

Jefferson Smurfit to Buy Packaging Rival Kappa

PHILADELPHIA/LONDON, Sept 13 (Reuters) - Irish packaging company Jefferson Smurfit Group and competitor Kappa Packaging, both owned by private equity investors, said on Tuesday they would merge to create Europe's biggest paper packaging firm.

The companies did not disclose the financial details of the transaction, but a source familiar with the situation said the deal valued Kappa at 2.6 billion euros (\$3.2 billion).

Smurfit had 2004 sales of 4.8 billion euros (\$5.9 billion) and Dutch-based Kappa had sales of 2.8 billion euros (\$3.4 billion). Both reported net losses.

Kappa and Jefferson said in May they were in merger talks. The combined company would be the leader in the European paper packaging industry, with a market share of 23 percent, making it nearly twice the size of the second-largest producer, Svenska Cellulosa AB (SCAb.ST: [Quote](#), [Profile](#), [Research](#)), analysts said.

The merged corrugated paper and container-board maker would have 43,000 employees and operations across 23 European and nine Latin American countries.

Jefferson Smurfit's owner, Madison Dearborn, would retain 58.3 percent of the new company, which would be called Smurfit Kappa Group. Kappa's owners, Cinven and CVC Capital Partners, would hold the rest.

Along with shares of the new company, Jefferson Smurfit would issue about 300 million euros (\$367.8 million) in cash and a 75 million euro (\$92.0 million) promissory note to Kappa's stakeholders.

Standard & Poor's Ratings Services said it changed Jefferson Smurfit Group's rating to "negative" from "developing" following the announcement of the Kappa deal.

S&P said the debt rating for the combined company is likely to be either 'B-plus' or 'B,' its fourth- and fifth-highest "junk" grade ratings, respectively.

"This reflects expectations of very high leverage in the combined group and weak credit measures, mitigated by a satisfactory business risk profile," said Standard & Poor's credit analyst Andreas Kindahl.

The merged company would have a leading position in the European market, but the industry overall faces overcapacity and high costs that have weighed on profit margins, the debt-rating agency said.

Deutsche Bank AG (DBKGn.DE: [Quote](#), [Profile](#), [Research](#)) advised Jefferson Smurfit, while Goldman Sachs Group Inc. (GS.N: [Quote](#), [Profile](#), [Research](#)) advised Kappa's owners.

Source: Reuters, September 13, 2005