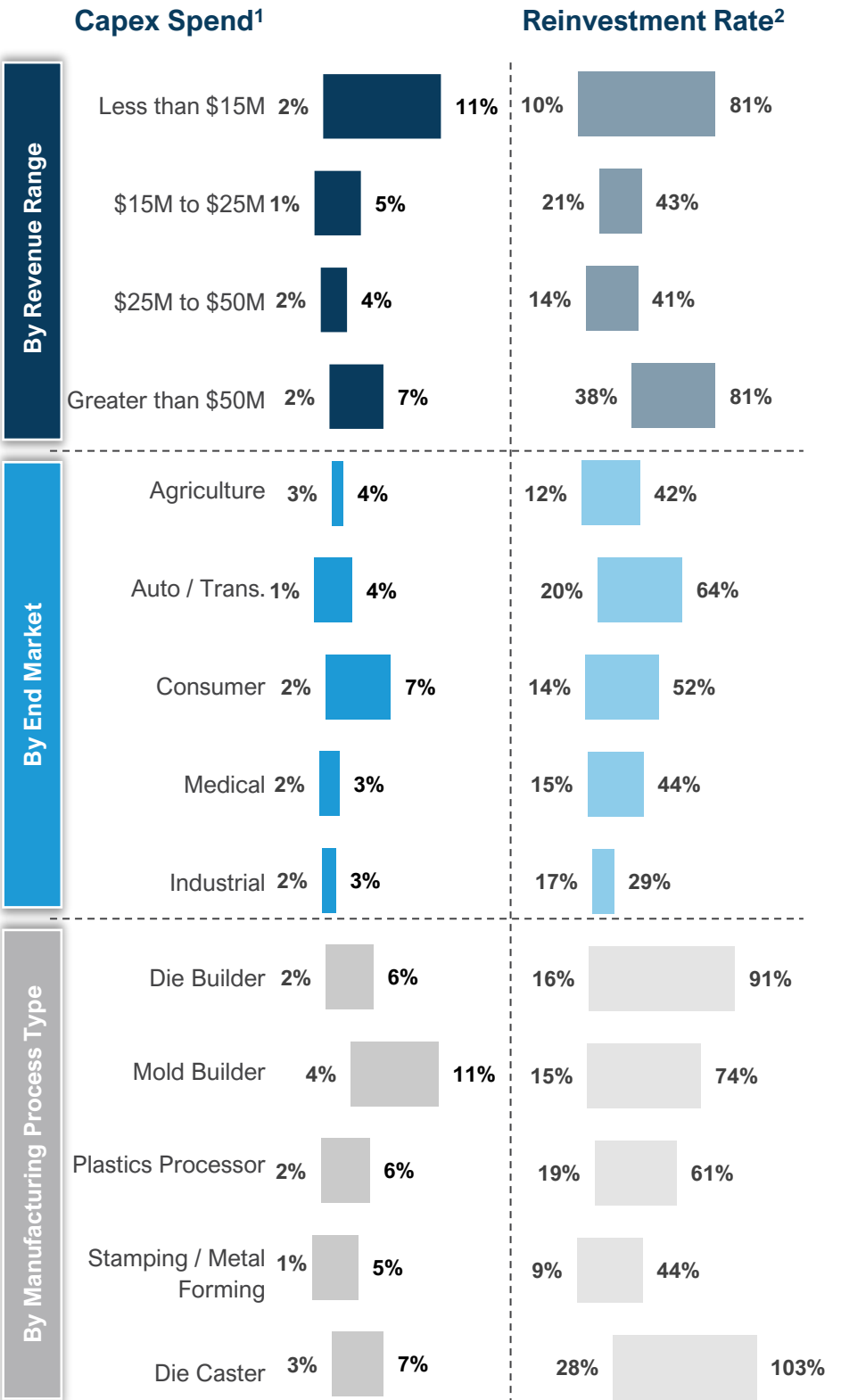
CAPEX SPEND AND REINVESTMENT RATE TRENDS SEGMENTED BY COMPANY SIZE, END MARKET, AND PROCESS

POWERED BY



Capex spend as a percentage of total EBITDA, also known as the reinvestment rate, analyzes the proportion of a company's earnings that are utilized for reinvestment into fixed, intangible, or other assets. Reinvestment rate varies significantly based on company size, end market segment, and manufacturing process.

Top performers in the plastics industry tend to have lower reinvestment rates than other plastics processors. The data shows that higher earnings correlate to higher rates of capital investment across the plastics industry. So, while top performers invest in maintenance and growth capex at a higher percentage of revenue, their consistently high earnings cause the reinvestment rate to stay lower than their peers. Thus, higher reinvestment rates do not necessarily correlate to company performance.



Source: Harbour Results, Stout proprietary information

(1) Capex Spend represents annual capital expenditures as a percentage of revenue; (2) Reinvestment Rate represents capital expenditures as a percentage of EBITDA

Recent Stout Transactions Spotlight

CASE STUDIES


has acquired


a portfolio company of


BUY-SIDE ADVISOR

PETROFLEX – December 2023

Manufacturer of HDPE conduit products serving critical, high-growth infrastructure markets, including electrical and utility, agriculture and irrigation, renewable energy, and fiber/broadband

TRANSACTION RATIONALE

- As a result of the Petroflex acquisition, Arcane’s existing Metacycle platform will benefit from significant extrusion and resin recycling capabilities, which will complement Metacycle’s injection molding operations


a portfolio company of


has been acquired by


SELL-SIDE ADVISOR

WESCON PLASTICS – December 2023

Manufacturer of precision injection molded components utilizing high-performance, engineering grade and specialty resins for applications demanding close tolerances and zero-failure standards

TRANSACTION RATIONALE

- Arcane’s Metacycle portfolio of plastics companies will utilize Wescon’s operating footprint to fill capacity, expand wallet share with certain key customers in HVAC and related markets, and capitalize on cost synergies as a combined platform


has sold two plastics manufacturing facilities to


a portfolio company of



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, while also providing Clayens with a strategic presence in the Northeast U.S.


a portfolio company of


has been acquired by


a portfolio company of


SELL-SIDE ADVISOR

PARKWAY PRODUCTS – April 2023

Manufacturer of complex, high-performance precision plastic and metal components and assemblies serving a diverse set 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

Practice Overview

ABOUT

Stout is the most active advisor to middle-market plastics businesses, having completed 75+ investment banking transactions across a range of key plastics subsectors, processes, and end markets. Our Plastics team leverages strong, longstanding relationships with key strategic consolidators and highly active financial sponsors in the space, which enables us to provide superior outcomes for our clients. Learn more about our [Plastics industry coverage and resources](#).

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

SELL-SIDE ADVISOR



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



TB TONKA BAY

has been acquired by



ICG

SELL-SIDE ADVISOR



IN-PACK
MACHINERY

A portfolio company of




AMBIENTA
ENGINEERING GROUP

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

SELL-SIDE ADVISOR



OMP
ENERGY RELATED PLASTICS LLC

has been acquired by




ARGOSY
PRIVATE EQUITY

a portfolio company of




CEDAR RIDGE
PRIVATE EQUITY

SELL-SIDE ADVISOR




POLAR
PLASTICS

a portfolio company of



SPELL CAPITAL

has been acquired by



Revolution
BELIEVE IN BETTER PLASTICS

SELL-SIDE ADVISOR

UPCOMING EVENTS

MD&M West: February 6 – 8

Plastics News Executive Forum: March 11 – 13

NPE 2024: May 6 – 10

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ABOUT STOUT INVESTMENT BANKING

Stout's Investment Banking group provides mergers and acquisitions (M&A) advisory, capital market financing, and other financial advisory services to portfolio companies of private equity firms, closely held or family-owned businesses, and divisions of large corporate parents. Learn more about our [**Investment Banking services**](#).

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