

Avery Dennison Corp (AVY)

\$134.72 (As of 01/20/20)

Price Target (6-12 Months): **\$143.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: B

Summary

Avery Dennison tightened EPS guidance to \$6.50-\$6.60 from the prior view of \$6.50-\$6.65 for 2019, reflecting sluggish market trends and an incremental currency headwind. Nevertheless, the company will likely deliver strong top-line growth, margin expansion and earnings improvement backed by acquisitions, organic growth and strong presence in emerging markets. The company will benefit from focus on pricing actions, restructuring activities and execution of strategies. The Label and Graphic Materials segment will maintain its momentum of top-line growth and margin expansion, aided by growth in emerging markets, focus on high-value categories and productivity initiatives. The Industrial and Healthcare Materials segment is poised well on acquisitions. The company's earnings estimates for the current year have been stable of late.

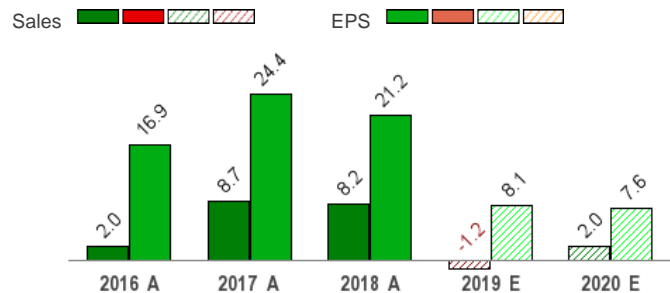
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$134.88 - \$94.99
20 Day Average Volume (sh)	440,608
Market Cap	\$11.2 B
YTD Price Change	3.0%
Beta	1.30
Dividend / Div Yld	\$2.32 / 1.7%
Industry	Office Supplies
Zacks Industry Rank	Top 3% (7 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.8%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/29/2020
Earnings ESP	0.0%
P/E TTM	21.1
P/E F1	19.1
PEG F1	2.3
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,765 E	1,841 E	1,805 E	1,816 E	7,217 E
2019	1,740 A	1,796 A	1,761 A	1,784 E	7,074 E
2018	1,776 A	1,854 A	1,760 A	1,769 A	7,159 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.61 E	\$1.87 E	\$1.77 E	\$1.82 E	\$7.05 E
2019	\$1.48 A	\$1.72 A	\$1.66 A	\$1.68 E	\$6.55 E
2018	\$1.44 A	\$1.66 A	\$1.45 A	\$1.52 A	\$6.06 A

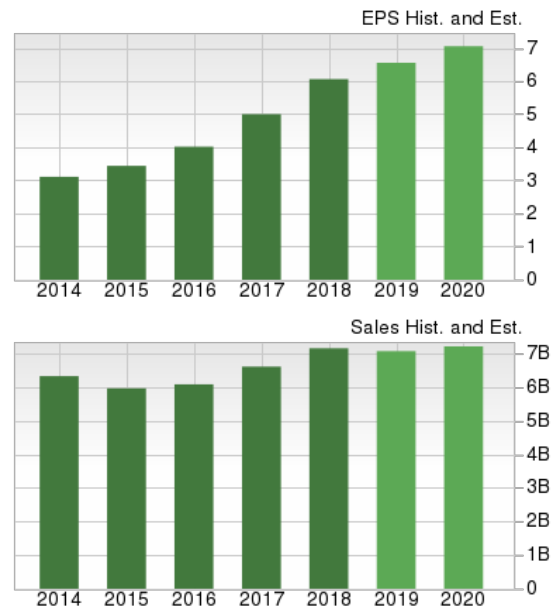
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/20/2020. The reports text is as of 01/21/2020.

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** (67% of 2018 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** (23%) 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 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.
- ▲ Avery Dennison witnessed organic revenue growth of 2.1% driven by growth in high-value categories and volume improvement at LGM segment in the third quarter of 2019. The segment will maintain its momentum of solid top-line growth and continued margin expansion, aided by growth in emerging markets, 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 \$35 million in pre-tax savings from restructuring in the first three quarters of the year, with significant uptick in savings from restructuring will be realized in the second half of the year. The company expects incremental pre-tax savings from restructuring will contribute about \$50 million in 2019.
- ▲ The company will benefit from its faster growing high-value product categories, such as specialty labels and Radio-frequency identification (RFID). RFID sales continues to grow more than 20% in the September-end quarter with continued strength in apparel. The company expects to see strong engagement among apparel retailers and brands, as well as promising early-stage developments in other end markets driven by categories outside of apparel. The company increases investments to drive growth with higher spending for business development and R&D.
- ▲ 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. 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.

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.

Reasons To Sell:

- ▼ Avery Dennison lowered its near-term outlook for top-line growth due to sluggish market trends and currency headwinds. Consequently, for the current year, the company reduced the higher end of the adjusted EPS guidance \$6.50-\$6.60 from the prior view of \$6.50-\$6.65. Also, including the impact of the pension-settlement charge, the company tightened its EPS guidance to \$3.15-\$3.25 from the prior estimate of \$3.15-\$3.30. Also, for the full year, Avery Dennison has lowered organic sales growth to the range of 2% to 2.3%.
- ▼ At recent exchange rates, currency translation represents a pretax operating income tailwind of roughly \$37 million for 2019, an incremental headwind of \$9 million relative to July's \$28 million. The company expects currency translation to be a 3.5% headwind to sales growth in 2019. 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.
- ▼ Avery Dennison incurred pre-tax restructuring charges of approximately \$3 million in the July-September quarter. 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.

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

Last Earnings Report

Avery Dennison Earnings and Sales Top Estimates in Q3

Avery Dennison reported adjusted earnings of \$1.66 per share in third-quarter 2019, which surpassed the Zacks Consensus Estimate of \$1.60. The figure also increased around 14% year over year.

Including one-time items, the company posted net income of \$1.71 per share compared with the year-ago quarter's earnings per share (EPS) of \$1.69.

Total revenues inched up nearly 0.1% year over year to \$1,761.4 million and beat the Zacks Consensus Estimate of \$1,756.3 million. Organic sales growth came in at 2.1% in the reported quarter.

Cost of sales in the quarter declined nearly 0.8% year over year to \$1.29 billion. Gross profit rose 2.7% year over year to \$471.7 million. Gross margin increased to 26.8% from 26.1% in the prior-year quarter.

Marketing, general and administrative expenses totaled \$265.3 million compared with \$270.5 million reported in the year-ago quarter. Adjusted operating profit came in at \$206.4 million, up from the \$188.7 million recorded in the prior-year quarter. Adjusted operating margin rose to 11.7% from the year-earlier quarter's level of 10.7%.

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	0.29%
EPS Surprise	3.75%
Quarterly EPS	1.66
Annual EPS (TTM)	6.38

Segment Highlights

Revenues in the Label and Graphic Materials segment dipped 0.8% year over year to \$1,185.1 million. On an organic basis, sales inched up 1.2%. Adjusted operating profit rose 9.1% year on year to \$160.2 million.

Revenues in the Retail Branding and Information Solutions segment rose 2.1% year over year to \$406.8 million. On an organic basis, sales were up 4.1% as consistent strength in RFID offset slowdown in base business. The segment's adjusted operating income increased 3.3% to \$46.9 million.

Net sales in the Industrial and Healthcare Materials segment amounted to \$169.5 million, increasing 1.4% from the prior-year quarter. On an organic basis, sales were up 3.7%. The segment reported adjusted operating income of \$18.6 million compared with \$15.3 million in the prior-year quarter.

Financial Updates

Avery Dennison had cash and cash equivalents of \$224.2 million at the end of the third quarter, up from \$217.6 million at the end of the year-ago quarter. During the first nine months of 2019, the company generated \$467 million in cash from operating activities compared with \$187.7 million reported in the year-ago quarter.

During the third quarter, Avery Dennison repurchased 0.8 million shares for a total cost of \$87.6 million. The company's share count declined 3.8 million in the quarter.

The company's long-term debt increased to \$1,483.7 million as of Sep 28, 2019 compared with \$1,295.3 million as of Sep 29, 2018.

Cost-Reduction Activities

Avery Dennison realized around \$18 million in pre-tax savings from restructuring in the third quarter. The company incurred pre-tax restructuring charges of nearly \$3 million.

Guidance

For 2019, Avery Dennison revised its adjusted EPS guidance to \$6.50-\$6.60. Including the impact of the pension-settlement charge, the company tightened EPS guidance to \$3.15-\$3.25 from the prior estimate of \$3.15-\$3.30.

Recent News

Avery Dennison to Buy Smartrac's Unit, Expand Product Offering - Nov 21, 2019

Avery Dennison has entered into an agreement to acquire Smartrac's Transponder (RFID Inlay) Division, for a cash payment of €225 million (\$249.4 million). Notably, the division is a leader in the development and manufacture of Radio-frequency identification (RFID) products, with estimated global revenues of around €125 million (\$140 million) for 2019. Through the acquisition, Avery Dennison will bolster its rapidly-growing Intelligent Labels platform across end markets and customers within the industrial and retail segments.

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.

The latest 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. The deal will generate more than \$450 million in revenues, while also offering long-term profitability and growth.

The deal is likely to close in a few months. The company plans to fund the transaction with existing cash and credit facilities.

Valuation

Avery Dennison's shares are up 39.6% over the trailing 12-month period. Stocks in the Zacks Office Supplies industry and the Zacks Industrial Products sector are up 45.3% and 18.2% over the past year, respectively.

The S&P 500 index is up 25.7% in the past year.

The stock is currently trading at 18.99X forward 12-month earnings, which compares to 13.97X for the Zacks sub-industry, 18.42X for the Zacks sector and 19.19X 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 17.41X.

Our neutral recommendation indicates that the stock will perform in-line with the market. Our \$143 price target reflects 20.15X 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	18.99	13.97	18.42	19.19
	5-Year High	23.65	13.97	19.91	19.34
	5-Year Low	12.87	8.07	12.6	15.17
	5-Year Median	17.41	11.28	16.54	17.44
EV/EBITDA TTM	Current	9.86	7.15	17.25	12.38
	5-Year High	12.78	8.98	17.44	12.86
	5-Year Low	7.66	4.94	10.89	8.48
	5-Year Median	9.57	6.19	14.72	10.67
EV/Sales TTM	Current	1.77	1.38	3.09	3.34
	5-Year High	1.8	1.48	3.23	3.34
	5-Year Low	0.85	0.76	1.59	2.16
	5-Year Median	1.34	1.22	2.49	2.8

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 3% (7 out of 254)



Top Peers

Berry Global Group, Inc. (BERY)	Outperform
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	B	A
Market Cap	11.25 B	730.00 M	24.65 B	22.65 B	3.50 B	5.98 B
# of Analysts	6	5	13	7	6	4
Dividend Yield	1.72%	1.95%	1.73%	0.87%	1.39%	2.88%
Value Score	C	-	-	D	B	B
Cash/Price	0.02	0.11	0.04	0.02	0.03	0.02
EV/EBITDA	15.75	7.81	14.11	17.59	8.58	10.39
PEG Ratio	2.26	1.66	2.08	4.23	1.78	3.64
Price/Book (P/B)	10.64	1.72	3.39	6.63	3.62	3.22
Price/Cash Flow (P/CF)	16.27	10.09	13.81	15.90	8.17	10.33
P/E (F1)	18.65	12.77	19.19	23.29	13.68	16.39
Price/Sales (P/S)	1.59	1.32	2.69	1.96	0.78	1.10
Earnings Yield	5.23%	7.97%	5.21%	4.29%	7.32%	6.09%
Debt/Equity	1.40	0.66	0.72	1.91	1.87	0.64
Cash Flow (\$/share)	8.28	1.98	6.94	4.35	3.86	5.78
Growth Score	A	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	17.88%	11.45%	10.56%	6.37%	8.75%	7.80%
Proj. EPS Growth (F1/F0)	7.66%	7.66%	7.57%	18.71%	7.28%	3.08%
Curr. Cash Flow Growth	14.05%	14.05%	14.73%	1.37%	17.96%	15.51%
Hist. Cash Flow Growth (3-5 yrs)	8.69%	4.22%	9.00%	13.35%	4.01%	5.80%
Current Ratio	1.03	1.62	1.24	1.01	1.01	1.20
Debt/Capital	58.39%	38.78%	42.99%	65.65%	65.14%	38.89%
Net Margin	3.37%	7.28%	11.14%	4.82%	4.37%	5.99%
Return on Equity	53.79%	15.40%	17.16%	22.86%	26.05%	20.08%
Sales/Assets	1.33	0.72	0.55	0.69	0.92	1.11
Proj. Sales Growth (F1/F0)	2.02%	0.18%	4.16%	4.98%	0.13%	1.95%
Momentum Score	B	-	-	F	D	C
Daily Price Chg	0.57%	0.00%	0.27%	0.09%	0.06%	-0.81%
1 Week Price Chg	0.00%	0.00%	0.39%	2.32%	-1.11%	-3.60%
4 Week Price Chg	2.10%	0.81%	2.95%	8.66%	4.23%	-2.86%
12 Week Price Chg	6.75%	6.75%	7.76%	-3.57%	3.56%	3.32%
52 Week Price Chg	42.08%	42.08%	22.29%	39.88%	21.89%	9.50%
20 Day Average Volume	440,608	128,461	1,536,375	1,861,069	365,771	368,496
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.53%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.53%	-0.36%	-0.89%
(F1) EPS Est 12 week change	0.05%	-0.93%	-0.40%	-2.64%	-1.41%	0.86%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-2.12%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	B
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.

Disclosures

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