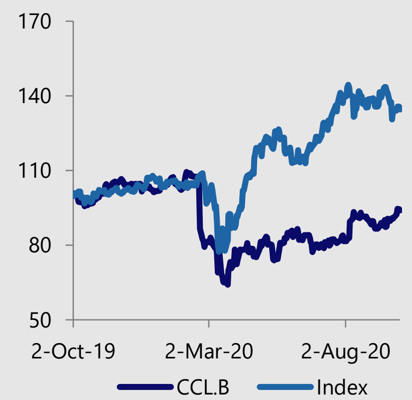
RESEARCH REPORT

October 5, 2020

Stock Rating	HOLD
Price Target	$48.27

Ticker	CCL.B
Market Cap. (MM)	$9,180
P/E	20.0x
EV/EBITDA	10.5x

52 Week Performance



CCL Industries Inc.

Putting a Label on CCL

Five years ago, QUIC's M&M sector made a buy pitch on CCL Industries. As one of the M&M sector's legacy holdings, we decided to revisit the company in order to justify holding a position in the name, in light of a vastly different economic time.

CCL Industries is a leading global labeling company that manufactures and sells labels, specialty films, and various other related products through its four business segments: CCL, Avery, Innovia, and Checkpoint. A mature company within an industry that experiences modest growth, CCL Industries has a focus on growing its organic business through innovation and acquiring new customers, while simultaneously acquiring other businesses and operations within the space.

Throughout this report, the M&M team will undergo a deep-dive on the company's operations, revisit previous investment theses to assess how they hold up, and conduct a discounted cashflow analysis to determine whether the sector still holds confidence in the name.

The report concludes that while the business has a strong economic moat, an absence of growth opportunities leaves it with minimal upside. The M&M team consequently plans to hold the name with the intent of reallocating the invested capital to a more attractive name in the near future.

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Table of Contents

Industry Overview	3
Company Overview	6
Revisiting Thesis I: Market Leader with a Strong Moat	9
Revisiting Thesis II: Runway for Growth	10
Revisiting Thesis III: Non-Cyclical Characteristics in a Cyclical Industry	13
Valuation	15
Risks and Conclusion	16
References	17

Industry Overview

CCL Industries' Business Segments

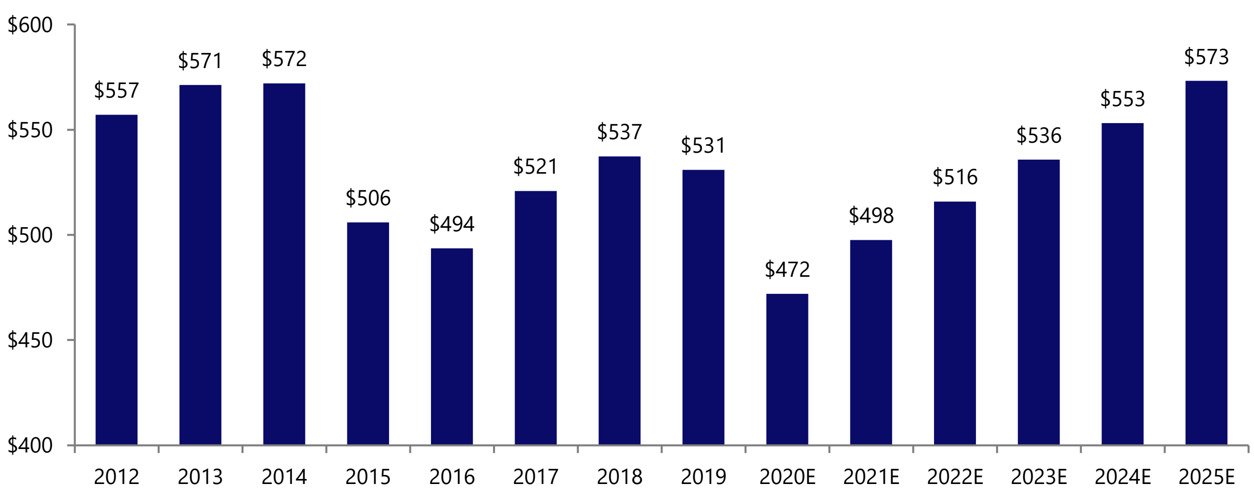
CCL Industries competes in a variety of packaging business segments, namely labels, films, and RF and RFID-based technology for tagging solutions. The packaging industry is supplied with basic chemicals, which are then converted into petrochemicals and resins, which are then manufactured into a variety of plastics used for packaging products. Primary external drivers of the industry include global consumer spending, global industrial production, and the price of crude oil. It is a highly globalized industry, so as consumer spending and industrial production increase, demand for packaging materials increases. In addition, as petroleum is needed to create resin which is the primary input in packaging, as the price of oil decreases, so does the cost to produce packaging products.

Global Packaging Industry

CCL Industries is one of the biggest players in the global packaging industry, which is valued at $470B. The industry is very large and highly fragmented, with no single competitor having substantial breadth or dominating the market. Packaging and plastics is used in virtually every industry in some form, so investing in the packaging industry is similar to investing in numerous end markets simultaneously as the performance of packaging companies often follows its end markets such as consumer goods, pharmaceuticals, household chemicals, and retail products. In many cases, these consumer goods are not very expensive and are purchased for daily use, so consumers are less price sensitive to these goods. Because of this, the packaging industry is more economically resilient than investing in a specific end market as it helps hedge against fluctuations in the business cycle as these products are needed regardless of the state of the economy.

EXHIBIT I

Global Plastic Product and Packaging Revenue ($B)



Source(s): IBISWorld

Industry Overview

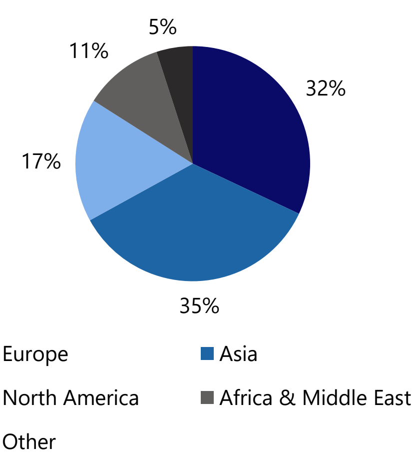
Global Packaging Industry Outlook

The overall industry is mature, and has benefitted in the past five years from the global rising consumption of plastic. However, this has been mitigated in part by the number of competitors increasing, so there is a growing number of firms that are producing packaging products. Because of that, there has been a downwards pressure on price, which has a negative effect on industry revenue. Although consumer demand has risen in the past few years, which stimulates demand for these products, this has been mitigated in part by environmental concerns which have led to an increased number of regulations and taxes that have impeded the industry's growth.

In addition, a significant input into the production of plastics is oil, so the cost of manufacturing labels is heavily dependent on the price of oil. If oil prices increase, then the input costs will increase, with the costs largely being passed onto the end user.

EXHIBIT II

Packaging industry by region (2020)



Source(s): Statista

If the costs increase, it will reduce demand for more consumer discretionary products such as retail, however demand will remain for consumer staples.

Effect of COVID-19 on the Packaging Industry

The effects of oil price volatility could be seen during the COVID-19 pandemic, which saw significant decreases in the price of oil and the subsequent volatility of oil prices that followed. Typically, if costs rise, then the price that consumers pay increases as well. Thus, there is not a significant change in profit margins, so a decrease in oil prices decreased the price of plastics for customers, which should theoretically increase the volume demanded. As many companies have reduced their production outlook for their upcoming fiscal years, revenue will likely come from industries with more economic resiliency. For example, demand will likely rise sharply for packaging for groceries, healthcare products, and e-commerce transportation. However, demand for industrial, luxury, and B2B-transportation packaging will decline. Because of that, industry revenue is expected to increase at a CAGR of approximately 4.0% to reach almost $573B by 2025.

Industry Dynamics

When examining the demand for packaging, these plastic products are simple and homogenous, which makes them easy to replace. They are also highly substitutable with paper or glass products depending on the application, so ensuring that these products are competitively priced is vital. Competition is notoriously high, as large customers have strong purchasing power and are facing pressures to reduce their cost structure. Switching costs are extremely low without some form of a contract, as customers will gravitate towards the company that offers the lowest price. Thus, to succeed in this industry, it will often require achieving economies of scale in order to reduce costs, maintaining long-term contracts with customers and suppliers, and continually innovating to meet changing market conditions.

Industry Overview

Industry Dynamics Continued

On the other hand, barriers to entry are relatively high in the industry as the existing large players in the industry have substantially more negotiating power with suppliers to obtain raw materials at a discount, which allows them to more competitively price their products. Large packaging companies are also able to spend an absolute dollar more on innovation to make better investments in their manufacturing processes to not only reduce their costs but also to meet the changing demand for packaging products.

Plastic is one of the most versatile materials ever created, and packaging is heavily integrated into numerous industries' value chains. Because of that, it is nearly impossible for packaging to be removed as an intermediary. As an example, in the food industry, it is used to significantly extend the shelf life of products. Vacuum packaging will nearly double the lifespan of food, which reduces costs for grocery stores. Although packaging requires resources to produce, it is substantially lower than the resources associated with food waste. This applies to numerous industries, where although it is a small cost, it significantly improves the value of their products, making packaging one of the most needed industries.

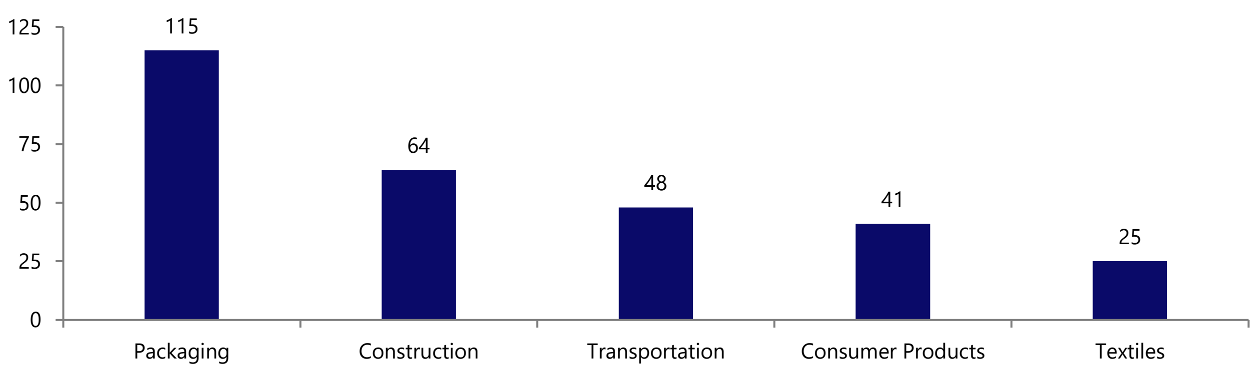
Competitor Overview

In Canada, CCL Industries is the largest packaging company, with other major players being Winpak, Cascades, and Intertape Polymer Group. The competitive landscape is highly fragmented, with only 4% of companies having over 100 employees. It is dominated by smaller players, however there is a trend of consolidation to improve a company's cost structure.

Winpak operates twelve production facilities and manufactures packaging materials for perishable foods, beverages, and health care applications. Cascades produces packaging and tissue products that are primarily made from recycled fibres, thus specializing in paper packaging rather than plastic packaging. Intertape Polymer Group manufactures a variety of specialized tapes and protective packaging film primarily for industrial markets across North America and Europe.

EXHIBIT III

Plastic consumption volume by application (in MM metric tonnes, 2017)



Source(s): McKinsey & Company

Company Overview

Company Highlights

CCL Industries is a manufacturer and seller of labels and tech-driven label solutions, specialty films, consumer printable media products, and polymer bank note substrates. One of the largest labelling companies in the world, CCL industries uses four distinct business segments to target a wide array of end-users across various geographies. These four are CCL, Avery, Checkpoint, and Innovia. CCL Industries has 183 production facilities across 6 continents and has 21,400 employees. The company was founded in Toronto in 1951 where it is still based.

Strategy

CCL Industries' strategy is to increase shareholder value through an organic growth model centered around product innovation, and a global acquisition strategy. The latter is highly important, as organic growth opportunities are limited in the packaging space. Within this broad mission, CCL Industries has a specific strategy for each of its four business segments which will be elaborated upon later.

From a financial perspective, the company's strategy is to be fiscally prudent. CCL Industries has had more than $100M of both LFCF and UFCF since 2013 and a cash & equivalents balance of over $500M every year since 2016, including $703.6M of cash-on-hand in 2019 alongside $595.7M of undrawn capacity on its revolving credit facility. The company also uses ROE and ROTC to measure their capital prudence, two metrics that were both down in 2019. The company maintains a focus on minimizing investment in working capital in order to maximize cash flow in support of growth opportunities.

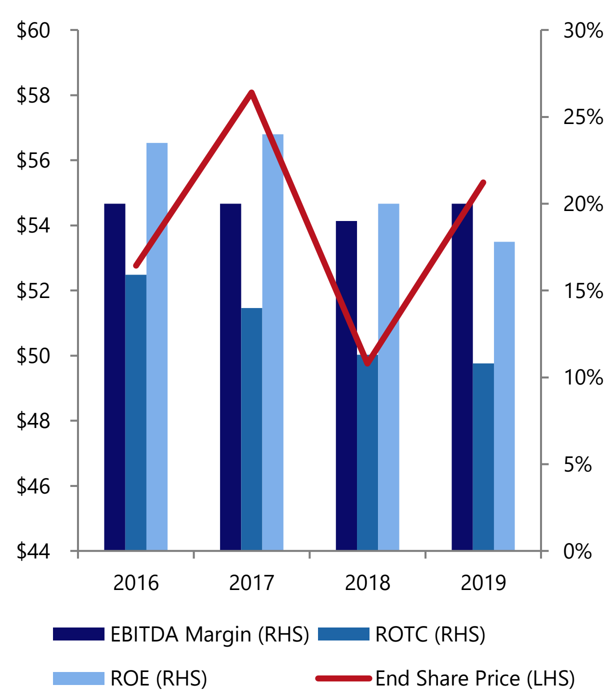
Geographic Presence

CCL Industries has a presence in 42 countries across 6 continents, where it has 183 production facilities. These production facilities are located in North America, Latin America, Europe, Australia, Africa, and Asia, including equity investments in the operations of facilities in Russia, the Middle East, and the United States.

The CCL label competes in a highly fragmented global market in a leadership position. Avery has a dominant market leading position in North America, Europe, and Australia, as well as a small presence in Latin America. Checkpoint sells directly to retailers and apparel manufacturers and competes with other global retail labelling companies. Innovia distributes its products to the United States and Asia. In 2019, North American, European, and Emerging Markets sales accounted for 43%, 31%, and 26% of total sales respectively.

EXHIBIT I

Key Financial Metrics



Source(s): CapitalIQ, Company Filings

Company Overview

Analysis of Business Segments

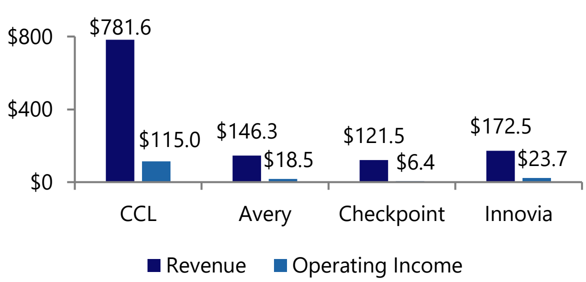
CCL

The CCL segment accounts for approximately 60% of company revenue and is the world's largest converter of pressure sensitive and specialty extruded film materials for various decorative, instructional, functional, and security applications. The customers of this segment include government institutions, as well as global players in consumer packaging, healthcare & chemicals, consumer electronic device, and automotive markets. In parallel to selling to specific end-use markets, the CCL division manufactures and sells products such as laminated plastic tubes, aluminum aerosols & specialty bottles, electronic displays, polymer banknote substrates, and other complementary products.

This segment made slow progress in 2019, achieving 1.1% organic growth compared to 4.8% in 2018 and 6.2% in 2017. With respect to its specific end-use performance, the Home & Personal Care and Healthcare & Specialty organic sales increased and decreased at low single digit rates respectively. Food & Beverage organic sales grew at only mid-single-digits compared to a record of 18% in 2018. On the flip side, CCL Design and CCL Secure grew at high-single-digits and double digits respectively.

EXHIBIT II

2020 Q2 Performance by Segment (In MM)



Source(s): Company Filings

Of the four business segments, CCL's 2020 Q2 sales performance was the second best compared to 2019 Q2. Still, sales dropped from $831.5M to $781.6M, a decrease of 6%. As the segment that the company relies most on for revenues, CCL's performance is extremely important, so the company will need to focus its efforts towards growth opportunities within this segment in order to drive future growth.

Innovia

Innovia accounts for approximately 15% of CCL Industries' sales. Innovia is a global producer of specialty, high-performance, multi-layer surface engineered films for label, packaging and security applications.

Innovia experienced 15.7% sales growth to $557M in 2019, driven by a mid-2018 acquisition of Treofan. The segment earned a 15.2% EBITDA margin compared to 12.1% in 2018 and 15.9% in 2017. The improvement resulted from a variety of factors including lower resin costs and strong performance in Belgium and Australia, although U.K. operations remained stagnant. Looking ahead, a new plant in Poland will be expected to drive growth in higher volume products in the label industry, while the U.K. operations will focus on developing specialty films.

Innovia had the best 2020 Q2 of the four business segments, with a 21.1% sales growth compared to 2019 Q2, growing from $142.1M to $172.5M. Operating Income margin also grew from 9.3% to 13.7% between the two quarters. Although results from Innovia are promising, organic growth was unimpressive in 2019. To maintain solid performance, the segment will need to reinvest in sustainable organic growth while leveraging its Treofan acquisition, as well as operations in Poland and Mexico as catalysts for aggressive growth.

Checkpoint

The Checkpoint segment accounts for approximately 10% of company revenues. Checkpoint is a leader in

Company Overview

RF and RFID-based technology systems for loss prevention and inventory management applications, including labeling and tagging solutions, for the retail and apparel industries. Checkpoint's three product lines are MAS, ALS, and Meto. These products focus on electronic-article-surveillance (EAS) systems to track inventory, apparel labels & tags, and promotional in-store displays, respectively.

In 2019, sales increased 2.6% on an organic basis to $724 million, with significantly improved cash flow from the previous year due to lower capital investments and improved working capital results. Innovation in EAS technologies augmented by new concepts in RFID deployment drove new business with global retailers.

Checkpoint had the worst Q2 performance of the segments, dropping 31.6% in sales. This steep decline resulted from closures in the global retail industry due to COVID-19.

Avery

Representing approximately 15% of company revenues, Avery is a major supplier of labels, specialty converted media, and software solutions that enable digital printing, alongside complementary office products. There are three primary product lines: Printable Media (i.e. shipping labels, business cards, etc.), Organizational Products Group (i.e. binders, dividers, etc.), and Direct-to-Consumer (digitally imaged media that is supported by unique web-enabled e-commerce URLs). Most products in the Printable Media and Direct-to-Consumer categories are used by businesses and individual consumers consistently throughout the year. The OPG category is largely driven by the North American back-to-school consumption surge during the third quarter.

In 2019, Avery experienced 3.8% sales growth, including its first organic gain since 2015. Legacy product lines posted modest gains as sales from e-commerce retailers and the company's own direct-to-consumer product lines exceeded $130M. Avery delivered the highest return on capital and operating cash flow as a percentage of sales in the company.

In 2020 Q2, Avery's sales were down 28.0% from 2019 Q2. In North America, sale declines were driven by closures of events, schools, and other kid-related activities caused by COVID-19. However, back-to-school products rebounded significantly in June as back-to-school products began to ship. International sales, which are primarily driven by the Printable Media category, also dropped as a result of COVID-19. However, activity levels improved through the quarter, with June 2020 sales almost equalling June 2019.

Revisiting Thesis I: Market Leader with a Strong Moat

CCL has established itself as the clear leader in various facets of the labelling space, a position that it will likely hold for the foreseeable future. Its CCL and Avery segments are by far and away the largest players in their respective spaces with Innovia and Checkpoint acting as quickly growing leaders in their spaces.

CCL Industries remarkable size offers it a host of unique advantages that allow it to maintain its status as the world's largest label company. For one, particularly in its label segment, CCL has a sticky customer base of large international corporations and major government institutions, that is unlikely to switch to a smaller, lesser known player. These customers, such as Unilever and Johnson & Johnson, want their suppliers to be a 'one-stop-shop' for all their labelling needs and CCL is uniquely positioned to act as such. CCL innovates alongside their customers to create the most effective and impactful packaging making them a partner in operations and making it unlikely that these core customers would look to switch.

CCL's global positioning furthers this and at times makes them one of the only viable suppliers. CCL geographic reach allows it to co-locate its facilities worldwide with key customers allowing them to better collaborate and reduce costs. Moreover, CCL's size and expertise provide assurance that customer needs will be satisfied, particularly when selling to governments through their CCL Secure division. This helps ensure that CCL will be able to pass on changes in input oil prices on to the end customer as customers are not overly price sensitive when factoring in the reliability of their supplier. This does not mean that CCL has major pricing power but does ensure that competitive pressures do not significantly damage margins which is represented in CCL's financials with a consistent 14% operating margin over the past 5 years.

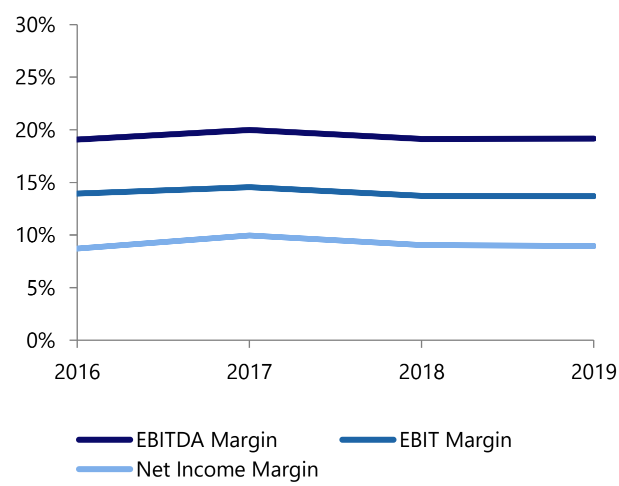
CCL's size and expertise gives it unique advantages when it comes to innovation – a key to maintaining success in the packaging industry. The company invests significant sums of capital into research and development and are consequently able to stay at the cutting edge of innovation. This creates new product opportunities and strengthens partnerships with their core customers. This is notably seen in its growing Innovia segment which by itself has multiple R&D facilities across the globe. CCL is further able to acquire companies with unique technologies and then integrates them across their global operations.

Finally, core to the firm's success is its institutional knowledge and expertise built over years of being the world's largest labeller. With over 20,000 employees, CCL has the unique human capital required to stay innovative and serve customers effectively.

With all this in mind, it is clear to our team that CCL has a strong economic moat that will see minimal erosion in the foreseeable future. Of greater concern now is whether CCL Industries can expand their moat and outpace industry growth to deliver value to shareholders.

EXHIBIT VI

Stable Margins in Spite of Commoditized Inputs



Source: Company Filings

Revisiting Thesis II: Runway for Growth

Growth Strategy

CCL growth strategy relies on global growth and product innovation, supplemented by a global acquisition strategy. This include divesting from non-valuable assets that are not consistent with CCL's future. CCL's organic growth is driven by product innovation allowing them to serve new end-markets and expand share in current ones.

CCL then leverages small tuck-in acquisitions to help them with these expansions, whether it be into new geographies or product lines. Some notable examples of these include the acquisition of Innovia in 2017 for over $1B and the subsequent 2018 acquisition of Treofan Americas to supplement the Innovia purchase. The acquirees often offer significant synergies with new technologies that can be applied to other segments of CCL or through access to new customers and cross-selling. While an acquisition heavy strategy can often be a cause for financial concern, CCL has maintained a position of relatively low leverage and has a strong cash reserve minimizing any potential liquidity risk.

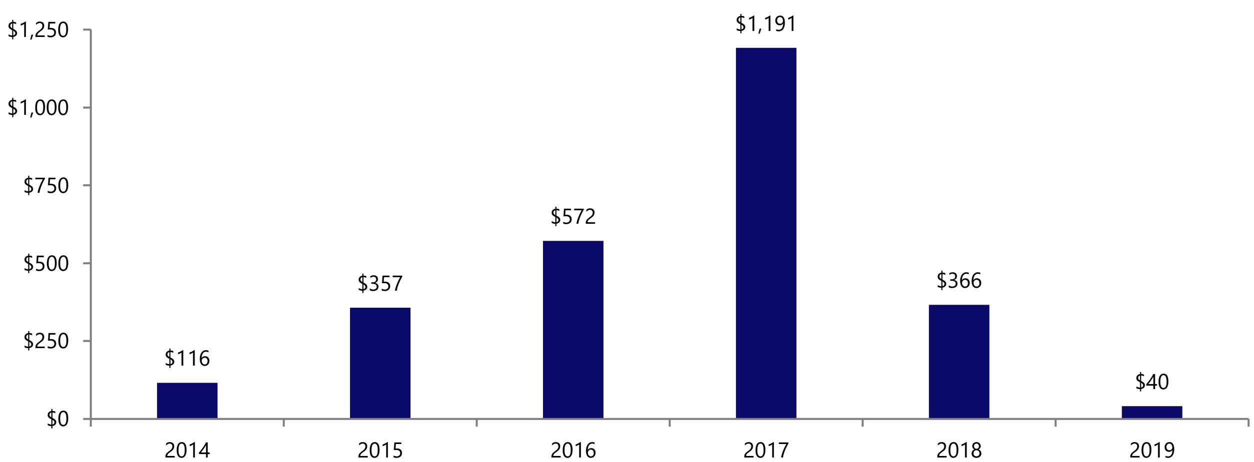
Previous Thesis

When the M&M team acquired CCL in 2015, a deciding factor was the belief that the company has significant runway for growth. This consisted of the hypothesis that CCL would grow through their CCL Design offering which would give them access to new customers and products. The thesis also relied on significant product innovation in the CCL and Avery segments. 5 years later, these theses largely held true. The CCL segment had strong growth through 2017 and the company even surpassed initial growth expectations by buying Checkpoint and Innovia in the two following years.

However, much of these growth channels have dried up and it is unclear if significant runway for growth remains for the highly mature labelling company. The following section will provide a growth outlook and prediction for each of the firm's 4 segments.

EXHIBIT VII

Annual Spend on Business Acquisitions (MM)



Source: Company Filings

Revisiting Thesis II: Runway for Growth Cont.

CCL Growth Outlook

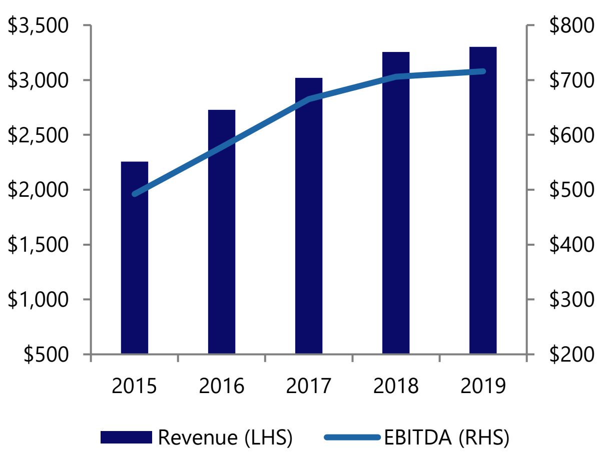
The company's CCL segment is its most mature and generates over 50% of the firm's revenue. Partly as a result, its growth has slowed as they have begun to fully penetrate end-markets and reach peak market share. While the segment should continue to grow, it will likely do so at no more than industry growth rates as has been seen by the slow growth from 2017 through 2020. Its key end-markets of personal care, food and beverage, governmental institutions, healthcare and automobiles are all similarly mature and seem to have little room for further penetration. While it is slight cause for concern that CCL's largest segment will likely experience sluggish organic growth, it is expected that the firm's legacy segment would slow growth as it reorients its growth efforts towards newer segments with more substantial room for growth.

Avery Growth Outlook

CCL Industries' Avery segment is a greater cause for concern. The segment has historically been a major free cash flow driver for the company but its sales have been inconsistent and has averaged negative growth over the past few years. The decline has largely been due to secular decline in key end-markets, driven by increased digitalization across offices and schools. Its core mailing address label product has suffered declines along with many other office products as more work is done online. Its OPG (organizational products group) segment has not experienced the same declines but could struggle in light of headwinds that reduce the need for products such as binders and other writing instruments. CCL has demonstrated an ability to adjust and has added e-commerce and other similar offerings to their product suite, but it is difficult to forecast substantial growth in this segment given secular declines in key products for the segment.

EXHIBIT VIII

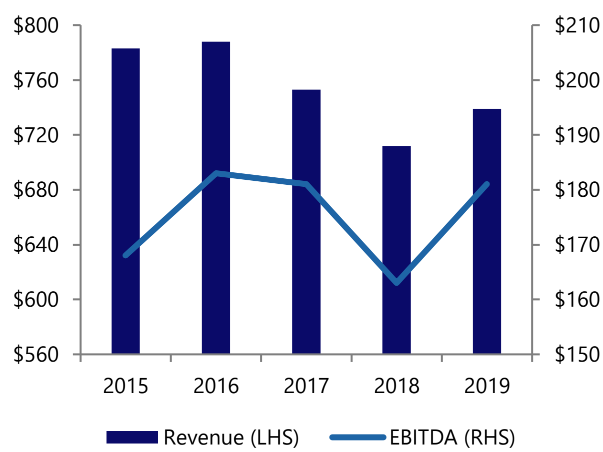
CCL Segment 5-Year Revenue and EBITDA



Source: Company Filings

EXHIBIT IX

Avery Segment 5-Year Revenue and EBITDA



Source: Company Filings

Revisiting Thesis II: Runway for Growth Cont.

Checkpoint Growth Outlook

Checkpoint experienced significant initial growth after its purchase by CCL but since has struggled to generate strong growth figures. While CCL is at the cutting edge of the RFID and security space, anything more than modest growth is unlikely for the segment. The segment's core customer is retailers and given a rapidly changing brick and mortar landscape one can expect demand to struggle for the foreseeable future. Moreover, this segment is most at risk when considering long-term impacts of COVID-19 which has accelerated a rapid transition to e-commerce. While there remains growth to be had in omni-channel inventory control, the outlook for this segment remains relatively bleak.

Innovia Growth Outlook

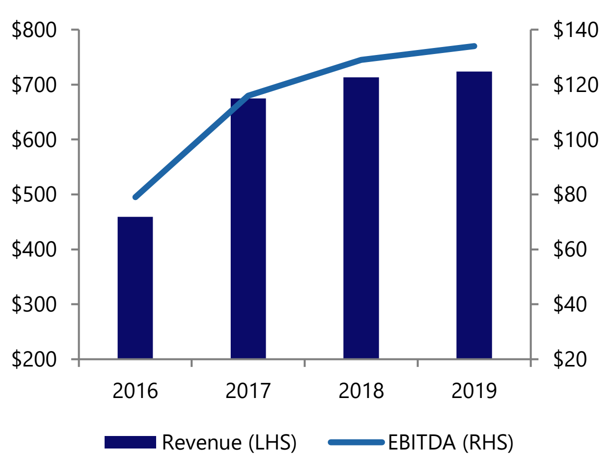
Innovia is CCL's newest and most promising growth opportunity with major acquisitions in 2017 and 2018 forming the basis of the segment. The segment sells specialty, high performance film and thus necessitates more innovation for growth – something CCL is uniquely positioned to provide. While CCL being able to provide a truly differentiated product to their customer base gives it room for potential growth, it is concerning that the Innovia segment has experienced two consecutive years of negative organic growth. This has largely been the result of weak end market demand but is a bad sign for what is supposed to be company's most innovative segment.

Verdict: Minimal Runway for Growth

Unlike in 2015, CCL has little remaining runway for growth. The CCL segment is highly mature and the Avery and Checkpoint are facing difficult tailwinds in light of trends towards digitalization and e-commerce. While we expect the majority of demand to rebound from COVID-19, after that it is difficult to forecast impressive sales growth as the team did in 2015.

EXHIBIT X

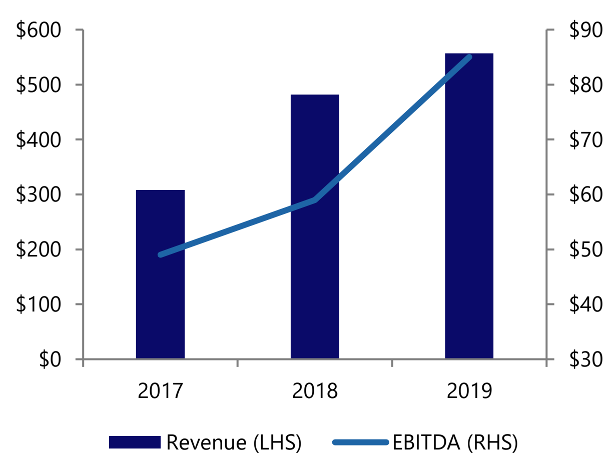
Checkpoint Segment 4-Year Revenue and EBITDA



Source: Company Filings

EXHIBIT XI

Innovia Segment 3-Year Revenue and EBITDA



Source: Company Filings

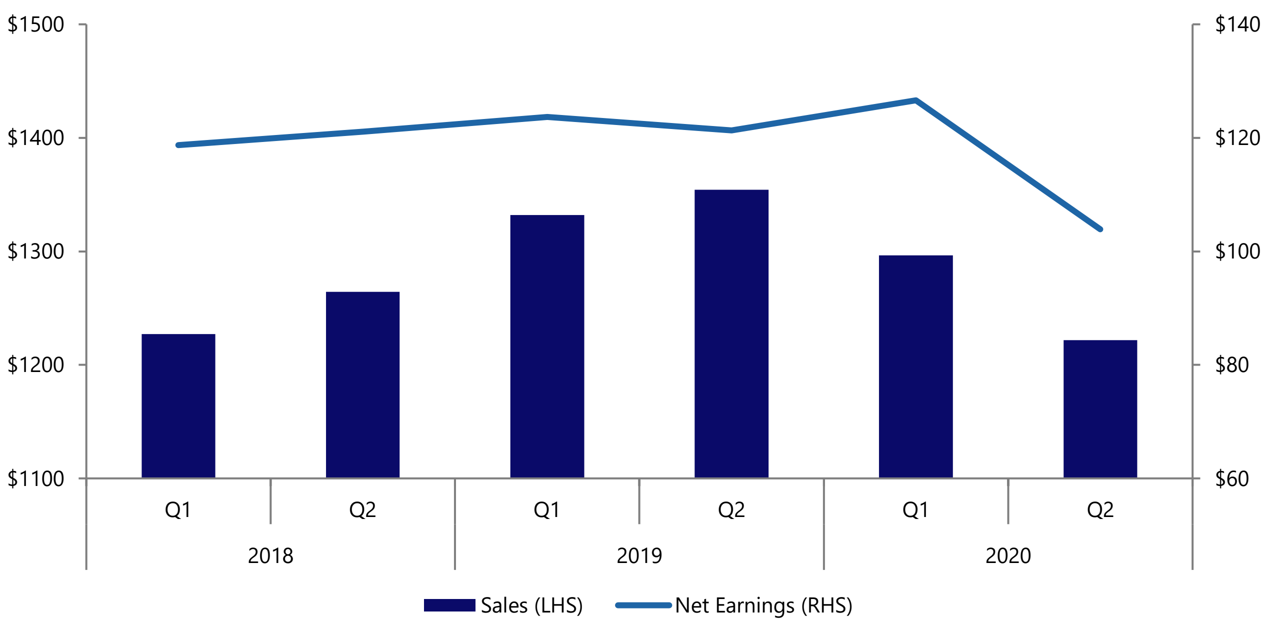
Revisiting Thesis III: Non-Cyclical Characteristics in a Cyclical Industry

Originally, one of the M&M team's core theses was that CCL Industries has non-cyclical characteristics in a cyclical industry. This means that if there is a positive global macroeconomic outlook, CCL will benefit as it is an environment that is conducive of growth. However, during times of economic instability where consumer spending is low, it will often mean that the company will struggle financially, as is typical for many commodities. This has proven to be relatively true as for the past few years, CCL's earnings have remained stable despite changes in the macroenvironment.

Especially given the current macroeconomic environment, if this thesis were to remain true, then there should not be a substantial decrease in sales due to COVID-19. However, this is not the case, as COVID-19 impacted sales, especially in CCL's Avery, Checkpoint and CCL Design Automative segments, which lead to a consolidated 9.8% decline from $1.35B to $1.22B. The CCL Design Automotive, Avery, and Checkpoint segments saw organic sale decreases of 6.1%, 31.9%, and 33.1% respectively, whereas their Innovia segment saw an uptick of 4.2% organic sales growth. The primary reason behind Avery and Checkpoint's declines are due to government restrictions, as these products are targeted towards large human gatherings and are distributed through non-essential retail outlets, which was not accounted for in the original analysis of CCL Industries. The decline in sales is due to COVID-19 specific regulations such as limiting gatherings, rather than because of the macroenvironment like it typically is, so it still exhibits characteristics of economic resiliency. CCL Industries also has a very diversified geographic consumer base, as it sells its products in 42 countries and in 6 continents.

EXHIBIT IV

CCL Industries Q1 & Q2 Sales and Net Earnings (2018 - 2020)



Source(s): Company Filings

Revisiting Thesis III: Non-Cyclical Characteristics in a Cyclical Industry

Product Diversification

CCL Industries continues to acquire companies in order to diversify its product portfolio, which includes its recent acquisition of Flexpol, which is a privately owned company based in Poland in March 2020. In 2020 alone, CCL Industries acquired Clinical Systems, Rheinfelden Americas, Ibertex Etiquetage Industrial, ID&C World Holdco, and IDentilam, which are all similar packaging companies that have been integrated into CCL Industries' operations and business segments. This diversification offers flexibility and reduces the cyclicality of the business because it increases the number of end markets that the company serves. For example, even during COVID-19, although Avery and Checkpoint sales declined, Innovia's profitability increased by 78.2% due to volume and productivity gains. This suggests that it has non-cyclical characteristics, even in a cyclical industry.

Managing Pricing Volatility

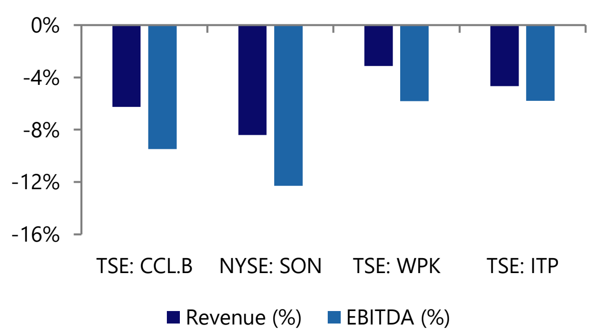
Another key characteristics of the industry is that recently, the consumer products and healthcare companies have experienced pressure to reduce their prices. Due to that, these companies have consolidated in order to achieve greater supply-chain efficiencies and receive cost synergies. As a result, many of CCL's customers have consolidated, which means that CCL has reduced bargaining power and less of an ability to price at a premium. It can also be difficult managing the expectations of the customers due to volatile commodity prices, but CCL is unique in that it is one of the only companies that has the financial strength to invest in innovation that will make it one of the highest value-added producers in the markets that it serves. Because of the quality of its products, it helps the company to manage the cyclical industry it operates in.

In addition, CCL Industries requires numerous key material inputs such as plastic films, resins, paper, and specialty chemicals, which are subjected to the law of supply and demand in the chemical and energy industries. However, this is also partially mitigated through the use of long-term contracts with both suppliers and customers. These long-term contracts reduce the risk of commodity cycles because these pricing contracts already take into account the agreement's size and complexity, and fluctuations in raw materials and packaging costs. This approach also allows the company to have a highly effective asset utilization rate, which reduces its overhead costs. Due to having a lower cost base, it is able to weather economic downturns more effectively than its competitors, which reduces the susceptibility of the company to macroeconomic events.

When comparing CCL to its competitors, its most comparable company is Sonoco based on product offerings, size, and geographic footprint. Although its revenue and EBITDA dropped more than Winpak and Intertape Polymer Group, that is likely because of COVID-19-specific reasons rather than economic downturn reasons. Thus, the original thesis that CCL has non-cyclical characteristics in a cyclical industry continues to be true, as it has remained relatively stable despite a sluggish global economy.

EXHIBIT V

Competitor Revenue and EBITDA Q2 2019 & 2020 Declines



Source(s): Company Filings

Valuation: Discounted Cash Flow Analysis

EXHIBIT IX

Discounted Cash Flow Analysis

	Historical			Projected				
	FY2017	FY2018	FY2019	2020	2021	2022	2023	2024
Revenue	**$4,756**	**$5,162**	**$5,321**	**$5,253**	**$5,498**	**$5,709**	**$5,930**	**$6,155**
CCL	$3,019	$3,255	$3,301	$3,241	$3,370	$3,451	$3,534	$3,619
YoY Growth %		*8%*	*1%*	*-2%*	*4%*	*2%*	*2%*	*2%*
Avery	$753	$712	$739	$763	$769	$775	$782	$789
YoY Growth %		*-5%*	*4%*	*3%*	*1%*	*1%*	*1%*	*1%*
Checkpoint	$675	$713	$724	$553	$591	$603	$614	$622
YoY Growth %		*6%*	*2%*	*-24%*	*7%*	*2%*	*2%*	*1%*
Innovia	$308	$482	$557	$696	$847	$1,002	$1,158	$1,312
YoY Growth %		*56%*	*16%*	*0%*	*22%*	*18%*	*16%*	*13%*
Cost of Goods Sold:	**$3,304**	**$3,658**	**$3,809**	**$3,711**	**$3,884**	**$4,033**	**$4,189**	**$4,348**
% Total Revenue	*69%*	*71%*	*72%*	*71%*	*71%*	*71%*	*71%*	*71%*
Gross Profit	**$1,452**	**$1,503**	**$1,512**	**$1,542**	**$1,614**	**$1,676**	**$1,741**	**$1,807**
Margin %	*31%*	*29%*	*28%*	*29%*	*29%*	*29%*	*29%*	*29%*
Operating Expenses:	**$760**	**$794**	**$783**	**$762**	**$797**	**$828**	**$860**	**$892**
% Total Revenue	*16%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*
Operating Income	**$692**	**$709**	**$729**	**$780**	**$817**	**$848**	**$881**	**$914**
% Total Revenue	*14.5%*	*13.7%*	*13.7%*	*14.9%*	*14.9%*	*14.9%*	*14.9%*	*14.9%*
EBIT Incl. Unusual Items	$697	$715	$734	$775	$811	$843	$875	$909
% Total Revenue	*14.7%*	*13.8%*	*13.8%*	*14.8%*	*14.8%*	*14.8%*	*14.8%*	*14.8%*
Less: Income Taxes	**127.9**	**156**	**159.9**	**194.3**	**203.5**	**211.3**	**219.5**	**227.9**
Effective Tax Rate %	*21.2%*	*25.0%*	*25.1%*	*25.1%*	*25.1%*	*25.1%*	*25.1%*	*25.1%*
Net Operating Profit After Tax	$569	$559	$574	$581	$608	$631	$656	$681
Plus: Depreciation and Amortization	**$259**	**$278**	**$330**	**$341**	**$357**	**$371**	**$385**	**$400**
Less: Capital Expenditures	**$286**	**$353**	**$346**	**$339**	**$354**	**$368**	**$382**	**$397**
% Total Revenue	*6%*	*7%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*
Less: Change in Net Working Capital	**-$24**	**$29**	**-$62**	**-$13**	**-$37**	**-$32**	**-$34**	**-$34**
UFCF	**$567**	**$455**	**$620**	**$597**	**$648**	**$667**	**$693**	**$719**
Discount Period				0.5	1.5	2.5	3.5	4.5
Discount Factor				98%	93%	89%	84%	80%
Present Value UFCF				**$582**	**$603**	**$590**	**$584**	**$577**

Risks and Conclusion

Risks

CCL has a relatively strong business model with major end-market diversification and consequently has less risk relative to other names in the materials space. With that said, CCL may face challenges that will erode their moat and impede potential growth efforts.

For one, CCL has significant customer concentration with their customers being some of the largest multinationals in the world. Their 5 largest customer constitute 16.2% of their revenue and their top 25 customer make up 36.7% of their revenues. As a result, any customer churn has the ability to noticeably impact revenues.

More notably, CCL faces risks across their business if they are unable to adjust to an increasingly digital economy. Things like mail and retailers which have long been core staples for their labels are continuing to diminish in popularity and place some of CCL's legacy revenues at risk.

Finally, like an company that relies heavily on acquisition, CCL faces transaction risk. Most of the firm's acquisitions are of low risk and small scale but management has shown a willingness to make major acquisitions and poor integration or overpayment could have significant adverse effects on the organization.

With all that said, CCL has a relatively stable business model that the team has confidence in and has a sticky customer base and proven expertise that will allow them to weather much of the adversity that it may encounter.

Conclusion

After performing his analysis, the M&M still has a high regard for the quality of CCL Industries' business model. It is positioned as a market leader in its industry and has a strong economic moat built around sticky customers, a strong brand, innovation and expertise. It's high levels of diversification also minimize risk giving us greater confidence it the name.

With that said, we are unsure if CCL has enough growth avenues to generate significant shareholder returns as digitalization and e-commerce hurt some of their legacy products. This fact is furthered by our DCF valuation which implied a share price of $48.27 or a 4.7% downside.

The M&M team wants to do some further diligence on the valuation before selling out of the name and eliminating our exposure to the relatively attractive packaging subsector. We will likely look to sell in the upcoming weeks or to establish a clear price target at which point we will sell the name.

EXHIBIT XX

Share Price Calculation

Share Price Calculation	
Multiples Method	Yes
Dicsount Rate	5.0%
Terminal EBITDA Multiple	13.5x
Terminal Year Growth Rate	2.00%
Terminal Value	$9,895.41
PV of Terminal Value	$7,566.46
Sum of PV of Cash Flows	$2,935.70
Enterprise Value	$10,502.16
Enterprise Value	$10,502.16
Less:Total Debt	$2,495.40
Plus: Cash and cash equivalents	$619.40
Implied Equity Value	$8,626.16
FDSO	178.7
Implied Share Price	**$48.27**

Source: Company Filings

References

1. Company Filings
2. IBISWorld
3. Google Images
4. McKinsey & Company
5. Plastics Industry Association
6. Statista
7. Statistics Canada
8. The Economist