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## **R.J. Reynolds' Winston-Salem, N.C., Packaging Division Sale Stirs Interest**

By Brian Louis

The proposed sale of R.J. Reynolds Tobacco Co.'s packaging division in Winston-Salem should attract plenty of buyer interest, a packaging-industry analyst said yesterday.

Huston Keith, an analyst and the principal of Keymark Associates in Marietta, Ga., said that the unit could fetch \$ 300 million or more. The industry is highly fragmented but has been consolidating as companies use size to achieve greater efficiencies, he said.

"I suspect they'll have a lot of interest," Keith said.

The division produces flexible packaging, which includes bags, pouches and wrapping, for Reynolds Tobacco as well as companies in the consumer-products, food and pharmaceutical industries.

Reynolds Tobacco's parent, R.J. Reynolds Tobacco Holdings Inc., said on Wednesday that as part of a restructuring and cost-cutting effort, it would cut its work force by 635 full-time jobs and sell two of its nontobacco businesses -- the packaging division and its small Avoca botanical-extraction business in Eastern North Carolina.

"We believe our packaging division will have an enhanced opportunity for greater growth under the ownership of a company strategically focused in that industry," said Andrew J. Schindler, the chairman and chief executive of Reynolds Holdings.

The division has annual sales of \$ 300 million, according to Keith. The division currently employs about 1,000 people in Winston-Salem, said Jan Smith, a Reynolds Holdings spokeswoman.

Keith said that the unit is in the top 10 in the flexible-packaging industry in the United States.

Reynolds Tobacco's packaging division traces its roots back to 1927 when it started making tinfoil for the company's cigarette packs. It has long provided packaging for Reynolds Tobacco packs and cigarettes.

The unit began diversifying and expanding in 1963, when Archer Aluminum, as the division was known then, applied its foil expertise to the Christmas gift-wrap business. By 1967, the division had broadened from just aluminum packaging to paper and plastic.

In the mid-1990s, only 25 percent of the division's sales came from outside customers and its focus was on making cigarette packs and

cartons for Reynolds Tobacco. As cigarette volume declined, the division began expanding its customer base.

Smith said that 55 percent of the division's "volume" is with external customers with the remainder for Reynolds Tobacco.

The division has two main operations, in Whitaker Park and off Cunningham Avenue in Winston-Salem.

Keith, who has followed the flexible-packaging industry for 10 years, said that profitable, well-run flexible-packaging companies are usually purchased for the amount of their annual sales.

However, if a packaging company has significant growth opportunities and has good technology, a buyer could pay close to twice a company's annual sales, he said.

Keith estimated that the packaging division would fetch at least the equivalent of its annual sales -- \$ 300 million -- in a buyout and perhaps a little more.

"I would guess they are fairly profitable," he said of the division.

Reynolds Holdings does not disclose the profit of the packaging operation.

Keith said that the likely buyers of the division are other packaging companies and private-equity buyout firms.

He said that Bemis Co. Inc. of Minneapolis, the largest flexible packaging company in the country, could be a potential buyer of the division. Cryovac could also be a potential buyer, he said. Cryovac is a unit of Sealed Air Corp., which is based in Saddle Brook, N.J.

Keith said that it is possible if a private-equity firm bought the division, some of the division's management could obtain an equity stake in the company.

Smith declined to speculate on who might buy the division or what price the company might ask for the business. The division's packaging of Reynolds Tobacco cigarettes will be a "key part of the negotiations" with a prospective buyer, she said.

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