

The magic fluting: Creating sustainable value in European packaging

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In 2008, soon after Smurfit-Kappa had listed on the Dublin and London stock exchanges the business was widely regarded as on the brink of bankruptcy. The Great Financial Crisis caused revenues and profits to decline and investors took fright. At its nadir the stock was trading on just 1.7x forward earnings and 4x EV/Ebitda.

A €500.00 million bond issue was launched in late 2009 which stabilised the company's finances, but added to the already excessive levels of debt that it had built up while under private equity ownership before listing in 2007.

Since then, the company has built up an enviable position as a leader in the sustainable packaging market. Smurfit Kappa has responded to clients' demands to cut costs in their supply-chains by developing innovative packaging materials and designs that cut weight, wastage and stream-lined logistics.

By using over 75% recycled material the company also helps to minimise raw material costs and provides attractive reputational benefits for clients. The company also maintains high sustainability standards for its forestry and paper operations, which underpin the company's strong sustainability credentials.

As a consequence, Smurfit Kappa's share price has nearly trebled since 2013 (from around €11.00 per share to €33.00 at the end of March 2018). The stock has also outperformed the Irish market by nearly 100% since 2013.

We believe that Smurfit Kappa continues to offer attractive investment opportunities because:

- 1) Market interest in recycled cardboard packaging has been boosted by concerns over the environmental impact of plastic packaging waste which we expect to lead to stronger market growth.
- 2) Smurfit Kappa has invested in a state-of-the-art innovation centre in the Netherlands, which enables the company to get closer to customers and drive revenue growth 1-2% ahead of the wider market.
- 3) Meanwhile, efficient operations and cost controls have enabled the company to grow Ebitda margins into the low teens with an ambition to get above 15%.
- 4) Astute management and a long-term shift to more sustainable packaging materials has enabled the company to build a high quality franchise in Europe with a platform for growth in the Americas.

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