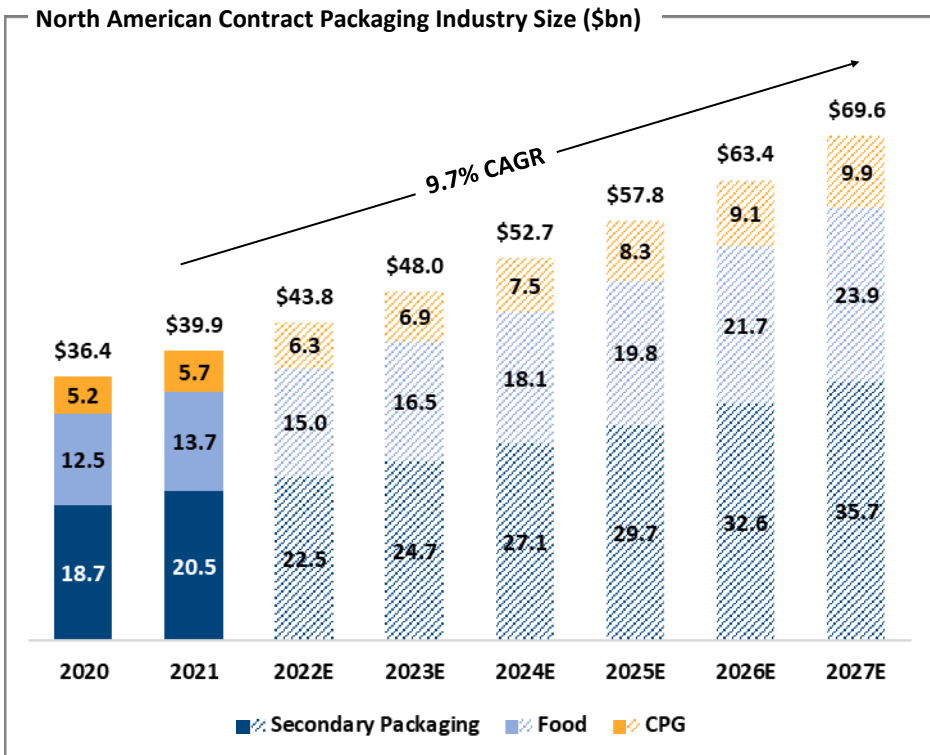




CONSUMER: CONTRACT PACKAGING OVERVIEW

- The contract packaging industry has experienced considerable growth in recent years, primarily attributable to large Food, Beverage, Personal Care and Pharmaceutical companies increasingly integrating these outsourced services into their supply chains.
- This growth is expected to continue, with experts projecting the industry will expand at a CAGR of ~9.7% from 2020 to 2025. This outsized growth, relative to most other sectors of the economy, will bring heightened interest from financial sponsors with record levels of capital to deploy.
- Recent events impacting the industry, including Covid-19, the resulting re-opening of the global economy, and supply chain shocks, are being viewed as primarily transitory, yet are expected to have certain but not yet clear lasting effects which will influence the industry for years to come.
- Long term growth in the industry will be driven by 1) larger trends related to evolving consumer preferences such as mass customization, SKU proliferation, and bundling, and 2) rising barriers to entry, such as the need for supply chain resiliency, certifications, Master Service Agreements (MSAs), and track & trace software, among others.
- These trends, and the resulting growth industry participants will seek to benefit from, will not impact all players equally. The fragmented nature of the industry and the disproportionate capabilities of the large “thoroughbred” contract packagers, integrated logistics services providers (3PLs), and diversified packaging companies to invest and evolve will allow them to push the boundaries of achievable growth, while smaller, regional “mom & pop” firms will likely struggle to contend.



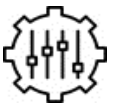
Sources: Mordor Intelligence, Transparency Market Research, Statista

Industry Drivers

Dedicated contract packagers offer customers several advantages, including reducing operational costs, offboarding burdensome regulatory compliance, and staying up-to-date on key trends affecting relevant markets, a critical requirement to meet ever changing consumer demand.



Evolving Consumer Habits



Mass Customization



SKU Proliferation



Increasing Variety / Bundling



The Amazon Effect

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Contract Packaging Overview (cont.)

Rising Barriers to Entry



Certifications

Millennials as a buying group demand transparency. As a result, retailers are increasingly requiring certification of supply chain providers.



Track & Trace Technology

Product recalls require advanced need for traceability, requiring supplier utilization of track and trace technology to manage inventory.



Master Service Agreements

MSAs allow both the contract packager and the customer to plan for future events while also speeding the ratification of future agreements.



Systems Integration

CPG, Food and other contract packaging customers, especially large, blue-chip companies, are increasingly integrating contract packagers into their ERP systems.



Multiple Locations

Increasing reliance, driven largely by CPG and Food companies, has prompted contract packagers to expand their reach and anchor operations near existing customers to ensure accurate, on time delivery.

- Many of the current challenges facing the industry, including labor availability, rising materials costs, transportation, and labor costs, as well as availability of supplies are expected to gradually ease in late 2022. However, the emergence of additional interface points in the omni-channel environment, demand for product variety, increasing logistical complexity, heightened focus on quality and safety, and enhancement of the customer experience will prove persistent. The resulting burden of shorter runs, faster speeds, changing packaging configurations, increased design time, and need to maintain

package integrity (durability) will require extreme flexibility for those that wish to compete successfully.

- These trends, barriers, and challenges also create opportunities, however. Customization and SKU proliferation enable contract packaging providers to deepen and expand relationships with their existing customers. As new categories begin experiencing the “Amazon Effect”, new customers will emerge for both primary and secondary contract packaging services. Larger industry competitors are able to capitalize on the need for additional certifications, improved technology, and supply chain resiliency while smaller organizations will have opportunities to capture short-term projects better suited to their ability and to their perceived flexibility.
- What does this mean for current contract packaging company owners? Industry participants will feel increased competition from large 3PL providers attempting to integrate or expand contract packaging operations within their service offering. There will also be a growing need to differentiate. This may manifest in the need for higher quality, greater flexibility, improved reliability, expanded geographic reach, or having the ability to scale at a moment’s notice. Pure-play contract packagers without the distractions forced upon them by corporate parents with other products and services to sell may demonstrate they are better suited to deliver for customers. Company leadership will become more critical than ever before. Executive leaders, with the vision to navigate the terrain of constant change and execute seamless M&A integration, will be sought out to guide industry leading companies capable of supporting the complex needs of large Food, Beverage, Personal Care and Pharmaceutical companies.
- Capital availability, industry growth trajectory, and consolidation opportunities within the highly fragmented sector will all drive M&A. Another key point to note is that while the prospects for the industry appear great, fortune favors the brave. Those with the capital and vision to invest early will reap exceptional returns compared to their counterparts. For many companies (in particular, smaller contract packagers), now is the time to consider recapitalization options. For those nearing an exit, demand for the business will be high and these companies can avoid the necessity of investing additional capital to compete. And for those looking to expand via buy-side initiatives, capital is available for acquisitions by industry M&A leaders.

Industry Consolidation

- Large Food, Beverage, Personal Care, and Pharmaceutical companies are encouraging consolidation within the contract packaging industry due to the need for supply chain resiliency, quality assurance, and consistency. Additionally, characteristics of industry participants including company size, owner tenure, and aging leadership suggest consolidation is likely.
- The highly-fragmented lower middle-market is especially prone to consolidation as more than 50% of contract packaging companies generate less than \$50mm in annual revenue. This fragmentation creates opportunities for large strategic acquirors to find smaller regional players in an effort to penetrate specific target markets. It also enables financial sponsors with ample access to capital to identify and/or build platforms capable of rolling up the sector.
- Low interest rates have reduced the cost of capital to levels that encourage elevated deal volume. We foresee deal activity remaining elevated throughout 2022, but rising rates could hamper leverage levels and therefore pricing and deal flow later in the year and into 2023.

Fragmented Market with Small-to-Medium Sized Companies



More than half of all co-packers generate less than \$50mm in annual revenue

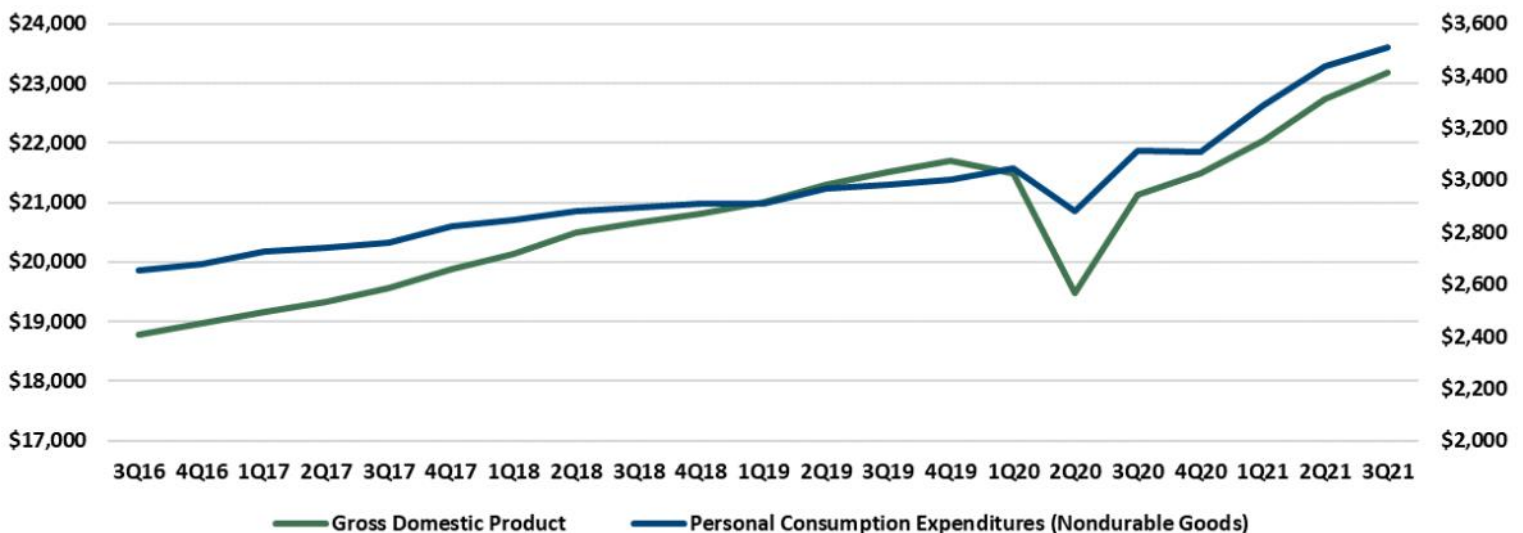
Key Industry Dynamics

- **Track & Trace Software:** “Track & Trace” software has become increasingly important in today’s environment, especially in the FMCG (Fast Moving Consumer Goods) industries. Product recalls require organizations to quickly identify and trace which shipments were impacted, where the contamination started, and ensure all product is removed from the shelves to ensure consumer safety. This technology requires significant investment to integrate the software within existing platforms and helps differentiate larger, more sophisticated platforms from the smaller “mom & pop” service providers. The need for this integrated technology will only increase and will likely cause those without it to fall behind others in the industry.
- **Labor Management:** The current labor environment, specifically with respect to wage rates and labor availability, has highlighted significant dependencies within numerous industries, not the least of which is contract packaging. Organizations with stable workforce architectures have been able to capture business from competitors unable to staff their operations. However, the higher wage rates have caused operating expenses to skyrocket with limited ability to pass through costs (at least in the short run). Those with smaller permanent labor forces who utilize more temporary employees are finding it difficult to scale up when new opportunities arise. Additionally, the “commission” these organizations pay the staffing agencies further erodes operating margins or causes pricing to be uncompetitive, despite costs associated with each employee being only temporary. Market participants with the best access to broader labor pools will be the clear winners in the near-term. Those with limited access will need to strengthen and expand their relationships with staffing agencies and stretch their reach beyond the traditional boundaries.
- **Mass Customization, SKU Proliferation, Bundling, and the Amazon Effect:** Mass customization of goods is intensifying across the globe. Every consumer has a preference or desire for products tailored to them in some form, whether it be a shade of cosmetic foundation, shampoo for a specific hair color and thickness, a customized-fitted, monogrammed shirt, or a bespoke, hand-made Christmas ornament. Consumers also want variety, either as a starting point to identify which “flavor” they want, or to ensure they don’t become bored with consuming the same product indefinitely. Everyone wants their order delivered now, immediately, without having to leave the home. These consumer preferences have caused the number of SKUs on a production schedule to grow exponentially. With that comes a need for additional packaging configurations, more bundling of variety packs, and tighter shipping windows all requiring more flexibility on the part of manufacturers. Large Food, Beverage, Personal Care and Pharmaceutical companies specialize in identifying what products consumers want and producing them, not managing packaging arrangements, re-packaging procedures and requirements, or logistics.

Select Recent Transactions

Closed Date	Acquirer	Target Company	Description
2/13/2022	ID Logistics Group	Kane Logistics	Kane Logistics, Inc. provides integrated logistics services in the United States. The company offers distribution and fulfillment, manufacturing logistics, contract packaging, cross docking, transportation management, and workforce management solutions.
2/4/2022	GenNx360 Capital Partners	Nutra-Med Packaging, Inc.	Nutra-Med Packaging, Inc. provides contract packaging for Rx and OTC products to small and mid-sized businesses in the pharmaceutical, nutritional, and healthcare industries.
12/23/2021	Crown Capital Investments, LLC	Nova Marketing Services, LLC	Nova Marketing Services, LLC provides fulfillment and packaging services, such as pick and pack, kitting and assembly, targeted direct mail, point of purchase displays, in-store marketing, and intelligent kitting services.
11/03/2021	Ship Hero, LLC	Golden Egg Solutions, LLC	Golden Egg Solutions, LLC specializes in eCommerce pick and pack fulfillment, printing and packaging, and other packaging and labeling services.
08/09/2021	Wildpack Beverage Inc.	Vertical Distilling, LLC	Vertical Distilling, LLC offers co-packing services for ready-to-drink (RTD) cocktails for craft beverage entrepreneurs and brands. It also offers distilling services.
04/05/2021	Hood Container	Sonoco (Display and Packaging Business)	Sonoco (Display and Packaging Business) provides contract packaging as well as manufacturing of packaging materials for consumer products.
06/18/2020	Brook & Whittle Limited	Label Impressions, Inc.	Label Impressions, Inc. provides flexible packaging, printing, and labeling services. The company was incorporated in 1988 and is based in Orange, California.
04/24/2020	Keller Logistics	Cincinnati Co-Packing & Warehousing	Cincinnati Co-Packing & Warehousing provides repackaging work for beer and spirits companies based in Covington, Kentucky.
03/13/2020	Schweitzer Mauduit International	Trient Technologies	Trient Technologies provides contract manufacturing services for automotive, medical, industrial, electronic and large format signage industries and also produces graphic components serving the visual communications industry nationwide
02/17/2020	Atlantic Packaging	Coastal Corrugated	Coastal Corrugated provides contract packaging, custom packaging, inventory management, and packaging supplies as per customer requirement.
11/04/2019	Labomar	Enterprises ImportFab	Enterprises ImportFab provides contract manufacturing and packaging of semi-solid and liquid products based in Montréal, Canada.

Relevant Consumer Economic Indicators



Sources: Federal Reserve Bank of St. Louis, CapIQ, Pitchbook