CCL Industries

Materials
TSX: CCL.B
Market Perform | Hold

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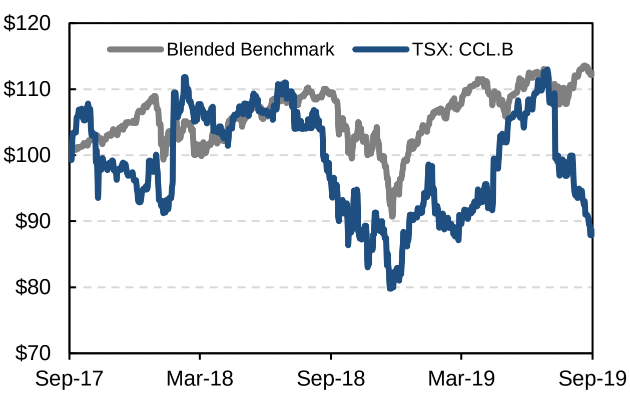
Return on Investment	
Current Share Price	$53.44
Target Price	$67.00
Dividend Yield	1.24%
Holding Period Return	27%
Company Quality (CQ) Score	3.3
Conviction Rating	3

Market Profile	
52-Week Range	$47.30 - $68.49
Market Capitalization (mm)	$8,895
Net Debt (mm)	$1,903
Enterprise Value (mm)	$10,798
Beta (5-Year Monthly)	0.54

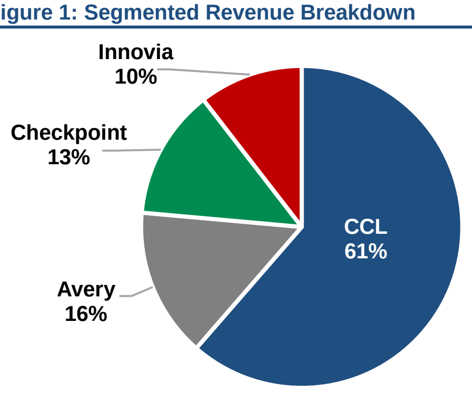
Metrics	2019E	2020E	2021E
Revenue (mm)	$5,418	$5,560	$5,690
EBITDA (mm)	$1,062	$1,068	$1,093
EPS	$2.82	$2.93	$3.01
EV/EBITDA	10.1x	10.0x	9.8x

Holding Period Trading Performance (Indexed to $100)



Source: Bloomberg

Figure 1: Segmented Revenue Breakdown



Source: Company Filings

Business Description

CCL Industries (TSX: CCL.B) is the world's largest converter of pressure sensitive and extruded film materials. The Company provides a wide range of decorative, instructional, secure, and functional applications across a variety of industries ranging from government institutions to the automotive industry. The Company has four major operating segments: CCL, Avery, Checkpoint, and Innovia. It also has operations in over 40 countries with over 165 production facilities worldwide. CCL is partly backward-integrated as it has capabilities in materials science that can be deployed as needed across the four segments.

Original Investment Thesis

The CPMT was confident in CCL's potential as it continued to be a best-in-class capital compounder and a market leader in a highly fragmented industry. The Fund also found value in the management team's ability to employ their acquisition plans and maintain a strong balance sheet. Effective integration of recent acquisitions has allowed CCL to diversify its product lines and continue to grow market share in the packaging and labels industry.

Packaging and Labels Industry Overview

Companies in the industry focus on packaging and labelling materials for retailers and original equipment manufacturers on a contract or outsource basis. Commercial activity is a key driver in generating service demand, and depends on high U.S. and Canadian economic growth. Increased consumer spending drives manufacturing and retail activity, further influencing the volume of goods that require packaging and labelling solutions. While a few large retailers rely on in-house packaging and labelling solutions, the majority of the manufacturing sector relies on companies such as CCL.

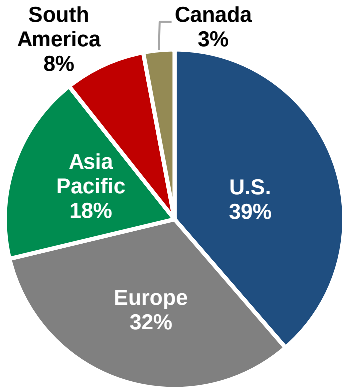
Segment Breakdown

CCL: The CCL segment contains five sub-segments: CCL Label, CCL Container, CCL Tube, CCL Design (electronics and automotive labels), and CCL Secure (polymer banknotes). It manufactures pressure sensitive and specialty extruded film materials used for decoration, instructional, functional, and security applications. These materials are primarily sold to customers worldwide in the consumer packaging, healthcare, electronic devices, and automotive markets, as well as to government institutions as an input for polymer banknotes.

Avery: Avery supplies labels, specialty converted media, and software solutions to enable digital printing in businesses and homes. This segment is combined with office products and sold through distributors and mass market retailers. Avery has three sub-lines: (1) Printable Media, which contains address, shipping and product labels, as well as business cards and name badges; (2) Organizational Products Group, which sells binders, sheet protectors, dividers, and writing instruments (mainly used for educational purposes); and (3) Direct-to-Consumer, which is similar to the printable media segment, but supports e-commerce platforms, allowing for customers to print at home.

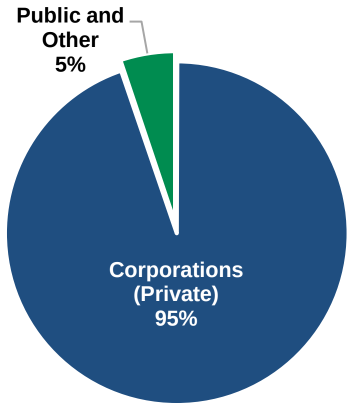
Checkpoint: Checkpoint is a manufacturer of technology loss-prevention, inventory management, and labelling solutions. This includes radio frequency and RFID technology that is sold to the retail and apparel industry. It contains three main sub-lines: (1) Merchandise Availability Solutions, (e.g. consists of electronic article surveillance systems, hardware, software, and labels for loss prevention and inventory control systems); (2) Apparel Labeling Solutions, which contains apparel (cont'd)

Figure 2: Geographic Revenue Breakdown



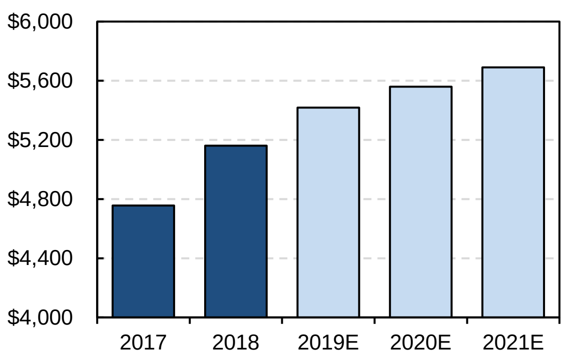
Source: Capital IQ

Figure 3: Class A Share Ownership



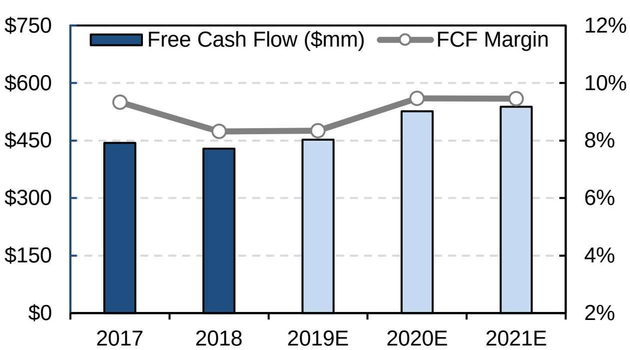
Source: Capital IQ

Figure 4: Annual Sales ($mm)



Source: Company Filings, CPMT Estimates

Figure 5: Free Cash Flow (LHS) and FCF Margin (RHS)



Source: Company Filings, CPMT Estimates

labels and RFID tags; and (3) Meto, which are hand-held pricing tools and labels that are used for brick-and-mortar stores and in-store displays.

Innovia: Innovia supplies high-performance, multi-layer, and surface engineered bi-axially oriented polypropylene (BOPP) films. These are sold to customers in the pressure sensitive labels, flexible packaging, and consumer packaging worldwide. A small percentage of volume from this segment is sold internally to the CCL Secure and CCL Label sub-segments.

Corporate Governance

CCL boasts a talented management team, consisting of President and CEO, Geoffrey T. Martin, who has been with the Company since 2008. Martin has a proven track record in M&A transactions, which adds value to a company constantly searching for accretive tuck-ins to bolster the business. Many other NEOs also have been with the corporation for a number of years and have extensive experience in the industry. CCL operates under a dual-class share system, in which the Company currently has 11.8mm Class A Shares outstanding. For CCL, a Class A share has 1 vote (per share) while a Class B share contains no voting rights. Out of the Class A shares outstanding, ~95% are owned by a private Ontario company which is partially owned by Donald G. Lang (Executive Chairman) and Stuart W. Lang (Director). Since the majority of voting shares are owned by the Lang family, this raises a red-flag, as the Lang family has a significant holding over the Company's decision-making process, resulting in reduced public shareholder control over business decisions.

Recent Acquisitions

Over the last 12 months, CCL has been prudent in its growth-by-acquisition initiative, acquiring over six companies to expand its reach worldwide. During FY19, CCL has been continuously growing its segments, especially Avery's direct-to-consumer line, through multiple tuck-in acquisitions, some of which are highlighted below:

(1) January 2019: acquired Easy2Name Ltd. (based in the U.K.) for $2.5mm, expanding the direct-to-consumer line by offering durable and personalized labels for kids in the U.K. market.

(2) January 2019: acquired Olympic Holding B.V. (based in the Netherlands) for $13.6mm. This enables the CCL segment to have access to a patented process to produce high-bond, acrylic foam tapes without use of solvents that can be used in the automotive, electronics and construction industries.

(3) April 2019: acquired Hinsitsu Screen (based in Vietnam) for $12.9mm. This gives the CCL Segment access to a leading supplier of durable and tamper evident labels as well as graphic overlays for the electronics industry in Vietnam.

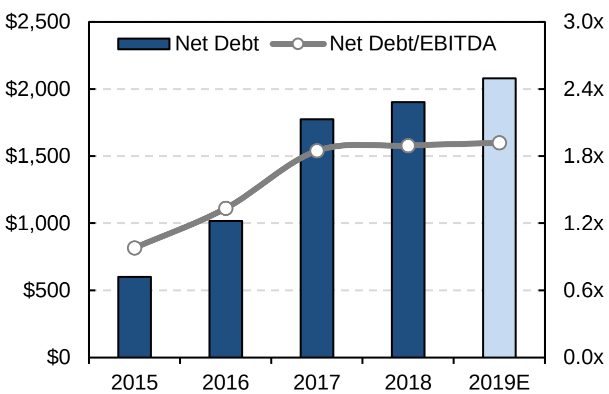
(4) May 2019: acquired Colle A Moi Inc. (based in Quebec) for $3.0mm, allowing the Avery direct-to-consumer line to offer online print capabilities for personalized labels.

(5) June 2019: acquired Say it Personally (based in U.K.) for $0.4mm, giving CCL the capability to offer durable, personalized garment tags for the U.K. market.

Catalysts for Growth

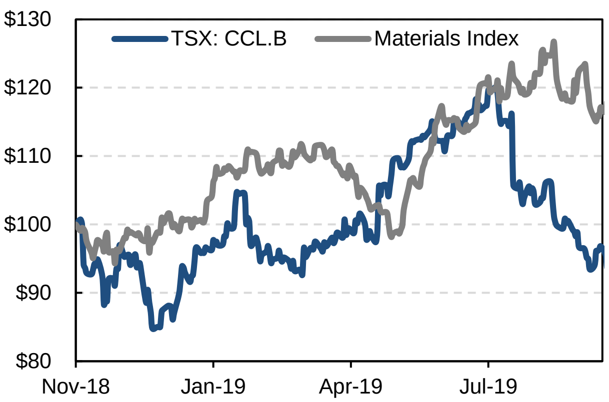
After poor results in Q2 2019, the CCL segment looks to get back on track and outpace a poor Q3 2018. With demand in aerosol slugs and containers expected to stay stable despite uncertain global environments, CCL should be able to achieve strong organic growth in its core segments. As more government institutions adopt polymer banknotes, CCL Secure can capitalize on this opportunity. Avery will be poised for a strong Q3 2019 due to back-to-school season in North America as well as further integration and expansion of its direct-to-consumer line (cont'd)

Figure 6: Leverage ($mm)



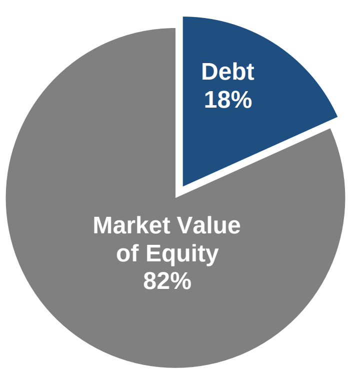
Source: Bloomberg, Company Filings

Figure 7: Performance vs. Materials Index



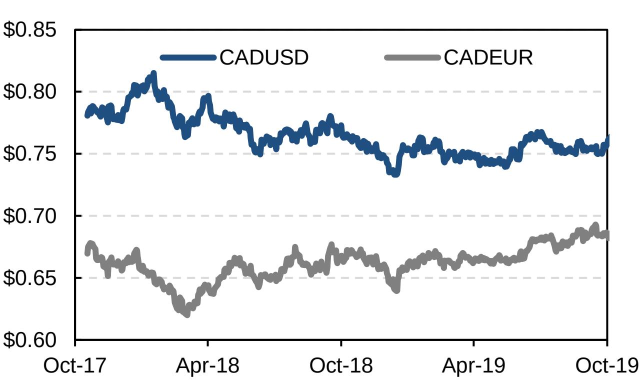
Source: Bloomberg

Figure 8: Capital Structure



Source: Bloomberg

Figure 9: Key FX Rates



Source: Bloomberg

which management believes will grow in the double-digits YoY. Checkpoint has the ability to further expand its RFID technology as more retailers use the technology within their Omni-channels for inventory management and control systems. With the new BOPP plant coming online in 2H19, Innovia is poised for strong performance as it successfully integrates its Treofan assets into the organization. Future tuck-in acquisitions by the Company will also add to sales growth, as management has made it a point to set aside cash for any accretive acquisitions that may come up in the near future.

Major Risks

With manufacturing plants across the world and Canada only accounting for 3% of sales, CCL has large exposure to FX risk, as all non-Canadian results are translated back to CAD for reporting purposes. An increase in the Canadian dollar would be detrimental to the Company, as it would reduce CCL's CAD revenues and operating income. Furthermore, with the majority of its sales stemming from regions that have greater political and economic risk, the Company has a large torque to business disruptions in "troubled" regions. CCL also faces pricing pressure risk from large retail chains through consolidation of competitors in the Packaging and Label industry. It also faces the risk of in-house manufacturing from its main customers which will eliminate the need for CCL's services. Specific to the Innovia segment, the BOPP films are sensitive to rising polypropylene costs. An increase in prices would hinder the Company's performance if CCL cannot successfully pass the costs on to its customers, which in turn would compress margins.

Revised Thesis

CCL has continued to follow a prudent acquisition plan; however, the Company has increased leverage significantly over the last 5 years, as its Net Debt/EBITDA has increased from 0.5x to 1.9x. As a result of increasing debt and acquisitions, CCL has been able to promote stable growth in its core business segments and bolster segments such as Avery and Innovia. The acquisitions have also helped CCL expand its operations worldwide, giving it the potential to further penetrate emerging markets. CCL missed expectations in Q2 2019 due to reduced demand in the aerosol cans industry, which resulted in lower sales for its core CCL segment. Despite this, we believe that CCL is still well positioned for the future. Historically, CCL and Innovia perform better in Q1 and Q2, while Avery and Checkpoint perform well in Q3 and Q4, as retail activity picks up during the holiday season. Avery has room to expand through its growing direct-to-consumer line, which management expects to grow in the double-digits as the segment expands into new markets. Avery has also benefitted from the U.S-China trade war, as more customers are sourcing binders locally, rather than from manufacturing hubs like China, which adds value to the organization in a time of economic uncertainty. The CCL segment is expected to experience high growth from CCL Design, as the automotive and electronics industries continue to switch to adhesive components for labelling solutions. Checkpoint also has the ability to grow over the next decade as more retailers move to RFID systems for inventory tracking and management. Innovia has upside through the BOPP plant that is expected to come online in 2H19, as stable polypropylene prices will further contribute to its growth. Additionally, management can continue its prudent acquisition plan and look for accretive tuck-ins to bolster the business to maintain its leading market share in the industry. As the CPMT continues to review its current holdings, we will closely monitor CCL over the next few quarters to determine whether it remains a suitable holding for the Fund.