

**Follow-up notes from this morning's ANZ divestiture conference call; discontinue coverage, as of today's close**

- ✓ As a reminder, last night, OI agreed to sell its Australia & New Zealand (ANZ) business unit in a dual-pronged transaction with Visy Industries (private) and real estate investment trust Charter Hall (CHC AU). The total purchase price is for USD \$652 million, from which OI expects net proceeds of USD \$620 million (i.e. leakage, including taxes & fees, of just ~5%).
- ✓ The transaction multiple was ~7.6x and management expects the deal to de-lever the company's balance sheet by ~0.25x. For context, OI's leverage ratio, per its credit agreement, was 3.9x at the end of 1Q 2020 (compared with its 5.0x covenant). Management expects to receive 95% of the funds at closing, on August 31<sup>st</sup>, with the remainder coming in within the next 12 months (without preconditions).
- ✓ As a result of this transaction, OI will focus on its two core/integrated operating segments, Americas and Europe; to that end, the remaining Asian-related assets (of the prior Asia Pacific segment) will now be reported under the Corporate/Other heading.
- ✓ Additionally, the company indicates that this deal substantively concludes its strategic review although the company still intends to execute on \$200-\$300 million of tactical divestitures over the next 18-months, which will likely be comprised of a "handful" of smaller transactions (e.g. JV interests and/or non-core properties).
- ✓ On the fundamental front, OI has seen continued improvement in sales volumes in the first half of July although the company will provide more details when it reports 2Q 2020 results on August 4<sup>th</sup> after the market close as well as on its conference call the following morning at 8 a.m. (ET). (For context, OI's volumes in June were down 3% compared with declines of ~18% in April and May.)
- ✓ Our fair value estimate remains \$11 per share, reflecting a blended multiple of ~6.5x on 2022E adjusted EBITDA of \$1.095 billion (previously \$1.195 billion) as well as net debt, incl. potential asbestos liabilities, minority interest & unfunded pension liabilities, of \$5.170 billion (previously ~\$5.75 billion; see Exhibit #1 on page 2).
- ✓ That said, we will discontinue coverage of OI, as of today's close; for context, shares returned about ~69.5% since our initial recommendation in March 2020 (compared with gains of 18% and 17% in the S&P and Russell, respectively).

**UPDATE**

**O-I Glass, Inc.**

**(NYSE: OI)**

**Date (7/16/2020)**

**Price \$10.10/share**

**Market capitalization: \$1.57B**

**Americas: \$31/share**

**Europe: \$16/share**

**Asia Pacific: N/A**

**Corporate/Net Debt & Other:  
(\$36/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, 6/9/2020 and 7/16/2020 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>Corporate</u>	<u>Enterprise Value</u>	<u>Net Debt</u>	<u>Market Cap</u>
2021E Revenue	\$3,292	\$2,208				
<b>2022E Revenue</b>	<b>\$3,364</b>	<b>\$2,249</b>				
Operating margin	<u>14.5%</u>	<u>13.5%</u>				
<b>Operating income</b>	<b>\$488</b>	<b>\$304</b>				
EBITDA margin	<u>22.5%</u>	<u>19.0%</u>				
<b>2022E EBITDA</b>	<b>\$757</b>	<b>\$427</b>	<b>(\$89)</b>		<b>(\$5,170)</b>	
Applied multiple	<b>6.5x</b>	<b>6.0x</b>	<b>6.3x</b>		<b>1.0x</b>	
<b>Enterprise value</b>	<b>\$4,920</b>	<b>\$2,564</b>	<b>(\$562)</b>	<b>\$6,921</b>	<b>(\$5,170)</b>	<b>\$1,750</b>
Diluted shares	<u>157.7</u>	<u>157.7</u>	<u>157.7</u>		<u>157.7</u>	<u>157.7</u>
<b>Per share basis</b>	<b>\$31.20</b>	<b>\$16.26</b>	<b>(\$3.57)</b>		<b>(\$32.79)</b>	<b>\$11.10</b>
Bull (~7x)	\$36.00	\$18.97	(\$4.13)		(\$32.79)	\$18.04
Base (~6x)	\$31.20	\$16.26	(\$3.57)		(\$32.79)	\$11.10
Bear (~5x)	\$26.40	\$13.55	(\$3.00)		(\$32.79)	\$4.15

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