

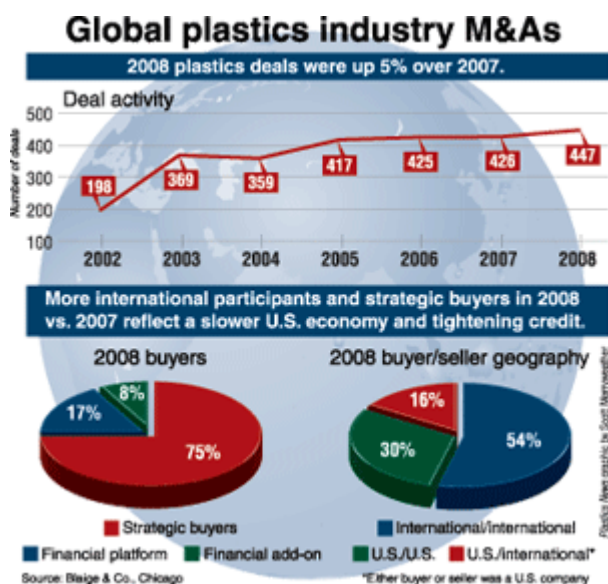


Analysts say deal-making slow, but not in Dumpster

By Dan Hockensmith

January 26, 2009

PLASTICS NEWS STAFF



AKRON, OHIO (Jan. 26, 10:15 a.m. ET) -- After a decline in the fourth quarter of 2008 that coincided with the main part of the global economic slump, the mergers and acquisitions outlook for plastics processors is pretty slim for the first half of 2009.

Several analysts interviewed by *Plastics News* said that the deepening global recession and credit crunch, combined with uncertainty over the future of the U.S. automotive industry, make this an uncertain time for those interested in deal making.

“Our view is that we’re going to have a lower level of activity because there are fewer buyers and people who are going to sit on the sidelines and not sell their companies because they’re not performing well or they view the market as being down,” said John Hart, director of P&M Corporate Finance

LLC’s plastics and packaging group in Southfield, Mich., in a Dec. 24 telephone interview.

“On the flip side, I think what’s going to fuel M&A activity in the near terms will be corporate divestitures [as well as] private equity groups that have a certain cycle that they have to hit in order to make money; and I think you’re going to see a lot of distress deals,” Hart said.

According to P&M’s review of the year in plastics, M&A deals fell about 23 percent in the second half of 2008 vs. 2007 — from 166 to 128 transactions. In all, P&M recorded 295 plastics deals in 2008 compared with 326 in 2007, about a 10 percent drop.



[See related story](#)

While most industry watchers continue to sound alarm bells about the state of the economy, some, including President Tom Blaise of Blaise & Co. in Chicago, insist that globalization and strategy will get deals done.

“It’s like kids in school: Everybody is doing their homework,” Blaise said. “It’s not like the market’s dead and nobody can sell,” Blaise said in a Jan. 9 telephone interview.

“There’s a market for really good, high-performing companies, because there are

[on M&As in the materials business.](#)

fewer of them,” he said.

Blaige urges customers to take the long view of plastics, as a relatively stable boat in stormy economic seas. In a seven-year study prepared for *Plastics News*, Blaige argues that the global M&A trend for plastics continued to rise in 2008 (447 deals) and that the number of deals has remained above 400 annually since 2005.

“To say that there are going to be 400 deals in 2009 ... maybe knock 10-20 percent of the deals out of the picture. If you look at plastics, I think it’s not as bad as other sectors,” he said.

But even an optimistic Blaige recorded a who’s who of failed deals in 2008, including the ongoing saga of Akron, Ohio-based Meyers Industries Inc., and Montreal-based Rio Tinto Alcan’s lack of success in finding a buyer for its Alcan Packaging unit.

Headline bankruptcies affected several large packaging companies in 2008, including Atlantis Plastics Inc. of Atlanta; Hilex Poly Co. LLC of Hartsville, S.C.; Constar International of Philadelphia; and Chesapeake Corp. of Richmond, Va.

“If you look at all of those situations, there were buyers for all of those assets, all of the debt, so those companies weren’t liquidated, they were restructured,” said Will Frame, managing director in Chicago for the paper, plastics and packaging unit of Deloitte & Touche Corporate Finance LLC of Detroit.

Frame said that because of the credit crunch, private equity groups are less likely to be active in M&As during the first half of 2009.

“I suspect we shall see a clear difference between the private equity groups that understand the sector and want to keep investing in the sector than the pure financial players who were more interested in putting money to work than in the long-term dynamics of packaging,” Frame said.

But perhaps nothing worries analysts more than the future of the Big Three automakers — and the near-term prospects for a revival of the U.S. housing market.

“There are 300,000 direct employees in the Big Three, but about 3 million employees who represent the suppliers at the Tier 1, Tier 2 levels,” said Bill Ridenour, owner of Polymer Transaction Advisors Inc. of Newbury, Ohio.

“Irrespective of the government bailout and looking at the forecast at vehicles for 2009 and if you look at the way Bush has structured the loans, one way or the other, there’s going to be a huge shrinkage in the industry and that can only lead to more foreclosures and bankruptcies in the supplier base,” he said.

“In the recession that lasted from 2000-03 — which was far milder — we saw a reduction of M&A in plastic deals of about 40-45 percent. I expect that to happen this time,” Ridenour said. “I expect a lot of those deals to be consolidations ... I expect the rest of them to go after the specialty businesses to try and rejigger their customer base into businesses that aren’t as volatile and affected as those tied into the construction and the automotive markets.”

Ridenour said some deals that closed in 2008 and were valued at 3 to 3.5 earnings before interest, taxes depreciation and amortization would have been valued at up to 5 times EBITDA in 2007.

Greg Myers, managing director of buyout funds at Milwaukee-based private equity group Mason Wells,

said his firm, which advises in middle-market deals of under \$200 million, has seen valuations steadily slide through the second half of 2008.

“If you can get — on a good deal, not a troubled one — 2 to 2.5 times senior debt, that’s pretty good, and maybe 3 to 3.5 overall total leverage, that compares to two years ago [when] you were seeing things done at 6 times total debt,” he said. Myers blamed the credit crunch — which was not alleviated by the late-year release of \$700 billion in Troubled Asset Relief Program funds to banks — for stalling much of the midmarket and private equity action.

“On a good deal, we used to call three or four players, and were very confident we’d get it financed. And now, you’ve got to call 20-plus, just to find the ones who are open for business,” he said.

Nick Chini, managing principal at Bainbridge Inc. in San Diego, said deals should pick up in the second half of 2009.

“Those deals that were based on unrealistic multiples, those are not going to come back soon. But those deals that were sidelined due to credit availability, give those a couple of months, and assuming the fundamentals are there, they’ll happen,” he said.

All of the analysts agreed that medical devices and aerospace will be growth sectors for plastics processors in 2009 and deals in those spaces will fetch better prices. Amid all the uncertainty, several industry watchers said their firms either had been consulted or were in the process of arranging deals for Asian and European buyers in North America.

Entire contents copyright 2009 by Crain Communications Inc. All rights reserved.