



Corporate Credit > U.S. High Yield

Berry Plastics (BERY)

Updated: Sep 8, 2015

Removed:

- no longer expects to fund AVINTIV acquisition with equity ; high beta / high leverage credits not doing well given mkt technicals

Investment Rationale:

- Recent Acquisition Announcement:** BERY's pending \$2.45b purchase of AVINTIV provides greater sales distribution (in solid consumer segments of hygiene and healthcare), broadens international presence into high growth EM and provides \$50m synergies – with potential upside.
- Attractive Relative Value:** Notes trade inside of the Barclay's Packaging Index (@ 5.6%) but wide to fellow companies within the packaging space with leveraging acquisitions such as BLL, CCK and OI
- Deleveraging Initiatives:** While the AVINTIV purchase could raise leverage to 5.5x, management stated that it could potentially raise equity to help fund the purchase (to improve net leverage to 5.0x) and thereafter expects to reduce leverage to a more conservative 2-4x; previously BERY responsibly repaid \$100m on its term loan and called its 9.75% notes which reduced interest expense by ~\$40m
- Attractive New Product Portfolio:** BERY's product innovations could allow BERY to capture additional share within the competitive plastic segment; its Versalite cups have been well received by customers while NYC's recent ban on Styrofoam cups and packages has helped generate increased interest from potential customers; mgmt is excited about potential innovation using AVINTIV technology
- Benefit From Lower Oil Prices:** As one of the largest users of resin in the plastic packaging space (at 50% of BERY COGS), reduced oil should translate into lower input costs for the packager. The impact could positively expand margins , even despite BERY's high usage of pass-through contracts, and provide upside to the company's free cash flow projections.
- Management Outlook 2015:** Free cash flow guidance recently raised to \$400mm from \$350mm on positive impact of declining resin costs and this cash generation guidance may continue to prove conservative.

Recommendation(s):

View	Trade Horizon	Ticker	Cpn	Maturity	Ratings			Issue		Cash				ISIN
					S&P	Moody's	Ccy	Size	YTW	OAS	Price	Target	Loss	
+1	12 Months	BERY	5.50%	5/15/2022	B-	B3	USD	500	5.2%	335	101.25	104	98	US085790AX14

* Levels as of 8/3/2015