



SORTINO
M&A GROUP

Smurfit-Kappa's Acquisition of WestRock for \$11.2 billion

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Deal Introduction

DETAILS ABOUT THE DEAL

The merger between Smurfit Kappa, a FTSE 100 company, and WestRock, an S&P 500 company, represents a strategic horizontal integration within the packaging industry, aiming to create Smurfit WestRock, a global leader in sustainable packaging solutions. Announced on the 12th of September 2023, the Boards of both companies have entered into a definitive transaction agreement, marking a significant step in their combined journey towards operational excellence and market expansion. This integration is facilitated by a mixture of debt financing and stock.

Smurfit Kappa purchased WestRock for \$11.2 billion to create what is to be the largest paper company in the world - Smurfit WestRock - with a combined adjusted annual revenue of approximately \$34 billion and WestRock shareholders receiving \$43.51 per share, which would make Smurfit WestRock the largest listed global packaging partner by revenue. Smurfit Kappa shareholders will receive one new Smurfit WestRock share for each share they hold, and WestRock shareholders will receive one new Smurfit WestRock share and \$5.00 in cash. They are expected to own around 50.4% of the new company following completion of the deal, expected in the second quarter of 2024.

The Boards of Smurfit Kappa and WestRock believe the Combination will create the global “Go-To” packaging partner of choice: combining two highly complementary portfolios to create a global leader in sustainable packaging with an unparalleled geographic reach across 42 countries and a significant presence across both Europe and the Americas. Complementary portfolios with unique product diversity and innovative sustainability capabilities, with breadth and depth across renewable, recyclable and biodegradable packaging solutions Culturally aligned with a strong customer focus Broader opportunities for approximately 100,000 employees.



DETAILS ABOUT THE DEAL

This merger will also improve operating efficiency and increase returns across approximately 500 converting operations and 67 mills. Shared sustainability ambitions for a sustainable future, experienced management teams with strong track records of execution and delivery to support global operations as well as immediate and long-term value creation opportunities for both sets of shareholders.

The deal represents a 28% premium to September 11th's closing price and is considered higher than most of its investors had hoped for.

The Boards of Smurfit Kappa and WestRock believe the Combination represents a unique opportunity to generate substantial value for stakeholders. With combined last twelve months' adjusted revenue and adjusted EBITDA as of 30 June 2023 totaling approximately \$34 billion and \$5.5 billion, respectively, the merger positions them as a market leader in the industry.

By aligning Smurfit Kappa and WestRock on equivalent enterprise value to EBITDA multiples, the deal is expected to achieve high single-digit accretion to Smurfit Kappa's earnings per share on a pre-synergy basis. Moreover, with the expected cost synergies, exceeding 20% is expected within the first full year following completion, demonstrating the commitment to delivering tangible returns.

Their strategic vision is underpinned by robust cash flows set aside for future growth initiatives and capital returns. They target annual pre-tax cost synergies surpassing \$400 million by the end of the first full year post-merger, anticipating significant operational efficiencies. While the realisation of synergies will entail one-off cash costs of approximately \$235 million, the long-term benefits are expected to far outweigh these short-term expenditures.



DETAILS ABOUT THE DEAL

Importantly, the transaction structure ensures that both Smurfit Kappa shareholders and WestRock stockholders have the opportunity to participate meaningfully in the substantial upside value potential of Smurfit WestRock. Their commitment to disciplined capital allocation is designed to enhance operating efficiency and amplify returns, reinforcing their dedication to creating sustainable value for all stakeholders.

Furthermore, Smurfit Kappa is committed to not only maintaining but also improving its BBB credit rating. The merger with WestRock is expected to play a crucial role in enhancing financial stability and operational efficiency. Therefore, these improvements are expected to positively influence Smurfit Kappa's creditworthiness by boosting cash flows and profitability.



Acquirer Overview



Smurfit Kappa Group is a provider of paper packaging solutions, offering a plethora of paper-based packaging products. The firm is listed on the London Stock Exchange, as a constituent of the FTSE 100, and employs 47,000 people globally.

Operating in 36 countries in 350 production sites and 68,000 hectares of forest, Smurfit Kappa is one of the leading providers of paper-based packaging.

Headquartered in Dublin, Ireland, Smurfit Kappa has been led by Anthony Smurfit since 2015, grandson of John Jefferson Smurfit who founded the firm in 1934.

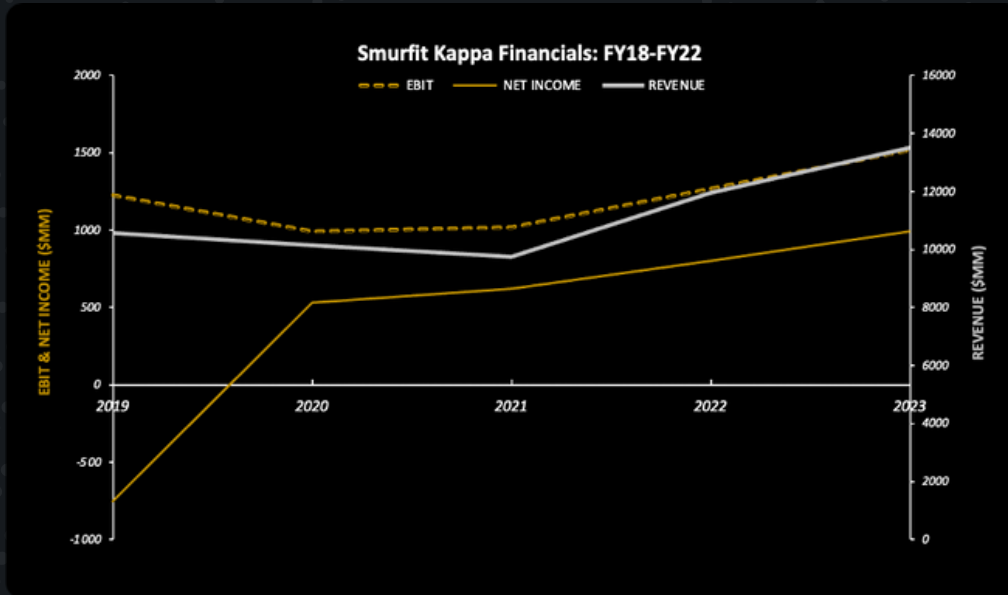
KEY FINANCIALS

MARKET CAP: \$10.91 BILLION
REVENUE \$11.3 BILLION
EBIT \$0.72 BILLION
EBITDA \$2.08 BILLION

NET INCOME: \$0.94 BILLION
EPS: N/A
NET PROFIT MARGIN: 6.73%
DEBT TO EQUITY RATIO:
0.673



KEY FINANCIALS (CONTINUED)



DEBT/BOND ISSUANCES

In September 2021, Smurfit Kappa most recently issued debt with a dual tranche transaction in the amount of USD 1000m, as its inaugural Green Bond issued in 8 and 12 year tenors, with USD 500m maturing in 2029 and USD 500m maturing 2033. Smurfit Kappa released its second Green Bond report in October 2023, where it outlined the use of the bond's proceeds, with 96% contributing to eco-efficient projects and recycling, and 4% contributing to sustainable and environmentally friendly practices in farming natural resources.

SHARE PRICE ANALYSIS

Over the past year, Smurfit Kappa's share price (in Great British Pence, p) has experienced fluctuations, with a range between 2528.00p and 3638.00p, and closing at 3590.00p most recently. Several factors, both specific to the firm and macroeconomic, have influenced these changes.



KEY FINANCIALS (CONTINUED)

Firm-Specific Factors

Financial Performance: Smurfit Kappa reported a decrease in revenue from €12,815m in 2022 to €11,272m in 2023, and a decline in profit before tax of 18.4% in the same period. This decline in financial performance, particularly the 22% drop in EPS growth, likely contributed to the stock's volatility.

Dividend Policy: Despite the challenging year, Smurfit Kappa increased its final dividend to 118.40p for 2024, up from 107.60p in 2023. This decision may have positively influenced investor sentiment, supporting the stock price amidst broader challenges.

Operational Challenges: The company faced a difficult demand environment, characterised by destocking and a lack of economic activity in certain sectors. This was particularly evident in the durable goods sector, which directly impacted Smurfit Kappa's revenue and demand for packaging.

Return to Growth: In the fourth quarter, Smurfit Kappa reported a return to growth, with improved margins and a positive outlook on sustainable packaging solutions. This turnaround likely contributed to the recovery in its share price towards the end of the year.



KEY FINANCIALS (CONTINUED)

Macroeconomic Factors

Economic Slowdown: The broader economic slowdown and reduced retail sales across major economies have directly impacted Smurfit Kappa. As consumer demand fell with interest rates reaching their peak eroding household expenditure, the demand for packaging also fell, affecting the company's bottom line

Sustainable Packaging Demand: An increasing demand for sustainable packaging solutions presents both a challenge and an opportunity for Smurfit Kappa. The company's ability to innovate and meet this demand can influence its market position and stock performance.

Inflation and Costs: Rising energy and raw material costs have been a concern for Smurfit Kappa, potentially affecting its manufacturing costs and margins. These macroeconomic pressures can influence investor sentiment and stock performance.



BUSINESS MODEL

With total revenue of \$11.3 billion in FY2023, Smurfit Kappa operates across multiple primary business segments catering to diverse consumer preferences.

- **Packaging Solutions:** Smurfit Kappa is renowned for its innovative and sustainable packaging solutions, serving various industries such as food and beverage, consumer goods, and e-commerce.
- **Paper and Recycling:** Smurfit Kappa's paper and recycling segment involves the production of paper products, including containerboard and corrugated packaging materials, as well as recycling services to support its sustainability goals.

Leveraging its expertise in packaging and commitment to sustainability, Smurfit Kappa continues to expand its market presence and drive growth through strategic investments and operational excellence.

- The company's acquisition strategy focuses on acquiring businesses with strong market positions and complementary capabilities, enhancing its product portfolio and geographic reach. Successful past acquisitions such as Reparenco demonstrate Smurfit Kappa's ability to integrate and grow acquired assets.

Below is a breakdown of how Smurfit Kappa generates revenue from their business segments.



BUSINESS MODEL (CONTINUED)

Below is a breakdown of how Smurfit Kappa generates revenue from their business segments.

Paper

- **Containerboard:** Smurfit Kappa produces containerboard, which is a key material used in the manufacturing of corrugated boxes and other packaging solutions. These materials are then sold to The company's revenue from paper products is derived from the sale of these materials to various industries that require packaging for their goods.
- **Bag-in-Box:** Designed for liquid or viscous products, this innovative packing solution is a unique product offered by Smurfit Kappa.

Packaging

- **Corrugated Packaging:** As a core product, corrugated packaging is widely used across different sectors, including retail, consumer goods, industrial, and e-commerce. Smurfit Kappa's revenue from packaging is significantly influenced by the sale of corrugated boxes, which are in high demand due to their sustainability and versatility.
- **Displays and Packaging Machinery:** The company also offers point-of-sale displays and packaging machinery, which add to the revenue stream by providing comprehensive packaging solutions to customers.
- **Sustainable Packaging:** There is a strong acceleration in demand for sustainable packaging solutions, which Smurfit Kappa is capitalising on through its eco-friendly product offerings.



BUSINESS MODEL (CONTINUED)

Recycling

- Paper and Cardboard Recycling: Smurfit Kappa operate a recycling service where old corrugated cardboard and paper waste is bought for recycling. The revenue from this segment is generated through the sale of recovered fibers and the provision of recycling services to businesses and communities.

ESG PRACTICES

Smurfit Kappa has a well-established ESG framework that includes commitments to sustainable sourcing, reducing its environmental footprint, and promoting circular economy principles.

- Smurfit Kappa has made significant strides in reducing its environmental impact, achieving a 75% reduction in waste to landfill and implementing initiatives to increase the use of renewable energy sources in its operations.
- Sustainability Leadership Recognition: The company has been recognized for its sustainability leadership by Morningstar Sustainalytics, which acknowledged Smurfit Kappa as the number one building on its strong performance in MSCI and ISS ESG and its recent improved A- score in CDP across climate, water, and forestry.



Target Overview



Established in 2015, WestRock emerged from the merger between MeadWestvaco Corp, and RockTenn, forming a robust packaging and paper company, that is now the second largest player in the US packaging sector.

Headquartered in Sandy Springs, Georgia, WestRock is found globally in over 300 locations, employing over 50,000 across business sectors. David Sewell has been the acting CEO since March 2021.

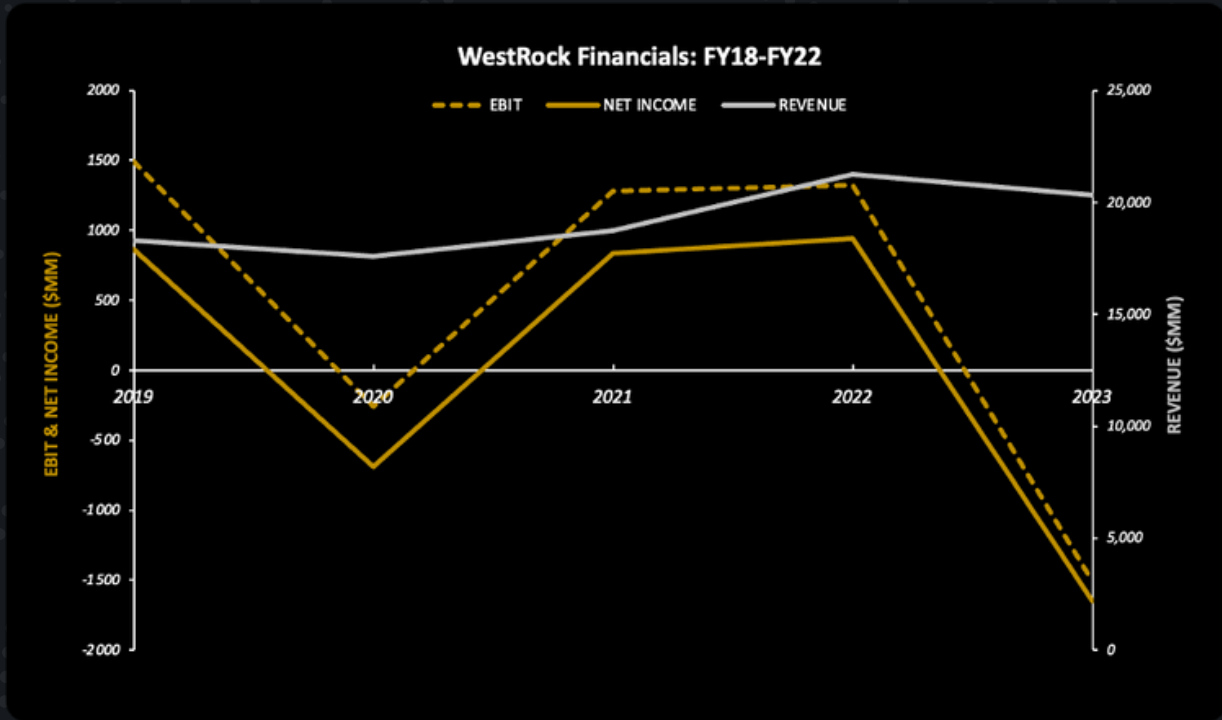
KEY FINANCIALS

MARKET CAP: \$12.39 BILLION
REVENUE \$20.31 BILLION
EBIT -\$1.5 BILLION
EBITDA \$3 BILLION
NET INCOME: \$778 MILLION
EPS: 0.89

NET PROFIT MARGIN: -8.58%
DEBT TO EQUITY RATIO: 0.81
LEVERAGE RATIO: 2.58
LIQUIDITY RATIO: 1.55
PE RATIO: 18.06



KEY FINANCIALS (CONTINUED)



SHARE PRICE ANALYSIS

Over the past year, WestRock Company (WRK) has experienced notable fluctuations in its share price, influenced by both firm-specific factors and broader macroeconomic conditions. As of March 21, 2024, the closing stock price for WestRock was \$48.83, reflecting a significant recovery from its 52-week low of \$26.85 and approaching its 52-week high of \$49.66. This performance indicates a robust recovery and a positive trend in the company's stock value over the year. However WRK has not recovered to 2021 levels, where share price reached \$60.



KEY FINANCIALS (CONTINUED)

Firm-Specific Factors

Financial Performance: WestRock reported strong fourth-quarter fiscal 2023 results, with a notable increase in sales in the Corrugated Packaging segment, primarily due to the acquisition of Mexican packaging company Grupo Gondi. However, the company also faced challenges, for example a 20% decrease in Adjusted EBITDA compared to the fourth quarter of FY2022, primarily due to lower Global sales.

Strategic Initiatives: Analyst George Staphos of Bank of America Securities reiterated a Buy rating on WestRock, with a price target of \$48.00, highlighting the company's strategic price increases and strong box shipments. Despite fiscal first-quarter earnings per share falling short of estimates, the anticipation of stronger performance in the second half of fiscal year 2024, bolstered by recent price increases, has contributed positively to investor sentiment.

Market Position and Innovations: WestRock's focus on portfolio optimisation, cost savings initiatives, and strategic growth plans have been important in driving strong share price growth. The company's diversified portfolio and innovative solutions have been instrumental in driving its stock performance, alongside the announcement of the merger with Smurfit Kappa.



KEY FINANCIALS (CONTINUED)

Macroeconomic Drivers

Market Sentiment and Economic Conditions: The broader market sentiment and economic performance of index funds have played a significant role in WestRock's share price movements. The recovery from the pandemic-induced economic downturn, high interest environments and the gradual stabilisation of the economy have contributed to the positive momentum in the stock market.

Industry Trends: The packaging industry has seen a surge in demand, partly due to the increase in e-commerce and the need for sustainable packaging solutions. WestRock, being a leading provider in this sector, has benefited from these trends, contributing to its stock price recovery.

Inflation and Cost Pressures: Inflationary pressures and the cost of raw materials have been critical macroeconomic factors affecting WestRock and the packaging industry as a whole. The company's ability to navigate these challenges through strategic price increases and cost-saving measures has been crucial in maintaining its profitability and, by extension, its stock price.



BUSINESS MODEL

Like Smurfit Kappa, WestRock primarily operates through the sale of packaging solutions. The business model is focused around four main business areas; Corrugated packaging, Consumer packaging, Paperboard production and Chemical production.

Leveraging its expertise in packaging and commitment to sustainability, WestRock continues to expand its market presence and drive growth through strategic investments and acquisitions.

- Since 2015, WestRock has acquired 6 similar packaging companies, expanding their geographic presence. Most notably, WestRock acquired Star Pizza Box in 2017, the largest manufacturer of pizza boxes, and in 2018 acquired rival pulp and paper company Kapstone.

Corrugated Packaging: WestRock excels in manufacturing and selling corrugated boxes, displays, and packaging solutions across various industries. This includes products such as cardboard shipping boxes, E-Commerce Packaging, Bulk Bins and Industrial boxes. This segment is a significant revenue driver for the company, with sales reaching \$2.3B in Q1 FY24, approximately 50% of the group's total sales.

Consumer Packaging: Generating a revenue of \$1.1B in Q1 FY2024 (23% of group sales), this business area focuses on providing customers user-specific packaging solutions across industries, as well as mass-producing packaging for renowned consumer brands. The product range includes drink and food containers, to healthcare and beauty-care packaging, with 97.8% of products within this range being recyclable or compostable.



BUSINESS MODEL (CONTINUED)

Paperboard: WestRock's expertise extends to manufacturing and selling coated paperboard for packaging and graphic applications. This product line caters to various needs such as greeting cards, book covers, and displays, as well as a variety of types of papers from Kraft Paper, to Pulp and containerboard. This business area generate \$0.9B in revenue in Q1 FY2024 (20% of company sales).

Specialty Chemicals: Another key aspect of WestRock's product portfolio is the production and sale of specialty chemicals used in industries like adhesives, coatings, and personal care. This segment adds diversity to the company's revenue streams by offering essential chemical solutions to various sectors.

ESG PRACTICES

As a company that utilises natural resources, WestRock make sure to engage in ESG initiatives to ensure sustainable growth:

- **Water, Energy, and Packaging Lifecycle Management:** WestRock has committed to conserving water, reducing energy use, and managing its packaging lifecycle more sustainably. The company has achieved a recycling recovery volume of 7.3 million tonnes of paper, and has reduced energy usage by 5.8%, whilst increasing its renewable energy usage to 62%.
- **Sustainability-First Sourcing:** Maintaining a sustainable supply chain is vital to WestRock, who work with 43,000 local suppliers to accurately and regularly source high-quality and sustainable timber for manufacturing practices. WestRock's landholdings in Brazil are carefully managed, and less than 60% is reserved for harvesting timber, with all practices up to third-party sustainability regulations.



Valuation Analysis

COMPARABLES ANALYSIS

American Packagaing Companies	EV/Sales	EV/EBITDA	P/E	Forward Year EV/Sales	Forward Year EV/EBITDA	Forward Year P/E
International Paper	1.0x	8.1x	44.3x	0.9x	7.7x	16.6x
Avery Dennison	2.5x	18.3x	34.9x	2.3x	14.5x	23.1x
Berry Global Corp	1.3x	8.6x	13.0x	1.3x	7.7x	7.4x
Crown Holdings	1.3x	9.8x	20.8x	1.3x	8.6x	13.0x
Ball Corp	2.0x	14.2x	28.7x	2.3x	14.4x	20.5x
Packaging Corporation of America	2.4x	11.6x	21.4x	2.3x	11.3x	20.8x
Mean	1.7x	11.8x	27.2x	1.7x	10.7x	15.0x
Median	1.3x	9.2x	27.8x	1.3x	8.2x	14.8x

Implied Enterprise Value w/ Median EV/EBITDA	24,958
Less: Net debt	(8,883)
Implied Equity value	16,075
Implied Share Price	\$62.55

Please click on the table to access the full model



Valuation Analysis

DISCOUNTED CASH FLOW ON SMURFIT-KAPPA

Exit EV/EBITDA Multiple	6.40x
WACC	8.41%
Mid-Year Convention	No
Discount Year	
Terminal Value	
Present Value Unlevered Free Cash Flow	
Present Value Terminal Value	
Enterprise Value	13,955
Net Debt	3,108
Equity Value	10,847
Diluted Shares Outstanding	259.5
Implied Share Price	\$41.80
USD/Euros Exchange Rate	1.09
Implied Share Price	\$38.19

		Exit EV/EBITDA Multiple						
		4.90x	5.40x	5.90x	6.40x	6.90x	7.40x	7.90x
WACC	6.91%	\$36.66	\$39.70	\$42.75	\$45.79	\$48.83	\$51.87	\$54.92
	7.41%	\$35.54	\$38.50	\$41.46	\$44.42	\$47.38	\$50.34	\$53.29
	7.91%	\$34.46	\$37.33	\$40.21	\$43.09	\$45.97	\$48.84	\$51.72
	8.41%	\$33.40	\$36.20	\$39.00	\$41.80	\$44.60	\$47.40	\$50.20
	8.91%	\$32.38	\$35.10	\$37.83	\$40.55	\$43.27	\$45.99	\$48.72
	9.41%	\$31.39	\$34.04	\$36.69	\$39.34	\$41.98	\$44.63	\$47.28
	9.91%	\$30.43	\$33.00	\$35.58	\$38.16	\$40.74	\$43.31	\$45.89

[Please click on the table to access the full model](#)



Valuation Analysis

DISCOUNTED CASH FLOW ON WESTROCK

Exit EV/EBITDA Multiple	9.22x
WACC	8.25%
Mid-Year Convention	No
Discount Year	
Terminal Value	
Present Value Unlevered Free Cash Flow	
Present Value Terminal Value	
Enterprise Value	29,309
Net Debt	8,883
Equity Value	20,426
Diluted Shares Outstanding	257
Implied Share Price	79.48

		Exit EV/EBITDA Multiple						
		7.72x	8.22x	8.72x	9.22x	9.72x	10.22x	10.72x
WACC	6.75%	\$72.49	\$77.84	\$83.19	\$88.54	\$93.89	\$99.24	\$104.59
	7.25%	\$69.82	\$75.02	\$80.22	\$85.43	\$90.63	\$95.83	\$101.03
	7.75%	\$67.23	\$72.29	\$77.35	\$82.40	\$87.46	\$92.52	\$97.58
	8.25%	\$64.72	\$69.64	\$74.56	\$79.48	\$84.40	\$89.32	\$94.24
	8.75%	\$62.28	\$67.07	\$71.85	\$76.64	\$81.43	\$86.21	\$91.00
	9.25%	\$59.92	\$64.58	\$69.23	\$73.89	\$78.55	\$83.20	\$87.86
	9.75%	\$57.63	\$62.16	\$66.69	\$71.22	\$75.75	\$80.28	\$84.82

Please click on the table to access the full model



Valuation Analysis

MERGER MODEL

Accretion / Dilution Analysis

EPS Accounting:

	FY 2023 11/09/2023	FY 2024 11/09/2024	FY 2025 11/09/2025
<u>Acquirer</u>			
Net income	890	961	1,050
EPS	\$3.36	\$3.63	\$3.96
Diluted shares outstanding (weighted avg.)	265	265	265
<u>Target</u>			
Net income	(1,515)	1,099	1,387
EPS	(\$5.82)	\$4.22	\$5.33
Diluted shares outstanding (weighted avg.)	260	260	260
<u>Transaction related expenses/income⁽¹⁾</u>			
Less: Interest expense from new deal debt	(82)	(82)	(82)
Less: Interest income on cash forgone	(1)	(1)	(1)
Plus: Pre-tax synergies	165	400	400
Less: Incremental D&A expense	(25)	(25)	(25)
Less: Financing fee amortization	(1)	(1)	(1)
Taxes (assumed at acquirer's rate)	(14.1)	(14.1)	(14.1)
Total after tax transaction related income/ (expenses)	42	277	277
Pro Forma Net Income	(582)	2,337	2,714
Pro Forma Shares Outstanding	525	525	525
Pro Forma EPS	(\$1.11)	\$4.45	\$5.17
Acquirer standalone EPS	\$3.36	\$3.63	\$3.96
Accretion / Dilution per share	(\$4.47)	\$0.82	\$1.20
Accretion / Dilution %	(133.0%)	22.6%	30.4%
Additional pretax synergies required to breakeven	3,131	(574)	(843)
Pro Forma Market Equity	21,481		
Pro Forma Shares Outstanding	525		
Pro Forma Share Price	\$40.91		

[Please click on the table to access the full model](#)



Deal Analysis

STRENGTHS

- Expanded global reach and production capacity: The combined entity, Smurfit WestRock, will have an expected annual revenue of around \$34 billion, making it the world's largest paper company. This allows the firm to access new geographies, and new products.
- Increased innovation and sustainability focus: The merger will allow the combined company to accelerate the development and introduction of new, eco-friendly packaging solutions, with both Smurfit Kappa and WestRock having strong innovation capabilities and sustainability goals.
- Operational efficiencies and cost savings: The merger is expected to deliver \$400 million in pre-tax savings through operational streamlining and integration, which can be passed on to customers through lower prices.
- Diversified product portfolio: Smurfit WestRock will offer a comprehensive range of packaging solutions, from corrugated boxes to cartonboard, enabling cross-selling opportunities and meeting customers' diverse needs.



Deal Analysis

WEAKNESSES

- **Integration challenges:** The integration of two large organisations, encompassing people, operations, and the pursuit of promised synergies, could potentially divert management's attention from the market and customer needs, at least in the short term.
- **Concerns about WestRock's asset quality:** Some analysts have expressed concerns about the lower quality of WestRock's assets compared to its competitors, attributing this to a decade of underinvestment.
- **Potential regulatory hurdles:** While analysts do not expect major barriers, the merger will still need to receive regulatory approvals, which could potentially delay or complicate the integration process.



Deal Analysis

OPPORTUNITIES


- **Cross-selling and customer retention:** The combined company's expanded product portfolio and global reach will enable it to cross-sell to its existing customer base, strengthening relationships and potentially attracting new customers seeking comprehensive packaging solutions.
- **Accelerated innovation and sustainability:** The merger will allow Smurfit WestRock to leverage its increased production capacity and focus on innovation to develop and introduce new, sustainable packaging products at a faster pace, meeting the growing demand for eco-friendly solutions.
- **Potential for further consolidation:** The merger could trigger additional consolidation in the industry, as competitors seek to respond to the increased scale and capabilities of the combined entity.


THREATS

- **Competitor response:** Competitors may seek to differentiate themselves by emphasising their unique selling points, such as specialisation in specific packaging types, commitment to sustainability, or ability to provide customised solutions, in order to mitigate the risks posed by the merged entity.
- **Macroeconomic factors:** The packaging industry is susceptible to broader economic conditions, such as inflation and cost pressures, which could impact the combined company's profitability and stock price performance.
- **Regulatory changes:** Shifts in government policies or environmental regulations could affect the packaging industry and the combined company's ability to maintain its competitive edge in sustainable packaging solutions.



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