

Multi-Color Corporation ("MCC")



- Hightened leverage, FY-2019 net loss, and lack of post-COVID financial underscore our concerns about MCC.
- Declining Industry outlook (-3.5% CAGR through 2028).
- Strong liquidity, product diversity, and backing from Clayton, Dubilier & Rice, LLC, indicate resilience potential.

- Strengths
- **Liquidity Position:** With a current ratio of 1.89, Multi-Color Corporation demonstrates strong short-term financial stability, crucial for sustaining operational needs (e.g. including to make debt service payments).
 - **Diversified Product Portfolio:** The company’s extensive range of specialized printing services enables it to cater to various market segments, enhancing its market resilience and adaptability.
 - **Global Presence & PE-backing:** Multi-Color Corporation’s extensive global network allows it to serve a diverse clientele, enhancing its market reach and competitive positioning. PE-support provided additional comfort.
- Challenges
- **Declining Profitability:** The company recorded a net loss of \$(28,667) in FY-2019, reflecting a concerning decline in profitability and impacting overall financial health.
 - **High Leverage:** Net debt to EBITDA ratio of 22.3x in FY-2019 (inflated by an impairment booking to goodwill, lowering EBITDA) and 8.1x in FY-2018 are substantial, raising concerns of their ability to repay their debts.
 - **Increased Operating Expenses and transparency:** Operating expenses rose to \$260,576 in FY-2019, basically double of FY-2018, even though Revnue grew by 33% within that timeframe. Figures provided are all pre-COVID, and hence to be viewed with caution.

Scorecard Summary

	Weight	Score	Dimension	Contribution
Financial	10%	3.0	Liquidity	<div></div>
			Leverage	<div></div>
			Profitability	<div></div>
Business	90%	7.2	Industry Risk	<div></div>
			Competitive Position	<div></div>
			Mgmt / Governance	<div></div>
			Sponsor / Parent	<div></div>
			Revenue Segment	<div></div>
Modifiers		-0.5	Financial Flexibility	<div></div>
			Fixed Cost Coverage Risk	<div></div>
			Financial Transparency	<div></div>

Industry Benchmarks - Primary: Commercial Printing

Company Overview

Headquarters	Cincinnati, OH	U.S.
Type	Private (PE)	
Employees	12,275	
Year Founded	1916	
Website	https://www.mcclabel.com/en	
Business	Provides global label solutions to a a number of the world’s most prominent	
Revenues	\$1,725.6M	

- **Company Overview:** Multi-Color Corporation ("MCC")is an internationally operating, leading provider of premium label solutions, specializing in diversified printing services. MCC was a former subsidiary of WS Packaging Group, Inc. Since they were acquired in 2021 (and taken private), the entity acquired 6 entities rangind from Asia, Europe, Africa/Middle East through North America, and Brazil.
- **Product:** Wide array of specialized printing services including pressure-sensitive, in-mold, and heat transfer labels, catering to diverse industries such as food and beverage
- **Customers:** Serves a broad spectrum of clients, ranging from local enterprises to global corporations, through its extensive global network and innovative solutions. Most of their clients operate in following industries: Food & Beverage, Home & Personal Care, Wine & Spirits
- **PE Sponsor:** Predominantly owned by Clayton, Dubilier & Rice, LLC ("CD&R") since 2021. CD&R is a reputable private equity firm (founded 1978) with a strong investment track record. Their funding base is primarily through institutional investors from North America and Europe. High level of commitment, given expansion strategy through acqusitions, and rather recent PE-engagement with MCC.

Financial Ratio Benchmarking

# of Benchmarks: 31		Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.62	1.89	<div></div>
	Quick Ratio	1.15	1.43	<div></div>
Leverage	Net Debt / EBITDA	2.70	22.32	<div></div>
	Debt to Assets	48.4%	58.0%	<div></div>
	EBITDA Margin	11.8%	3.8%	<div></div>
Profitability	ROCE %	11.4%	2.6%	<div></div>
	Revenue	\$377M	\$1,726M	

- An asset turnover ratio of 65.1% demonstrates efficient asset utilization, contributing to the company’s operational efficiency.
- Current ratio of 1.89x is a slightly favorable liquidity position, indicative of them being fairly capable to meet short-term obligations, and operational sustainability.

Financial Statement Highlights

\$ '000s	Mar-17 T12	Mar-18 T12	Mar-19 T12	Chg
Income Statement				
Total Revenue	923,295	1,300,912	1,725,554	32.6%
Gross Profit	196,809	246,600	321,920	30.5%
Adjusted EBITDA	158,871	188,502	66,281	-64.8%
Gross Profit Margin	21.3%	19.0%	18.7%	(30) bps
EBITDA Margin	17.2%	14.5%	3.8%	(1065) bps
Balance Sheet				
Cash And Cash Equivalents	25,229	67,708	57,762	-14.7%
Total Current Assets	253,746	601,183	596,819	-0.7%
Total Assets	1,091,990	2,902,976	2,652,472	-8.6%
Total Current Liabilities	144,326	327,227	315,697	-3.5%
Total Debt	481,501	1,598,685	1,537,353	-3.8%
Total Equity	381,820	760,373	628,703	-17.3%
Cash Flow				
Net Income	61,365	71,897	(28,667)	
CAPEX	46,146	60,105	81,898	36.3%
Depreciation & Amortization	47,905	72,922	104,092	42.7%
Fixed Charge Coverage Ratio	3.07x	1.44x	0.70x	(-0.7)x

- Following Operating Expenses doubling from FY-2018 to FY-2019, EBIT declined by 40% from \$115.6k to \$61.3k, raising concerns about operational challenges, and specifically cost management given revenue inccreased only about 33% over that timeframe.
- An asset turnover ratio of 65.1% in FY-2019 suggests effective asset utilization but highlights room for improvement in asset management.

Business Risk Highlights

- **Industry:** The competitive nature of the specialized printing industry necessitates continuous innovation and adaptability for maintaining market share. The trend towards online media, is driving a coninued trend of a negative CAGR (-3.5%) through 2028.
- **Competitive Position:** The company’s diversified product portfolio and global reach can be seen as a fortifying component to secure its market position, despite profitability remaining a concern based on financials per FY-2017 - FY-2019.
- **Management:** Backed by Clayton, Dubilier & Rice, LLC ("CD&R") who provides strategic and financial support. Given a lack of transparency, it wans't possible to run a more comprehensive assessment of governance and management quality on MCC.
- **PE Sponsor:** In 2023 CD&R has been recognized as a top PE firm (ranking #28) by "GrowthCap". They are a PE firm focused on industrials, healthcare, business services, consumer, technology, and financial services. Since its inception in 1978, CD&R has managed the investment of more than \$40bn in >100 companies with an aggregate transaction value of more than \$175bn.