

## Packaging

## Post C4Q; BERY, OI – You can't always get what you want

Price Objective Change

## Set-up matters, apparently

We update our models and investment points for Buy-rated Berry Global (BERY) and O-I Glass (OI). While both companies had reasonably similar quarters (weak volumes, in-line-or-so quarters and guides), clearly the set-up for each was different. BERY investors seem initially disappointed with the manner in which non-wovens (NW) is being monetized through the Glatfelter (GLT) transaction, leading to BERY's ~12% drop on reporting day. Meantime, OI investors were clearly preparing for even worse results and guidance than we were modeling – hence, it's ~14% pop on reporting day. We stay with Buys on both due to valuation. Both BERY and OI are scheduled to attend our Annual Global Ag & Materials Conference on 2/28-29 in Ft. Lauderdale - please contact your BofA rep. for details.

## BERY: GLT likely the bigger deal, not the quarter

Our [BERY flash](#) report has details from F1Q. Our estimates are relatively unchanged but move from \$7.60 in F24E and \$8.10 in F25E to \$7.40 and \$8.00, respectively, and our PO remains at \$83. Keys for us? (a) Weak volumes (~3% in F1Q), about-in-line results for C4Q v. our estimates, and maintenance of the F24 outlook (\$2.05-\$2.15bn in EBITDA) are consistent with the types of qtrs. reported elsewhere – heck, BERY's volume and cash flow trends were at least as good, if not better, than other specialty results; (b) That said, investors seem to have wanted “more” (proceeds, deleveraging, synergies, something else?) from the move to monetize its NW business, which BERY has been reviewing strategically since C3Q. BERY is targeting \$1bn of cash proceeds and upside in NewCo equity (which shareholders will own ~90%, post transaction). NewCo's 4x leverage and fundamental risks in these markets could be a headwind to the 8x or greater valuation BERY is hoping to see discounted in the combined nonwovens/GLT entity; (c) BERY does have ~\$1bn of maturities in 2025 and ~\$5bn in 2026 but our contacts believe its cash flow and other factors should allow reasonable ability to manage/refi; (d) The current 7.8x EV/EBITDA and 46% upside to our PO seem to provide sufficient upside given the risks.

## OI: Vols remain weak; pricing ok, lots of op leverage

Our [OI flash](#) report has details from 4Q, and our estimates move from \$2.30 in 2024E and \$2.75 in 2025E to \$2.25 and \$2.65, respectively. Our PO is \$21 vs. \$22 prior. Keys? (a) The net pricing outlook (~3% including cost) for 2024 is better than our model. The low-to-mid single digit pricing in European open market transactions was similarly more mild than our forecasts; (b) We'll see how other glass producers fare in upcoming reports but OI should be well positioned given its energy and margin improvement position; (c) On the latter point, OI is targeting \$150mn-plus from factory-floor changes, reduced operating expense and commercial benefits. While weak volumes (~8% to 12%, say, in 1Q) and the need to reduce inventories further (from low-60 days to low-50 days' sales) will limit upside operating leverage, to the extent that volumes surprise to the upside there would be increasing and incremental earnings power. Ultimately, OI sees a return to EPS of \$3/share v. guidance of \$2.25-2.65 for 2024.

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**Refer to important disclosures on page 5 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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07 February 2024

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# Review of Relevant Operating Statistics

## BERY Global (BERY)

### Exhibit 1: BERY Relevant Operating Statistics

Review of results vs. BofA estimates

	F1Q23	F1Q24	BofA	Key Highlights
<b>Health, Hygiene, &amp; Specialties (HH&amp;S)</b>				
Revenue (\$mn)	\$663	\$603	\$617	Volumes declined -2% y/y and was driven by softer demand in specialty and hygiene markets. Lower selling prices were a drag on revenues by \$64mn y/y while favorable FX helped by \$17mn.
Adjusted EBITDA (\$mn)	\$85	\$75	\$76	
Operating Margin	12.8%	12.4%	12.3%	
<b>Consumer Packaging - N.A.</b>				
Revenue (\$mn)	\$764	\$699	\$711	Volumes declined -4% y/y driven by softer demand. Meantime, lower selling prices were a \$45mn impact on revenues while acquisition sales added \$11mn y/y.
Adjusted EBITDA (\$mn)	\$130	\$130	\$129	
Operating Margin	17.0%	18.6%	18.1%	
<b>Consumer Packaging - Int.</b>				
Revenue (\$mn)	\$936	\$917	\$917	Volumes declined -3% y/y given softer consumer demand as well as industrial demand in Europe. Lower selling prices were a \$31mn drag on revenues y/y while favorable FX helped by \$40mn
Adjusted EBITDA (\$mn)	\$130	\$123	\$133	
Operating Margin	13.9%	13.4%	14.5%	
<b>Flexibles (prev. Engineered Materials)</b>				
Revenue (\$mn)	\$697	\$634	\$634	Volumes declined -3% y/y driven by softer industrial demand in Europe. Lower selling prices were a \$49mn impact on revenues y/y.
Adjusted EBITDA (\$mn)	\$98	\$103	\$95	
Operating Margin	14.1%	16.2%	15.0%	

Source: Company reports, BofA Global Research estimates. EBIT excludes restructuring and impairment costs.

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## OI-Glass (OI)

### Exhibit 2: OI Relevant Operating Statistics

Review of results vs. BofA estimates

	4Q22A	4Q23A	BofA	Key Highlights
Europe				
Revenue (\$mn)	\$724.0	\$689.0	\$634.2	Volumes decreased -22% y/y and was a - \$39mn impact on segment earnings. Europe EBIT also benefitted from net price (+\$57mn) and favorable FX (+\$4mn), while higher operating costs were a drag of - \$70mn y/y.
Operating Income (\$mn)	\$123.0	\$75.0	\$104.6	
Operating Margin	17.0%	10.9%	16.5%	
Americas				
Revenue (\$mn)	\$937.0	\$922.0	\$830.2	Volumes decreased -10% y/y and was a - \$23mn drag on segment earnings. Meantime, Americas benefitted from net price (+\$52mn) and favorable FX (+\$2mn), while higher operating costs was a (-\$21mn) drag on segment earnings.
Operating Income (\$mn)	\$83.0	\$93.0	\$58.1	
Operating Margin	8.9%	10.1%	7.0%	

Source: Company reports, BofA Global Research estimates

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## Packaging Price Objective, Estimate, and Valuation Changes

### Exhibit 3: BofA Rigid Packaging strategy, valuation and EPS grid

Summary of Rigid Packaging Price Objective, Estimate, and Valuation Changes

Rigid Packaging:										
Ticker	Rating	PO	Calendar EPS estimates			Valuation/range method		Normal FCF	Cost of Equity	Comments
			2023	2024	2025	PE	EV / EBITDA			
OI	New	B	\$21	\$3.09	\$2.25	\$2.65	8-x	6-7x	\$350	13%
	Old	B	\$22	\$3.00	\$2.30	\$2.75	8x	6-7x	\$350	13%

As discussed earlier, volumes were quite soft in 4Q (particularly in Europe) and current trends suggest an overall -8% to 12% volume decline in 1Q. Meantime, volume trends should improve as the year progresses and trends in 2H should be positive such that full year volumes are closer to neutral. Meantime, net pricing will also be a drag for the year (down -3% including cost) but OI expects to retain 75% of the net pricing gains it experienced over the past two years. Furthermore, margin expansion benefits of ~\$150mn should also help to cushion these impacts somewhat. Given these points, we adjust our 2024 EPS estimate to \$2.25 (from \$2.30) and our 2025 estimate moves to \$2.65 (from \$2.75). Meantime, our new 2026 estimate is \$2.90. With these changes, our PO moves to \$21 from \$22.

**Source:** FactSet, BofA Global Research estimates. Full-year estimates calendarized. B = Buy, N = Neutral, UP = Underperform. Note: our cost of equity percentages are adjusted typically based on changes in beta (source: Bloomberg)

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### Exhibit 4: BofA Specialty Packaging strategy, valuation and EPS grid

Summary of Specialty Packaging Price Objective, Estimate, and Valuation Changes

Specialty Packaging:										
Ticker	Rating	PO	Calendar EPS estimates			Valuation/range method		Normal FCF	Cost of Equity	Comments
			2023	2024	2025	PE	EV / EBITDA			
BERY	New	B	\$83	\$7.36	\$7.55	\$8.07	13x	9x	\$900	11%
	Old	B	\$83	\$7.44	\$7.67	\$8.21	13x	9x	\$900	11%

Given BERY's performance in the quarter and trends on volumes and pricing pass through, we lower our estimates slightly and are now at \$7.40 in F24 (was \$7.60) and \$8.00 in F25 (was \$8.10), respectively. Meantime, our F26 estimate moves to \$8.65 (was \$8.80). Recent cost reduction efforts should also provide some cushion against the softer volumes. Given the modest changes to our estimates, our PO remains unchanged at \$83.

**Source:** FactSet, BofA Global Research estimates. Full-year estimates calendarized. B = Buy, N = Neutral, UP = Underperform. Note: our cost of equity percentages are adjusted typically based on changes in beta (source: Bloomberg)

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**Exhibit 5: Stock Mentioned**

Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BERY	BERY US	Berry Global	US\$ 56.71	B-1-7
OI	OI US	O-I Glass Inc	US\$ 16.39	C-1-9

Source: BofA Global Research

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## Price objective basis & risk

### Berry Global (BERY)

Our \$83 price objective is derived from a three-part valuation approach, which includes: (1) a 13x calendarized 2024E P/E multiple, (2) a 9x calendarized 2024E EV/EBITDA multiple, (3) a normalized FCF estimate of \$900mn, an estimated cost of equity of 11% and forecast rate of growth of 0%. We believe the multiples (in-line to a slight discount) we use are appropriate relative to peers given the increased leverage.

Downside risks to our PO are: (1) plastic packaging markets' potential sustainability challenges, including in Europe, (2) food, beverage and other packaging fundamentals could disappoint relative to expectations, (3) unfavorable resin price volatility could impact results despite contractual pass-through, (4) competitive factors, (5) financial leverage, (6) unfavorable volume and pricing trends, (7) unfavorable macroeconomic trends.

Overall, energy, commodity and macro volatility represent ongoing risks for packaging companies. We have tried to forecast and model accurately. However, industry and economic trends could prove weaker or stronger than we modeled.

### O-I Glass Inc (OI)

Our \$21 PO is based on an average of P/E, EV/EBITDA and intrinsic free cash flow (FCF) valuations. We use a 8x 2024E P/E multiple, a 6-7x 2024E EV/EBITDA multiple, and our intrinsic FCF valuation, which assumes \$350mn normalized FCF, 13% cost of equity, and a -3% growth rate. Multiples are in line with those of metal/rigid packaging peers. Similar to CCK, OI has a larger international presence relative to its peers.

Risks to our PO are: (1) unfavorable demand and pricing, (2) the potential for pension or asbestos risks/claims to consume greater amounts of earnings or cash flow, (3) unfavorable international market volatility and FX risks, (4) integration risk with acquisitions, (5) risks in Mexican pricing and pack mix, (6) potential governmental policy changes in the US and other portions of the world. As is the case with all our coverage, packaging and paper/forest stocks are highly sensitive to macro, FX, commodity inflation and other factors which could create variances with our forecasts and POs. Similarly, should the factors discussed above prove less negative or more positive to forecasts, OI's price could exceed our PO.

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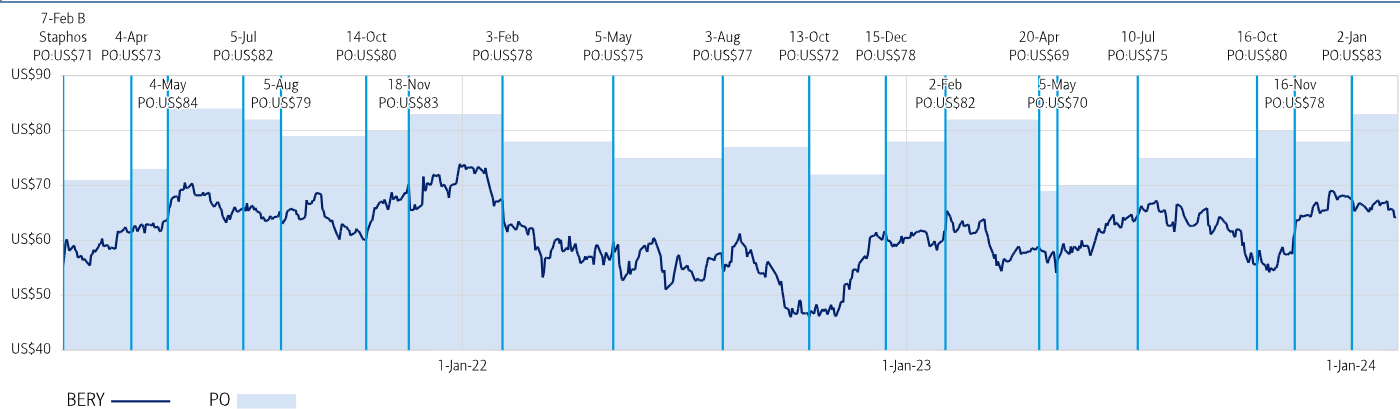
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<b>BUY</b>				
	AptarGroup Inc.	ATR	ATR US	George L. Staphos
	Berry Global	BERY	BERY US	George L. Staphos
	Brady Corp. - CI A	BRC	BRC US	Cashen Keeler
	Crown Holdings Inc.	CCK	CCK US	George L. Staphos
	Graphic Packaging	GPX	GPX US	George L. Staphos
	O-I Glass Inc.	OI	OI US	George L. Staphos
	Pactiv Evergreen	PTVE	PTVE US	George L. Staphos
	Sealed Air Corp.	SEE	SEE US	George L. Staphos
	Silgan Holdings Inc.	SLGN	SLGN US	George L. Staphos
	Sonoco Products Co.	SON	SON US	George L. Staphos
	Sylvamo Corp.	SLVM	SLVM US	George L. Staphos
	WestRock	WRK	WRK US	George L. Staphos
	Weyerhaeuser Co.	WY	WY US	George L. Staphos
<b>NEUTRAL</b>				
	Ardagh Metal Packaging S.A.	AMBP	AMBP US	George L. Staphos
	Greif Inc.	GEF	GEF US	George L. Staphos
	Packaging Corp. of America	PKG	PKG US	George L. Staphos
	PotlatchDeltic Corp.	PCH	PCH US	George L. Staphos
<b>UNDERPERFORM</b>				
	Amcor Plc	AMCCF	AMC AU	George L. Staphos
	Amcor PLC	AMCR	AMCR US	George L. Staphos
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	Ball Corp.	BALL	BALL US	George L. Staphos
	Boise Cascade Company	BCC	BCC US	George L. Staphos
	International Paper Co.	IP	IP US	George L. Staphos
	Louisiana-Pacific Corp.	LPX	LPX US	George L. Staphos

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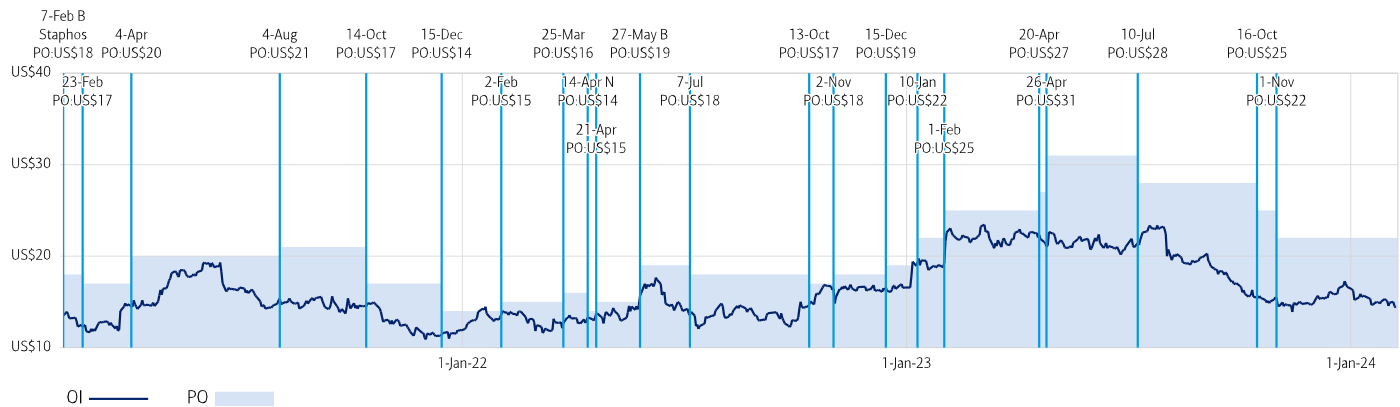
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## Berry Global (BERY) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

**O-I Glass Inc (OI) Price Chart**

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	14	60.87%	Buy	10	71.43%
Hold	6	26.09%	Hold	5	83.33%
Sell	3	13.04%	Sell	2	66.67%

**Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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