

# DS Smith Plc



**DS Smith Plc (“DS Smith” or the “Company”)**

## **Proposed Acquisition of the Otor Group (“Otor”) for €247 million**

The Board of DS Smith announces today that it has submitted a binding offer for the proposed acquisition of Otor, a leading corrugated packaging company in France (the "Proposed Acquisition").

The Otor Group consists of Otor S.A., the shares of which are listed on NYSE Alternext Paris, and Otor Finance, a holding company for The Carlyle Group (“Carlyle”) which owns and controls 94.75 per cent. of Otor S.A. The remaining 5.25 per cent. of the shares of Otor S.A. are in free float on NYSE Alternext Paris.

Under the terms of the binding offer, DS Smith intends to acquire control of more than 95 per cent. of the share capital of Otor from entities controlled by Carlyle, from Credit Lyonnais ("LCL") and from the chairman of Otor S.A. before making a mandatory offer for the remaining shares of Otor S.A. (the “Minority Offer”) in accordance with French stock exchange regulations. The total consideration for the Proposed Acquisition, including the Minority Offer, of €247 million (approximately £206 million), will be in cash and the assumption of existing debt, equivalent to an all cash offer of €8.97 per Otor S.A. share. Under French regulations a minority squeeze out can be achieved with a shareholding representing 95 per cent. of the shares and voting rights. More details on the proposed acquisition structure can be found later in this announcement.

The parties' intention is to inform Otor's group works council and to execute the relevant documentation as soon as possible.

The Board believes that the combination of DS Smith and Otor satisfies a number of key strategic objectives, in particular the development of a strong continental European corrugated packaging business focused on the fast moving consumer goods sector (“FMCG”), and strengthening significantly DS Smith’s French presence.

The Board also believes that the DS Smith Group, as enlarged by the Proposed Acquisition (the "Enlarged Group"), will have enhanced long-term growth potential through its strong business across the UK and continental Europe and from increased spending on the more resilient FMCG markets. Combining Otor’s successful and well-established corrugated packaging business with DS Smith’s existing French operations will create a platform with significantly enhanced capabilities to address the needs of key corrugated packaging customers both in France and more broadly in continental Europe.

Following the Proposed Acquisition, DS Smith will re-enforce its position as a leading European supplier of recycled corrugated packaging, complementing its

existing strong business in UK corrugated packaging and recycling. Key benefits from the Proposed Acquisition include:

- a broader customer base and greater exposure to the large, and more resilient, FMCG segment of the corrugated packaging market in France;
- the strengthening of DS Smith's position as a major European corrugated packaging company with a better product and market mix, and a reduction in the effect of the paper cycle on the DS Smith Group;
- estimated total cost synergies of around €9.3million (approximately £7.7 million at the prevailing exchange rate) in the second full financial year of ownership; and
- margin and earnings enhancement for the DS Smith Group and a return on the investment in Otor above DS Smith's weighted average cost of capital, in the first full financial year of ownership.

The total consideration for the Proposed Acquisition, including the Minority Offer, of €247 million (approximately £206 million), will be in cash and the assumption of existing debt, equivalent to an all cash offer of €8.97 per Otor S.A. share. The cash element will be funded through a combination of existing and new committed bank facilities and the proceeds from a placing of up to 9.99 per cent. of new ordinary shares to raise up to approximately £47 million (announced separately today) (the "Placing"). The Placing is not conditional on the Proposed Acquisition completing.

The Proposed Acquisition will be subject to, *inter alia*, regulatory clearances and the approval of DS Smith's shareholders at a General Meeting to be held as soon as practicable.

Miles Roberts, Group Chief Executive of DS Smith stated:

"The acquisition of Otor realises a number of key strategic objectives for DS Smith. It makes us one of the leading players in corrugated packaging in France with 80 per cent. of Otor's sales derived from cyclically less sensitive FMCG customers. Extensive due diligence gives us confidence that Otor is a high quality business with structural growth opportunities, notably in shelf-ready packaging where penetration is markedly lower than in the UK. Otor also offers an excellent platform for DS Smith to increase its European sales penetration.

The acquisition realises several of our financial objectives for DS Smith. Otor is a high margin business that should be accretive to both earnings and returns for the enlarged group in the first full year of ownership."

An analyst meeting to discuss the Proposed Acquisition will be held today at 9:30 am BST at the offices of J.P. Morgan Cazenove, 20 Moorgate, London, EC2R 6DA.

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The analyst briefing may be heard live by dialling in on +44 (0)20 7806 1951.

The presentation will be webcast. Please use the link to <http://www.dssmith.uk.com/pages/Investors.asp> to access the webcast. The slides used at this briefing will be posted in the Investors/Presentations section of the Group's website ([www.dssmith.uk.com](http://www.dssmith.uk.com)) from 9:25 am BST.

A replay of the briefing will be available by telephone for ten days, from 2 hours after the meeting has ended, on +44 (0)20 7111 1244 (PIN: 5915243#).

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## **DS Smith Plc**

### **Introduction**

The Board has announced today that DS Smith has submitted a binding offer for the Proposed Acquisition of Otor, a leading corrugated packaging company in France.

Given its size, the Proposed Acquisition will be, *inter alia*, subject to the approval of DS Smith's shareholders at a General Meeting. A circular, containing a notice convening this meeting, will be posted to DS Smith shareholders as soon as practicable following this announcement.

### **Information on DS Smith**

DS Smith is an international packaging supplier and office products wholesaler headquartered in England which recently reported adjusted operating profits of £94.0 million on sales of c.£2,071 million for the financial year ended 30 April 2010.

DS Smith's ordinary shares are admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange and DS Smith is a constituent of the FTSE 250. The Company's businesses are managed within four segments; UK Paper and Corrugated Packaging; Continental European Corrugated Packaging; Plastic Packaging; and Office Products Wholesaling. The most recent Annual Report was published on 16 July 2009 and is available to download from the Company's website [www.dssmith.uk.com](http://www.dssmith.uk.com). The Annual Report for the financial year ended 30 April 2010 will be published on 15 July 2010.

DS Smith has operating locations across the UK, continental Europe, the USA and Australasia and employs over 10,500 people in over 16 countries. The DS Smith Group is highly cash generative reflecting the ongoing focus on cash management.

### **Information on Otor**

Otor is a French based manufacturer of corrugated packaging, recycled container board, and packaging machines. Otor is headquartered in Paris and has operational facilities consisting of six box plants, two small paper mills, three sheet plants and one box machine fabrication plant. Corrugated capacity and paper capacity are approximately 450,000 tonnes and 130,000 tonnes per annum respectively.

Otor Group was formed in 1989 following the merger of several French paper mills and box plants. All of the shares of Otor are listed on NYSE Alternext Paris. Carlyle with LCL acquired control of Otor in 2000 and together they currently hold 94.75 per cent. of its share capital. The remaining 5.25 per cent. of the share capital is held by minority shareholders of Otor (including certain of the Otor directors).

The trading record of Otor for the two financial years ended 31 December 2009 is summarised below:

Year ended 31 December	2008	2009
Sales	€363.8m	€315.1m
Current operating income*	€30.7m	€28.7m
Margin	8.4%	9.1%
Cash flow from operating activities	€42.2m	€70.9m

\* *adjusted for impairments*

These figures have been prepared in accordance with IFRS and have been extracted from the consolidated financial statements of Otor Finance.

At 31 December 2009, Otor Finance had gross assets of c.€264.3 million.

## **Background to, and reasons for the Proposed Acquisition**

### *Strategy*

DS Smith continues to focus on its strategic objective of being a leading packaging company in the UK and selected overseas markets with strong businesses in recycled corrugated packaging, paper, recycling and plastic packaging.

In DS Smith's UK Paper and Corrugated Packaging segment, the largest segment within Packaging, the focus is on continued operational improvement and the development of DS Smith's principal activities. In the Continental European Corrugated Packaging segment, DS Smith has successfully built on the knowledge derived in serving UK customers to build strong businesses in France, Italy and Poland. In the Plastic Packaging segment, DS Smith is focused on growing in returnable transit packaging and the liquid packaging and dispensing market.

The Company's goal in Office Products Wholesaling ("Spicers") remains to build on its strong businesses in the UK, France, Germany and the Benelux region and make steady progress on margin enhancement.

### *Packaging*

Following the acquisition of the LINPAC Containers Group in 2004, DS Smith has continued to expand its business in its key UK market in particular.

DS Smith remains focused on plastic packaging with returnable transit packaging. DS Smith is a leading European supplier of beverage crates, reusable containers and extruded sheet as well as liquid packaging and dispensing, and a leading supplier globally of bag-in-box systems and taps.

### *The Corrugated Packaging market*

The European market for corrugated packaging in 2008 was estimated to have been approximately €23 billion, equivalent to circa 17.5million tonnes or 33 billion square metres of which the French market is estimated to be 13 per cent.. Demand for

corrugated packaging is principally influenced by overall economic activity and manufacturing output.

Demand from the FMCG sector continues to benefit from the trend towards the use of shelf-ready packaging ("SRP"), which can be readily converted from its initial role as a protective transit pack into a box or tray that can be placed on display in the retail store. SRP benefits retailers by reducing the manual work involved in loading goods onto store shelves and reducing the amount of damage to goods in store, while enabling products to be presented more attractively. SRP requires more sophisticated packaging manufacturing capabilities for cutting, printing and gluing the corrugated board to form the more complicated box structures. The increased proportion of these higher value-added boxes, often requiring multi-passes within the production process, has contributed to capacity utilisation across the corrugated industry remaining higher than levels that would be indicated by the overall level of demand.

Usage of corrugated packaging for the home delivery of products continues to grow in association with the growth of purchasing through the internet.

#### *The outlook for the French corrugated packaging business*

Following a two year slowdown as a result of the recession, sales of French FMCG corrugated packaging are expected to return to a 1.6 per cent. annual rate of growth over the next four years. These sales benefit from exposure to Food and Grocery which is structurally the least sensitive category of consumer spending to economic conditions. These sales maintained growth, at a reduced pace of 0.3 per cent., through the course of 2008 and 2009.

#### *Rationale for the Proposed Acquisition*

The Board believes that the Proposed Acquisition is an exceptional opportunity to consolidate DS Smith's position by creating a leading corrugated packaging company in France. Otor has strong businesses across both corrugated packaging and FMCG products.

#### *Improved position in France and opportunity for further continental expansion*

The Proposed Acquisition will significantly broaden DS Smith's customer base and the market it serves. Otor has many customers including a number of major FMCG companies, to which it is sole or joint supplier. The Enlarged Group will also have the additional opportunity to expand its product offering into other European countries such as Poland and Italy where DS Smith already has a developing business.

#### *Higher Group operating margins through product mix and cost synergies*

Due to its product mix, Otor operates at significantly higher margins compared to DS Smith and the combination will result in margin improvement for the Enlarged Group. This impact will be further enhanced by the significant cost synergies which the Board envisages can be extracted from the combination of the two businesses.

#### *Increased manufacturing competitiveness*

The Board believes that combining DS Smith's and Otor's corrugated packaging operations in France will enable the Enlarged Group to be highly competitive through increased efficiency and implementation of envisaged synergies. The locations of DS Smith and Otor's manufacturing sites complement each other well, enabling the

Enlarged Group to derive material benefit from optimising the geographic regions and customers served.

*Experienced management team*

Otor has high quality employees and a very experienced management team who will contribute further to the success of the Enlarged Group in France. The Board's current intention is that the management teams of Otor and DS Smith's French corrugated operations will be merged to form a strong team to implement the integration of the businesses and to take the combined French corrugated packaging operations forward.

*Reduced reliance on the UK business*

Following the consummation of the Proposed Acquisition, DS Smith will be materially less reliant on its business in the UK, the largest contributor to DS Smith's profits.

*Financial Impact of the Proposed Acquisition*

The Board estimates that the total pre-tax cost synergies from the Proposed Acquisition will be around €9.3 million (approximately £7.7 million) per annum (before integration costs as detailed below) fully achieved within the second full year of ownership. All synergies are expected to be reflected in the cash flow. These synergies are expected to arise from cost reduction principally through the elimination of duplicate head office costs and other functions, purchasing optimisation and bringing out-sourced services in house.

The estimated integration and rationalisation costs of £3.0 million will be incurred between completion and the end of the first full financial year.

The Board believes that the Proposed Acquisition will be financially beneficial to the Company, particularly in relation to the following key measures:

- The Proposed Acquisition and Placing, taken together and before exceptional items, are expected to be modestly accretive to earnings in the financial year ending 30 April 2011 and earnings enhancing in the year ending 30 April 2012 being the first full year following completion; and
- The Directors believe that the Proposed Acquisition will deliver a return on capital in the year ending 30 April 2012 (being the first full year following completion) greater than DS Smith's cost of capital. The Enlarged Group is expected to maintain strong operating cash flows.

Nothing in this announcement should be construed as a profit forecast or interpreted to mean that the future earnings per share, profits, margins or cashflows of DS Smith will necessarily be greater than the historic published figures.

**Details of the Proposed Acquisition**

DS Smith has submitted a binding offer to acquire 94.99 per cent. of the share capital of Otor. The total consideration for the Proposed Acquisition, including the Minority Offer, of €247 million (approximately £206 million) will be in cash and the assumption of existing debt, equivalent to an all cash offer of €8.97 per Otor S.A. share.

The acquisition agreement is conditional, inter alia, upon obtaining the approval of DS Smith shareholders at a General Meeting and relevant anti-trust clearances having been received. It is expected that the transaction will complete in Q4 2010.

Carlyle together with LCL currently owns 94.75 per cent. of the share capital of Otor S.A. through three holding companies, Otor Finance, Packaging Investment I SARL and Packaging Investment II SARL (Packaging Investment I SARL and Packaging Investment II SARL together “Packaging Investment”). Otor Finance is wholly-owned by Packaging Investment and LCL; in addition, it holds directly 80.14 per cent. of the share capital of Otor and Packaging Investment owns directly 14.61 per cent. of the share capital of Otor. In addition, shares held by the chairman of Otor S.A. will also be sold to DS Smith. After closing the Proposed Acquisition DS Smith will control more than 95 per cent. of the Otor S.A. share capital, taking into account shares of Otor S.A. held in treasury.

It is intended that DS Smith acquire 100 per cent. of Otor Finance from LCL and Packaging Investment, and all of Otor’s share capital held by Packaging Investment and the chairman of Otor S.A.. DS Smith will also make a mandatory offer for the remaining shares of Otor listed on NYSE Alternext Paris in accordance with French stock exchange regulations. Under French regulations, a minority squeeze out can be achieved with a 95 per cent. shareholding.

#### *Exclusivity and Sellers' break fee*

Packaging Investment and LCL have committed to a period of exclusivity pending execution of the sale documentation by them. Should they fail to execute the documentation in accordance with DS Smith's binding offer or breach their exclusivity commitment, a break fee of €4,880,000 will be due to DS Smith. A further break fee of €20 million will be payable by Packaging Investment if the sellers enter into a binding agreement for the sale of all or part of the shares held by them or all or part of the Otor business with a third party before the expiry of the exclusivity period.

#### *DS Smith's break fee*

Under the sale documentation, DS Smith will commit to pay a break fee equal to 1 per cent. of the market capitalisation of DS Smith on the business day immediately before the date on which the sale documentation is signed, in the event that the Proposed Acquisition does not complete because approval is not given by shareholders or regulatory clearances are not obtained.

### **Current trading and prospects**

#### *DS Smith*

DS Smith announced its Preliminary Results for the financial year ended 30 April 2010 on 24 June 2010. Since the end of April 2010, trading performance continues to be in line with expectations, underpinned by continued FMCG demand from DS Smith’s customers.

The Board believes that DS Smith’s visibility on contracted revenues continue to be of high-quality and in-line with previous guidance, underpinning the Board’s confidence in the prospects of DS Smith and the Directors anticipate DS Smith making good progress throughout 2010 and 2011.

### *The Enlarged Group*

The Board believes that, following completion of the Proposed Acquisition, the Enlarged Group will be well placed to continue to develop its strong French FMCG business.

The Proposed Acquisition will enable DS Smith to meet the increasing requirements of European retailers for enhanced packaging products.

The Board has confidence in the financial and trading prospects of the Enlarged Group for the current year and beyond.

### **Shareholder circular and outline timetable**

DS Smith intends to despatch a circular to DS Smith shareholders giving full details of the Proposed Acquisition, and including notice of a General Meeting, as soon as practicable.

The Board expects the General Meeting to take place in August 2010 with completion of the Proposed Acquisition, subject to the satisfaction of the conditions outlined above, expected in Q4 2010.

DS Smith will also make a mandatory offer in accordance with French stock exchange regulations for the remaining shares of Otor held by minority shareholders as soon as the Proposed Acquisition completes.

### **Enquiries**

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