



## CCL Industries Inc. Is Banking on its Latest Acquisition

### Description

**CCL Industries Inc.** ([TSX:CCL.B](#)) announced December 20 that it was buying Innovia Group, a U.K. company specializing in polymer banknotes, for \$1.13 billion. If you're not familiar with Innovia, they supply plastic banknotes to Canada, Australia, and the U.K., producing more than 50 billion banknotes for Central Banks around the world.

CCL calls it a transformational, not to mention highly accretive, transaction.

"This transaction is another transformative acquisition for CCL, propelling the company to world leadership in the disruptive, fast-growing polymer banknote market," said Geoffrey T. Martin, president and chief executive officer of CCL in its press release announcing the deal. "We expect to find significant operational, customer and product innovation growth opportunities between Innovia and our end use facing businesses at CCL Label, CCL Design, Checkpoint and Avery."

More importantly, it expects Innovia to generate \$155 million in EBITDA in 2017 from \$570 million in revenue. While its net-debt-to-EBITDA ratio will increase from 1.6 times at the end of September to 2.5 times once the acquisition is completed in Q1 2017, CCL ought to be able to reduce that to 1.6 times within 24 months, perhaps less if cost savings are there.

CCL stock hasn't done much in 2016, up 2% year-to-date, but, long term, there haven't been many that have come anywhere close in terms of performance. Its three-, five-, and 10-year annualized total returns of 42.9%, 51.1%, and 24.1%, respectively, have run circles around both the S&P/TSX Composite Index and the S&P 500.

In 2016, CCL has closed eight acquisitions for a total of \$675 million. The Innovia deal is, as far as I know, its largest acquisition to date, and that's saying something, since CCL Industries routinely makes at least a handful of medium-sized purchases on an annual basis.

"We've gone from being a small-cap stock in Canada to a decent-sized one," said Martin in a July 2016 article in *Canadian Business*. "We've grown from a billion and change in revenue to \$4 billion and change in revenue. We've gone from being a North American company to a global one."

And now it owns 99% of the global polymer banknote market, and while it's hard to know how long physical currency will exist, as long as it does, CCL Industries is the new industry leader.

That's pretty transformational, if you ask me.

What did the Innovia deal cost CCL Industries? It cost about 7.3 times 2017 EBITDA. The current owners, U.K. private equity firm The Smithfield Group, paid \$761 million for Innovia back in April 2014. Assuming Smithfield paid approximately the same multiple that CCL Industries is paying and CCL is able to meet its \$155 million projection for EBITDA in 2017, Innovia will have grown its EBITDA by 14% annually over the past three years.

So, here's the bottom line.

If CCL Industries can continue to grow Innovia's profits at the same rate over the next five years, it will likely have doubled the value of Innovia's business to well over \$2 billion, adding approximately \$60 per share to its stock price.

Yes, its valuation is more expensive today than its historical norm. That said, it's one of the best-run companies in Canada. I'd rather pay a fair price for a great company than a good price for a fair company.

CCL Industries is a great company; Innovia is a great acquisition.

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