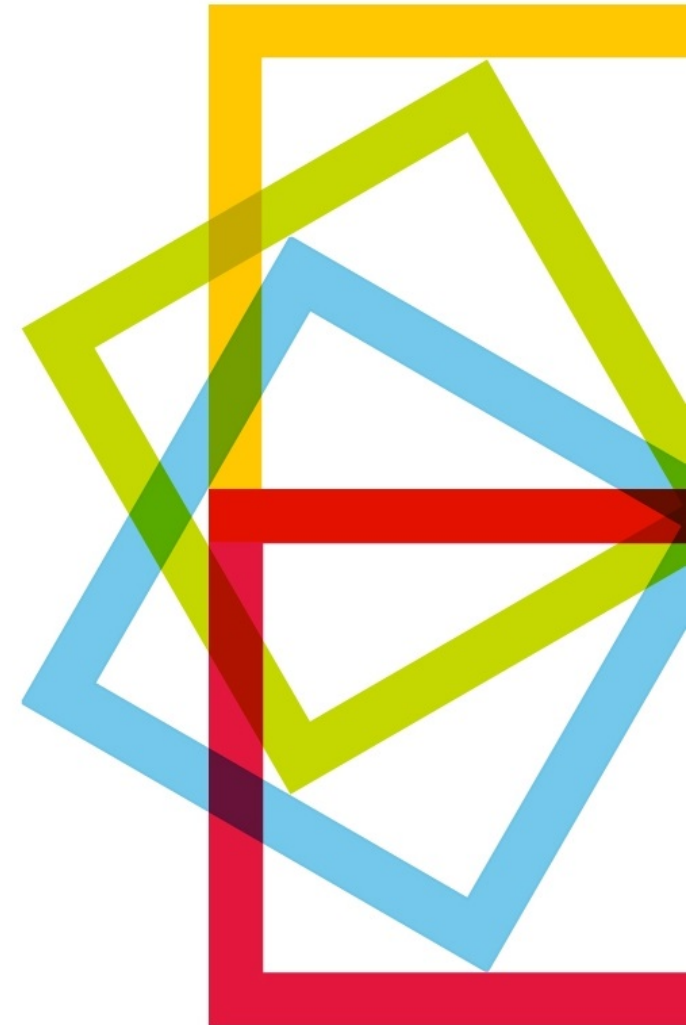




# Global Packaging And Forest Products Industry Review

**Live Webcast and Q&A**

**June 26, 2014**



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## What's Shaping The Global Packaging And Forest Products Sectors

*A continued recovery in U.S. new home construction is expected to yield more ratings upgrades than downgrades for forest and paper products companies in 2014 with the packaging sector largely remaining stable.*

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# Agenda

## Economic Forecast Update

- Regional Macroeconomic Update
- Global Risks

## Packaging Sector Ratings & Outlook

- Credit Quality
- Sector Outlook
- Opportunities & Threats
- Key Financial Metrics
- Profitability
- Raw Material Pricing
- Capital Spending

## Forest Products Sector Ratings & Outlook

- Credit Quality
- Sector Outlook
- Opportunities & Threats

## 2014 Transactions

- Issuance
- Notable Transactions

**Economic Forecast Update**

# Forecast Update

## Gross Domestic Product

(% change)	2013A	2014E	2015E
United States	1.9	2.5	3.2
Eurozone	(0.4)	1.1	1.6
Latin America	2.6	1.9	2.5

- **In the U.S., weather, reduced inventory gains, and corrections for unusual capital spending and export patterns from 2H 2013 are depressing the recovery.**
- **The gap between Germany and the other eurozone economies does not show signs of abating, with most countries displaying a stark difference between their forecast and potential GDP levels.**
- **Disappointing economic growth in the two largest economies Mexico and Brazil, continues to weigh on our outlook for the region.**

Sources:

Standard & Poor's U.S. Forecast Update: And Now Back To Our Regularly Scheduled Recovery, May 15, 2014

Credit Conditions: Europe Inches Forward On A Murky Path, June 9, 2014

Standard & Poor's Credit Conditions In Latin America Are Stable, But Risks Remain, June 10, 2014

# Global Risks By Region

## U.S.

Trend of nominal revenue growth prospects and little pricing power likely to continue

Ramifications of Fed tapering process and mixed lending conditions for consumers

Economy can withstand a mild equity market downturn, but individual sectors and issuers may be tarnished

External shock and potential for contagion (from the Eurozone , China, and EM)

## Latin America

Low growth in Mexico and Brazil

Increasing funding costs both for domestic and cross border financing

Inability to implement microeconomic reforms needed to foster growth

## Europe

Subdued and fragile recovery with potential relapse into recession if EM slow and domestic demand stalls

Potential relapse into recession if EM slow and domestic demand stalls

Political/social uncertainty undermining Eurozone policy consensus

Rising unemployment without effective structural reforms

Capital flight from EM reversing spread tightening in the periphery

Escalation of Ukraine crisis

## Asia-Pacific

Two main macro risks to growth have narrowed:

- China's growth appears to have stabilized at around 7.5%, and hard landing risk is less likely.
- Financial market stress due to speculation about U.S. Fed's QE tapering have eased.

China – structural risks remain, particularly in the financial sector.

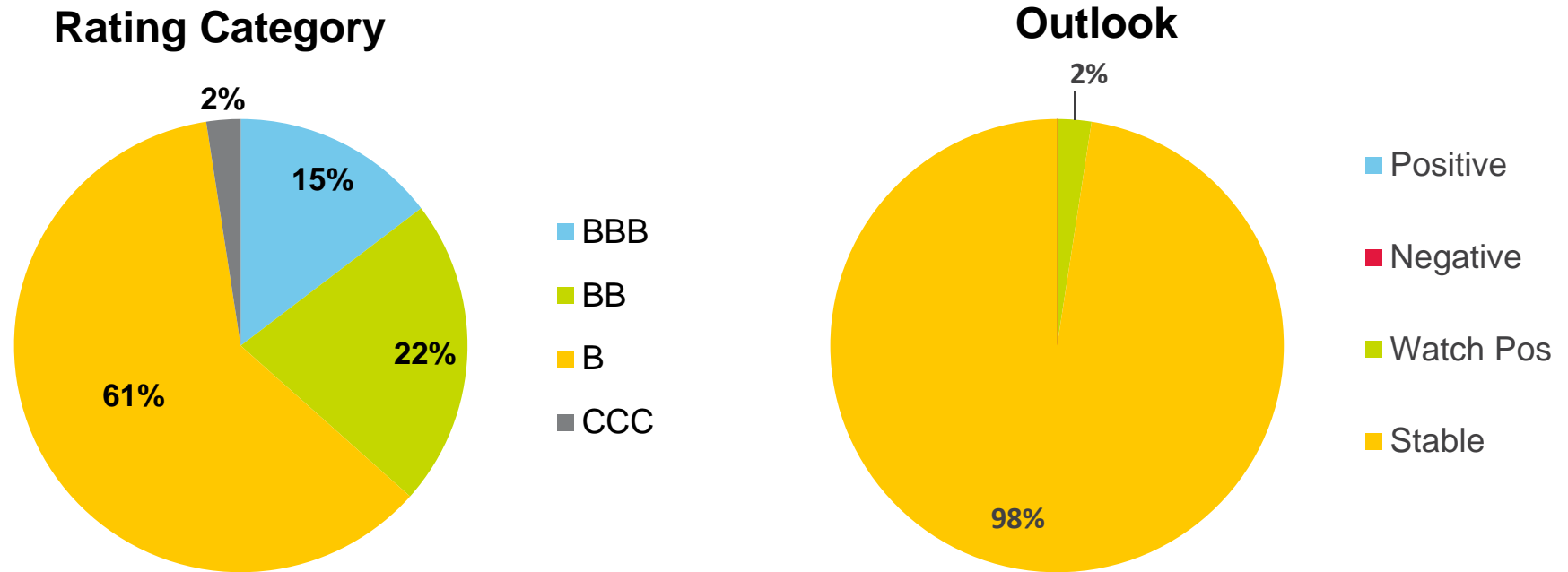
Japan – consumption tax scheduled to increase in 2014 could significantly dampen momentum from Abenomics.

Other Asia – export-oriented economies might face significant headwind from any weaker U.S. outlook.

Source: Standard & Poor's Global Portfolio Analytic Teams

**Packaging Sector  
Ratings & Outlook**

# Global Packaging Credit Quality Remains Stable

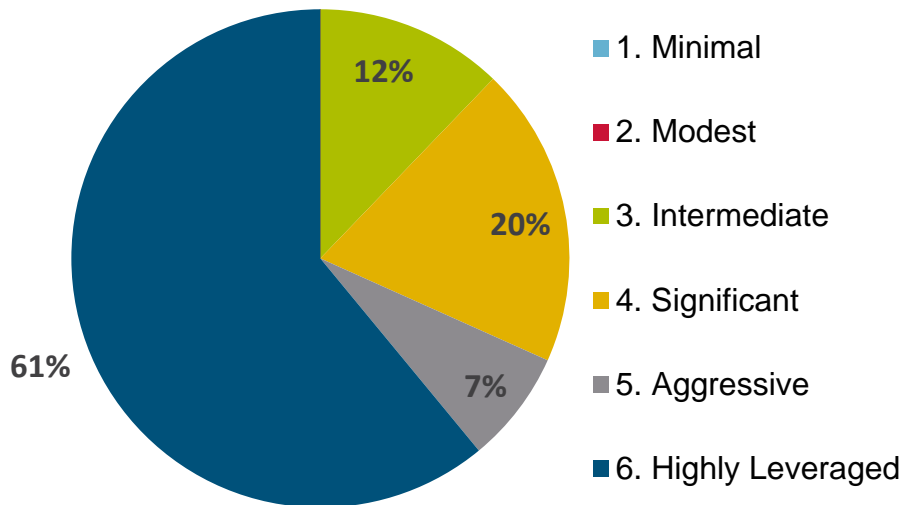
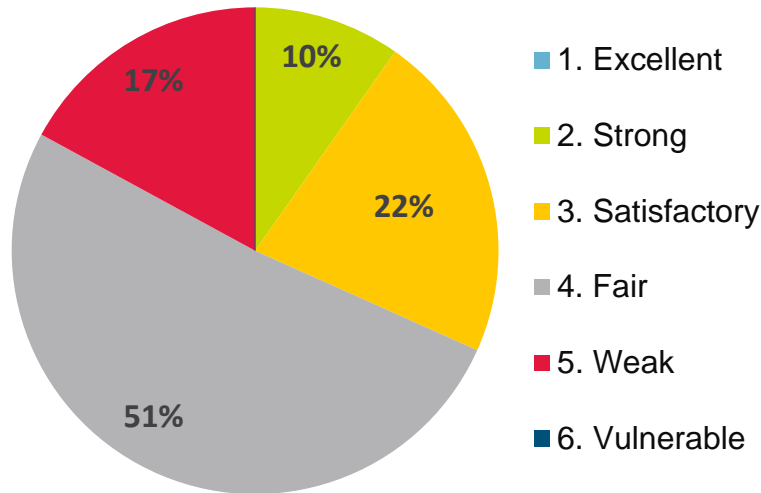


- 40 of 41 publicly rated packaging companies currently have “stable” outlooks.
- 85% of rated companies are non-investment grade.
- Vast majority of ratings are in the “B” category, with either “aggressive” or “highly leveraged” financial risk profiles.

Source: Standard & Poor's ratings and outlooks as of June 19, 2014



# Packaging Ratings Characteristics



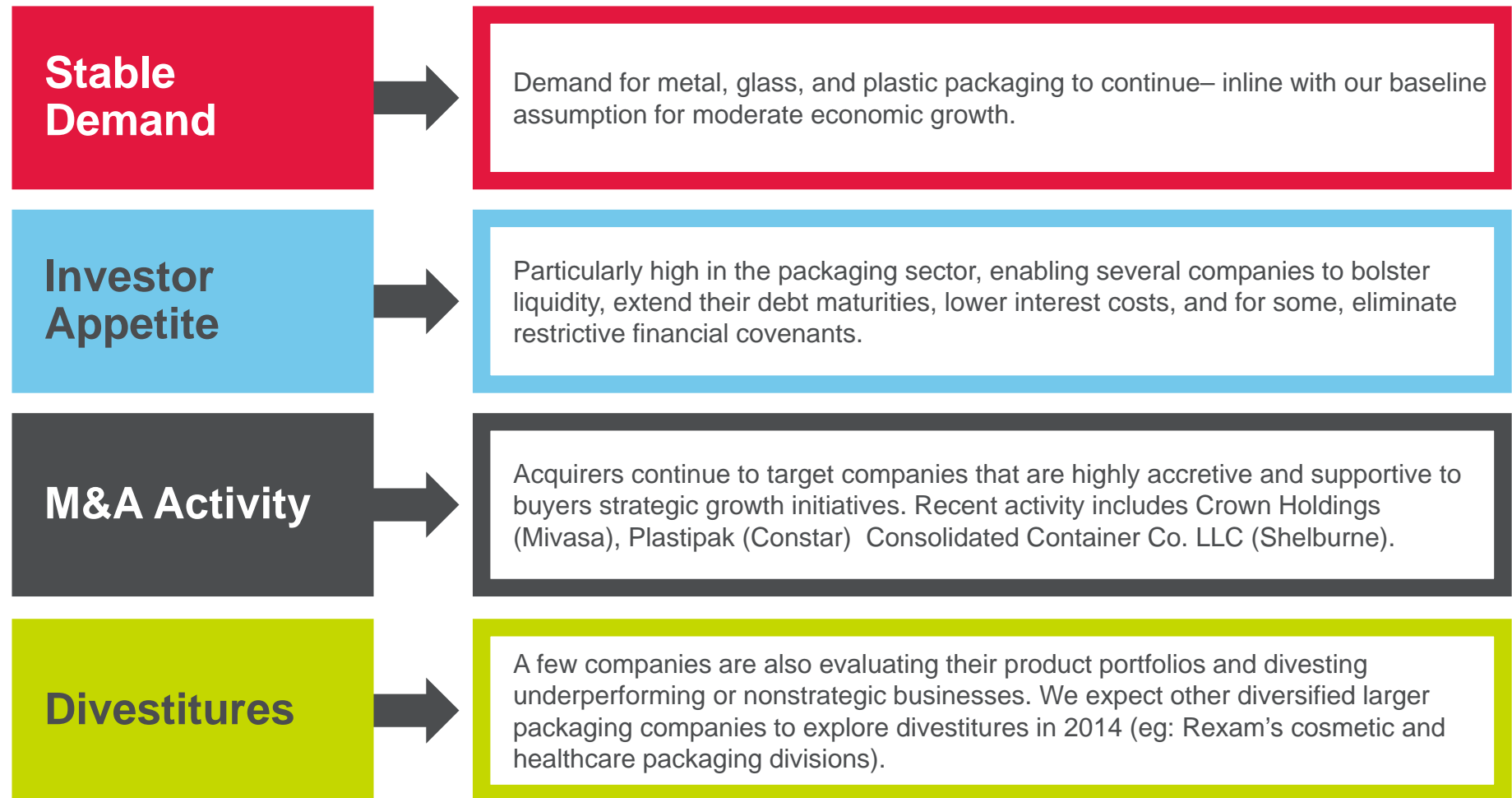
## Business Risk Profiles

- “Fair” is the modal Competitive Position score.
- “Intermediate” Industry Risk and predominantly “low”, or “very low” Country Risk results in CICRAs that do not generally constrain business risk profiles.

## Financial Risk Profiles

- Significant majority of ratings are “highly leveraged”, reflecting financial sponsor appetite for high leverage

# Sector Ratings Will Likely Remain Stable In Step With A Rise In Consumer Spending



Source: Industry Economic and Ratings Outlook: U.S. Containers And Packaging Sector Ratings Will Likely Remain Stable In Step With A Rise In Consumer Spending, April 10, 2014

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# Key Opportunities & Threats

## Opportunities

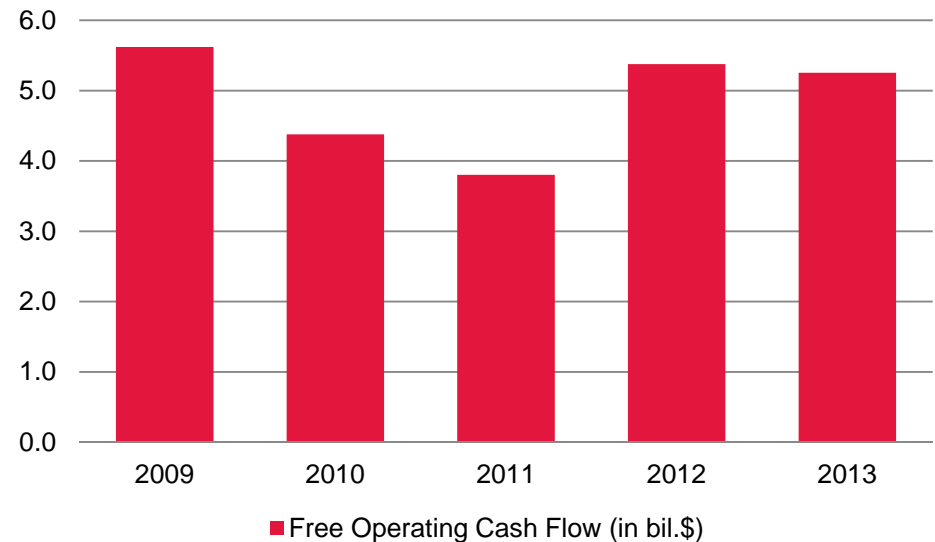
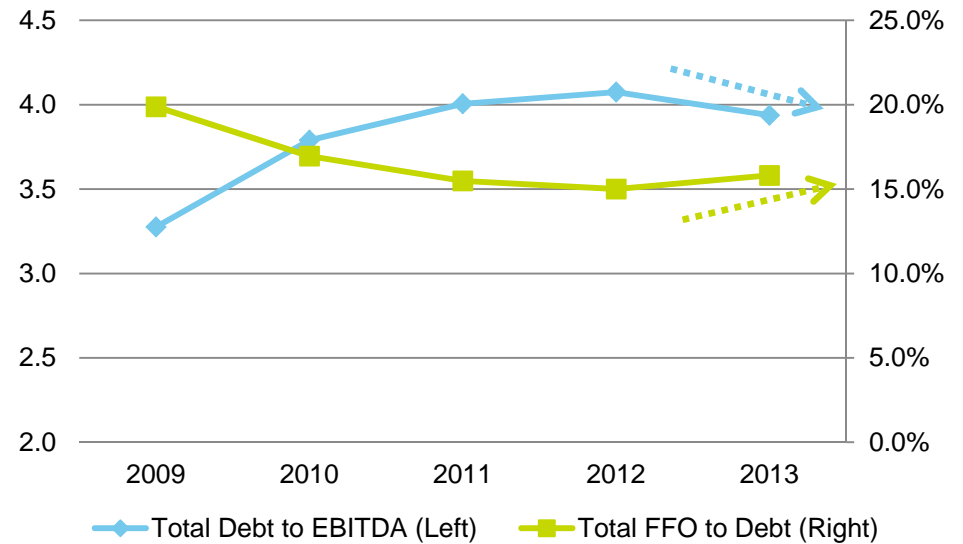
- Emerging markets such as Latin America, Asia and Eastern Europe continue to support packaging growth.
- Raw material cost volatility should remain manageable in the second half of 2014 for most packaging companies.
- Most issuers have improved input cost pass through mechanisms.
- Interest costs and refinancing risks have significantly reduced.
- Shale gas: Longer-term should benefit from capacity additions in polyethylene.
  - Increased use of PET, PP and other plastics in the food and beverages end industries versus metal and glass containers.

## Threats

- A further deterioration of the European macroeconomic climate beyond the current base-case forecast of S&P's economists.
- Liquidity issues in sector largely addressed, but less favorable credit markets could impact some issuers' ability to refinance or to fund growth following recent record low interest rates
  - Particularly a concern for companies rated in the single B category and lower
- Soft growth in consumer spending could pressure operating profitability and cash flow generation for a number of Latin American companies. Risk remain for the lower-rated entities.
- Increased spending and shareholder returns in the face of a patchy recovery.

# Key Financial Metrics

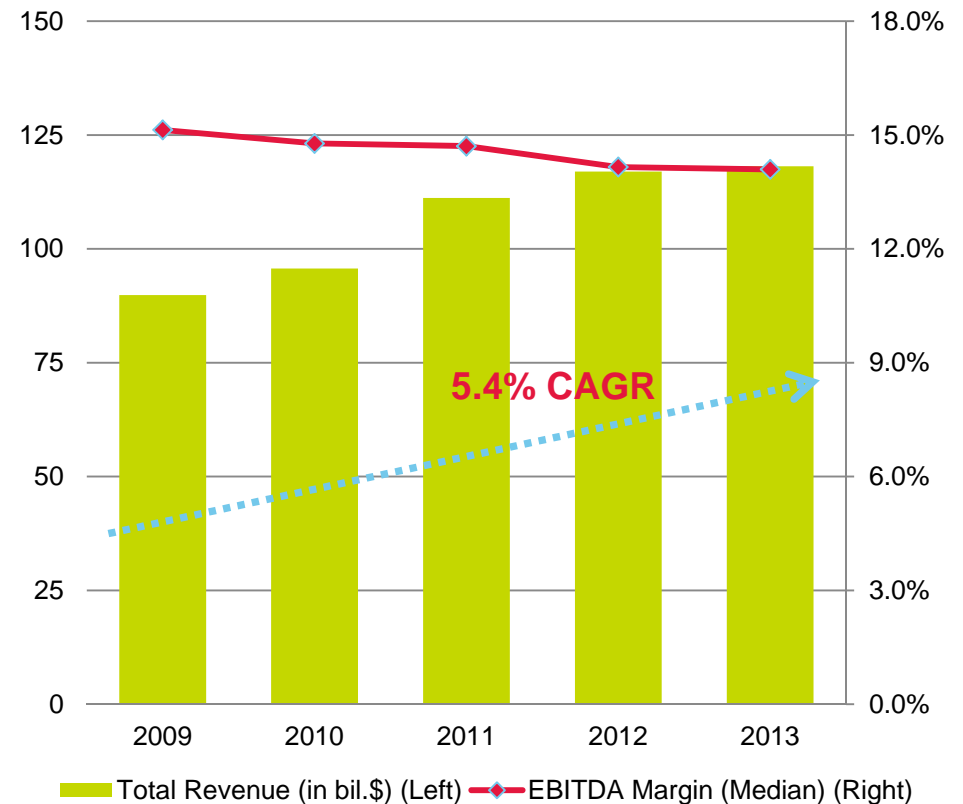
- **2011:**
  - Increased M&A activity and slow economic improvement weakened credit metrics
  - Free cash flow decreased due to increased discretionary spending and M&A related expenses
- **2012:**
  - Synergies, favorable raw material cost trends and improved economic conditions restored levels back to normal
- **2013:**
  - Adjusted FFO/Debt to remain in the mid-teens percentage area and Debt/EBITDA to remain about 4x for the sector



Source: Standard & Poor's adjusted financials for 21 global packaging companies

# Profitability

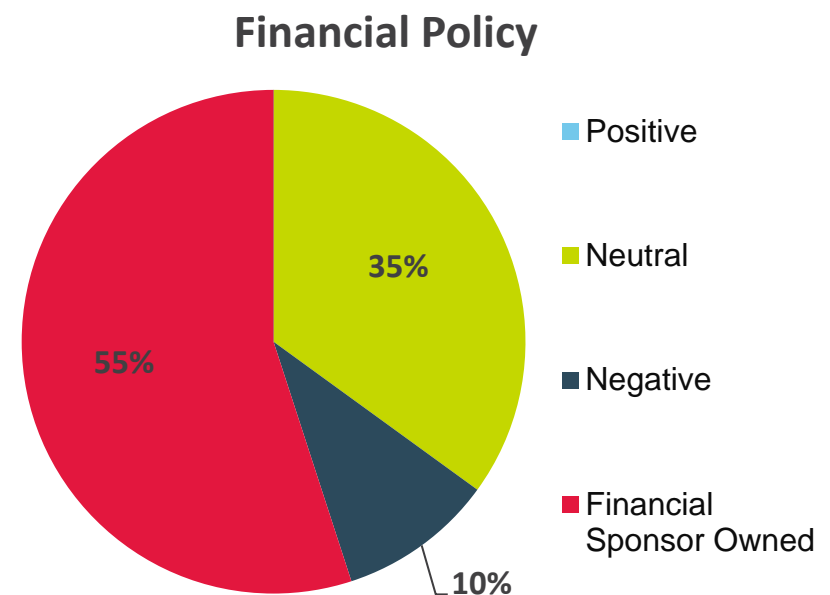
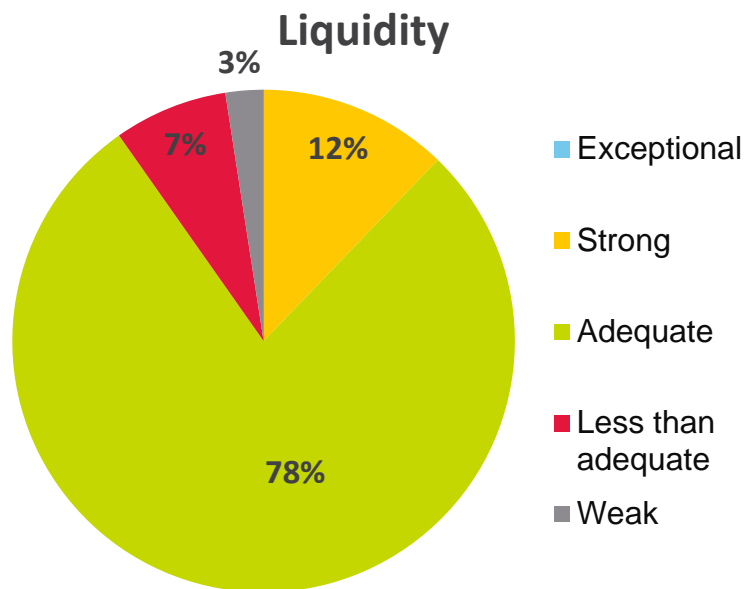
- **EBITDA margin is our primary indicator for level of profitability for packaging companies**
- **Three tiers of profitability**
  - Below average (<13%)
  - Average (13-17%)
  - Above average (>17%)
- **Outlook for remainder of 2014 continues to remain at similar levels:**
  - Favorable contracts related to pass through of raw materials
  - Cost reductions and operating efficiencies
  - Impacts from resin costs in recent past



Source: Standard & Poor's adjusted financials for 21 global packaging companies

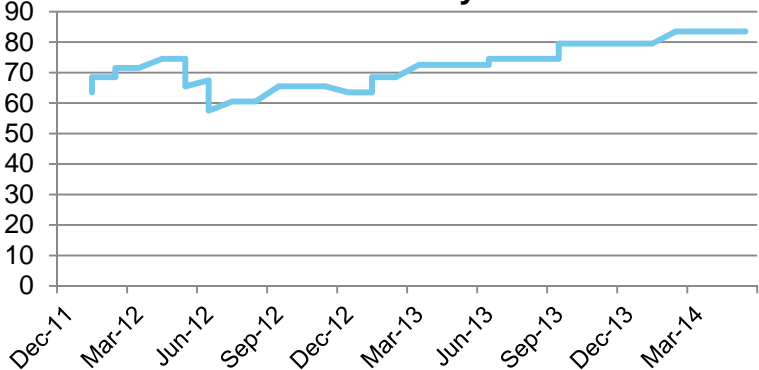
# Liquidity Profiles Remain Conservative On Average

- Predominantly 'adequate' liquidity profiles following significant recent refinancings across the sector.
- Liquidity profiles are underpinned by relatively low investment levels, large unused back-up lines, ample cash on the balance sheet and limited debt maturities in the next 12-24 months.
- The majority of companies exhibit financial policies that we view as constrained by financial sponsor ownership, or 'neutral', reflecting overall sound financial governance in this sector.

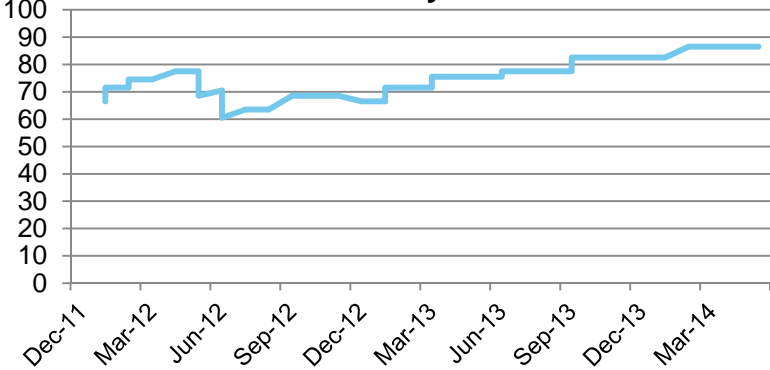


# Raw Material Pricing Trends

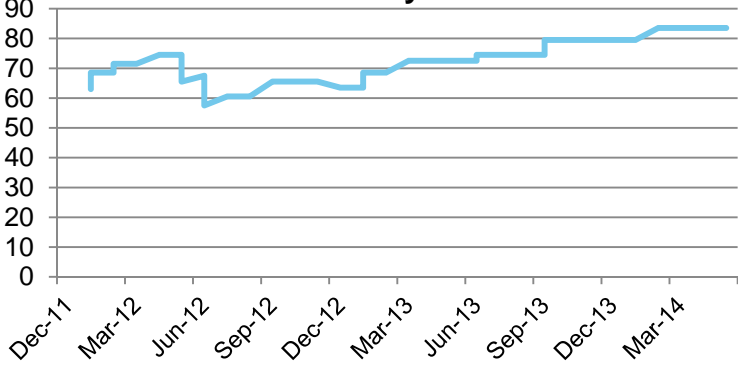
**HDPE B/Mldg US Domestic Divd Railcar cts/lb Weekly**



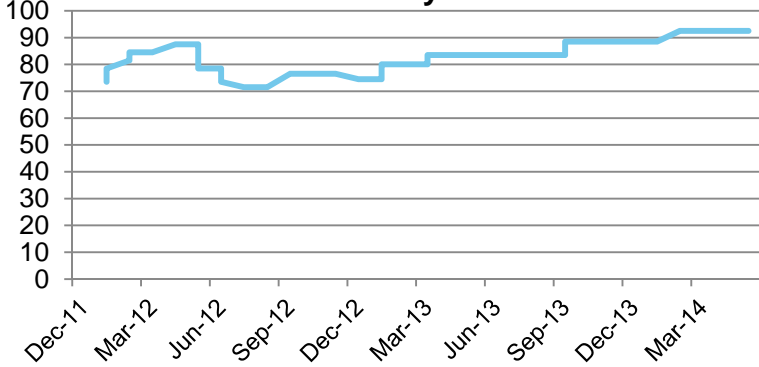
**HDPE Film US Domestic Divd Railcar cts/lb Weekly**



**HDPE Inj US Domestic Divd Railcar cts/lb Weekly**



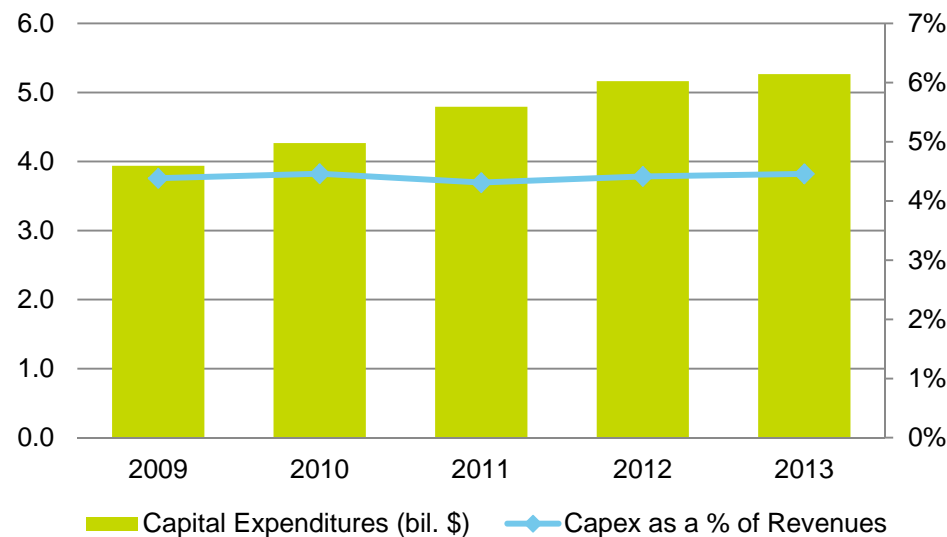
**LDPE US Domestic Divd Railcar cts/lb Weekly**



Source: Platts

# Capital Spending

- Continuation of modest capex spend in 2014 is due in part to cautious consumer sentiment and still relatively high unemployment.
- Plastic packaging companies have largely suboptimal operating rates – could absorb more volume.
- Can and glass companies- favorable fundamental balance through adjusted capacity as needed.



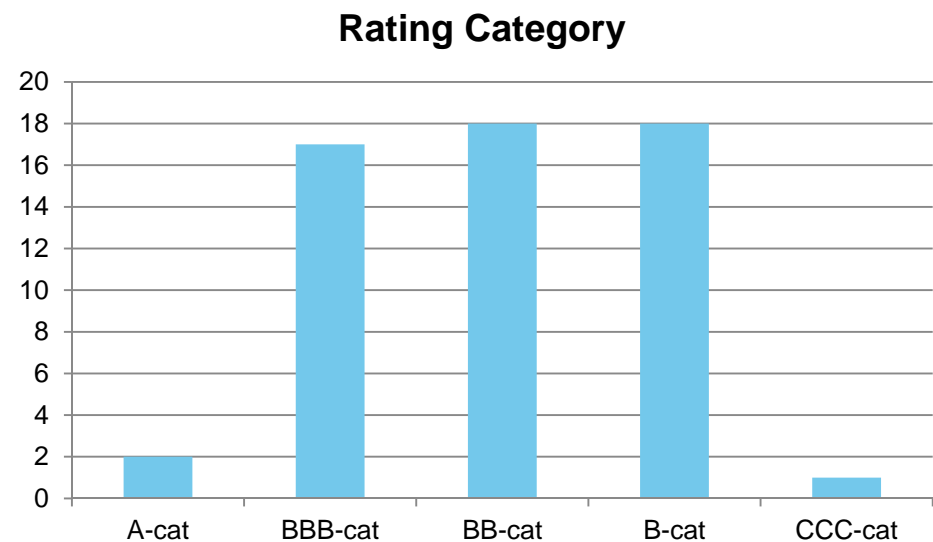
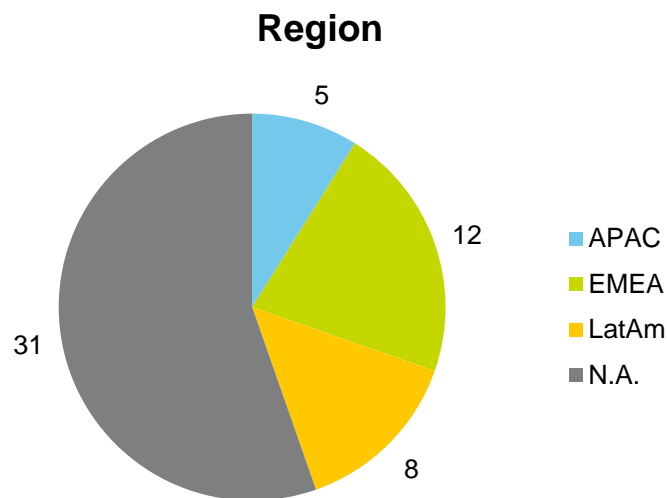
Source: Standard & Poor's adjusted financials for 21 global packaging companies



**Forest And Paper Products  
Focus**

# S&P Global Forest & Paper Products Overview

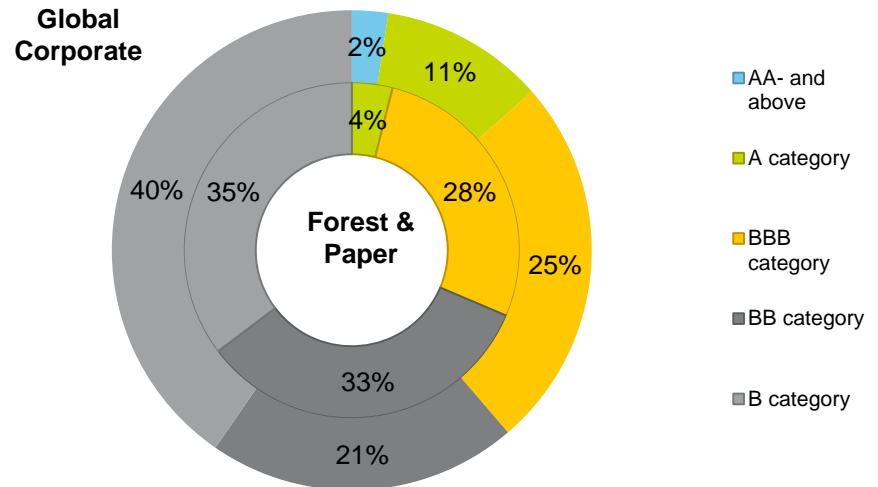
- The global Forest and Paper products portfolio consists of 56 publicly rated entities
- Sub-segments include pulp, graphic paper, paper-based packaging, sawn timber goods, and tissue paper
- Median rating is 'BB' but rating spectrum is wide from 'A' to 'CCC'.
- Among the largest issuers are Arauco, Fibria, International Paper, Sappi, Smurfit Kappa, Stora Enso, and UPM-Kymmene.



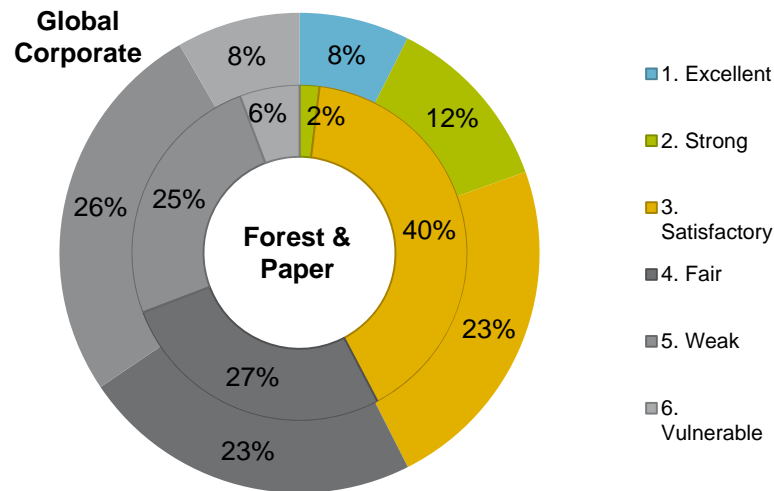
# Forest And Paper Products Rating Characteristics

- Forest and paper products ratings are largely below investment grade
- Main reason is business risk profile, which on average is weaker than the global average
- Financial risk profiles generally stronger – few financial sponsor owned issuers

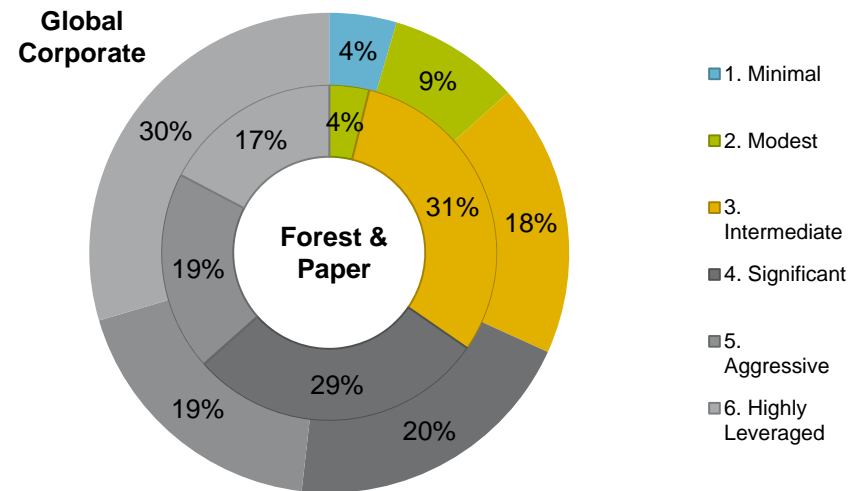
Rating Category



Business Risk Profile

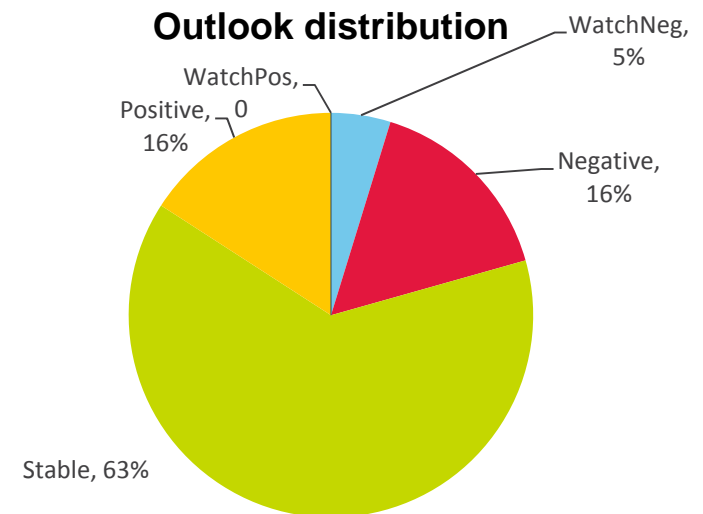
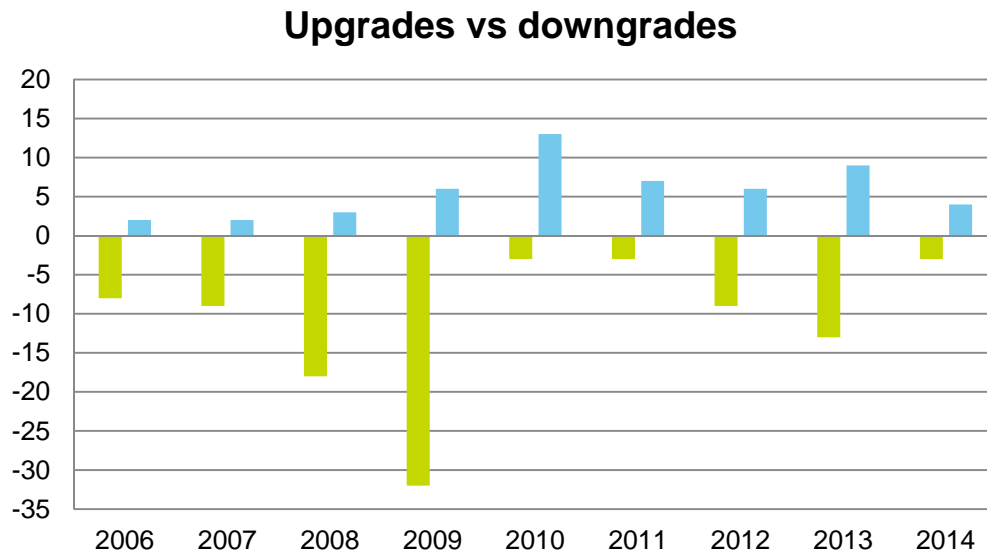


Financial Risk Profile



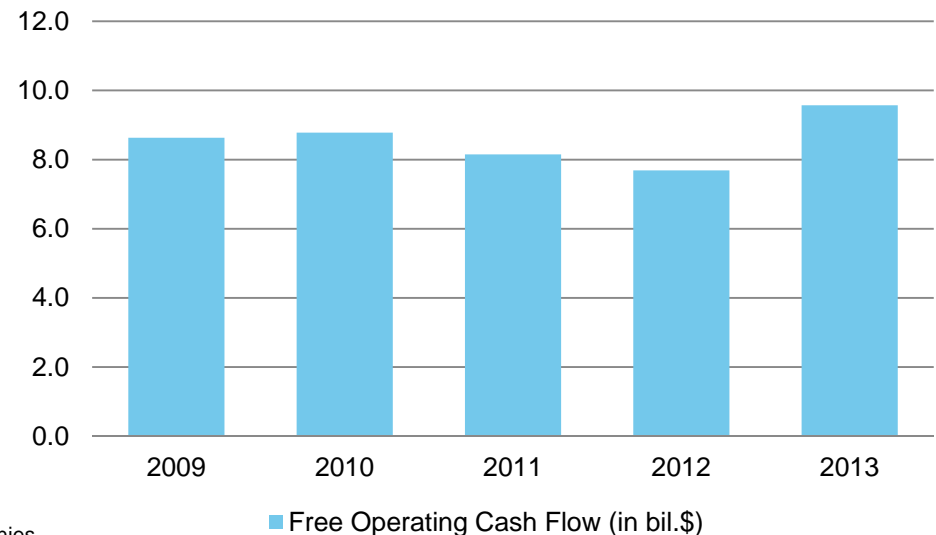
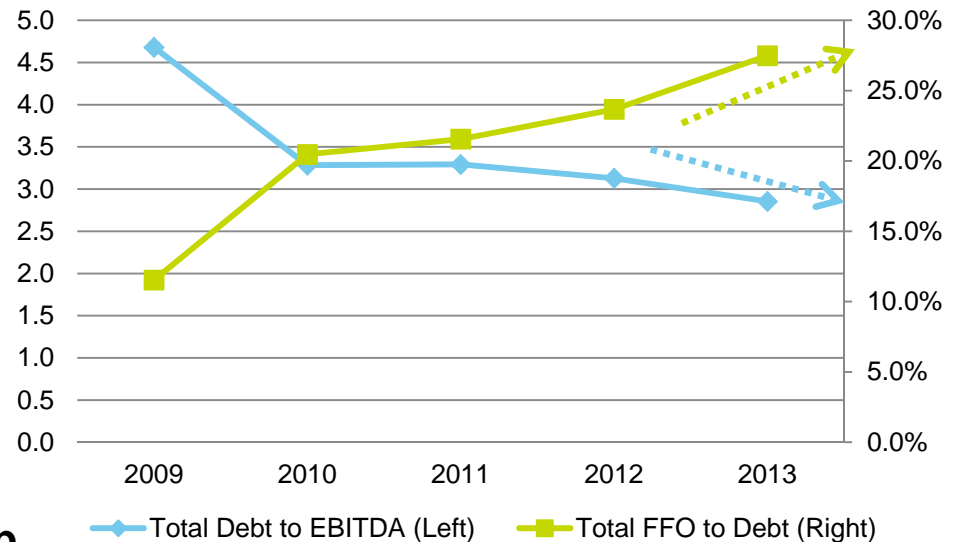
# Near-Term Rating Outlook Is Mostly Stable

- Downgrades outpaced upgrades in 2013.
- About 63% of all issuers are currently on stable outlook, taking into account a gradual improvement in economic conditions and ongoing difficult operating environment for graphic paper.
- Regional differences – positive outlook bias in North America, negative bias in APAC, LatAm, and EMEA.
- Negative outlooks mainly driven by uncertain market prospects and weak credit metrics.



# Key Financial Metrics

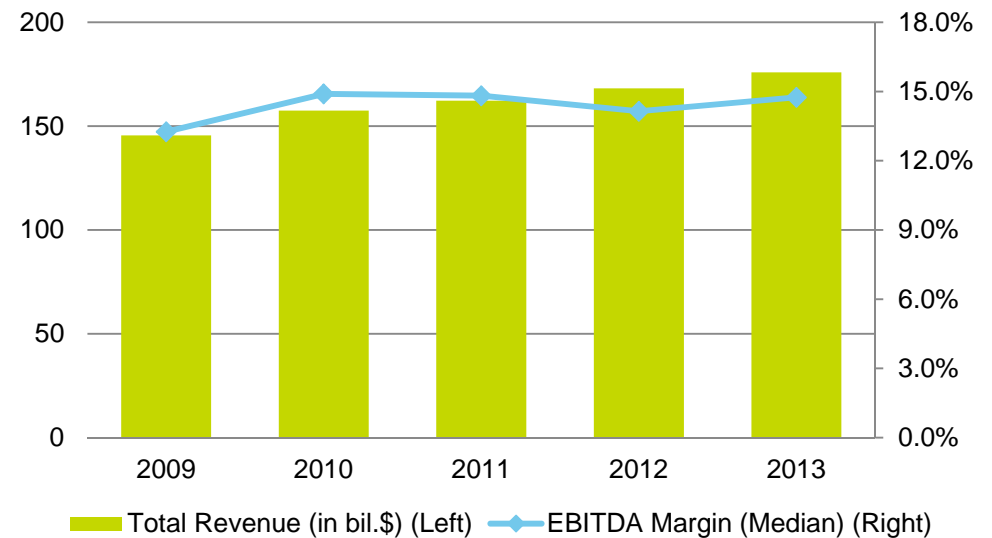
- **2011:**
  - M&A activity in NA
  - High global fiber prices lead to announced capacity in dissolving pulp and LATAM hardwood pulp
  - Paper companies continue to struggle with weak demand
- **2012:**
  - Investments in Emerging market pulp
  - NA housing picks up in Q4/2012
- **2013:**
  - M&A picks up in NA wood products
  - NA Containerboard price hikes
  - Very weak graphic paper markets in EMEA
  - Decoupling of Softwood and Hardwood pulp prices



Source: Standard & Poor's adjusted financials for 40 global forest & paper products companies

# Levels of Profitability

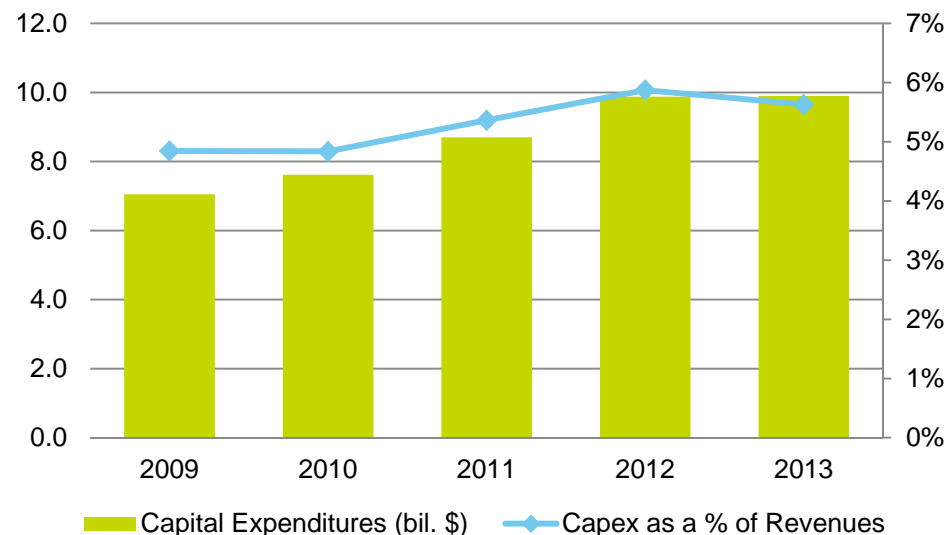
- **EBITDA margin is our primary indicator for level of profitability for forest products companies**
- **Three tiers of profitability**
  - Below average (<11%)
  - Average (11-19%)
  - Above average (>19%)
- **Outlook for remainder of 2014 continues to remain in similar levels:**
  - Slightly favorable outlook in NA and EMEA
  - Brazilian pulp producers to continue to earn above average margins



Source: Standard & Poor's adjusted financials for 40 global forest & paper products companies

# Capital Spending

- **Higher capex in 2012/2013 as investments in emerging economies. (i.e. IP in Russia/India, and LATAM pulp expansion by local and European players)**
- **For 2012/2013 in North America, higher investments in wood products sector as housing starts pickup momentum; Also investment in new tissue capacity as retailers build up store brands.**

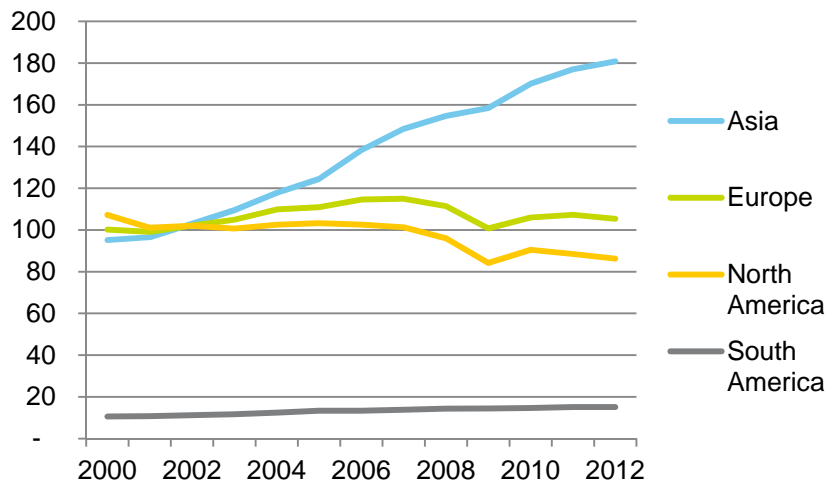


Source: Standard & Poor's adjusted financials for 40 global forest & paper products companies

# Industry Themes

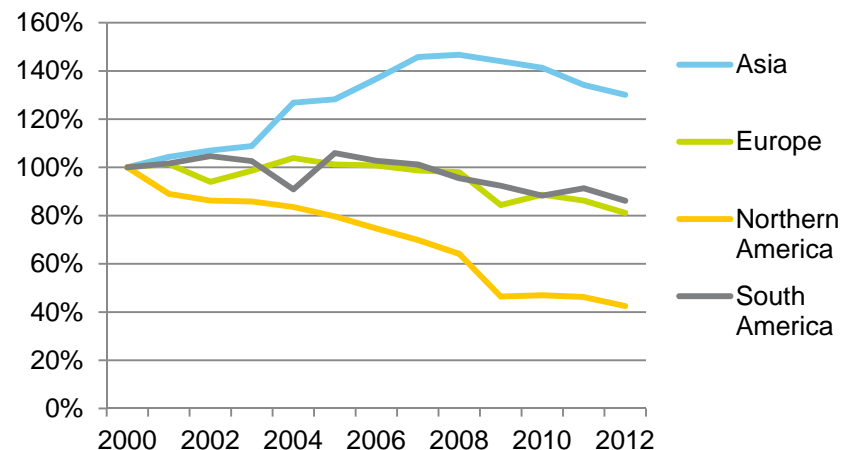
- Production shifts to emerging markets – low investment levels in mature markets
- Digital substitution continues – capacity management and cost cutting key for paper producers
- Paper-based packaging stable and growing with GDP
- Pulp capacity additions in Latam to meet demand from Asia (mainly China)
- Pick-up in North American housing starts positive for wood products manufacturers
- Conservative financial policies and improving credit metrics

Paper and Board Production (mn tonnes)



Source: FAO Forestry Statistics

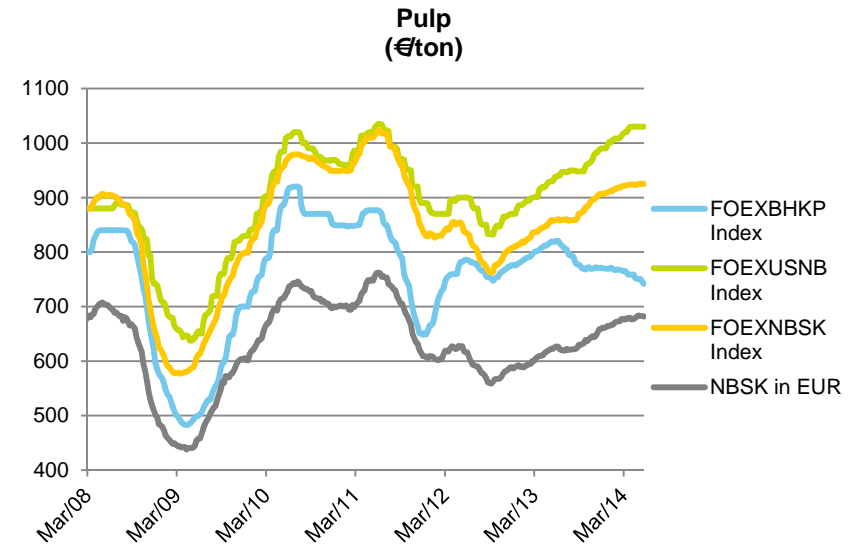
Newsprint production (mn tonnes; 2000 = index year)



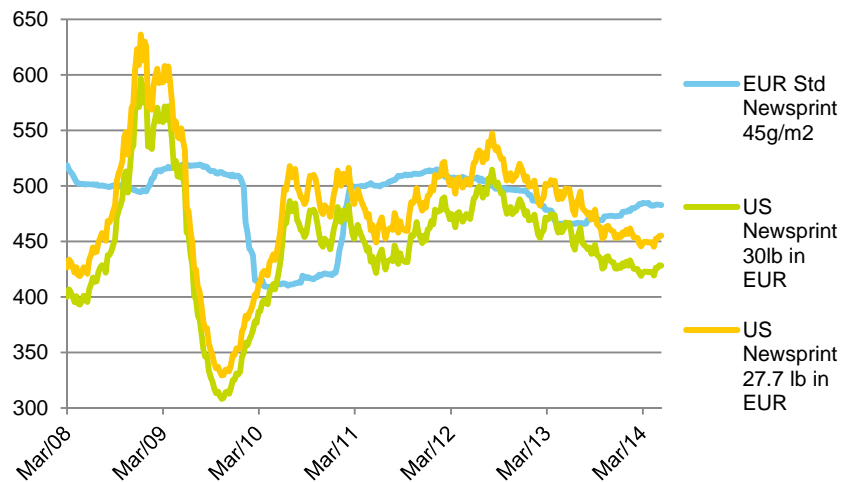


# Pricing Focus

- Softwood and hardwood pulp prices have diverged again after converging in 2012
- Pressure on newsprint and graphic paper following demand declines
- Producers were hopeful to raise prices in 2014 following capacity closures, but continued demand decline makes price hikes difficult to implement

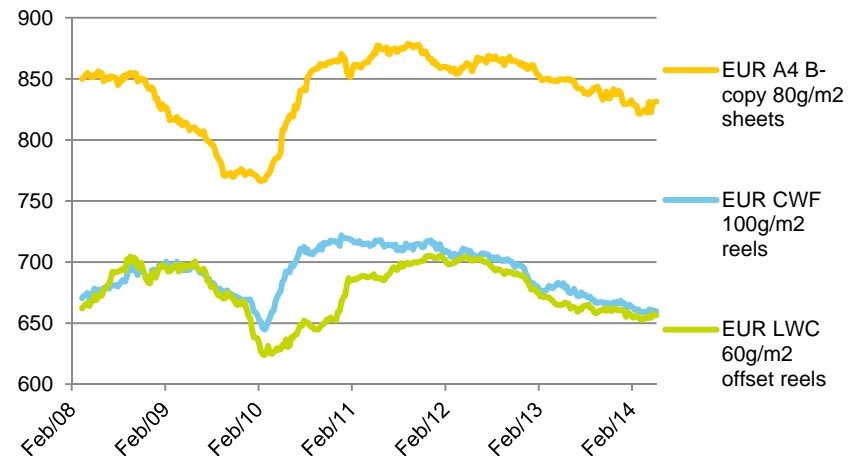


**Newsprint (€/ton)**



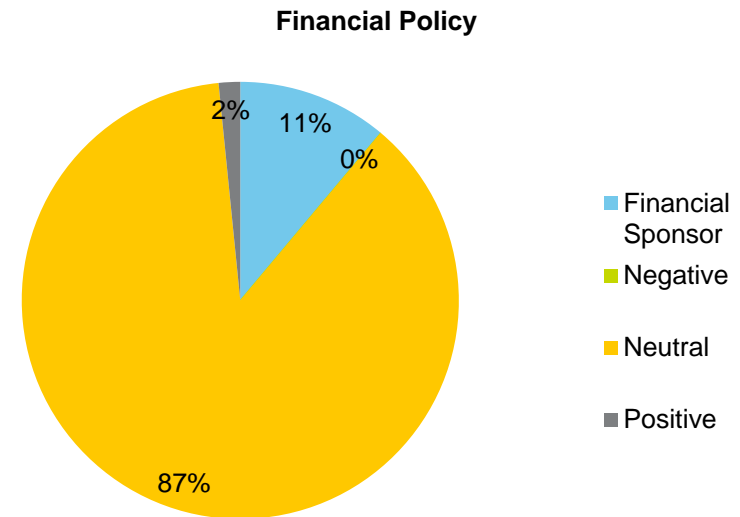
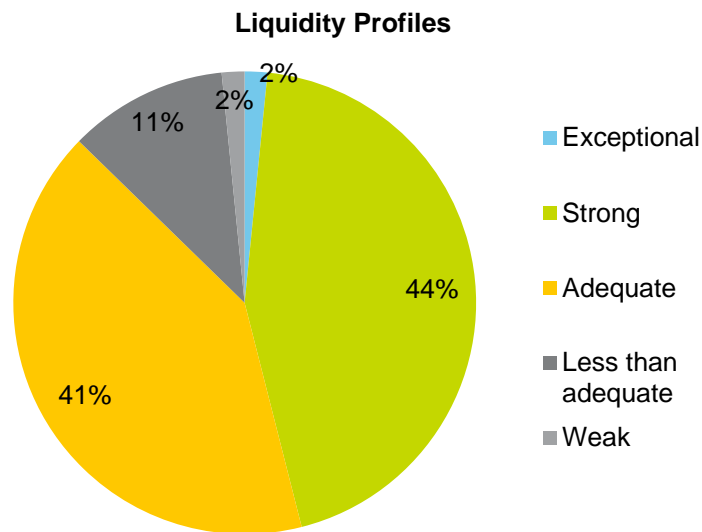
Source: FOEX, Bloomberg

**European Fine & Magazine Paper (€/ton)**



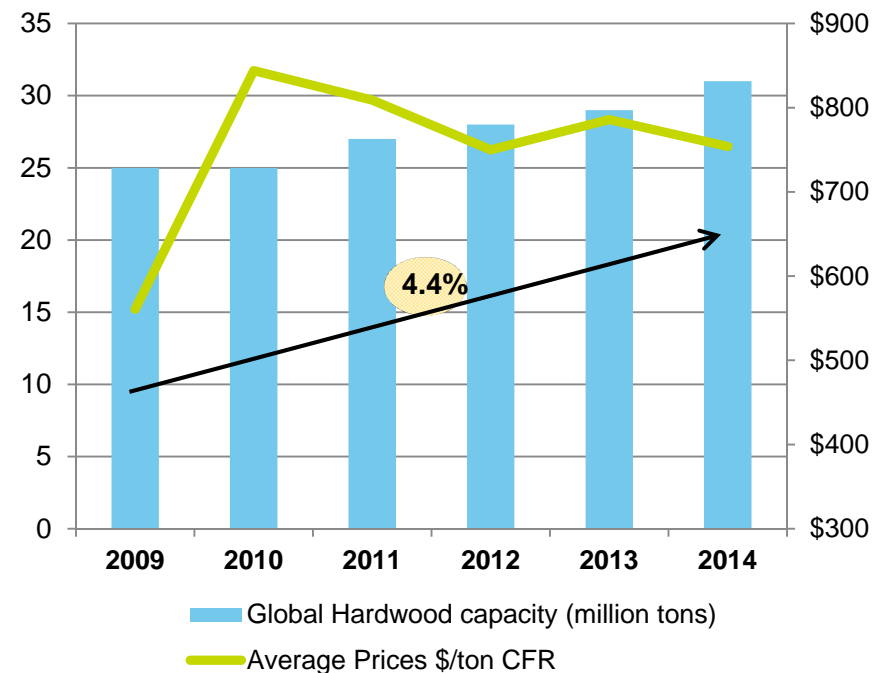
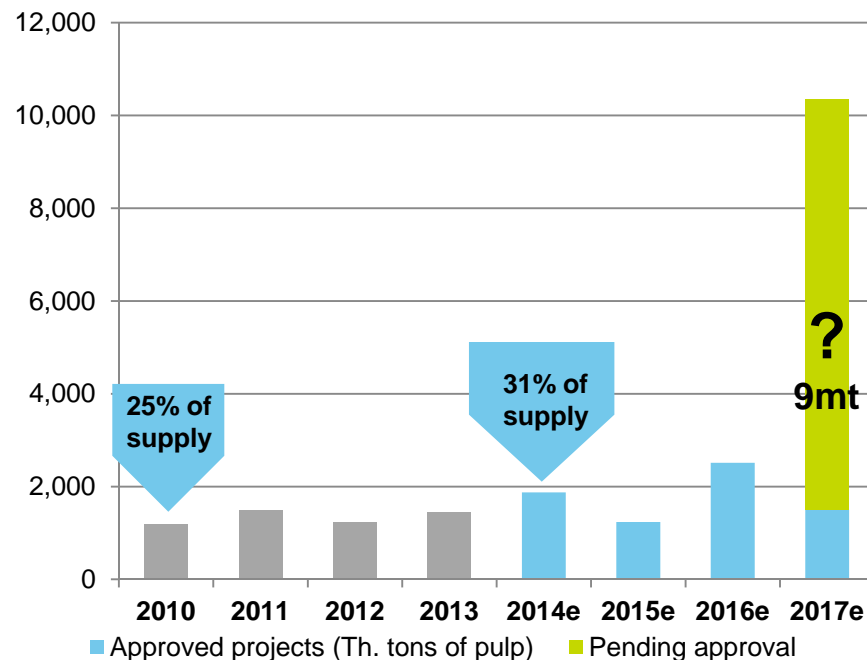
## Liquidity Profiles Remain Conservative On Average

- 'Strong' to 'adequate' liquidity profiles are underpinned by low investment levels, large unused back-up lines, ample cash on the balance sheet and limited debt maturities in the next 12-24 months.
- 'Less-than-adequate' and 'weak' liquidity profiles mainly due to upcoming unaddressed debt maturities maturing within 12 months.



# Focus: Latin American Pulp

- Investment in hardwood pulp capacity has been strong in the past 5 years, fostered by robust demand and competitive advantages
- Producers are showing discipline, but the potential addition to capacity beyond 2016 could be significant
- Average reference prices have ranged between \$700/ton and \$800/ton (BEKP, CIF Europe) as demand absorbed new capacity



Source: Standard & Poor's, based on RISI and public information

# Price Assumptions

**S&P base case prices range between \$720 and \$740 per ton (BEKP, CIF Europe)**

<b>Hardwood Pulp Prices – Scenarios</b>			
	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
Upside	-	\$750	\$730
		1.5 – 2.0	2.0 – 2.5
<b>Base Case BEKP</b>	<b>\$740</b>	<b>\$730</b>	<b>\$720</b>
<b>Surplus / (Deficit) tons</b>	<b>2.5</b>	<b>2.0 – 2.5</b>	<b>2.5 – 3.0</b>
Downside		\$720	\$700
		2.5 – 3.0	3.0 – 3.5
<b>Key Projects:</b>	Montes del Plata	Guaiba II	Guaiba II
		PUMA	PUMA
			APP Sumatra

Source: Standard & Poor's, based on RISI and public information

# Investment Case Pulp Production

## Eucalyptus Pulp – Brazilian producer

- **Current prices do not incentive capacity additions**
- **A new pulp mill of 1.5 mtpy costs around \$1,700 per ton**
- **Counting WK investments the total capital cost per ton would be around \$1,800**
- **Assuming a Debt to Capital ratio of 65% and borrowing costs of 5%, free operating cash flow barely repays interests**

	Cash flow per ton
Effective price China (CIF)	\$517
- Operating costs	(\$350)
Operating cash flow per ton	\$167
Maintenance capex	(\$60)
Free operating cash flow	\$107
Interests	(\$90)
<b>FOCF/interest</b>	<b>1.2x</b>

Source: Standard & Poor's, based on RISI and public information

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**2014 Transactions**

# Notable Packaging Transactions in 2014

## January

### **Silgan Holdings Inc.**

- \$1bil. Multicurrency Rvl.
- \$365m TL (BBB-/2)
- €220m (BBB-/2)
- CAD\$70m TL (BBB-/2)

### **Ardagh Packaging Group**

- \$830M Senior notes
- £700m Secured TL

## February

### **WNA Holdings, Inc.**

- Covenant-lite
- \$50m Incremental TL (B/3)

### **Innovia Group (Holding 3)**

- €340m Senior Sec. Notes (B/4)

### **Clondalkin Industries**

- \$360m First Lien TL repricing
- Covenant-lite

## March

### **Tekni-Plex Inc.**

- Covenant-lite
- \$50m incremental TL (B/3)

### **Devix Midco**

- \$380m first lien TL (B/3)
- \$175m second lien TL (CCC+/6)

## April

### **Hoffmaster Group Inc.**

- Covenant-lite
- \$35m Rvl. (B/3)
- \$265m First-lien TL (B/3)
- \$104m Second-lien TL (CCC+/6)

### **SGD Group**

- €335m senior secured notes (B/4)

## May

### **Pregis Holding I Corp.**

- Covenant-lite
- \$40m Rvl. (B/3)
- \$224m First-lien TL (B/3)
- \$90m Second-lien notes (B-/6)

### **Anchor Glass Container**

- Covenant-lite
- \$335m First-lien TL (BB-/2)

## June

### **Ardagh Packaging Group**

- \$710m PIK Notes (CCC+/6)
- €250m PIK Notes (CCC+/6)

### **CD&R Millennium HoldCo 6**

- €680m first lien TL (B/3)
- €295m second lien TL (CCC+/6)

Note: Letter and number (i.e., BBB-/2) represents Standard & Poor's issue-level and recovery rating for debt security

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# North American Debt Issuance

## Issuance

- **Year-to-date rated issuance, primarily at the speculative grade level, of approximately \$3.9 billion in the North American packaging sector**
- **In May 2014 we saw the largest uptick in issuance as the capital markets opened up**
  - Approximately \$1.5 billion rated debt
- **Favorable credit markets have continued to provide access to capital to fund acquisitions and shareholder rewards. Many deals are also covenant-lite.**
  - Notable debt financed acquisitions, such as Crown acquiring Mivisa or Silgan acquiring Portola Packaging, have been limited year-to-date.
  - Crown was downgraded to 'BB' from 'BB+' in May 2014 upon acquiring Mivisa

## New Issuer Snapshots

- **Pregis Holding I Corp.**
  - We assigned a 'B' corporate credit rating and a stable outlook to Pregis on May 1, 2014
    - *Business Risk Profile*- Weak
    - *Financial Risk Profile*- Highly leveraged
    - *Liquidity*- Adequate
  - We assigned a 'B' issue-level rating to the \$280M first-lien senior secured credit facilities with a '3' recovery rating. The proposed \$90 million second-lien notes were assigned a 'CCC+' issue-level rating and a '6' recovery rating.
- **Anchor Glass Container Corp.**
  - We assigned a 'B+' corporate credit rating and a stable outlook to Anchor on May 8, 2014
    - *Business Risk Profile*- Fair
    - *Financial Risk Profile*- Highly leveraged
    - *Liquidity*- Adequate
  - We assigned a 'BB-' issue-level rating to the proposed \$335 million senior secured term loan with a '2' recovery rating.



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# EMEA Debt Issuance

## Issuance

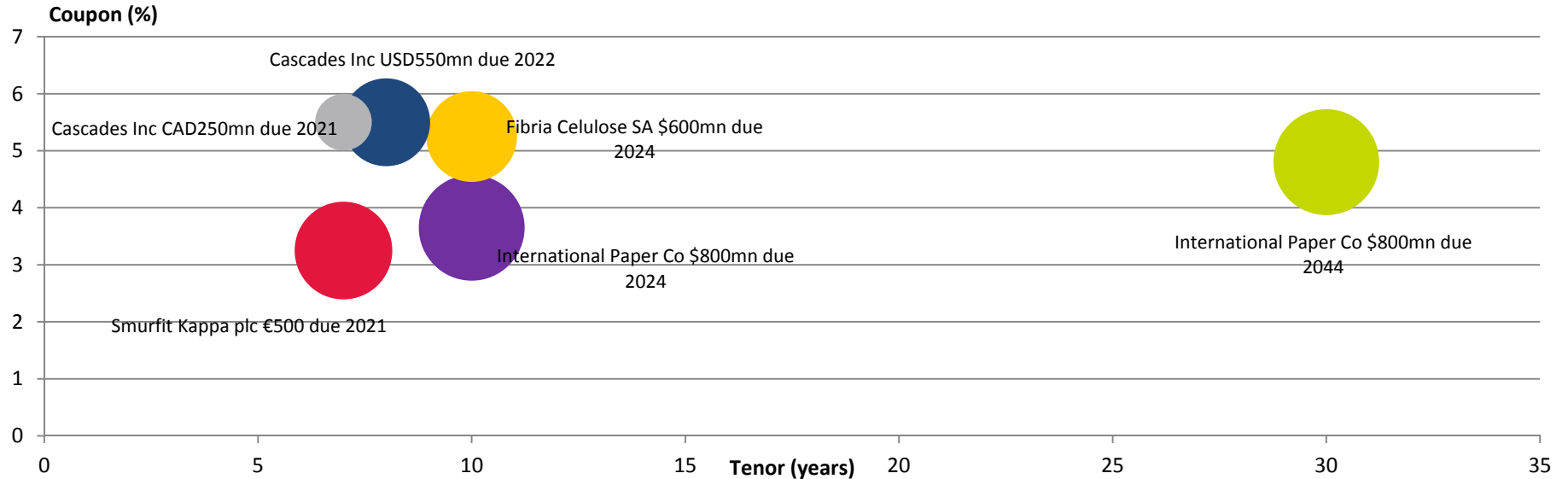
- **Significant refinancing activity in Europe has largely involved term loan refinancings and repricings, although bond markets have also been open for business.**
- **“Covenant-lite” characteristics becoming the norm.**
- **Ardagh Packaging Group have been actively taking advantage of benign bond market conditions in 2014:**
  - \$1.5 billion refinancing of Veralia acquisition funds in January.
  - \$1 billion PIK issued in June, returning \$110 million to shareholders.
  - Currently refinancing €1.8 billion, pushing out 2017 maturities to 2022.

## New Issuer Snapshots

- **Innovia Group (Holding 3)**
  - U.K.-based polymer plastic film and banknote substrate producer was assigned a rating of **B/Stable/--** in February:
  - We assigned a ‘B’ (4) issue-level rating to the proposed €340 million 2020 senior secured notes.
- **Devix Midco**
  - Rexam Healthcare’s Devices and Prescription business was assigned a preliminary rating of **B/Stable/--** in April:
  - We assigned a ‘B’ (3) issue-level rating to the proposed \$380 million 2021 first lien term loan and ‘CCC+’ (6) to the proposed \$175 million 2022 second lien term loan.
- **SGD Group**
  - Saint-Gobain’s pharmaceutical and perfumery glass packaging business was divested in April, with a preliminary rating of **B/Stable/--** assigned:
  - We assigned a ‘B’ (4) issue-level rating to the proposed €335 million senior secured notes.
- **CD&R Millennium HoldCo 6 (Mauser)**
  - German rigid packaging manufacturer Mauser is being acquired in June, with a **B/Stable/--** assigned:
  - We assigned a ‘B’ (3) issue-level rating to the proposed €680 million (equivalent) 2021 first lien term loan and CCC+ (6) to the proposed €295 million (equivalent) second lien term loan.

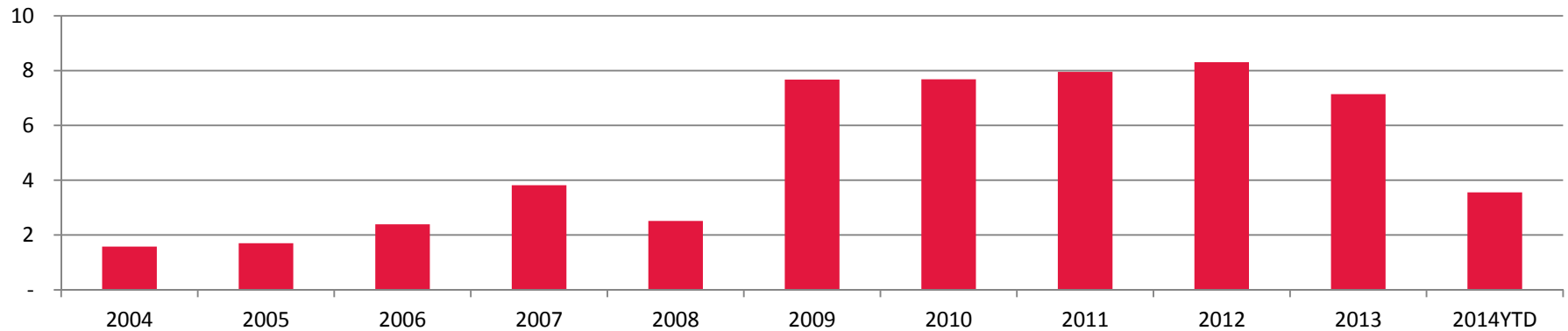
# Forest & Paper Issuance Mainly Driven By Refinancing

2014 issuance year-to-date



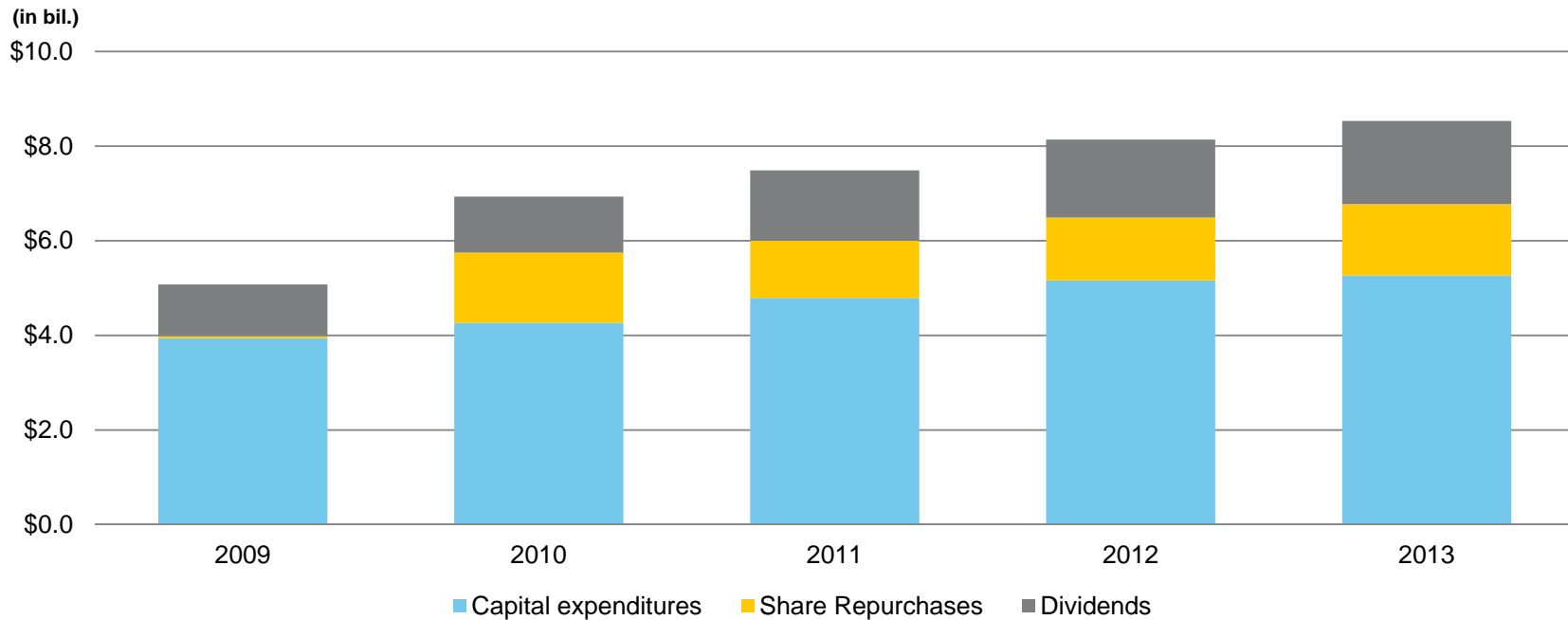
Source: Dealogic, Standard & Poor's. Note – bubble size refers to issuance in euro equivalent.

Bond issuance (€ bn equivalent)



Source: Dealogic, Standard & Poor's.

# Shareholder Rewards- Packaging



## Recession:

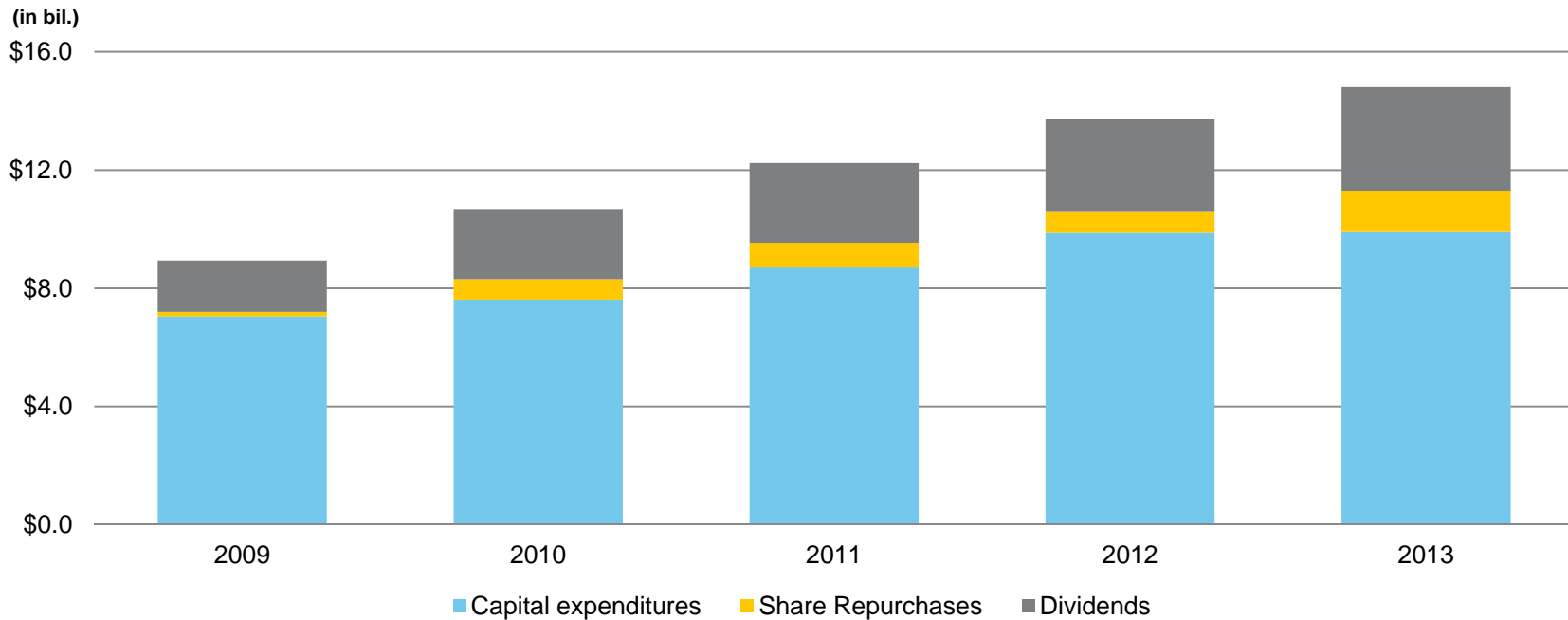
- **Companies were generally prudent about discretionary spending and preserved liquidity.**

## Post Recession:

- **Return back to normalized share repurchases and dividend levels.**
- **Healthy level of capital expenditures supporting growth.**
- **Liquidity adequate or better for the sector.**

Source: Standard & Poor's adjusted financials for 21 global packaging companies

# Shareholder Rewards- Forest Products



- **Dividends and share purchases have increased with improved economic conditions in N.A.**
- **Capital expenditures generally higher than 2009 levels however have been flat in the past few years (and varies by regions).**

Source: Standard & Poor's adjusted financials for 40 global forest & paper products companies



## Thank You

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