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Upslope Capital Management: Investment Strategy



Upslope Capital Management

Long/Short | SMidcap | Concentrated

- ✓ Core of portfolio is comprised of concentrated investments in higher-quality businesses

Supplemented with diversified positions in more moderate-quality and/or challenged businesses

Individual shorts focused largely on secular losers, fads, and challenged business models

50 Years Later: an Update



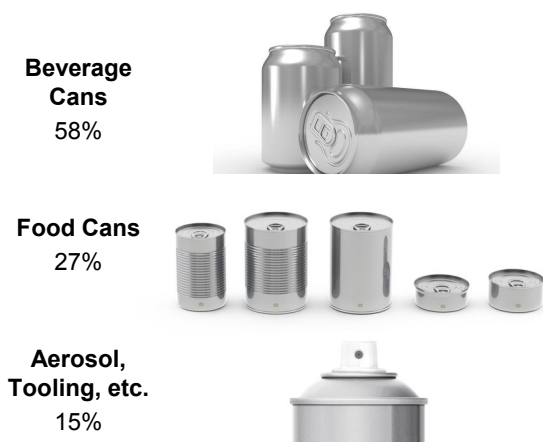
“I just want to say one word to you. Just one word. ~~Plastics~~. **Cans**.”

Investment Idea: Crown Holdings (CCK)

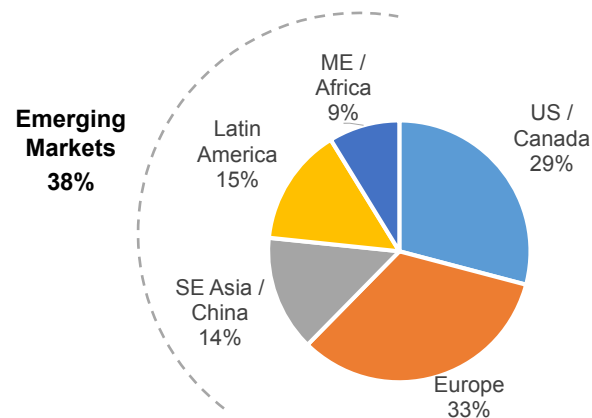
Crown Holdings – Investment Snapshot

- Idea: Long
- Current Price⁽¹⁾: \$57
- Est. FV: \$70
- 52-wk Range: \$48 - 59
- Market Cap: \$8 bn
- Enterprise Value: \$13 bn
- ADV: \$40+ mm
- Div Yield: n/a

Sales by Product⁽²⁾



Sales by Geography⁽²⁾

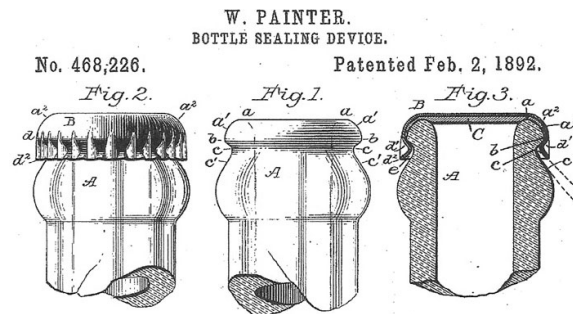


Leading global producer of aluminum and steel cans, primarily for food and beverage packaging

Company Overview

Crown Holdings: Overview & History

Early Beginnings – the “Crown Cork”



Crown Today

Corporate Details

- \$8 bn revenue (2016)
- HQ: Philadelphia, PA
- Employees: 24,000
- 146 plants in 36 countries

Market Position

- #2 global producer of beverage cans
- #1 producer of food cans in the world
- #1/2 in aerosol cans in markets where CCK competes

Corporate History

Key Events

- 1892 – William Painter founds CCK after inventing a new way to seal bottled beer with the “crown cork”
- 1906 – Crown expands manufacturing base to include Europe, South America and Asia Pacific
- 1992 – enters plastic packaging market via CONSTAR acquisition
- 2002 – begins exiting plastics (via CONSTAR IPO)
- 2005/6 – sells plastic closures and cosmetics biz, completing exit from plastics
- 2014 – acquires Mivisa (Spanish, African food cans) for €1.2 bn (8x LTM EBITDA, incl. synergies – 9x ex)
- 2015 – acquires EMPAQUE (Heineken captive Mex. ops) \$1.2 bn (8x LTM EBITDA)

Management Background & Incentives

Key Executives

President & CEO – Tim Donahue

- In-role since: 2016 (Jan. 1)
- Previously: COO, CFO, and other various senior roles with the Company
- Tenure: 25+ years

CFO – Tom Kelly

- In-role since: 2013
- Previously: Senior VP - Finance, Corporate Controller, and other roles with the Company
- Tenure: 25+ years

Non-Executive Chairman – John Conway

- In-role since: 2016
- Previously: Chairman and CEO of the Company for 15+ years until his retirement as CEO
- Tenure: 40+ years

LT Equity Incentives

- Historically based on total shareholder return
- *In 2017, added ROIC as a 2nd metric*

Annual Incentive Comp

- Based on Economic Profit, and
- Operating Cash Flow

Base Salary

- Range from \$350k - \$915k
- ~8 - 15% of total comp for key execs

Seasoned management team with a reputation for being strong, aggressive operators

Segment Detail

Segment	2016 Contribution			Notes
	Revenue	EBIT	Margin	
Americas Beverage	33%	42%	17%	~40% Brazil + Mexico; remainder is US, Canada, and Colombia
N. America Food	8	6	11	Most challenged segment (over-supplied market)
European Beverage	17	23	17	~30% from Africa, Middle East
European Food	22	23	13	Notable exposure to Spain
Asia Pacific	13	14	14	Segment mostly bevcans and ~25% from China. CCK tapping brakes in China, but investing heavily in SE Asia
Non-Reportable / Other	6	6	14	Aerosol, tooling, etc.

Five core operating segments produce and sell food & bev cans globally

Customers Include Major Packaged Food & Bev Companies

Beverage Cans



Food Cans



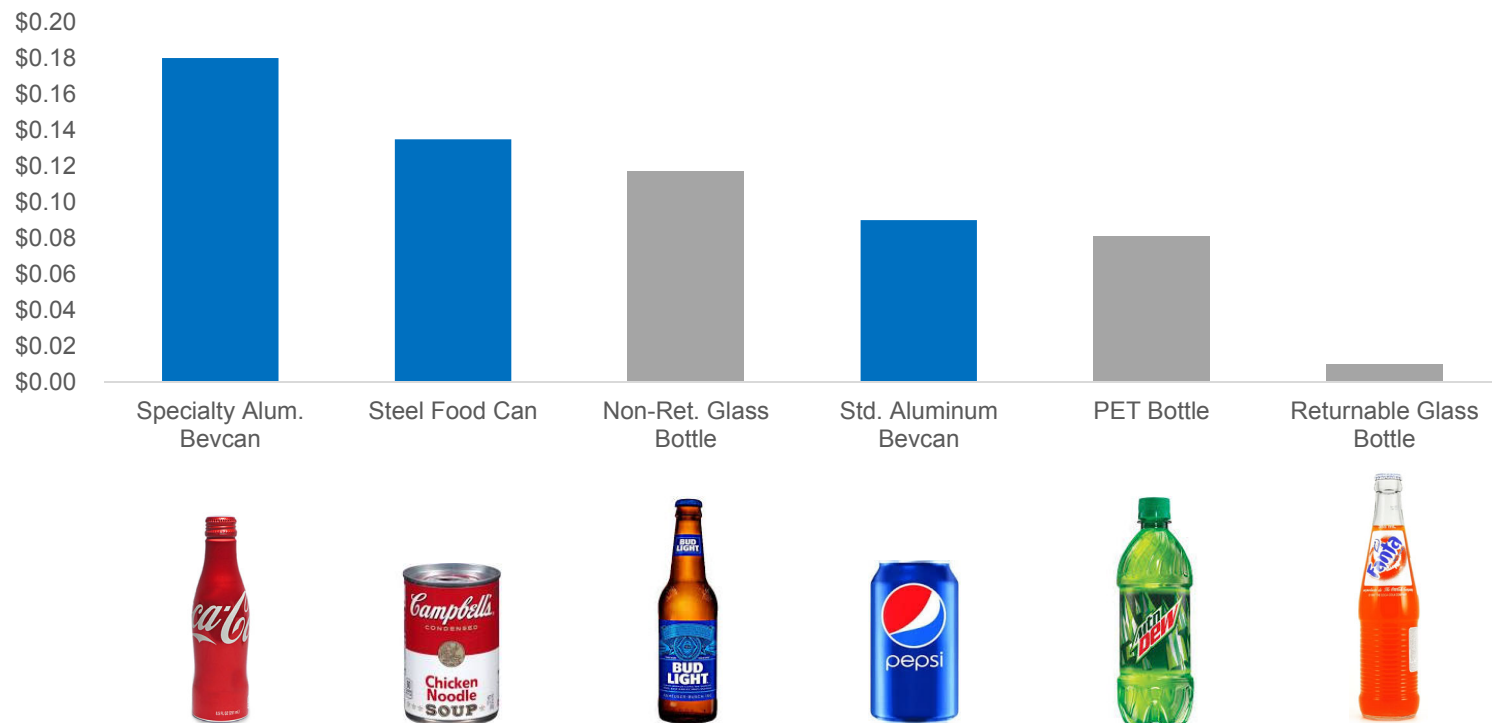
Aerosol Cans / Other



Top 10 customers = 33% of sales (2016)

Rigid Packaging - Basic Industry Economics

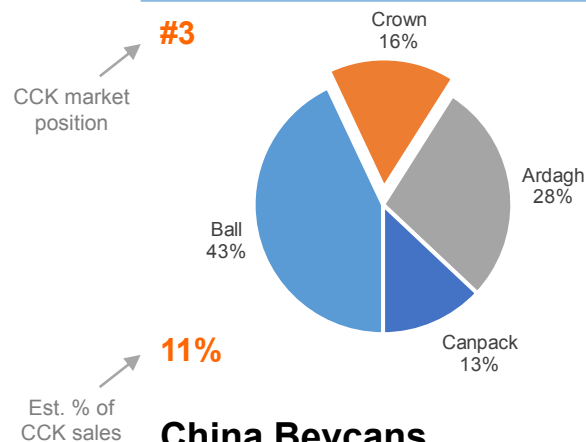
Approximate Cost per Use to Food/Bev Companies



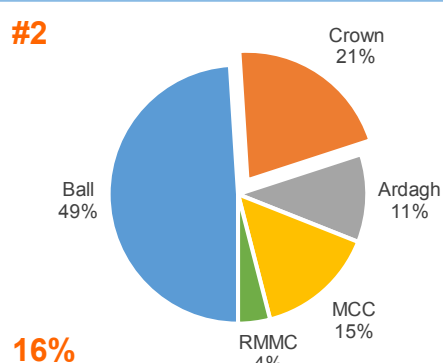
Competition among packaging substrates based on functionality, design, convenience – and price

Food & Bev Can Industry Structure (CCK Markets)

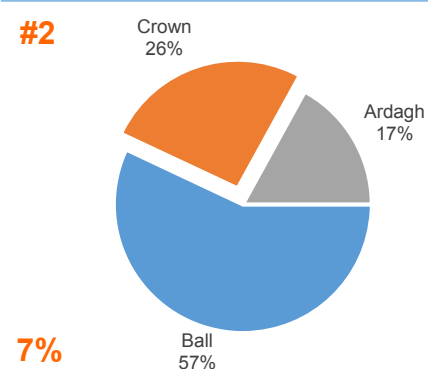
Eur. Bevcans



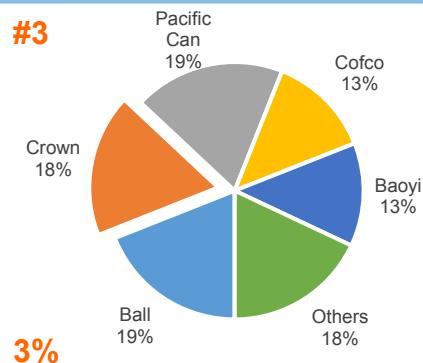
N.A. Bevcans



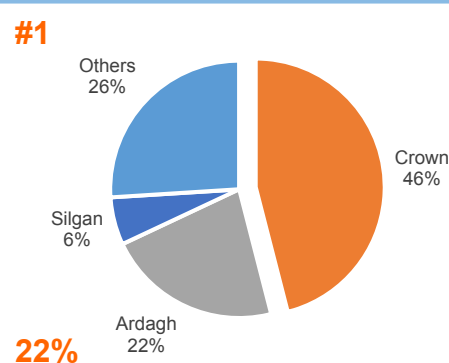
Brazil Bevcans



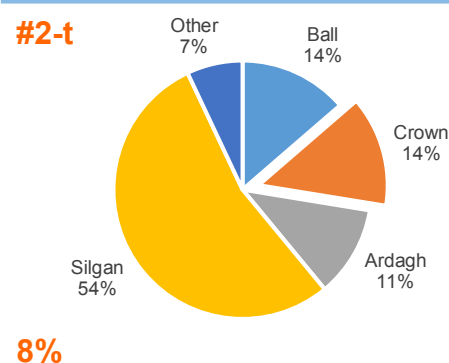
China Bevcans



Eur. Food Cans



N.A. Food Cans



Crown is a leading player in consolidated markets

Source: Crown and Ball filings, BMO Capital Markets, Wells Fargo, Upslope Capital Management. Note: All information estimated based on various public data sources (e.g. BLL filings, CMI, Beverage Can Maker's Europe, and others). Amounts adjusted based on various assumptions by Upslope

Food & Bev Can Industry - LT Trends

Eur. Bevcans

45%⁽¹⁾

Est. Can Share
of Packaged
Beer

- ✓ Positive underlying volumes
- ✓ Cans slowly taking share

- Penetr. varies widely by country
- Middle East (30% of segment) remains extremely volatile

2-4%

Est. LT
Market
Growth

APAC Bevcans

~50%

- ✓ Positive underlying volumes
- ✓ Cans taking share

- Penetr. varies widely by country
- Chinese market is fragmented, undisciplined – CCK pulling back

5-9%

N.A. Bevcans

68%⁽²⁾

- ☒ Soft underlying volumes
- ✓ Cans taking share in craft beer

- First uptick in CSD volumes in 3+ years (my *hunch*: LaCroix + friends)
- Cont'd growth in specialty cans

(1)-2%

Eur. Food Cans

nmf

- ✓ Positive underlying volumes
- Can share steady/saturated

- Balanced, consolidated market in terms of supply/demand

1-4%

Brazil Bevcans

50%⁽²⁾

- ✓ Positive underlying volumes (LT)
- ✓ Cans quickly taking share

- Energy drinks contributing nicely
- Per capita consumption of cans in Brazil = ~1/3 of U.S.

6-9%

N.A. Food Cans

nmf

- ☒ Declining underlying volumes
- Can share steady/saturated

- Oversupplied market conditions
- Cheap infrastructure keeping plastic alt's at bay...for now

(2)-1%

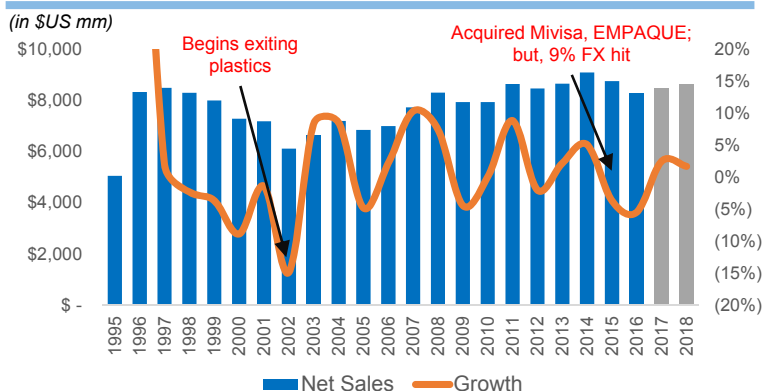
Ex-US, bevcans should continue to steadily take share and grow >GDP;
outlook for food cans dependent on region

Source: Crown filings, BMO Capital Markets, Wells Fargo, Upslope Capital Management

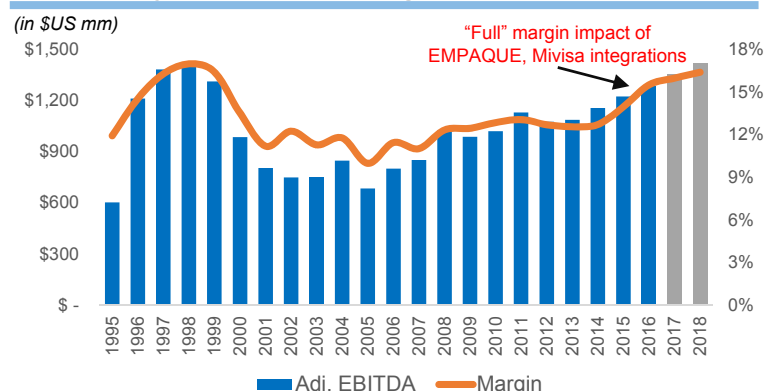
1. Estimate based on European Can Market Report (2015) via BMO Capital Markets. 2. Data from Crown management per 2016 Q1 earnings call.

Financial History

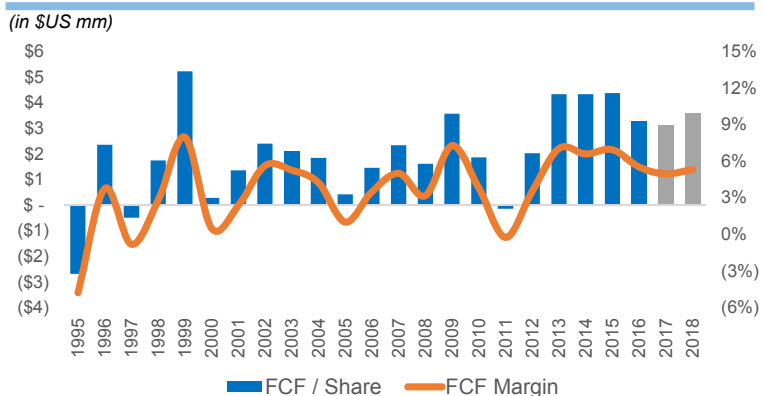
Tepid Revenue Growth...



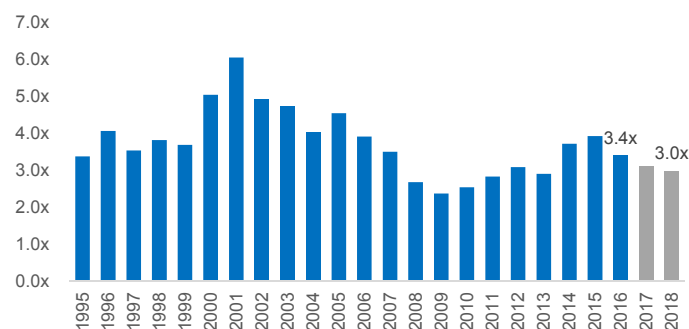
...Steady EBITDA Margin Improvement



Consistent Free Cash Flow / Share⁽¹⁾



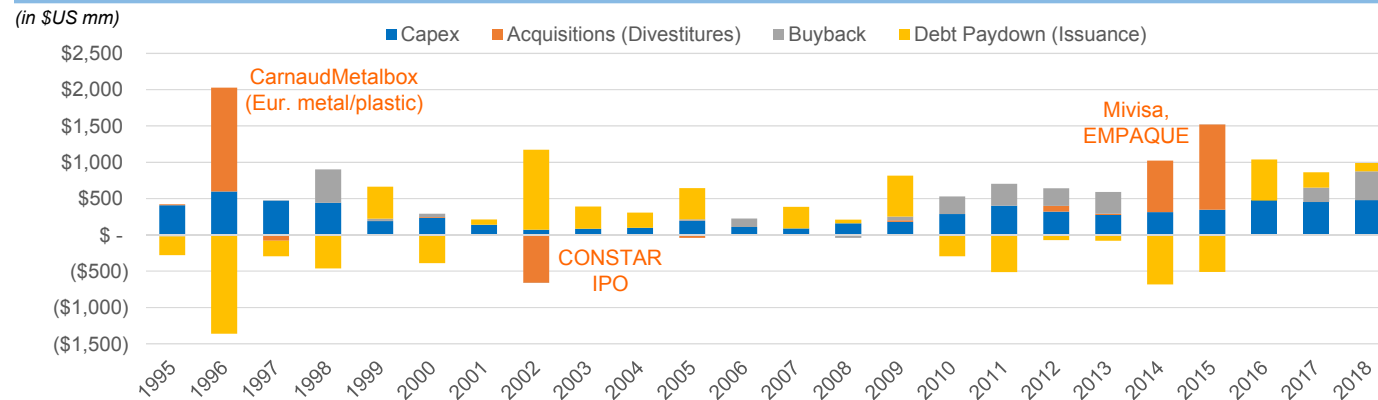
Manageable (Net) Leverage



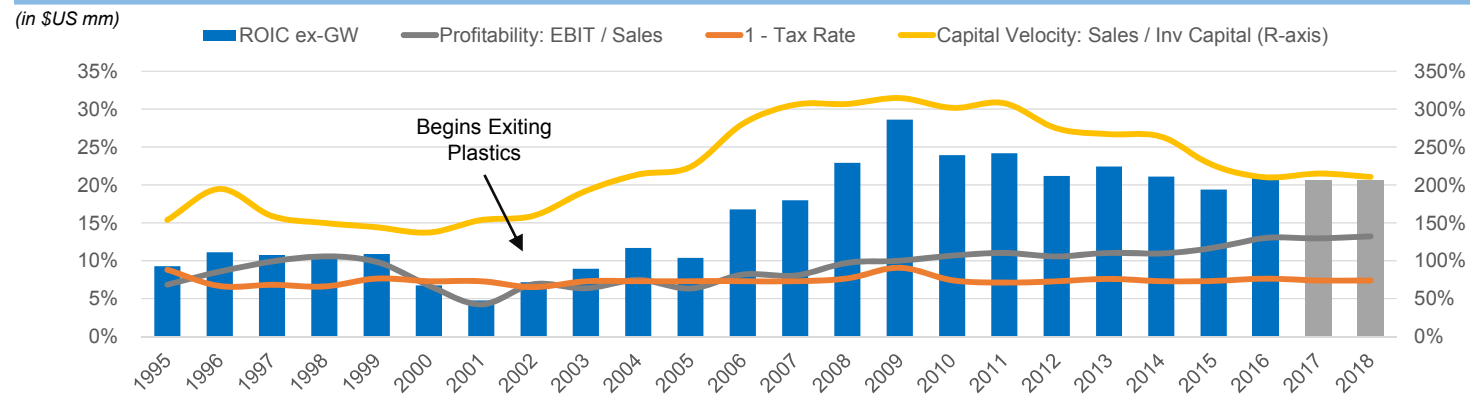
Notable performance improvement after 2005/6 divestiture of plastic pkg units; since 2014, FX headwinds have cost \$1.1bn in sales

Capital Allocation & Returns

Capital Spending



ROIC Decomposition



Consistent cash flows and attractive returns on capital
– enhanced through select acquisitions & divestitures

Source: Company filings. Note: 2011 CFOps included accelerated pension contributions of \$404mm (vs. normalized < \$100mm). Additionally, 2005 CFOps includes \$383mm debt extinguishment expense (adjusted out) above) and \$400mm accelerated funding pension contribution. FCF margin shown for 2005 excludes impact of debt extinguishment expense.

Investment Thesis & Risks

Investment Thesis

1. Sustainable competitive advantages; history of value creation

- Moat: dominant scale & efficiency, geographic proximity to large, global customers
- Top 3 share in all markets (each highly consolidated and historically “rational”)
- Strong, cash flow- and return-focused mgmt. with track record of aggressive, disciplined acquisitions

2. Attractive financial profile

- Sticky customers with long-term (3-5+ yr) contracts + stable pricing + timely pass-thru of raw materials
- Clear path to de-levering; value accretion to equity

3. Likely to harvest recent growth investments

- After 3 years of elevated capital spending, CCK seems likely to revert to normal spend levels by 2018/9
- Invested heavily in expansion in *profitable*, high-growth regions (e.g. SE Asia, but not China)

4. Soft catalysts: plenty of shots on goal

- Recent return of buybacks after de-levering (repurch. \$1bn+ from 2010-13); likely dividend initiation
- Abating FX headwinds – especially in Brazil where steep declines started being lapped in late 2016
- Possible customer wins in wake of BLL/REX merger (seeking supplier diversification)
- Positive upshift in depressed “CSD” vol’s resulting from LaCroix (+ competition) success

5. Steady-to-positive secular trends

- Despite domestic CSD and “macro-beer” headwinds, CCK continues to benefit from the ongoing shift from glass to bevcans in emerging markets, Europe and select domestic sub-categories (e.g. craft beer)

Predictable, steady cash flows; lots of incremental changes

Investment Risks

1. Aggressive move by Ardagh into bevcans

- Ardagh (which recently went public) acquired global bevcans assets from BLL that generate ~\$3bn in sales (comparable size to CCK's developed market bevcans ops)
- Ardagh's entry into bevcans differs from its (aggressive) entry into NA food cans in that Ardagh is purchasing existing assets vs. building new capacity in search of customers. The company's recently completed IPO should also encourage "rational" competitive behavior

2. FX (translation)

- With ~2/3 of CCK's business originating overseas, CCK's results are impacted significantly by changes in the USD vs. EUR, BRL, and other currencies
- The impact is primarily a translation issue – CCK's cost and financing structure is well-aligned with sales

3. Emerging market demand volatility

- CCK faces demand volatility due to its significant presence in several volatile developing regions. This includes a sizable presence in the Middle East and Africa, as well as in Brazil and Latin America

4. High leverage (3.4x net), potentially rising rates

- Leverage is towards the high end of historical range – mgmt. focused on returning to ~3x by YE 2017
- Historically, CCK has shown an ability to "handle" net leverage approaching 5x (where Ardagh is today)

5. Outspoken (overly-so?) leadership

- Management has a reputation for speaking its mind...with little filter

Key risks: evolving competitive environment & FX

Valuation

Valuation Detail (Base Case)

	Current Price	Target Price	DCF Valuation	Exp. Total Return
	\$57	\$70	\$80	22%
FCFE Yield				(Key Metrics)
2016	5.9%	4.8%	4.2%	\$457
2017	5.4	4.4	3.9	422
2018	5.9	4.8	4.3	461
2019	7.6	6.3	5.5	594
EV / EBITDA				
2016	9.6x	10.9x	11.9x	\$1,312
2017	9.1	10.3	11.2	1,388
2018	8.7	9.8	10.7	1,451
2019	8.4	9.6	10.5	1,489
Price/Earnings				
2016	14.4x	17.6x	20.0x	\$3.98
2017	14.7	17.9	20.4	3.90
2018	13.2	16.1	18.3	4.35
2019	12.1	14.7	16.8	4.75
				Data as of:
Diluted Shrs	135.823	135.823	135.823	2017 YE est.
MCAP	\$7,807	\$9,508	\$10,821	--
Net Debt	4,201	4,201	4,201	2017 YE est.
Pension + Other	573	573	573	2016 YE act.
TEV	\$12,581	\$14,281	\$15,595	--
Dividend	\$0.00	\$0.00	\$0.00	2016 YE act.
Case:	Base			
Est. Source:	Model			

Price Target Rationale

- Price target primarily takes into consideration Base case estimates – roughly in-line with consensus – as well as Bull and Bear Case scenarios
- View Bull Case as significantly more likely than Bear Case, given severity of Bear Case assumptions and prospect of multiple upside intangibles
- Historically, CCK has traded in the ~8x NTM EBITDA range (adjusted for pension)
 - Note: Bull case est's reduce 2018 EBITDA mult. by 1x and boost FCF yield by 2%)
- More aggressive growth capex spend reduces FCFE yield by ~1% in 2017/18

On current est's, Crown is reasonably priced; optionality from 'soft' catalysts and relative (vs. market/staples) cheapness make it attractive to us

Comparable Companies

(in \$US mm, except per share amounts)

Fundamentals

Company	Dividend Yield	Net Lev. 2016	Revenue Growth			EBIT Margin			EBITDA Growth			Adj EPS Growth		
			2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Ball Corp	0.9%	4.3x	19%	3%	4%	12%	12%	14%	66%	9%	6%	58%	19%	17%
Silgan Holdings Inc	1.2%	3.2x	13%	5%	2%	9%	10%	10%	24%	10%	3%	20%	15%	7%
Ardagh Group S.A.	2.7%	4.9x	31%	2%	2%	10%	11%	11%	29%	4%	3%	195%	17%	11%
Owens-Illinois, Inc.	0.0%	4.0x	1%	2%	2%	12%	12%	13%	49%	2%	3%	60%	8%	7%
Average	1.2%	4.1x	16%	3%	3%	11%	11%	12%	42%	6%	4%	83%	15%	10%
Median	1.0%	4.1x	16%	2%	2%	11%	12%	12%	39%	7%	3%	59%	16%	9%
Crown Holdings Inc	0.0%	3.4x	(5%)	3%	2%	15%	16%	16%	5%	6%	4%	14%	(2%)	12%

Valuation

Company	Current Price	Enterp. Value	EV / Revenue			EV / EBITDA			FCFE Yield			P/E		
			2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Ball Corp	\$41.81	\$21,677	2.1x	2.0x	1.9x	12.7x	11.6x	10.9x	5.5%	6.5%	7.6%	19.4x	16.4x	14.0x
Silgan Holdings Inc	31.69	5,035	1.3x	1.2x	1.2x	9.3x	8.5x	8.2x	6.2%	7.5%	6.8%	19.2x	16.7x	15.6x
Ardagh Group S.A.	22.10	13,666	1.5x	1.5x	1.4x	8.3x	8.0x	7.7x	10.7%	10.7%	12.1%	12.8x	11.0x	9.9x
Owens-Illinois, Inc.	23.00	8,667	1.4x	1.3x	1.3x	6.9x	6.7x	6.6x	6.4%	8.8%	10.9%	9.2x	8.5x	7.9x
Average			1.6x	1.5x	1.5x	9.3x	8.7x	8.4x	7.2%	8.4%	9.4%	15.2x	13.1x	11.9x
Median			1.4x	1.4x	1.4x	8.8x	8.2x	8.0x	6.3%	8.1%	9.3%	16.0x	13.7x	12.0x
Crown Holdings Inc	\$57.48	\$12,581	1.5x	1.5x	1.5x	9.6x	9.1x	8.7x	5.9%	5.4%	5.9%	14.4x	14.7x	13.2x
Crown Holdings Inc @ PT	70.00	14,281	1.7x	1.7x	1.7x	10.9x	10.3x	9.8x	4.8%	4.4%	4.8%	17.6x	17.9x	16.1x

On most metrics, CCK trades at a modest discount to key competitor, BLL, and a premium to more glass-focused comps, ARD and OI

Conclusion

A (Very) Simple Checklist

- ✓ Understandable business model
- ✓ Qualitative + financial signs of comp. advantage
- ✓ Trustworthy, incentivized management
- ✓ Path for long-term growth of FCF/share
- ✓ Reasonable valuation, limited downside
- ✓ Healthy balance sheet

Crown passes a simplified “quality” investment test

Questions?



Contact Information



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