Mar 06, 2020

Avery Dennison Corp (AVY)

$119.12 (As of 03/05/20)

Price Target (6-12 Months): **$126.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/08/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: C | Growth: A | Momentum: C	

Summary

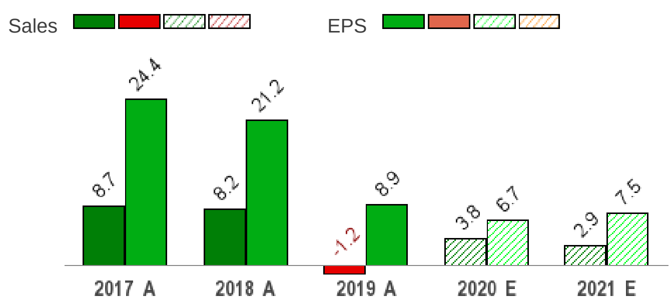
Avery Dennison's earnings estimates for the current year have been stable of late. For the curret year, the company expects adjusted EPS of $6.90-$7.15, up from the prior-year view of $6.45-$6.70, reflecting improved volume growth and continued productivity gains. The company will likely deliver strong top-line growth, margin expansion and earnings improvement backed by acquisitions, organic growth and growth in emerging markets. It will benefit from pricing actions, restructuring activities and execution of strategies. The Label and Graphic Materials (LGM) segment is well poised for profitable growth in 2020 driven by growth in emerging markets, volume improvement, focus on high-value categories led by specialty labels and productivity initiatives. However, negative currency-translation impact and rising restructuring costs are concerns.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$141.09 - $99.00
20 Day Average Volume (sh)	591,634
Market Cap	$9.9 B
YTD Price Change	-8.9%
Beta	1.39
Dividend / Div Yld	$2.32 / 1.9%
Industry	Office Supplies
Zacks Industry Rank	Top 2% (4 out of 255)
Last EPS Surprise	3.0%
Last Sales Surprise	-0.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/22/2020
Earnings ESP	0.0%
P/E TTM	18.1
P/E F1	16.9
PEG F1	2.1
P/S TTM	1.4

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					7,554 E
2020	1,743 E	1,859 E	1,831 E	1,892 E	7,338 E
2019	1,740 A	1,796 A	1,761 A	1,773 A	7,070 A

EPS Estimates

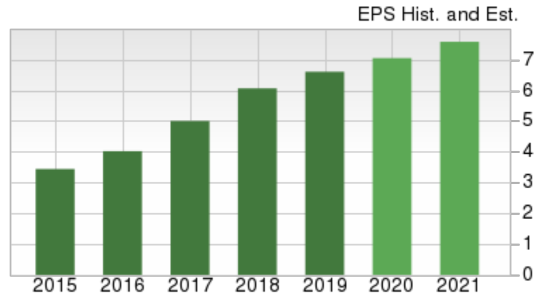
	Q1	Q2	Q3	Q4	Annual*
2021					$7.57 E
2020	$1.56 E	$1.86 E	$1.77 E	$1.88 E	$7.04 E
2019	$1.48 A	$1.72 A	$1.66 A	$1.73 A	$6.60 A

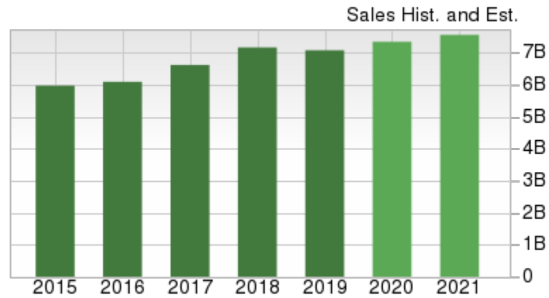
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/05/2020. The reports text is as of 03/06/2020.

Overview

Headquartered in Pasadena, CA, Avery Dennison Corporation produces pressure-sensitive materials, and a variety of tickets, tags, labels and other converted products. Its clientele is spread across the United States, Europe, Asia, Latin America and other regions. Avery Dennison reports under the following segments.





- **The Label and Graphic Materials segment** (66% of 2019 revenues) includes Label and Packaging Materials, Graphics Solutions, and Reflective Solutions. Pressure-sensitive materials include papers, plastic films, metal foils and fabrics, which are coated with internally-developed and purchased adhesives, and then laminated with specially-coated backing papers and films. Label and packaging materials are sold to label converters for labeling, decorating, and specialty applications in the home and personal care, beer and beverage, durables, pharmaceutical, wine and spirits, and food market segments. The graphics and reflective products include a variety of films and products that are sold to the architectural, commercial sign, digital printing, and other related market segments. The segment also sells durable cast and reflective films to the construction, automotive and fleet transportation market segments and reflective films for traffic and safety applications.

- **The Industrial and Healthcare Materials segment** (10%) includes Performance Tapes, Fasteners Solutions, and Vancive Medical Technologies. The tape products include coated tapes and adhesive transfer tapes that are sold for use in non-mechanical fastening, bonding and sealing systems. The segment also manufactures and sells Yongle brand tapes for wire harnessing and cable wrapping in automotive, electrical, and general industrial applications. The Vancive-brand products include an array of PSA materials and products to meet the needs of medical device manufacturers, converters, clinicians, and patients for surgical, wound and skin care, ostomy, diagnostic, electromedical and wearable device applications.

- **Retail Branding and Information Solutions** (24%) includes tickets, tags, and labels for apparel and radio-frequency identification to retailers, brand owners, apparel manufacturers, distributors and industrial customers.

Reasons To Buy:

Avery Dennison will benefit from pricing actions, restructuring activities and execution of strategies. Growth in high-value product categories and emerging markets will also drive growth.

- For 2020, Avery Dennison expects adjusted EPS of $6.90-$7.15, up from prior-year guidance of $6.45-$6.70 reflecting improved volume growth and continued productivity gains. Organic sales growth will be around 2-3%. Including restructuring charges and other items, the company predicts EPS to be $6.75-$7.00 compared with the prior-year guidance of $2.70-$2.95. It continues to deliver strong profit growth, margin expansion and double-digit adjusted EPS improvement backed by acquisitions, organic growth and strong presence in emerging markets. The company continuous to focus on four overarching priorities comprising driving outsized growth in high-value product categories, growing profitability in base businesses, relentlessly pursuing productivity improvement, and a disciplined capital-management approach. The company continues to make solid progress toward 2025 sustainability goals, while also progressing toward 2021 goals.

- Avery Dennison witnessed 1.5% organic revenue growth driven by growth in high-value categories, growth in emerging markets and volume improvement at LGM segment in the fourth quarter of 2019. The segment is well poised for profitable growth in 2020, driven by solid top-line growth and continued margin expansion, aided by growth in emerging markets, volume improvement, focus on high-value categories led by specialty labels, as well as contributions from productivity initiatives. Further, Avery Dennison's completion of restructuring actions associated with the consolidation of the European footprint of its LGM segment will drive higher returns for the segment and improve its competitiveness. The company realized $53 million in pre-tax savings from restructuring in 2019. Avery Dennison expects incremental pre-tax savings from restructuring between $30 million and $40 million in 2020.

- The company will benefit from its faster growing high-value product categories, such as specialty labels and Radio-frequency identification (RFID). Continued strength in RFID and external embellishments will drive Retail Branding and Information Solutions sales, reflecting the ongoing penetration of apparel, as well as expansion in relatively newer verticals, including food, beauty and logistics. The segment is well poised to capture these opportunities with industry-leading innovation and manufacturing capabilities. The company continues to increase investments to drive growth both organically and through acquisitions with higher spending for business development and R&D. In sync with this, Avery Dennison acquired Smartrac's Transponder (RFID Inlay) Division. The division is a leader in the development and manufacture of RFID products. Through the acquisition, Avery Dennison will bolster its rapidly-growing Intelligent Labels platform across end markets and customers within the industrial and retail segments. The deal will generate more than $450 million in revenues, with RFID business anticipated to grow 15-20% annually over the long term.

- Avery Dennison remains confident to see margin expansion target of more than 10% for the current year at The Industrial and Healthcare Materials (IHM) segment. This segment will deliver significant value over the medium to longer term. The segment's commercial execution continues to improve and it will benefit from the Yongle, Finesse and Mactac acquisitions. Avery Dennison's balance sheet remains strong and has ample capacity to continue funding acquisitions, executing disciplined capital-allocation strategy, investing in organic growth as well as returning cash to shareholders. The company expects to spend $220-$230 million on fixed capital, and IT projects for the current year.

Reasons To Sell:

- Avery Dennison's LGM segment has successfully navigated through a significant inflationary cycle and made subsequent transition to the modestly deflationary cycle. Given the sequential deflation in the third and fourth quarters, the company expects pricing to be a roughly 1.5-point headwind to LGM segment's organic growth in 2020.

- The company is bearing the brunt of sluggish market trends and currency headwinds. At recent exchange rates, currency translation represents a 30-basis-point headwind to top-line growth in the ongoing quarter. Due to the strengthening of the U.S. dollar, currency translation is expected to have a larger impact on Avery Dennison's results in the upcoming quarter.

> Slower market conditions and an incremental negative impact of currency translation will hurt Avery Dennison's results. Rising restructuring costs is also a concern.

- Avery Dennison incurred pre-tax restructuring charges of approximately $50 million in 2019. The company is incurring transition costs associated with the European restructuring, which is likely to impact margins for the remaining period of the current year.

Last Earnings Report

Avery Dennison's Q4 Earnings Beat, Sales Lag Estimates

Quarter Ending	12/2019
Report Date	Jan 29, 2020
Sales Surprise	-0.63%
EPS Surprise	2.98%
Quarterly EPS	1.73
Annual EPS (TTM)	6.59

Avery Dennison reported adjusted earnings of $1.73 per share in fourth-quarter 2019, surpassing the Zacks Consensus Estimate of $1.68. The figure also increased around 13.8% year over year.

Including one-time items, the company posted net income of $1.92 per share compared with the year-ago quarter's earnings per share (EPS) of $1.11.

Total revenues inched up nearly 0.2% year over year to $1,772.9 million. The top-line figure, however, missed the Zacks Consensus Estimate of $1,784 million. Organic sales growth came in at 2.1% in the reported quarter.

Cost of sales in the quarter edged down nearly 0.7% year over year to $1,288.2 million. Gross profit rose 2.8% year over year to $484.7 million. Gross margin increased to 27.3% from the prior-year quarter's 26.6%.

Marketing, general and administrative expenses totaled $273.1 million compared with the $274.5 million incurred in the year-ago quarter. Adjusted operating profit came in at $212 million, up from the $197 million recorded in the prior-year quarter. Adjusted operating margin rose to 11.9% from the year-earlier quarter level of 11.1%.

Segment Highlights

Revenues in the Label and Graphic Materials segment dipped 0.4% year over year to $1,176.2 million. On an organic basis, sales inched up 1.5%. Adjusted operating profit was up 2.6% year on year to $156 million.

Revenues in the Retail Branding and Information Solutions segment rose 3.6% year over year to $426.9 million. On an organic basis, sales were up 5.2%, as consistent strength in RFID and external embellishments. The segment's adjusted operating income increased 15.5% to $58.1 million.

Net sales in the Industrial and Healthcare Materials segment amounted to $169.8 million, indicating a year-over-year decline of 3.1%. On an organic basis, sales were down 1.1%. The downside resulted from a mid-single digit decline in healthcare categories, partly offset by a low-single digit increase in industrial categories. The segment reported adjusted operating income of $17.4 million compared with the prior-year quarter's $16.8 million.

Financial Updates

Avery Dennison had cash and cash equivalents of around $254 million at the end of 2019, up from $232 million at the end of 2018. During 2019 the company generated $746.5 million in cash from operating activities compared with the $457.9 million reported last year.

During the fourth quarter, Avery Dennison repurchased 0.3 million shares for a total cost of $33 million. In 2019, the company repurchased 2.2 million shares for a total cost of $238 million. The company's share count declined 1.5 million for the year. In 2019, the company returned $427 million cash to shareholders through share repurchases and dividends.

The company's long-term debt decreased to $1,499.3 million as of Dec 28, 2019 compared with $1,771.6 million as of Dec 29, 2018.

The company's board has announced a quarterly cash dividend of 58 cents per share. The dividend is payable on March 18, to shareholders of record on Mar 4, 2020.

Cost-Reduction Activities

Avery Dennison realized around $18 million in pre-tax savings from restructuring in the December-end quarter. The company incurred pre-tax restructuring charges of nearly $29 million. For the full year, the company realized around $53 million and incurred pre-tax restructuring charges of nearly $50 million.

2019 Performance

Adjusted earnings per share for 2019 came in at $6.60, marking an improvement of 9% from the prior year. Earnings also surpassed the Zacks Consensus Estimate of $6.55. Including one-time items, earnings summed $3.57, down 32% year over year.

In 2019, revenues came in at $7.07 billion, reflecting a year-over-year decline of 1.2%. The top-line figure came in line with the Zacks Consensus Estimate. Organic sales growth was 2% during the year.

Guidance

For 2020, Avery Dennison expects adjusted EPS of $6.90-$7.15. Including restructuring charges and other items, the company predicts EPS to be $6.75-$7.

Recent News

Avery Dennison Closes Buyout of Smartrac's RFID Inlay Unit - Mar 2, 2020

Avery Dennison has closed the acquisition of Smartrac's Transponder (RFID Inlay) Division, for a purchase price of €225 million ($248.4 million).

Smartrac is a leader in the development and manufacture of Radio-frequency identification (RFID) products. It has solid research and development capabilities, along with a proven track record for commercializing effective, high-value and high-quality RFID products.

Headquartered in Amsterdam, the Netherlands, Smartrac has production facilities in China, Malaysia, Germany and the United States. Its RFID transponder business has an attractive product portfolio for a wide range of customers.

Last November, Avery Dennison entered into an agreement to acquire Smartrac's Transponder business. Through this acquisition, Avery Dennison will bolster its rapidly-growing Intelligent Labels platform across end markets and customers within the industrial and retail segments. The deal is likely to generate more than $450 million in revenues, with RFID business anticipated to grow 15-20% annually over the long term.

The transaction will back Avery Dennison's strategy to invest organically, as well as through mergers and acquisitions, in order to shift its portfolio toward faster growing, higher value categories. In fact, the company expects the deal to be modestly dilutive to the current-year earnings.

Valuation

Avery Dennison's shares are up 10.5% over the trailing 12-month period. Stocks in the Zacks Office Supplies industry and the Zacks Industrial Products sector are up 12.1% and down 0.4% over the past year, respectively.

The S&P 500 index is up 12.5% in the past year.

The stock is currently trading at 16.69X forward 12-month earnings, which compares to 12.07X for the Zacks sub-industry, 16.29X for the Zacks sector and 17.30X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.65X and as low as 12.87X, with a 5-year median of 17.47X.

Our neutral recommendation indicates that the stock will perform in-line with the market. Our $126 price target reflects 17.65X forward 12-month earnings per share.

The table below shows summary valuation data for AVY:

Valuation Multiples - AVY

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.69	12.07	16.29	17.3
	5-Year High	23.65	13.44	19.89	19.34
	5-Year Low	12.87	8.07	12.6	15.18
	5-Year Median	17.47	11.26	16.52	17.44
EV/EBITDA TTM	Current	8.97	5.82	15.36	10.93
	5-Year High	12.78	8.98	17.42	12.88
	5-Year Low	7.66	4.94	10.89	8.49
	5-Year Median	9.66	6.2	14.73	10.79
EV/Sales TTM	Current	1.58	1.11	2.64	3.03
	5-Year High	1.83	1.48	3.1	3.42
	5-Year Low	0.85	0.76	1.59	2.1
	5-Year Median	1.37	1.22	2.43	2.8

As of 03/05/2020

Industry Analysis **Zacks Industry Rank:** Top 2% (4 out of 255)

Top Peers

Berry Global Group, Inc. **(BERY)**	Neutral
Ball Corporation **(BLL)**	Neutral
Crown Holdings, Inc. **(CCK)**	Neutral
Greif, Inc. **(GEF)**	Neutral
Graphic Packaging Holding Company **(GPK)**	Neutral
3M Company **(MMM)**	Neutral
Silgan Holdings Inc. **(SLGN)**	Neutral
Sonoco Products Company **(SON)**	Neutral

Industry Comparison Industry: Office Supplies

Industry Peers

	AVY Neutral	X Industry	S&P 500	BLL Neutral	SLGN Neutral	SON Neutral
VGM Score	A	-	-	C	A	B
Market Cap	9.92 B	651.27 M	21.47 B	25.09 B	3.38 B	5.04 B
# of Analysts	6	4	13	7	6	5
Dividend Yield	1.95%	1.95%	2.04%	0.78%	1.44%	3.42%
Value Score	C	-	-	D	A	B
Cash/Price	0.03	0.12	0.05	0.08	0.06	0.03
EV/EBITDA	22.15	6.62	12.81	18.41	9.49	8.94
PEG Ratio	2.07	1.51	1.88	5.25	2.19	3.10
Price/Book (P/B)	8.26	1.17	2.95	8.35	3.30	2.77
Price/Cash Flow (P/CF)	13.44	9.50	11.75	16.37	7.50	8.45
P/E (F1)	17.10	10.82	17.19	26.25	13.14	13.93
Price/Sales (P/S)	1.40	1.21	2.32	2.19	0.75	0.94
Earnings Yield	5.91%	9.64%	5.81%	3.80%	7.61%	7.17%
Debt/Equity	1.25	0.58	0.70	2.10	2.16	0.66
Cash Flow ($/share)	8.86	2.03	7.01	4.70	4.07	5.96
Growth Score	A	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	17.83%	11.49%	10.85%	8.00%	9.98%	8.25%
Proj. EPS Growth (F1/F0)	6.72%	8.05%	6.27%	15.98%	7.41%	2.32%
Curr. Cash Flow Growth	3.06%	3.06%	6.07%	4.20%	5.44%	3.38%
Hist. Cash Flow Growth (3-5 yrs)	8.17%	4.68%	8.52%	13.04%	4.91%	5.28%
Current Ratio	1.04	1.79	1.23	0.88	1.38	1.08
Debt/Capital	55.46%	35.76%	42.57%	67.73%	68.40%	39.65%
Net Margin	4.29%	8.77%	11.69%	4.93%	4.32%	5.43%
Return on Equity	51.98%	15.79%	16.66%	25.14%	25.07%	19.51%
Sales/Assets	1.31	0.72	0.54	0.68	0.90	1.07
Proj. Sales Growth (F1/F0)	3.79%	0.02%	3.90%	5.44%	0.63%	1.12%
Momentum Score	C	-	-	F	C	F
Daily Price Chg	-2.17%	-2.17%	-3.79%	-1.95%	-1.01%	-3.73%
1 Week Price Chg	-14.53%	-11.39%	-12.06%	-8.33%	-11.61%	-15.69%
4 Week Price Chg	-14.23%	-14.23%	-10.92%	-1.24%	-3.33%	-14.72%
12 Week Price Chg	-8.10%	-8.10%	-8.10%	21.48%	-0.55%	-18.51%
52 Week Price Chg	10.51%	4.70%	4.09%	40.87%	7.28%	-13.40%
20 Day Average Volume	591,634	177,361	2,483,920	2,261,761	539,217	637,054
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.06%	-1.30%	0.00%	-2.20%
(F1) EPS Est 12 week change	-0.24%	2.30%	-0.42%	-1.96%	0.14%	-4.95%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.29%	-1.78%	0.42%	-3.22%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	C
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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