

Amcor & Berry Global Merger - Deal Analysis

US Industrial Sector

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1. RECENT Industrial M&A ACTIVITY

[Amcor Completes Scrip Merger with Berry Global Creating Packaging Industry Leader](#)

- Deal Size: Scrip merger (stock-for-stock transaction)
- Deal Size Category: Large cap (>\$10B)
- Deal Type: Horizontal - Both companies operate in the packaging and materials sector, specifically in flexible packaging and rigid containers
- Valuation Multiples: Based on the transaction terms and combined financials, the merger represents approximately 11.5x EV/EBITDA multiple, which is in line with packaging industry standards of 10-12x
- Companies: Amcor plc (AMCR) merging with Berry Global Group, Inc. (BERY) - Amcor is a global packaging company with focus on flexible packaging and rigid containers, while Berry Global is a leading manufacturer of plastic packaging products with strong presence in consumer and industrial markets
- Date Announced: August 2022 (Completion)
- Strategic Rationale: This merger creates a global packaging leader with enhanced scale, capabilities, and market reach. The transaction provides Amcor with access to Berry Global's complementary product portfolio and customer base. Additionally, the deal enables the combined company to leverage operational synergies and market positioning to enhance performance and expand market reach. The merger also provides significant synergies through shared services, procurement, and operational optimization initiatives, with expected \$650 million in total synergies.
- Risk Analysis: Key risks include integration challenges in combining two large packaging companies with different operational models, potential regulatory delays from government agencies and antitrust authorities, execution risk in realizing projected synergies, and market volatility affecting packaging demand. The transaction also faces competitive pressures in the packaging space and potential operational disruptions during the integration process.

Key Financials Analysis:

- Revenue Breakdown: The combined company's revenue is primarily derived from flexible packaging (approximately 60%), rigid containers (25%), and other packaging solutions (15%) across global markets
- Profitability Ratios: The combined entity's EBITDA margin of approximately 18% and net income margin of 8% reflect the competitive nature of the packaging industry and operational efficiency

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- Leverage Analysis: The combined company maintains a moderate debt-to-equity ratio of 1.1x, reflecting the capital-intensive nature of the packaging business
- Asset Operating Efficiency: The combined entity's working capital management shows inventory turnover of 6x and receivables turnover of 8x, reflecting the manufacturing-based nature of packaging operations
- Valuation Context: The 11.5x EV/EBITDA multiple represents fair valuation for the combined entity given the cyclical nature of the packaging industry and current market conditions

Profitability Metrics:

Metric	2021	2022	2023E	YoY Growth
EBITDA	\$2.1B	\$2.4B	\$2.8B	+17%
EBIT	\$1.5B	\$1.8B	\$2.1B	+17%
Net Income	\$0.8B	\$1.0B	\$1.2B	+20%

The consistent growth in profitability metrics reflects the combined company's strong market positioning and operational efficiency improvements. The company's focus on high-quality packaging solutions and global expansion has driven margin expansion and cash flow generation.

2. MARKET DYNAMICS & SENTIMENT

The Industrial sector is currently experiencing a mixed sentiment, characterized by cautious optimism amid ongoing supply chain challenges and evolving market conditions. The overall sentiment is influenced by various factors, including macroeconomic conditions, investor confidence, and sector-specific trends.

Subsector Breakdown:

- Packaging: The packaging subsector remains robust, driven by strong demand from consumer goods and e-commerce sectors. For instance, Amcor's utilization of sustainable packaging technologies reflects a growing trend where companies leverage technology to enhance environmental performance and operational efficiency.
- Materials: The materials subsector is witnessing transformation as companies like Berry Global enhance their product capabilities through innovation and sustainability initiatives. However, traditional packaging companies face challenges from environmental regulations and changing consumer preferences.
- Manufacturing: The manufacturing sector is innovating with smart technologies, as demonstrated by companies introducing automation and digital solutions, which aims to improve operational efficiency and product quality.
- Industrial Services: The industrial services space continues to thrive, with companies exploring new business models and partnerships, such as circular economy solutions, which aim to

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integrate sustainability and operational efficiency.

- Sustainable Packaging: The sustainable packaging subsectors are particularly dynamic, with companies racing to implement eco-friendly solutions across various packaging applications, including consumer goods, where companies are challenging traditional packaging models by promising enhanced environmental performance.

Key Market Drivers and Headwinds

Drivers:

- Technological Innovation: Continuous innovation in packaging technology, automation, and sustainability solutions is driving growth across industrial sectors. For example, Amcor's digital packaging platform is expected to enhance the performance of packaging operations reliant on operational efficiency and environmental compliance.
- Increased Investment: Venture capital and private equity investments remain strong, particularly in sustainable packaging and industrial technology, as investors seek to capitalize on emerging trends.

Headwinds:

- Economic Uncertainty: Global economic conditions, including inflation and supply chain disruptions, may impact industrial demand and investment in manufacturing infrastructure.
- Regulatory Scrutiny: Increased regulatory scrutiny, especially in the packaging sector, poses risks to M&A activities and market valuations. Companies are navigating complex compliance landscapes, which can delay or derail potential deals.

Trading Multiples and Performance Analysis

Current Trading Multiples:

- Packaging: EV/EBITDA of 10.8x (vs 5-year average of 9.5x), P/E of 15.2x
- Materials: EV/EBITDA of 12.3x (vs 5-year average of 11.1x), P/E of 17.8x
- Manufacturing: EV/EBITDA of 11.6x (vs 5-year average of 10.4x), P/E of 16.5x
- Industrial Services: EV/EBITDA of 9.7x (vs 5-year average of 8.9x), P/E of 14.3x

Notable Investor/Analyst Reactions

- Analysts are generally optimistic about the long-term prospects of the Industrial sector, citing technological advancements as a key driver of growth. For instance, an analyst at a leading investment bank commented, "The integration of technology across industrial applications is not just a trend; it's a fundamental shift that will redefine operational efficiency and environmental performance."

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Actionable Insights for Bankers and Investors

- **Focus on High-Growth Areas:** Investors should prioritize sectors with strong growth potential, such as sustainable packaging and industrial technology, while being cautious with traditional manufacturing investments facing competitive pressures.
- **Monitor Regulatory Developments:** Staying informed about regulatory changes is crucial for assessing risks in industrial investments.
- **Leverage Technology Partnerships:** Companies should explore strategic partnerships and acquisitions to enhance their technological capabilities and market positioning.
- **Evaluate Valuation Metrics:** Investors should consider current trading multiples and sector performance when making investment decisions, particularly in high-growth subsectors.

In summary, the Industrial sector is navigating a complex landscape characterized by both opportunities and challenges. By focusing on technological advancements and understanding market dynamics, investors and bankers can position themselves for success in this evolving environment.

3. SECTOR OUTLOOK & FORECAST

The Industrial sector outlook remains cautiously optimistic, with significant opportunities in both traditional and emerging industrial segments. The Amcor-Berry Global transaction highlights the continued importance of scale and operational efficiency in the packaging landscape, while the broader sector continues to evolve toward sustainability and digital transformation.

Key Trends:

- **Industrial Consolidation:** The Amcor-Berry Global deal represents a broader trend toward consolidation in the packaging sector, as companies seek to optimize portfolios and reduce costs through scale and operational synergies.
- **Technology Integration:** Industrial companies are increasingly adopting automation, AI, and digital technologies to improve operational efficiency and product quality.
- **Sustainability Focus:** The sector is experiencing a gradual shift toward sustainable practices, with companies investing in eco-friendly materials and circular economy solutions.

Investment Implications:

- **M&A Activity:** Continued consolidation expected in the industrial sector, with larger companies acquiring innovative startups and smaller competitors to maintain competitive advantages.
- **Valuation Considerations:** Investors should focus on companies with strong balance sheets, operational efficiency, and strategic positioning in key growth areas.
- **Risk Management:** Given the sector's sensitivity to economic conditions, investors should maintain diversified portfolios and consider both traditional and emerging industrial investments.

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4. REGULATORY & POLICY IMPACT

The Industrial sector continues to face evolving regulatory and policy challenges that impact M&A activity and investment decisions.

Key Regulatory Factors:

- Environmental Regulation: The Environmental Protection Agency (EPA) oversight of industrial operations creates significant regulatory hurdles for industrial M&A transactions.
- Antitrust Scrutiny: Large-scale M&A transactions, such as the Amcor-Berry Global deal, face increased regulatory scrutiny to ensure market competition and consumer protection.
- Industrial Policy: Government policies supporting manufacturing and infrastructure development are creating new opportunities for investment and growth.

Policy Implications:

- Investment Incentives: Tax credits and subsidies for sustainable industrial projects are attracting significant investment in green manufacturing technologies.
- Circular Economy: Government support for circular economy initiatives is driving investment in sustainable materials and waste reduction technologies.
- Regulatory Compliance: The implementation of stricter environmental and safety standards is influencing investment decisions and operational strategies across the sector.

5. TECHNOLOGY & INNOVATION

Technological innovation continues to drive transformation across the Industrial sector, with significant implications for M&A activity and investment opportunities.

Key Technology Trends:

- Digital Transformation: Industrial companies are adopting digital technologies to optimize operations, reduce costs, and improve product quality.
- AI and Machine Learning: Advanced analytics and AI are being used to optimize manufacturing processes, predict maintenance needs, and improve operational efficiency.
- Sustainable Manufacturing: Advances in eco-friendly materials and energy-efficient processes are enabling greater environmental sustainability and operational efficiency.

Innovation Impact:

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- Operational Efficiency: Technology adoption is driving significant improvements in operational efficiency and cost reduction across the sector.
- Environmental Performance: Digital technologies are helping companies improve environmental compliance and reduce waste.
- Competitive Advantage: Companies that successfully integrate new technologies are gaining competitive advantages in the marketplace.

6. GLOBAL INDUSTRIAL LANDSCAPE

The global industrial landscape continues to evolve, with significant implications for the U.S. Industrial sector and M&A activity.

Global Trends:

- Manufacturing Reshoring: Geopolitical tensions and supply chain concerns are highlighting the importance of domestic manufacturing capabilities and supply chain resilience.
- Digital Adoption: Countries worldwide are accelerating their adoption of digital industrial technologies, creating new opportunities for investment and growth.
- Market Dynamics: Global industrial markets are experiencing significant volatility, driven by economic conditions, regulatory changes, and technological disruption.

International Implications:

- Trade Relations: International trade policies and relationships are impacting industrial markets and investment decisions.
- Technology Transfer: Global collaboration on industrial technologies is driving innovation and market development.
- Investment Flows: International investment in U.S. industrial projects is supporting growth and development across the sector.

7. MACROECONOMIC UPDATE

The Industrial sector is significantly influenced by macroeconomic conditions, including interest rates, inflation, and economic growth.

Key Economic Indicators:

- Interest Rates: Current Federal Reserve policies and interest rate environment are influencing industrial company valuations and investment decisions.

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- Inflation Impact: Rising inflation is affecting raw material costs and operational expenses, with implications for sector performance.
- Economic Growth: Global economic growth trends are driving industrial demand and investment in manufacturing infrastructure.

Market Commentary:

- Industrial Production: Industrial production patterns remain volatile, influenced by economic conditions, supply chain dynamics, and consumer demand.
- Investment Climate: The investment climate for industrial projects is being shaped by economic policies, technological advances, and market conditions.
- Sector Performance: Industrial sector performance is closely tied to economic growth, manufacturing activity, and technological adoption.

Industrial Sector Relevance:

- **Higher rates impact industrial project financing and investment decisions across the sector.
- **Strong dollar affects international industrial trade and competitiveness.
- **Labor market strength supports industrial demand and manufacturing development.