CCL Industries

Materials
TSX: CCL.B
Market Outperform | Hold

Calgary Portfolio Management Trust

September 30, 2021
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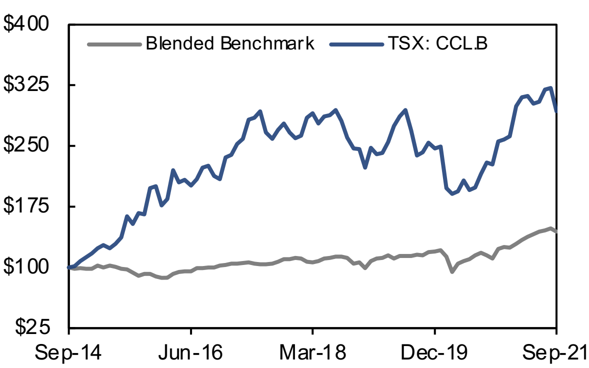
Return on Investment	
Current Share Price	$65.60
Target Price	$82.00
Dividend Yield	1.30%
Implied Return	26%
Conviction Rating	2

Market Profile	
52-Week Range	$50.30 - $75.19
Market Capitalization ($mm)	$11,792
Net Debt ($mm)	$1,262
Enterprise Value ($mm)	$13,054
Beta (5-Year Monthly)	0.66

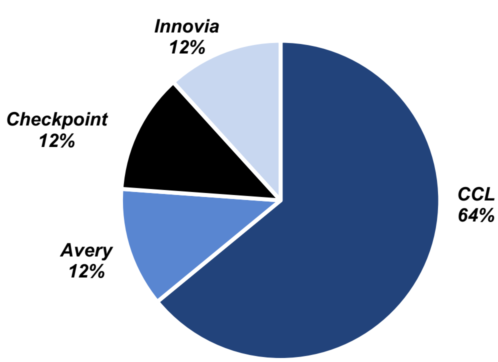
Metrics	2021E	2022E	2023E
Revenue ($mm)	$5,673	$5,810	$5,950
EBITDA ($mm)	$1,205	$1,264	$1,302
EPS	$3.50	$3.79	$3.85
EV/EBITDA	10.8x	10.3x	10.0x

Holding Period Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Figure 1: 2020 Segmented Sales



Source: Company Filings

Business Description

CCL Industries (TSX: CCL.B) manufactures and sells labels, consumer printable media products, technology-driven label solutions, polymer banknote substrates, and specialty films. CCL operates in the U.S., Canada, Latin America, Europe, Asia, South Africa, and Australia. The Company is divided into four segments: CCL, Avery, Checkpoint, and Innovia. The CCL segment offers pressure sensitive and extruded film materials for decorative, instructional, security, and functional applications in various industries. The Avery segment offers printable media products and organizational products, including labels for marketing and shipping use, binders, sheet protectors, and writing instruments. The Checkpoint segment offers leading RF/RFID-based systems for loss prevention and inventory management applications. The Innovia segment provides specialty, high-performance, polypropylene films for pressure-sensitive label materials, flexible packaging, and the consumer-packaged goods industry.

Previous Thesis

The CPMT entered into a position in CCL in September 2014, with the most recent update in the Fund's Q2 2020 report. The CPMT remained confident in CCL's growth potential as its various acquisitions have promoted stable growth in core business segments, bolstered other segments, and allowed operations to expand worldwide. Management's ability to implement acquisition plans while maintaining a strong balance sheet has allowed CCL to maintain its leading market share in the industry.

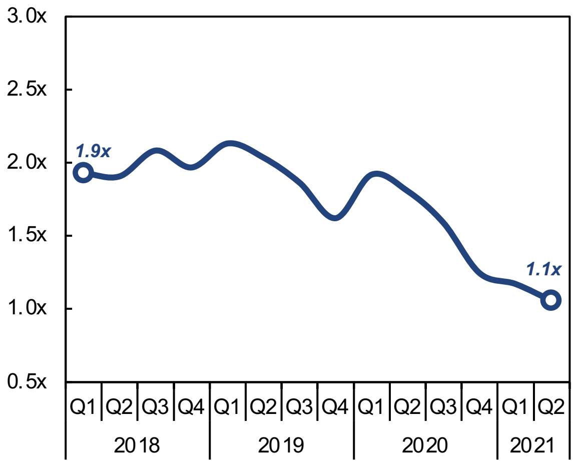
Packaging and Labelling Services Industry Overview

Operators in the industry primarily package client-owned materials on a contract or outsource basis and provide labeling and imprinting package services. U.S. and Canadian consumer spending and manufacturing activity significantly influence demand for industry services, which are both expected to rise in 2021 amid the easing of business restrictions and increasing vaccination rates. The Fund estimates revenue in the industry to rise 5.6% in 2021. Market share concentration in this industry is low, with the largest companies in the industry making up 10% and 20% of revenue in the U.S. and Canada, respectively. The industry is highly fragmented because clients often need highly specialized packaging and labeling services, creating ample opportunities for larger operators to pursue inorganic growth.

Mandate Fit

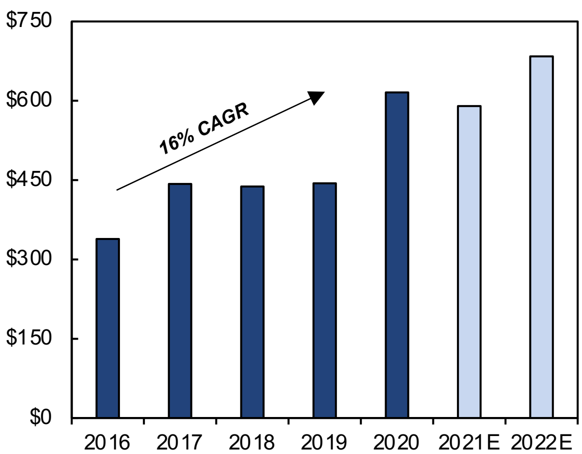
Quality Management: CCL has an experienced management team, consisting of President, CEO, and Director Geoffrey T. Martin, who has been with the Company since 2005. The Company's track record of successful acquisitions is a result of Martin's strategy of finding accretive additions to grow CCL's segments. Other NEOs have also been with the Company for many years, equipped with extensive experience in the industry. Although Avery and Checkpoint sales in 2020 declined by 14% and 12% due to the COVID-19 pandemic, Innovia's grew by 10.4%, attributable to acquisitions, showing that management's strategy has helped the Company stay resilient. While CCL's sales figures benefit from its acquisitions, (cont.)

Figure 2: Net Debt/LTM EBITDA



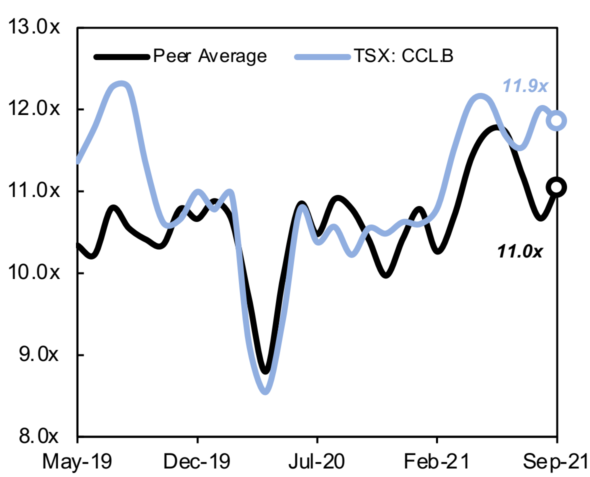
Source: S&P Capital IQ

Figure 3: Free Cash Flow Profile ($mm)



Source: Company Filings, CPMT Estimates

Figure 4: NTM EV/EBITDA vs Peers



Source: S&P Capital IQ

he Company also generated strong organic growth of 12.1% in sales over the six-month period ending June 30, 2021, compared to the same period a year prior.

Competitive Advantage: As the world's largest label converter with expansive global infrastructure, CCL possesses a significant size advantage over its competitors. This advantage has allowed the Company to maintain control of pricing and cost efficiency to achieve high margins (2019 EBITDA margin of 20% versus the peer average of 17%). Additionally, CCL has a sufficiently expansive network of plants to be able to achieve co-location with its customers. This has enabled the Company to better serve its customers by reducing shipping costs and increasing speed to market.

Strong Balance Sheet: CCL continues to maintain a strong credit profile despite its intensive M&A strategy. As of Q2 2021, the Company has a Net Debt/LTM EBITDA of 1.1x compared to 1.2x at the end of 2020 and the peer average of 1.4x (peer group consists of NASDAQ: SLGN; NYSE: ATR, AVY, BRC, SEE; TSX: ITP, WPK). CCL is in a robust liquidity position, with $693mm of cash on hand and US$1.2B in unused revolving credit capacity, positioning it well for incremental acquisition growth given the appropriate circumstances.

Growing Free Cash Flow: CCL has a strong FCF profile, with a FCF CAGR of 16% from 2016 to 2020. In 2020, CCL benefitted from windfall currency printing orders, which contributed to high margins. The CPMT forecasts future FCF to decrease slightly from 2020 levels in 2021 due to currency headwinds, possible resurgence of the COVID-19 pandemic in Pacific Asia, and inflationary pressures. However, we expect solid results to continue in the near term alongside continued economic reopenings.

Revised Valuation and Investment Thesis

The CPMT valued CCL using a 10-year DCF model. The target price of $82 was derived using a 50/50 blend of (1) the Gordon Growth method (assuming a terminal growth rate of 1.5%) and (2) applying an EV/EBITDA exit multiple of 12.5x, implying a total return of ~26% including a 1.3% dividend yield. The CPMT believes that a slight premium over the peer average multiple of 11.0x NTM EV/EBITDA is justified given the strength of CCL's margins, liquidity position, and well-diversified portfolio.

Upon review, the CPMT believes that the original investment thesis on CCL has remained intact. CCL possesses a distinct scale advantage over its peers, which has allowed it to achieve high margins and entrench its position with its customers. Additionally, management has continued to execute a prudent acquisition strategy, which has succeeded in maintaining CCL's leading market share in the packaging and labelling industry. Although M&A valuations are currently inflated with the inflow of private capital, CCL has demonstrated commitment to deleveraging and maintaining a strong debt profile, leaving ample capital to allocate towards acquisitions when valuations become more attractive. Due to the fragmented nature of the industry, the Fund is optimistic on management's ability to uncover accretive M&A opportunities and capture inorganic growth. As a result, the CPMT maintains its conviction 2 rating on CCL, and we plan to continue to monitor the name to ensure its alignment with our investment mandate.