

February 24, 2017

**Dear clients and colleagues,**

There are different ways to invest in the Materials sector. Metals, minerals and mining companies tend to provide cyclical exposure, while packaging companies a more secular one. For example, the global flexible packaging market, which includes labels, pouches, shrink sleeves and stretch films, has been growing at a 7% CAGR for the past 10 years, and it is expected to grow at a 4.9% CAGR from 2017 to 2022.

Key growth drivers have been:

- Strong demand from emerging markets due to rising disposable income and increasing population.
- Consumer preference for lighter packaging materials, thus more plastic and less metal and glass.
- Increased demand for packaging that is easy to print/produce, can be recycled and is easy to open.

For those who have been reading our commentaries for some time, you probably know already that we prefer companies benefitting from secular growth trends. In our portfolio, AptarGroup, a US-based packaging company specializing in dispensing systems, was a long-term holding since 2009. We exited the position in Q2 last year because its market capitalization surpassed U\$5B after the stock price more than doubled. This week we would like to profile a new addition to our portfolio – Fuji Seal, a niche leader in flexible packaging based in Japan. We visited its Tokyo office showroom last year and were impressed by the broad product range used by many global household brands.

**Fuji Seal International, Inc. (7864 JP – ¥2,227)**

[www.fujiseal.com](http://www.fujiseal.com)

### ***Business Overview***

Founded in 1897, Fuji Seal is a leading player in the global flexible packaging industry for food, beverages, home and personal care, and pharmaceutical products. 42% of sales are from overseas. It has sales offices and production sites in many countries and over 4,000 employees.

Its flagship product is shrink sleeve labels. Fuji Seal invented shrink sleeves in 1960. These labels are digitally printed on a flexible shrink film that reduces in size through the application of heat. Once the film shrinks, it conforms tightly to the shape of the container or product, creating a sleek label and product package.

Fuji Seal also produces self-adhesive labels. The new growth driver is soft pouch products, thanks to the rising popularity of on-the-go eating.

### ***Management***

Very experienced and stable management team. The President/CEO, Ms. Shigeko Okazaki, is from the founding family and owns approximately 13% of the company.

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### **ESG**

Fuji Seal has comprehensive ESG policies and reports. It has been reducing its consumption of resources and energy and developing environmentally friendly products. The Fuji Seal Packaging Education and Scholarship Foundation provides support and grants to students. It encourages diversity and human resources development. The corporate governance structure is transparent, with modest executive pay. Four out of nine directors are independent, a very high percentage for Japan.

### **Market Data**

Market Cap ¥134B, Net debt/EBITDA 0.5x, Dividend Yield 1.0%, P/E (2018/3) 14.3x, Ev/Sales 0.9x, Ev/EBITDA 6.0x, Gross Margin 18.7%, EBITDA Margin 11.6%, Profit Margin 3.0%, ROE 5.3%.

### **Competition**

The company mainly competes with Nippon Printing and Tuban Printing in Japan, and with Bermis and CCL Industries overseas.

### **Competitive Advantages**

- First mover. For shrink sleeve labels, Fuji Seal has a 60% share of the Japan market, 35% of the US market and 30% of the European market.
- It is the only provider of both shrink sleeve label products and machinery.
- Long-term relationships with multinational companies such as Coca-Cola, PepsiCo, Nestle, Unilever, P&G, Kraft, Danone, Asahi, Suntory, and Kao, etc.

### **Growth Strategy**

- Distribution: Growing demand for its products from global multinationals.
- Product: Enhance sales in soft pouch and create new markets with customers.

### **Risks**

- Yen fluctuation.

On January 1, 2017, the company conducted a two-for-one stock split. This month it confirmed the guidance for 40.9% profit growth in the fiscal year ending March 31, 2017.

Have a great weekend.

The Global Alpha team

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