

## Avery Dennison Corp (AVY)

**\$111.45** (As of 05/26/20)

Price Target (6-12 Months): **\$118.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: B

### Summary

Avery Dennison's first-quarter earnings and revenues beat the Zacks Consensus Estimate. While the bottom line increased, the top-line figure declined year on year. It has revoked the current-year EPS guidance on uncertainties related to the coronavirus pandemic. The company expects Retail Branding and Information Solutions and Graphics Solutions business to be hit hard, reflecting widespread retail store and apparel manufacturing closures. It now forecasts sales and earnings to decline in 2020 on weak demand. However, it is poised to gain from growth in high-value product categories, growing profitability in base businesses and productivity improvement. Demand surge in essential categories in the Label and Packaging Materials segment will add growth. Moreover, its strong liquidity position will help it sail through these troubled times.

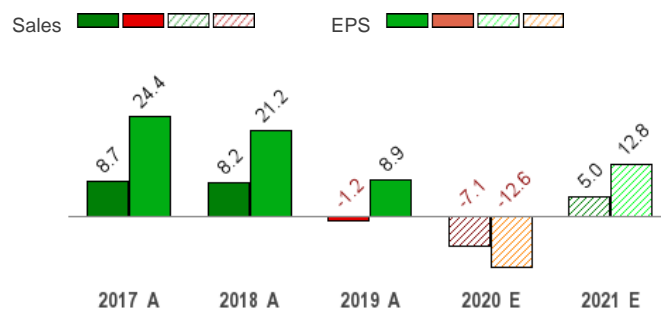
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$141.09 - \$76.96</b>
20 Day Average Volume (sh)	<b>479,422</b>
Market Cap	<b>\$9.3 B</b>
YTD Price Change	<b>-14.8%</b>
Beta	<b>1.20</b>
Dividend / Div Yld	<b>\$2.32 / 2.1%</b>
Industry	<b><a href="#">Office Supplies</a></b>
Zacks Industry Rank	<b>Bottom 9% (229 out of 253)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>10.7%</b>
Last Sales Surprise	<b>0.2%</b>
EPS F1 Est- 4 week change	<b>-6.7%</b>
Expected Report Date	<b>07/28/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>16.5</b>
P/E F1	<b>19.3</b>
PEG F1	<b>2.3</b>
P/S TTM	<b>1.3</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,898 E
2020	1,723 A	1,484 E	1,594 E	1,729 E	6,568 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					\$6.51 E
2020	\$1.66 A	\$1.09 E	\$1.30 E	\$1.62 E	\$5.77 E
2019	\$1.48 A	\$1.72 A	\$1.66 A	\$1.73 A	\$6.60 A

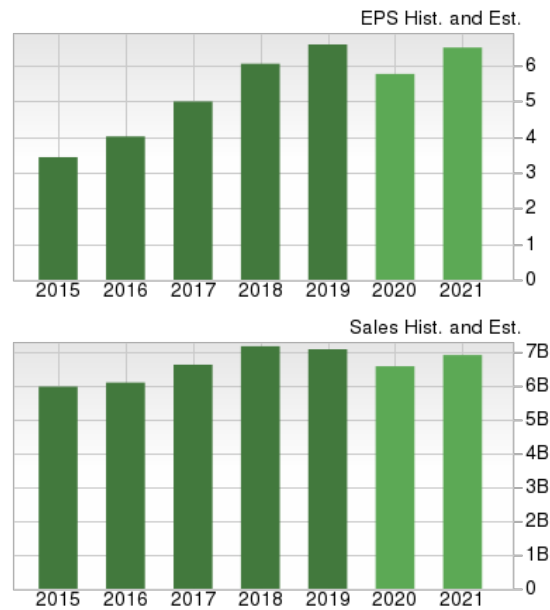
\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/26/2020. The reports text is as of 05/27/2020.

## 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 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** (23%) 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** (10%) includes tickets, tags, and labels for apparel and radio-frequency identification to retailers, brand owners, apparel manufacturers, distributors and industrial customers.



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## Reasons To Buy:

- ▲ Avery Dennison continues 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 has strategically built inventory of some key products to enhance its ability to meet customer demand during the current supply chain uncertainty on coronavirus pandemic. Furthermore, the company is executing long-term strategic restructuring initiatives to enhance competitive position in base business, freeing up resources to invest in high value categories while supporting margins. The company realized \$17 million in pre-tax savings from restructuring in the first quarter. Avery Dennison expects incremental pre-tax savings from restructuring between \$50 million and \$60 million in the current year. In addition, the company is targeting net short-term, temporary savings of more than \$120 million in 2020.
- ▲ The company's Label and Packaging Materials segment serves essential categories that are experiencing higher demand during coronavirus pandemic. It witnessed growth in high-value categories and volume improvement in the first quarter of 2020. The company's operations in Europe and North America witnessed a significant demand surge late in the quarter driven by food, hygiene, and pharmaceutical product labeling, as well as variable information labeling related to e-commerce. These factors will contribute for the segment's results in the second quarter. The segment is well poised for profitable growth in the current year, driven by solid top-line growth and continued margin expansion, 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 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 (RBIS) segment. The segment's global footprint is providing competitive advantage during the coronavirus pandemic. 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 greater revenues, with RFID business anticipated to grow 15-20% annually over the long term. Avery Dennison remains confident to see margin expansion for the current year at The Industrial and Healthcare Materials (IHM) segment. This segment will deliver significant value over the medium to longer term. Its medical division is benefiting from developing new products to meet urgent short-term need for personal protective equipment (PPE).
- ▲ 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 renewed its revolving credit facility of \$800 million in February, extending the maturity date to 2025. In March, the company drew \$500 million under this revolving credit facility on uncertainty regarding availability of commercial paper. The company's capital-allocation priorities support its primary objectives of delivering faster growth in high value categories with profitable growth of its base businesses. The company continues to protect its investments in high value categories, while curtailing its capital spending plans by approximately \$55 million for the current year. The company has temporarily suspended its share-repurchase activity, while maintaining a quarterly dividend at the current rate. It has initiated cost-control and cash-management actions to offset the decline in demand for some of its businesses, and targets to deliver free cash flow of more than \$500 million in 2020 and 2021.

Avery Dennison will gain from pricing actions, restructuring activities and execution of strategies. Focus on growing in high-value product categories and profitability in base business will aid growth

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## Reasons To Sell:

- ▼ Avery Dennison has revoked its EPS guidance for the current year in light of the uncertainties related to the coronavirus pandemic and its impact on global demand for the company's products. The company expects RBIS and Graphics Solutions business is likely to be hit hard. It now forecasts sales and earnings to decline in the current year on weak demand, while currency headwind will hurt top-line growth. Organic sales are projected to be down 15-20% year over year in the second quarter.
- ▼ The company's RBIS business, which primarily serves apparel markets, is seeing a significant decline in demand, reflecting widespread retail store and apparel manufacturing closures. Consequently, it has started witnessing a significant decline in demand for RBIS tickets, tags, and labels for apparel as well as a decline in demand for graphics and products serving durable and industrial end markets. Strong volumes in essential label categories will be offset by decline demand in apparel and industrial end markets. These trends are expected to have a significant impact on the second-quarter performance.
- ▼ 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 headwind to LGM segment's organic growth in the current year.

Impact of the coronavirus outbreak on global demand for the company's products, weak apparel and industrial-end market as well as currency translation will hurt Avery Dennison.

## Last Earnings Report

### Avery Dennison Beats on Q1 Earnings, Scraps '20 Guidance

Avery Dennison reported adjusted earnings of \$1.66 per share in first-quarter 2020, surpassing the Zacks Consensus Estimate of \$1.50. The figure also increased 12% year over year.

Including one-time items, the company posted net income of \$1.60 per share, as against the net loss of \$1.74 per share reported in the year-ago quarter.

Total revenues edged down 1% year over year to \$1,723 million. The top-line figure, however, beat the Zacks Consensus Estimate of \$1,719 million. Organic sales growth came in at 0.3% in the reported quarter.

Cost of sales in the quarter slid nearly 3% year over year to \$1,238 million. Gross profit improved 4.3% year over year to \$485 million. Gross margin increased to 28% from the prior-year quarter's 27%.

Marketing, general and administrative expenses totaled \$281 million compared with the \$276 million incurred in the year-ago quarter. Adjusted operating profit came in at around \$204 million, up from the \$189 million recorded in the prior-year quarter. Adjusted operating margin rose to 11.8% from the year-earlier quarter level of 10.9%.

### Segment Highlights

Revenues in the Label and Graphic Materials (LGM) segment inched up 0.2% year over year to \$1,181 million. On an organic basis, sales were up 1.8%. Adjusted operating profit was up 18.2% year on year to \$174 million.

Revenues in the Retail Branding and Information Solutions (RBIS) segment dropped 0.9% year over year to \$395 million. On an organic basis, sales were down 1.1% due to significant demand decline in apparel markets reflecting widespread retail store and apparel manufacturing closures. The segment's adjusted operating income plunged 31% year over year to \$34 million. The company has completed the acquisition of Smartrac's transponder business and its integration is on track.

Net sales in the Industrial and Healthcare Materials (IHM) segment amounted to \$148 million, indicating a year-over-year decline of 9.7%. On an organic basis, sales were down 7.8% due to decline in industrial and healthcare categories. The segment reported adjusted operating income of \$15.4 million compared with the prior-year quarter's \$15.5 million.

### Financial Updates

Avery Dennison had cash and cash equivalents of around \$742 million as of Mar 28, 2020, up from \$226 million as of Mar 30, 2019. During the reported quarter, the company generated \$4.4 million in cash from operating activities compared with the year-earlier quarter's \$35.4 million.

The company has temporarily suspended its share-repurchase activity on concerns over the coronavirus outbreak, while maintaining the quarterly dividend at its current rate of 58 cents per share.

The company's long-term debt increased to \$1,988 million as of Mar 28, 2020, compared with around \$1,760 million as of Mar 30, 2019.

### Cost-Reduction Activities

Avery Dennison realized \$17 million in pre-tax savings from restructuring in the January-March period. The company incurred pre-tax restructuring charges of nearly \$2 million. The company anticipates incremental savings from restructuring actions of \$50-\$60 million during 2020.

### Guidance

Avery Dennison has revoked its EPS guidance for the current year in light of the uncertainties related to the coronavirus pandemic and its impact on global demand for the company's products.

It expects the Label and Packaging Materials business to fare relatively better, while the RBIS and Graphics Solutions business is likely to be hit hard. The company now forecasts sales and earnings to decline in the current year on lower demand. This is likely to reflect the adverse impact on the second-quarter results. Organic sales are projected to be down 15-20% year over year in the ongoing quarter.

The company had initiated cost-control and cash-management initiatives to offset the decline in demand for certain of its businesses. This is likely to deliver free cash flow of at least \$500 million in 2020 and 2021.

### Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	0.23%
EPS Surprise	10.67%
Quarterly EPS	1.66
Annual EPS (TTM)	6.77

## 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 9.4% over the trailing 12-month period. Stocks in the Zacks Office Supplies industry and the Zacks Industrial Products sector are down 13.8% and 5.8% over the past year, respectively.

The S&P 500 index is up 6.6% in the past year.

The stock is currently trading at 18.36X forward 12-month earnings, which compares to 12.35X for the Zacks sub-industry, 20.65X for the Zacks sector and 21.76X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.65X and as low as 11.19X, with a 5-year median of 17.49X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$118 price target reflects 19.43X 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	18.36	12.35	20.65	21.76
	5-Year High	23.65	13.44	20.65	21.76
	5-Year Low	11.19	8.07	12.55	15.23
	5-Year Median	17.49	11.23	16.66	17.49
EV/EBITDA TTM	Current	11.01	5.7	15.47	11.07
	5-Year High	12.9	9.05	17.42	12.86
	5-Year Low	6.5	3.96	10.72	8.26
	5-Year Median	9.74	6.22	14.79	10.79
EV/ Sales TTM	Current	1.49	0.92	2.69	2.92
	5-Year High	1.83	1.51	3.24	3.46
	5-Year Low	0.93	0.71	1.59	2.14
	5-Year Median	1.41	1.23	2.51	2.82

As of 05/26/2020

## Industry Analysis Zacks Industry Rank: Bottom 9% (229 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Silgan Holdings Inc. (SLGN)	Outperform	1
Berry Global Group, Inc. (BERY)	Neutral	3
Ball Corporation (BLL)	Neutral	4
Crown Holdings, Inc. (CCK)	Neutral	4
Greif, Inc. (GEF)	Neutral	3
Graphic Packaging Holding Company (GPK)	Neutral	2
3M Company (MMM)	Neutral	3
Sonoco Products Company (SON)	Neutral	4

Industry Comparison Industry: Office Supplies				Industry Peers		
	AVY	X Industry	S&P 500	BLL	SLGN	SON
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	4	-	-	4	1	4
VGM Score	D	-	-	F	C	B
Market Cap	9.29 B	527.10 M	21.18 B	21.69 B	3.65 B	5.17 B
# of Analysts	6	3	14	7	6	5
Dividend Yield	2.08%	2.88%	2.03%	0.90%	1.46%	3.34%
Value Score	D	-	-	F	C	B
Cash/Price	0.08	0.16	0.06	0.04	0.17	0.03
EV/EBITDA	20.89	5.07	12.37	17.62	9.18	9.07
PEG Ratio	2.37	2.17	2.88	5.00	2.74	3.17
Price/Book (P/B)	7.92	0.93	2.90	8.03	3.58	2.94
Price/Cash Flow (P/CF)	12.58	8.63	11.55	14.14	8.10	8.64
P/E (F1)	19.54	10.50	21.24	24.99	13.70	15.83
Price/Sales (P/S)	1.32	1.09	2.24	1.89	0.81	0.97
Earnings Yield	5.18%	9.52%	4.57%	4.00%	7.29%	6.31%
Debt/Equity	1.69	0.60	0.76	2.77	2.13	0.68
Cash Flow (\$/share)	8.86	2.09	6.96	4.70	4.07	5.96
Growth Score	C	-	-	F	F	B
Hist. EPS Growth (3-5 yrs)	17.81%	11.28%	10.87%	9.55%	11.36%	8.75%
Proj. EPS Growth (F1/F0)	-12.53%	-44.03%	-10.31%	5.25%	11.34%	-7.88%
Curr. Cash Flow Growth	3.06%	3.06%	5.46%	4.20%	5.44%	3.38%
Hist. Cash Flow Growth (3-5 yrs)	8.17%	4.68%	8.55%	13.04%	4.92%	5.30%
Current Ratio	1.14	1.77	1.29	1.06	1.21	1.11
Debt/Capital	62.88%	36.58%	44.54%	73.47%	68.06%	40.36%
Net Margin	8.29%	8.73%	10.59%	4.11%	4.56%	5.61%
Return on Equity	51.00%	15.79%	16.29%	28.11%	25.52%	20.13%
Sales/Assets	1.26	0.71	0.55	0.68	0.87	1.06
Proj. Sales Growth (F1/F0)	-7.11%	-7.11%	-2.34%	0.15%	1.71%	-2.80%
Momentum Score	B	-	-	C	B	C
Daily Price Chg	4.70%	0.00%	2.82%	3.15%	1.73%	4.78%
1 Week Price Chg	5.94%	5.94%	4.99%	3.66%	-1.37%	8.41%
4 Week Price Chg	-2.82%	-1.75%	3.55%	-0.70%	-6.98%	4.19%
12 Week Price Chg	-5.52%	-6.38%	-4.95%	-12.62%	9.62%	1.86%
52 Week Price Chg	9.48%	-2.19%	-3.04%	8.73%	11.21%	-17.09%
20 Day Average Volume	479,422	159,395	2,429,758	1,803,632	709,733	511,460
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-6.71%	-32.19%	-2.27%	-6.85%	0.00%	0.00%
(F1) EPS Est 12 week change	-18.03%	-48.98%	-16.39%	-9.25%	3.66%	-9.97%
(Q1) EPS Est Mthly Chg	-23.79%	-52.83%	-4.03%	-21.48%	0.00%	0.00%

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## 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.

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### 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	D
Growth Score	C
Momentum Score	B
VGM Score	D

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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### Disclosures

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