

OI to sell its ANZ business to Visy for a net \$620 million; indicates volume in June was down 3% (versus 18% declines in April and May) and 2Q 2020 cash flows were positive

- ✓ Last night, after the market close, OI announced an agreement to sell its Australia & New Zealand (ANZ) business unit to Visy Industries (private) for AUD \$947 million (or USD \$652 million). OI expects net proceeds of USD \$620 million, which will be used to repay debt.
- ✓ Per management, the ANZ business, which is reported as part of OI's broader Asia Pacific segment, generated 2019 sales and adj. EBITDA of AUD \$754 million and AUD \$124 million, respectively.
- ✓ The deal, which is slated to close August 31st, is expected to be completed in two separate transactions: 1) a sale-leaseback transaction of ANZ's properties with Charter Hall for AUD \$214 million; and 2) the sale of ANZ's operating business to Visy for AUD \$733 million.
- ✓ For context, the aggregate purchase price represents more value than we had initially placed on the company's entire Asia Pacific segment and the deal's implied multiple of ~7.6x 2019 EBITDA is higher than the ~6.5x blended multiple we applied to its higher-margin American and European segments (see Exhibit #1 on page #2).
- ✓ On the fundamental front, OI indicates that sales volumes in June were down ~3%, which represents a marked improvement compared to the 18% declines experienced in April and May. To that end, the company expects overall volumes to be down ~15% in 2Q 2020 with adjusted earnings at around "breakeven" (compared with the current consensus estimate of \$0.11).
- ✓ Importantly, the company indicated that cash flows were "solidly positive" in 2Q 2020, which is seasonally abnormal, and that the company's total liquidity compares "favorably" with 1Q 2020 levels. For context, at the end of 1Q 2020, net debt was \$5.5 billion and the leverage ratio, per its credit agreement, was 3.9x (vs. 4.0x at year-end and its 5.0x covenant). Total available liquidity stood at ~\$1.7 billion, including \$891 million in cash at the end of 1Q 2020.
- ✓ Currently, our fair value estimate remains \$11 per share, reflecting a blended multiple of 6.2x on 2022E adjusted EBITDA of \$1.195 billion as well as net debt, including potential asbestos liabilities, minority interest and unfunded pension liabilities, of ~\$5.75 billion (see Exhibit #1 on page 2); that said, we intend to make updates to our forecasts following this morning's conference call at 8 a.m. (ET).

UPDATE

O-I Glass, Inc.

(NYSE: OI)

Date (7/16/2020)

Price \$9.20/share

Market capitalization: \$1.45B

Americas: \$31/share

Europe: \$17/share

Asia Pacific: \$3/share

**Corporate/Net Debt & Other:
(\$40/share)**

SOTP: \$11/share*

*SOTP may not add due to rounding

(See the report dated 3/12/2020 and update from 4/9/2020, 4/29/2020 and 6/9/2020 for more info.)

NOTE: This publication could be considered as advocating for corporate restructurings. Authors select companies for this report based on the potential for a future value-unlocking transaction. In many cases, these companies have or could come under activist investor pressure, media scrutiny, or general market speculation that a spin-off or asset sale is possible.



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HIDDEN OPPORTUNITIES

“Valuing possible breakups by providing sum-of-the-parts analysis.”

Exhibit #1 O-I Glass, Inc.: Sum-of-the-Parts Fair Value

(\$ in millions, except per share figures)

	<u>Americas</u>	<u>Europe</u>	<u>Asia Pacific</u>	<u>Corporate</u>	<u>Enterprise Value</u>	<u>Net Debt</u>	<u>Market Cap</u>
2021E Revenue	\$3,306	\$2,252	\$603				
2022E Revenue	\$3,379	\$2,294	\$610				
Operating margin	<u>14.5%</u>	<u>13.5%</u>	<u>5.0%</u>				
Operating income	\$490	\$310	\$30				
EBITDA margin	<u>22.5%</u>	<u>19.0%</u>	<u>14.5%</u>				
2022E EBITDA	\$760	\$436	\$88	(\$89)		(\$5,750)	
Applied multiple	6.5x	6.0x	5.0x	6.2x		1.0x	
Enterprise value	\$4,941	\$2,615	\$442	(\$554)	\$7,444	(\$5,750)	\$1,694
Diluted shares	<u>157.7</u>	<u>157.7</u>	<u>157.7</u>	<u>157.7</u>		<u>157.7</u>	<u>157.7</u>
Per share basis	\$31.34	\$16.58	\$2.80	(\$3.51)		(\$36.46)	\$10.74
Bull (~7x)	\$36.16	\$19.35	\$3.36	(\$4.08)		(\$36.46)	\$18.32
Base (~6x)	\$31.34	\$16.58	\$2.80	(\$3.51)		(\$36.46)	\$10.74
Bear (~5x)	\$26.51	\$13.82	\$2.24	(\$2.95)		(\$36.46)	\$3.16

Source: Company reports, Bloomberg, and Institutional Research Group estimates.