Aug 05, 2020

Berry Global Group (BERY)

$52.22 (As of 08/04/20)

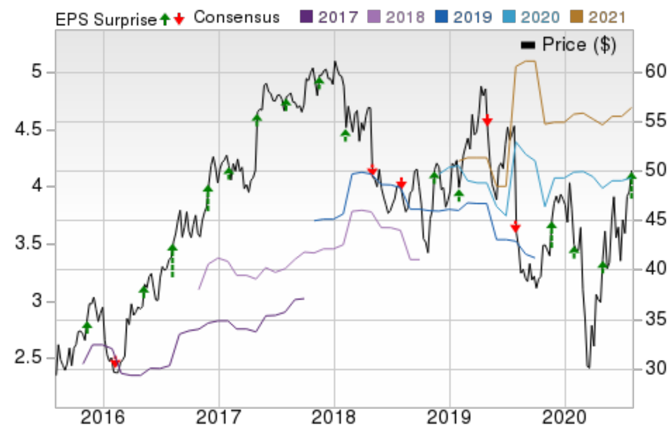
Price Target (6-12 Months): **$60.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/04/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**1-Strong Buy**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: B | Momentum: C	

Summary

Berry Global's third-quarter fiscal 2020 earnings surpassed the Zacks Consensus Estimate by 28.8% and revenues missed the same by 3.6%. The company's diversified business structure enables it to mitigate the adverse impacts of weakness in one end market, with strength across others. It is well-placed to benefit from acquisitions it made over time. The RPC Group buyout has been enhancing growth opportunities in the plastic and recycled packaging industry. We believe that improvement in cash flows will support the company's capital-allocation strategies. In the past three months, its shares have outperformed the industry. However, the coronavirus outbreak-induced market downturn and weakness in the industrial end markets are concerning for the top line. High debt levels may increase its financial obligations and hurt profitability.

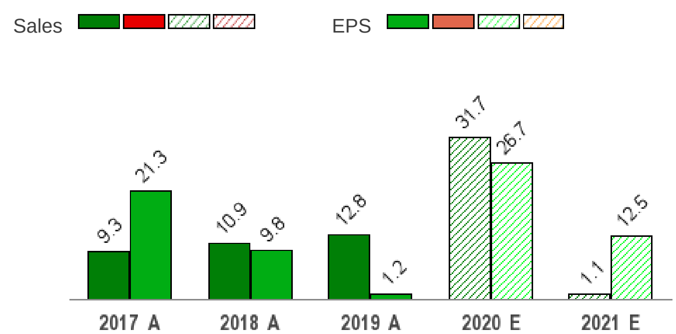
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$52.35 - $25.00**
20 Day Average Volume (sh)	**1,200,455**
Market Cap	**$6.9 B**
YTD Price Change	**10.0%**
Beta	**1.38**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Containers - Paper and Packaging**
Zacks Industry Rank	**Top 10% (26 out of 254)**
Last EPS Surprise	**28.8%**
Last Sales Surprise	**-3.6%**
EPS F1 Est- 4 week change	**6.8%**
Expected Report Date	**11/19/2020**
Earnings ESP	**3.6%**
P/E TTM	**12.5**
P/E F1	**12.1**
PEG F1	**1.2**
P/S TTM	**0.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					11,816 E
2020	2,816 A	2,975 A	2,910 A	2,915 E	11,693 E
2019	1,972 A	1,950 A	1,937 A	3,019 A	8,878 A

EPS Estimates

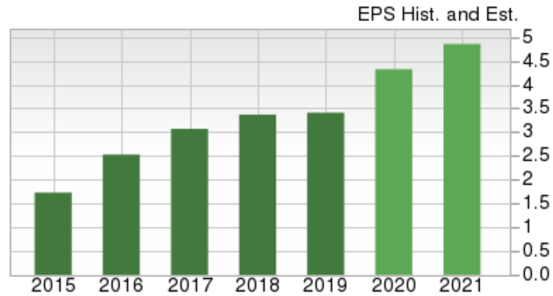
	Q1	Q2	Q3	Q4	Annual*
2021	$0.88 E	$1.41 E	$1.59 E	$1.32 E	$4.86 E
2020	$0.56 A	$1.19 A	$1.52 A	$1.20 E	$4.32 E
2019	$0.77 A	$0.84 A	$0.90 A	$0.90 A	$3.41 A

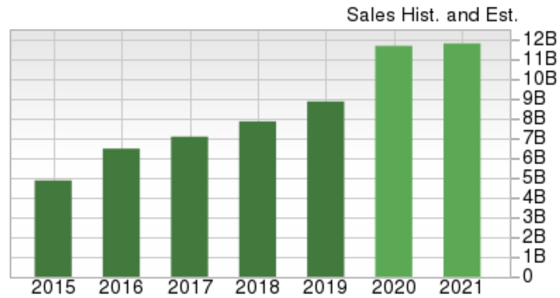
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/04/2020. The reports text is as of 08/05/2020.

Overview

Berry Global Group, Inc. manufactures and distributes nonwoven specialty materials, engineered materials and consumer packaging products in the market. The company services personal care, healthcare as well as beverage and food markets in South America, North America, Asia and Europe.





This Evansville, IN-based company was formerly known as Berry Plastics Group, Inc., but changed its official name to Berry Global Group, Inc. in April 2017. The company employs more than 47,000 people globally (as the end of third-quarter fiscal 2020).

In July 2019, the company acquired United Kingdom-based RPC Group Plc. The latter specializes in providing recycled solutions and plastic packaging. Its products are mainly used by customers, both in the non-packaging and packaging markets. With the completion of the RPC Group buyout, Berry Global revised its business segments from the earlier three segments (Engineered Materials; Health, Hygiene & Specialties; and Consumer Packaging) to four segments — Consumer Packaging - International; Consumer Packaging - North America; Engineered Materials; and Health, Hygiene, and Specialties.

Consumer Packaging – International segment (35.1% revenues in third-quarter fiscal 2020): This segment consists of the international businesses of acquired RPC Group. It is engaged in manufacturing several products under products groups of bottles and canisters, containers, polythene films, pharmaceutical devices and technical components.

Consumer Packaging — North America segment (24.7%): The segment incorporates the company's legacy Consumer Packaging business and the U.S. portion of the acquired RPC Group business. It offers various products under groups like containers and pails, foodservice, closures and overcaps, bottles and prescription vials and tubes.

Engineered Materials segment (19.3%): This segment is comprised of product groups like stretch and shrink films, converter films, tape products, food and consumer films, retail bags, PVC and agriculture films.

Health, Hygiene & Specialties segment (20.9%): This segment consists of several product groups including health products, hygiene products and specialties products.

Reasons To Buy:

Diversified products portfolio, anticipated synergistic gains from acquired assets and sound capital-allocation strategies will likely be beneficial for Berry Global.

- Berry Global has a diversified business structure, with strong portfolio of products, with bulk of it being consumer non-discretionary products. This allows it to mitigate the adverse impacts of weakness in one end-market, with strength across others. Going forward, the company expects its Consumer Packaging — North America segment to benefit despite the coronavirus outbreak-led global market downturn, backed by persistent strength across the healthcare, hygiene and grocery end-markets as well as recovery in the food service space. Going forward, the Health, Hygiene & Specialties segment is also likely to benefit from higher demand for its healthcare products. For the fiscal fourth quarter, the company expects sales volume from the Consumer Packaging — North America and the Health, Hygiene & Specialties segments to grow in the range of low-single digits and low-double digits, respectively, on a year-over-year basis. In the past three months, its shares have gained 24.5% compared with the industry's growth of 15.1%.

- Over time, Berry Global solidified its product portfolio and leveraged business opportunities through the addition of assets. In July 2019, the company completed the acquisition of RPC Group Plc. The buyout has been enhancing Berry Global's growth opportunities in the plastic and recycled packaging industry. Notably, in the first, second and third quarters of fiscal 2020, the buyout contributed 38.4%, 39.5% and 37.5%, respectively, to sales. Notably, the company continues to expect the deal to generate annual cost synergies of $150 million, with $85 million of it expected to be realized in fiscal 2020. Berry Global noted that the RPC integration-related activities are on track. Moreover, the company noted that its organic growth investments have been benefiting its Health, Hygiene & Specialties segment.

- Berry Global follows a balanced capital allocation strategy. It utilizes its cash flow for improving organic growth capabilities, acquisitions, repaying debts and repurchasing shares. In the first nine months of fiscal 2020, the company repaid its long-term debt of $1,859 million. Notably, Berry Global stated that it used the net proceeds of $325 million, realized from the sale of its SFL business (in July 2019), to repay debt. In the fiscal third quarter, the company's free cash flow surged 113.2% to $290 million on a year-over-year basis. Further improvement in cash flows is likely to effectively support the company's capital-allocation strategies. For fiscal 2020, Berry Global anticipates cash flow from operations of $1,450 million, capital expenditure of $620 million and free cash flow of $830 million.

- Berry Global's focus on improving operational productivity along with its cost-reduction initiatives and partnerships across the value chain are likely to continue improve margins and its financial performance in the quarters ahead. Notably, in the fiscal third quarter, the company's adjusted operating margin climbed 120 basis points to 13%. Moreover, it revised its business segments from the earlier three (Engineered Materials; Health, Hygiene & Specialties; and Consumer Packaging) to four (Health, Hygiene and Specialties; Consumer Packaging - International; Engineered Materials; and Consumer Packaging - North America). The move, announced following the completion of the RPC Global buyout, will continue to enable Berry Global to offer better services to customers and enhance shareholder value.

Risks

- Berry Global is experiencing a persistent weak operational performance across its Engineered Materials segment. Notably, in third-quarter fiscal 2020, the Engineered Materials segment's sales declined 10.5% year over year due to a fall in selling prices and volume decline amid the coronavirus outbreak-led market downturn. Also, softness across automotive and industrial end markets remains concerning for the Consumer Packaging – International segment in the near term. For fiscal fourth quarter, the company expects sales volume from the Engineered Materials and the Consumer Packaging – International segments to decline in mid-single digits and low-single digits, respectively, on a year-over-year basis.

- Escalating cost of goods sold has been a major cause of concern for Berry Global over time. In the last five fiscal years (2015-2019), the company's cost of goods sold increased 12.6% (CAGR). Notably, in the second and third quarters of fiscal 2020, the metric surged 51.5% and 45.7%, respectively, on a year-over-year basis despite its cost-reduction initiatives. In addition, in the fiscal second and third quarters, the company's selling, general and administrative expenses jumped 42.7% and 58.4%, respectively. Rise in expenses (on account of high operating and restructuring related costs) has been elevating its aggregate costs of late. Notably, in fiscal 2020, the company anticipates to incur restructuring-related and other costs of $50 million. Further, escalation in costs might weigh on Berry Global's margins in the quarters ahead.

- The company's long-term debt in the last five fiscal years (2015-2019) increased 25.3% (CAGR). Despite its efforts to reduce debt leverage, its current and long-term debt remained high at $10,760 million at the end of the third quarter of fiscal 2020. For fiscal 2020, Berry Global predicts interest expenses of $430 million. Further, increase in debt levels can raise the company's financial obligations. Berry Global's stock looks more leveraged than the industry. Its debt/capital ratio is currently pegged at 0.85, significantly higher than 0.56 of the industry. This makes us cautious toward the stock.

Last Earnings Report

Berry Global Beats Q3 Earnings Estimates, Updates View

Quarter Ending	06/2020
Report Date	Jul 31, 2020
Sales Surprise	-3.56%
EPS Surprise	28.81%
Quarterly EPS	1.52
Annual EPS (TTM)	4.17

Berry Global reported mixed third-quarter fiscal 2020 (ended Jun 27, 2020) results. Its earnings surpassed estimates by 28.81% — this being the fourth consecutive quarter of earnings beat. However, the quarter's sales lagged estimates by 3.56%.

The company's adjusted earnings in the reported quarter of $1.52 per share surpassed the Zacks Consensus Estimate of $1.18. Also, the bottom line rose 68.9% from the year-ago number of 90 cents.

Revenue Details

In the quarter under review, Berry Global's net sales were $2,910 million, reflecting year-over-year growth of 50.2%. The improvement was driven by $1,092 million contributions from acquired assets and 2% growth in organic volumes, partially offset by $99 million adverse impacts of a decline in selling prices. Notably, unfavorable movements in foreign currencies and divestitures adversely impacted sales by $19 million and $34 million, respectively.

However, the top line lagged the consensus estimate of $3,018 million.

The company reports results under four segments — Consumer Packaging–International, Consumer Packaging–North America, Health, Hygiene & Specialties, and Engineered Materials. A brief snapshot of fiscal third-quarter segmental sales is provided below:

Consumer Packaging–International's sales were $1,020 million compared with $52 million in the year-ago quarter. The increase was driven by the significant contribution of net sales from the RPC acquisition. It accounted for 35.1% of the quarter's net sales.

Consumer Packaging–North America's sales were $718 million, up 10.1% year over year. The increase was attributable to gains from acquired assets, partially offset by lower selling prices. It accounted for 24.7% of the quarter's net sales.

Revenues generated from Health, Hygiene & Specialties amounted to $608 million, up 0.8% year over year. The improvement was driven by volume growth, partially offset by lower selling prices, forex woes and divestiture impact. It accounted for 20.9% of the quarter's net sales.

Revenues from Engineered Materials declined 10.5% year over year to $564 million. The fall was due to lower selling prices and volume decline, partially offset by gains from acquisitions.

Margin Profile

In the fiscal third quarter, Berry Global's cost of goods sold increased 45.7% to $2,272 million. It represented 78.1% of net sales compared with 80.5% in the year-ago quarter. Selling, general and administrative expenses rose 58.4% to $198 million and represented 6.8% of net sales.

Adjusted operating income in the quarter increased 65.8% to $378 million. Also, adjusted operating margin came in at 13%, up 120 basis points year over year. Interest expenses were $110 million, up 54.9% year over year.

Balance Sheet & Cash Flow

Exiting third-quarter fiscal 2020, Berry Global's cash and cash equivalents were $906 million, down 4.9% from $953 million in the previous quarter. Current and long-term debt decreased 3.2% to $10,760 million from the previously reported quarter.

In the first three quarters of fiscal 2020, the company repaid $1,859 million of borrowings. Its proceeds from borrowings totaled $1,202 million.

In the reported quarter, it generated net cash of $446 million from operating activities, up 85.8% from the year-ago quarter. Capital expenditure in the period totaled $156 million, increasing 50% from $104 million spent in the year-ago quarter.

Free cash flow surged 113.2% year over year to $290 million.

Outlook

Berry Global is focused on creating organic growth opportunities, improving balance sheet and integrating and realizing the benefits from the buyout of RPC Group Plc (completed in July 2019). The company expects RPC Group to yield cost synergies of $85 million in fiscal 2020.

For fiscal 2020 (ending September 2020), Berry Global predicts a free cash flow of $830 million, with cash flow from operations of $1,450 million and capital expenditure of $620 million. Notably, the company earlier predicted free cash of more than $800 million, capital expenditure of $600 million and cash flow from operating activities of $1.4 billion.

Moreover, interest expenses for fiscal 2020 are predicted to be $430 million, while cash taxes are estimated to be $170 million. In addition, working capital, restructuring and other costs are anticipated to be $50 million.

Recent News

Berry Global Supports Medicom in Producing Face Masks in UK

On **Jun 25, 2020**, Berry Global announced its partnership with The Medicom Group to support the latter in its commitment to the British government in producing a large number of face masks annually. Notably, the collaboration will involve the company to ensure the supply of nonwoven fabric required for the production of face masks by Medicom.

Berry Global Partners With Mondelez International

On **May 29, 2020**, Berry Global announced that it partnered with its customer Mondelez International for the supply of packaging, which contains recycled plastic for Philadelphia cream cheese.

Berry Global Expands Meltblown Capacity in South America

On **May 21, 2020**, Berry Global announced the expansion of its global Meltex meltblown nonwoven fabric capacity in South America. Markedly, the new investment is expected to not only augment Berry's global footprint but also enable production of more than 500 million surgical-grade masks per year in the company's new state-of-the-art meltblown capacity in South America. The new asset, which will resume operations in March 2021 quarter, will primarily focus on the production of materials required for ASTM L2, L3, and N95 masks. Markedly, this first Meltex technology-backed meltblown capacity is likely to address the burgeoning demand of health and wellness products in South America.

Berry Global Enhances Nonwoven Capacity in North America

On **May 20, 2020**, Berry Global announced the expansion of its hygiene and healthcare nonwoven capacity in Statesville, NC. The expansion initiative, which involves the installation of new equipment worth $8 million, will optimize Berry's production lines for the manufacturing of feminine care products, medical gowns and face masks. Apart from providing consumers with enhanced visual and comfort attributes, the latest investment is likely to augment Berry's global footprint and support the burgeoning demand of healthcare products in North America.

Berry Global Announces Addition of Meltblown Asset in Berlin

On **May 13, 2020**, Berry Global announced the extension of its global Meltex meltblown capacity, with the inclusion of an additional meltblown asset for the production of high-efficiency filtration media. The new asset, which will be located at the company's existing manufacturing facility in Berlin, will likely commence its operations in October 2020. Berry Global will also work on incorporating its proprietary charging technology into the new line for delivering optimal filtration efficiency. Notably, the expanded production line will help cater to growing customer demand for material required for premium applications, including FFP2 (N95) and FFP3 (N99) for face-mask markets.

Valuation

Berry Global's shares increased 9.9% and 23.2% in the year-to-date period and over the trailing 12 months, respectively. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 6.7% and 5.9%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry has moved down 0.6% but the sector has increased 7.9%.

The S&P 500 Index has moved up 2.3% in the year-to-date period and increased 14.7% in the past year.

The stock is currently trading at 11.37x forward 12-month earnings per share, which compares to 15.71x for the Zacks sub-industry, 21.58x for the Zacks sector and 22.58x for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.43x and as low as 6.19x, with a 5-year median of 14.35x. Our Outperform recommendation indicates that the stock will perform better than the market. Our price target of $60 reflects 13.05x forward 12-month earnings per share.

The table below shows summary valuation data for BERY.

Valuation Multiples - BERY

		Stock	Sub-Industry	Sector	S&P 500

P/E F12M	Current	11.37	15.71	21.58	22.58
	5-Year High	19.43	18.95	21.58	22.58
	5-Year Low	6.19	7.13	12.55	15.25
	5-Year Median	14.35	16.11	17.15	17.55
P/Sales F12M	Current	0.59	2.42	2.85	3.6
	5-Year High	1.08	5.06	2.85	3.6
	5-Year Low	0.29	1.46	1.52	2.53
	5-Year Median	0.79	1.82	2.03	3.04

As of 08/04/2020

Industry Analysis **Zacks Industry Rank:** Top 10% (26 out of 254)

Top Peers

Company (Ticker)	Rec	Rank
Graphic Packaging Holding Company **(GPK)**	Outperform	1
Silgan Holdings Inc. **(SLGN)**	Outperform	1
AptarGroup, Inc. **(ATR)**	Neutral	2
Greif, Inc. **(GEF)**	Neutral	3
3M Company **(MMM)**	Neutral	3
Packaging Corporation of America **(PKG)**	Neutral	3
Sealed Air Corporation **(SEE)**	Neutral	3
Sonoco Products Company **(SON)**	Neutral	3

Industry Comparison Industry: Containers - Paper And Packaging

Industry Peers

	BERY	X Industry	S&P 500	GEF	GPK	MMM
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	1	-	-	3	1	3
VGM Score	A	-	-	A	A	A
Market Cap	6.92 B	5.23 B	22.75 B	1.76 B	4.00 B	87.10 B
# of Analysts	7	6	14	4	9	7
Dividend Yield	0.00%	2.26%	1.76%	4.85%	2.09%	3.89%
Value Score	A	-	-	A	A	B
Cash/Price	0.14	0.04	0.07	0.04	0.02	0.05
EV/EBITDA	11.64	8.73	13.09	7.84	7.34	14.03
PEG Ratio	1.21	3.00	2.95	1.05	0.55	1.95
Price/Book (P/B)	3.70	2.74	3.16	1.55	1.96	7.98
Price/Cash Flow (P/CF)	6.43	7.94	12.32	3.98	5.89	12.57
P/E (F1)	12.09	15.82	21.81	10.51	13.71	18.50
Price/Sales (P/S)	0.59	1.00	2.46	0.37	0.63	2.78
Earnings Yield	8.27%	6.31%	4.40%	9.51%	7.32%	5.40%
Debt/Equity	5.72	1.29	0.76	2.52	1.49	1.82
Cash Flow ($/share)	8.12	3.82	6.94	9.12	2.44	12.02
Growth Score	B	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	16.23%	11.82%	10.46%	15.70%	5.77%	4.06%
Proj. EPS Growth (F1/F0)	26.81%	-5.77%	-7.16%	-12.82%	20.31%	-10.20%
Curr. Cash Flow Growth	7.93%	7.93%	5.47%	31.14%	3.10%	-11.15%
Hist. Cash Flow Growth (3-5 yrs)	15.70%	7.51%	8.55%	8.37%	6.65%	1.67%
Current Ratio	1.93	1.48	1.32	1.48	1.27	1.94
Debt/Capital	85.12%	58.26%	44.36%	71.83%	60.14%	64.56%
Net Margin	5.06%	5.06%	10.25%	3.60%	1.97%	16.38%
Return on Equity	32.39%	19.35%	14.67%	20.53%	14.13%	46.86%
Sales/Assets	0.70	0.86	0.51	0.86	0.85	0.70
Proj. Sales Growth (F1/F0)	31.70%	-0.81%	-1.71%	-0.94%	4.49%	-2.27%
Momentum Score	C	-	-	B	D	B
Daily Price Chg	0.75%	0.00%	0.42%	1.71%	0.99%	0.53%
1 Week Price Chg	4.45%	-3.57%	0.14%	-7.37%	-2.99%	-5.86%
4 Week Price Chg	16.77%	4.06%	4.97%	4.43%	3.68%	-2.33%
12 Week Price Chg	27.58%	14.51%	15.30%	26.85%	10.64%	6.85%
52 Week Price Chg	23.25%	-0.64%	2.34%	9.24%	-1.17%	-7.64%
20 Day Average Volume	1,200,455	224,888	2,082,836	155,371	3,264,595	2,773,456
(F1) EPS Est 1 week change	6.10%	0.00%	0.00%	0.00%	0.00%	1.29%
(F1) EPS Est 4 week change	6.81%	0.18%	0.93%	-0.72%	9.28%	3.32%
(F1) EPS Est 12 week change	6.81%	0.25%	0.78%	-2.26%	9.31%	3.55%
(Q1) EPS Est Mthly Chg	3.13%	0.00%	0.17%	0.00%	15.04%	3.84%

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	A
Growth Score	B
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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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.