

Berry Global Group: Story Structure In M&A Situations

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Story Structure

Best investments are just like good stories or movies: with three-part story structure (complication, development, resolution), important turning points, intrigue, drama, and surprises.

Strictly analytical approach to investment management does not provide us with tools for dealing with uncertainty.

The closed and fixed form of analytics leaves no place for imagination.

And without imagination, we are just not capable of fathoming uncertainty, fathoming the future.

Narrative, by its nature, allows us to understand the time dimension better: order of events, their length, and different time periods.

For example, George Soros, in his book "Alchemy of Finance" describes how he analyzed certain investment situations.

In order to see the big picture and analyze the case he uses terms borrowed from the world of literature, movies, and theatre. He calls the overall cycle "scenario" and different stages of the cycle "act one", "act two", "act three", "act four", and puts an emphasis on main "actors": the shareholders.

I think that the use of such terms is not a coincidence: it serves well the purpose of looking at how the situation develops over time.

M&A Situations

Some M&A transactions present opportunity to develop a good investment thesis.

Large merger is an important, transformative corporate event.

It can change investment thesis and story of a company.

It just takes time for company's story structure to develop and for share prices to reflect fundamental changes and developments.

As a result of this, shares can decline or trade sideways despite the fact that transaction has great fundamental logic and benefits for shareholders.

All of this creates opportunities for investors. After certain period of time it is easier to take a step back and look at company's story and story structure.

Berry Global Group

In July 2019, Berry Global Group completed an acquisition of RPC Group plc for a purchase price of approximately \$6.5 billion (including debt), creating a leading global supplier of value-added protective solutions and one of the world's largest plastic packaging companies.

Upon completion of the acquisition, the company reorganized into four reporting segments: Consumer Packaging International, Consumer Packaging North America, Engineered Materials and Health, Hygiene & Specialties

Company reported operating EBITDA of \$581 million for the third quarter of 2020, and according to latest investor presentation, a guidance of \$2.1 billion for FY 2020.

BERY currently trades at an EV/EBITDA of x6.91 and x7.64 based on annualized Q3 results and guidance, respectively.

Free cash flow guidance for FY 2020 is \$830 million, while the company aims to achieve a normalized FCF of \$900 million going forward. Based on these figures, free cash flow yield is therefore 13.4% and 14.5%, respectively.

Despite the fact that company's main objective in the near future is to deleverage, given its industry sector and current post COVID-19 environment, we believe its shares represent an attractive investment opportunity