

Berry Global Group (BERY)

\$42.75 (As of 02/11/20)

Price Target (6-12 Months): **\$45.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/10/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: A

Summary

In first-quarter fiscal 2020, Berry Global's earnings beat the Zacks Consensus Estimate by 3.7%, whereas revenues lagged the same by 5%. In the past six months, its shares have outperformed the industry. Also, the company is well placed to benefit from acquisitions it made over time. The RPC Group buyout will enhance growth opportunities by creating a leader in the plastic and recycled packaging industry. Moreover, we believe that improvement in cash flows will support the company's capital-allocation strategies. However, weakness in the Engineered Materials, and Health, Hygiene & Specialties segments remains a concern. Also, high debt levels weigh on Berry Global. For fiscal 2020, the company predicts cash interest costs of roughly \$500 million. High costs of sales can also hurt margins.

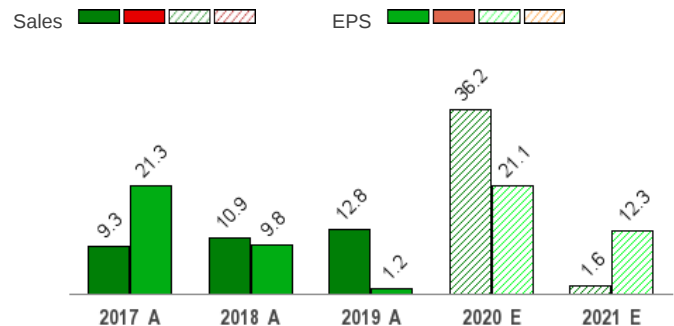
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$59.16 - \$36.98
20 Day Average Volume (sh)	1,591,392
Market Cap	\$5.7 B
YTD Price Change	-10.0%
Beta	1.36
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Containers - Paper and Packaging
Zacks Industry Rank	Bottom 23% (196 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.7%
Last Sales Surprise	-5.0%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	13.4
P/E F1	10.4
PEG F1	1.0
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,285 E
2020	2,816 A	3,066 E	3,153 E	3,029 E	12,093 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					\$4.64 E
2020	\$0.56 A	\$1.07 E	\$1.26 E	\$1.22 E	\$4.13 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 02/11/2020. The reports text is as of 02/12/2020.

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 48,000 people globally (as of fiscal 2019 end).

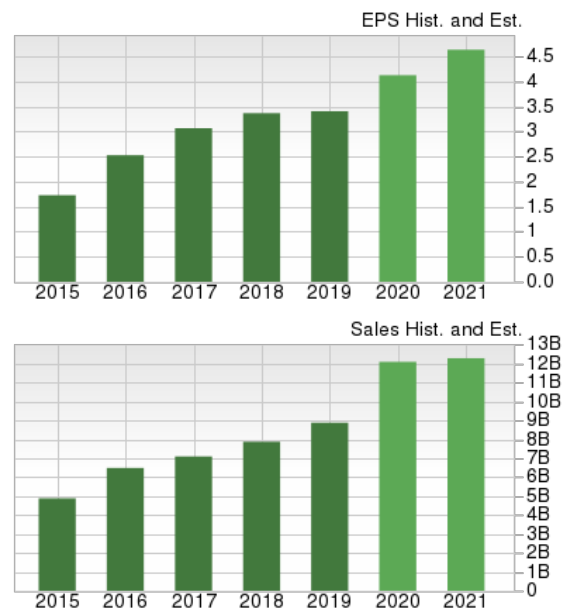
The company acquired United Kingdom-based RPC Group Plc. The latter specializes in providing recycled solutions and plastic packaging. Its products are mainly used by customers, both in the non-packaging and packaging markets. With the completion of the RPC Group buyout, Berry Global revised its business 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 (35.9% revenues in first-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 (24.1%): 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 (20.8%): 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 (19.2%): This segment consists of several product groups including health products, hygiene products and specialties products.



Reasons To Buy:

▲ Berry Global follows a balanced capital allocation strategy. It utilizes its cash flow for improving organic growth capabilities, reducing costs, acquisitions, repaying debts and repurchasing shares. In fiscal 2019 and first-quarter fiscal 2020, the company repaid its long-term debt of \$1,214 million and \$164 million, respectively. Notably, in July 2019, Berry Global completed the sale of its SFL business for net proceeds of \$325 million. The company noted that it used the net proceeds to repay debt. 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 \$1,400 million, capital expenditure of \$600 million and free cash flow of \$800 million.

Sound capital-allocation strategies, anticipated synergistic gains from acquired assets and restructuring of business segments will be beneficial for Berry Global.

▲ Over time, Berry Global has 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. This buyout has been enhancing Berry Global's growth opportunities by creating a leader in the plastic and recycled packaging industry. Notably, in first-quarter fiscal 2020, the buyout added 38.4% to sales. As a matter of fact, the company expects this deal to generate annual cost synergies of \$150 million, with half of it expected to be realized in fiscal 2020. Berry Global noted that the RPC integration-related activities are on track. In addition, the company's organic growth investments and diligent cost-cutting initiatives are likely to improve its competency over time.

▲ Berry Global 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 enable Berry Global to offer better services to customers and enhance shareholders' value. In the past six months, Berry Global's shares have gained 4.1%, outperforming the industry's rally of 1.3%.

Reasons To Sell:

- ▼ Berry Global is experiencing a persistent weak operational performance across its Engineered Materials and Health, Hygiene & Specialties segments. Notably, in first-quarter fiscal 2020, the Engineered Materials segment's sales declined 11.5% year over year due to lower organic sales and fall in selling prices. Additionally, in the reported quarter, Health, Hygiene & Specialties segment's sales decreased 17.9%. Sales were adversely impacted by soft organic sales on account of divestiture of its SFL business and customer product transitions in hygiene. The company expects these headwinds to persist in the near term. In addition, analysts have increasingly grown bearish on the company over the past seven days. Consequently, the Zacks Consensus Estimate for earnings has moved 0.2% south to \$4.13 for fiscal 2020 on account of one downward estimate revisions versus none upward.
- ▼ 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 fourth quarter of fiscal 2019 and the first quarter of fiscal 2020, the metric surged 47.3% and 42.1%, respectively, on a year-over-year basis despite its cost-reduction initiatives. In addition, in the fiscal fourth quarter and fiscal first quarter the company's selling, general and administrative expenses jumped 74.6% and 84.7%, respectively. Rise in expenses (on account of high manufacturing and restructuring related costs) has been elevating its aggregate costs of late. Notably, in fiscal 2020, the company anticipates to incur restructuring related costs of \$90 million from the RPC acquisition. Further escalation in costs might weigh on Berry Global's margins in the quarters ahead.
- ▼ Berry Global's long-term debt in the last five fiscal years (2015-2019) increased 25.3% (CAGR). Despite the company's efforts to reduce debt leverage, its current and long-term debt remained high at \$11,236 million at the end of the first quarter of fiscal 2020. The metric reflects an increase of 95.9% on a year-over-year basis. For fiscal 2020, Berry Global predicts interest expenses of \$500 million. Further, increase in debt levels can raise the company's financial obligations. Berry Global's stock looks slightly more leveraged than the industry. Its debt/capital ratio is currently pegged at 0.86, higher than 0.57 of the industry. This makes us cautious toward the stock.

Escalating costs, high debt levels, and headwinds related to Engineered Materials and Health, Hygiene & Specialties segments might be detrimental to Berry Global in the quarters ahead.

Last Earnings Report

Berry Global Q1 Earnings Top Estimates, Revenues Miss

Berry Global reported mixed first-quarter fiscal 2020 (ended Dec 28, 2019) results, wherein earnings surpassed the Zacks Consensus Estimate but revenues lagged the same.

In the fiscal first quarter, the company's adjusted earnings of 56 cents per share were lower than 77 cents reported a year ago. However, the bottom line beat the Zacks Consensus Estimate of 54 cents by 3.7%.

Quarter Ending **12/2019**

Report Date	Jan 31, 2020
Sales Surprise	-5.01%
EPS Surprise	3.70%
Quarterly EPS	0.56
Annual EPS (TTM)	3.20

Segmental Performance

Berry Global's net sales were \$2,816 million, reflecting year-over-year increase of 42.8%. The improvement was driven by gains from acquired assets and strength in its North American consumer packaging business, partially offset by decline in selling prices. However, the top line lagged the consensus estimate of \$2,965 million by 5%.

In July 2019, the company restructured its business under the segments namely Consumer Packaging–International, Consumer Packaging–North America, Health, Hygiene & Specialties, and Engineered Materials. A brief snapshot of fiscal first-quarter segmental sales is provided below:

Consumer Packaging–International's sales were \$1,010 million compared with \$51 million in the year-ago quarter. The increase was driven by significant contribution of net sales from the RPC acquisition. It accounted for 35.9% of the quarter's net sales.

Consumer Packaging–North America's sales were \$680 million, up 13.1% year over year. The increase was attributable to gains from acquired assets and 3% of organic volume growth. It accounted for 24.1% of the quarter's net sales.

Revenues generated from **Health, Hygiene & Specialties** amounted to \$541 million, down 17.9%. The fall was primarily attributable to divestiture of SFL business and lower selling prices. It accounted for 19.2% of the quarter's net sales.

Revenues from **Engineered Materials** declined 11.5% year over year to \$585 million. The fall was due to 3% decline in base volume and lower selling prices. It accounted for 20.8% of the quarter's net sales.

Margin Details

In the fiscal first quarter, Berry Global's cost of goods sold increased 42.1% to \$2,296 million. It represented 81.5% of net sales compared with 81.9% in the year-ago quarter. Selling, general and administrative expenses rose 84.7% to \$229 million, and represented 8.1% of net sales.

Adjusted operating income in the quarter increased 21% to \$242 million. In addition, adjusted operating margin came in at 8.6%, down 150 basis points year over year. Interest expenses were \$118 million, up 84.4%.

Balance Sheet & Cash Flow

Exiting first-quarter fiscal 2020, Berry Global's cash and cash equivalents were \$673 million, up from \$293 million recorded a year ago. Current and long-term debt decreased 1.1% to \$11,236 million from Sep 28, 2019.

In the first three months of fiscal 2020, the company generated net cash of \$218 million from operating activities, reflecting increase of 35.4% from the year-ago period. Capital invested for the purchasing of property, plant and equipment totaled \$148 million, up from \$75 million.

Free cash flow in the reported quarter was \$70 million, flat on a year-over-year basis.

Outlook

For fiscal 2020 (ending September 2020), Berry Global predicts free cash flow of \$800 million, with cash flow from operations of \$1,400 million and capital expenditure of \$600 million. Moreover, interest expenses for fiscal 2020 are predicted to be \$500 million while taxes are estimated to be \$160 million.

Recent News

Partnership

On **Jan 30, 2020**, Berry Global announced its collaboration with Georgia-Pacific Recycling to create a closed loop system for recovering, segregating, and reprocessing post-consumer resin.

Expansion Plan

On **Jan 15, 2020**, Berry Global announced its intention to expand its hygiene, healthcare, and specialty films platform in North America.

Shipment of Nonwoven Products From China

On **Jan 13, 2020**, Berry Global announced the commercialization and commencement of product shipment from its Reicofil R5 facility based in Nanhai, China.

Following this development, the company's Reicofil R5 facility will target Asia, particularly the China market with its specialty soft products for hygiene market. The company's investment in R5 technology, together with its exclusive raw material blends, unique bond patterns and fiber configurations will allow it to better meet customer demands for advanced nonwoven products.

Valuation

Berry Global's shares are down 10% in the year-to-date period and 16.9% over the trailing 12-month period. Stocks in the Zacks sub-industry is down 5.2%, and the Zacks Industrial Products sector is down 0.2% in the year-to-date period. Over the past year, the Zacks sub-industry have moved down 29.9%, while the sector moved up 8.3%.

The S&P 500 Index has moved up 4% year to date and 20.8% in the past year.

The stock is currently trading at 9.89x forward 12-month earnings per share, which compares to 15.69x for the Zacks sub-industry, 18.27x for the Zacks sector and 19.27x for the S&P 500 index.

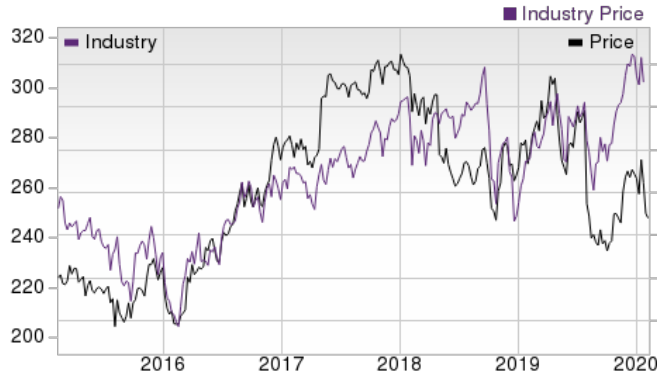
Over the past five years, the stock has traded as high as 20.5x and as low as 8.86x, with a 5-year median of 15.78x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$45 reflects 10.41x forward 12-month earnings per share.

The table below shows summary valuation data for BERY.

Valuation Multiples - BERY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.89	15.69	18.27	19.27
	5-Year High	20.5	18.95	19.89	19.34
	5-Year Low	8.86	7.13	12.6	15.18
	5-Year Median	15.78	16.81	16.62	17.47
EV/EBITDA F12M	Current	7.56	18.41	17.81	12.66
	5-Year High	9.51	30.08	18.2	12.66
	5-Year Low	4.85	10.98	10.68	9.08
	5-Year Median	8.48	16.5	14.03	10.79
EV/Sales F12M	Current	1.32	4.83	3.14	3.26
	5-Year High	1.75	5.91	3.14	3.37
	5-Year Low	0.83	1.87	1.76	2.3
	5-Year Median	1.5	2.24	2.28	2.79

As of 02/11/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (196 out of 254)



Top Peers

AptarGroup, Inc. (ATR)	Neutral
Graphic Packaging Holding Company (GPK)	Neutral
3M Company (MMM)	Neutral
Sealed Air Corporation (SEE)	Neutral
Silgan Holdings Inc. (SLGN)	Neutral
Sonoco Products Company (SON)	Neutral
Greif, Inc. (GEF)	Underperform
Packaging Corporation of America (PKG)	Underperform

Industry Comparison Industry: Containers - Paper And Packaging				Industry Peers		
	BERY Neutral	X Industry	S&P 500	GEF Underperform	GPK Neutral	MMM Neutral
VGM Score	B	-	-	A	B	C
Market Cap	5.66 B	5.56 B	24.31 B	2.04 B	4.70 B	93.42 B
# of Analysts	7	3	13	3	8	7
Dividend Yield	0.00%	2.96%	1.78%	4.17%	1.85%	3.55%
Value Score	B	-	-	A	B	C
Cash/Price	0.12	0.04	0.04	0.04	0.01	0.03
EV/EBITDA	11.26	9.94	13.97	7.95	8.37	14.93
PEG Ratio	1.04	1.92	2.06	1.40	0.65	1.80
Price/Book (P/B)	3.17	2.98	3.24	1.71	2.31	9.23
Price/Cash Flow (P/CF)	5.27	8.22	13.65	4.62	7.32	13.51
P/E (F1)	10.36	16.34	19.12	11.22	16.19	17.08
Price/Sales (P/S)	0.58	1.05	2.67	0.44	0.76	2.91
Earnings Yield	9.66%	6.12%	5.23%	8.92%	6.18%	5.85%
Debt/Equity	6.24	0.88	0.70	2.23	1.44	1.79
Cash Flow (\$/share)	8.12	3.78	6.94	9.12	2.21	12.02
Growth Score	C	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	19.78%	11.71%	10.85%	15.00%	2.77%	5.88%
Proj. EPS Growth (F1/F0)	21.07%	6.23%	7.30%	-5.05%	14.94%	4.52%
Curr. Cash Flow Growth	7.93%	16.72%	8.92%	31.14%	28.98%	-11.15%
Hist. Cash Flow Growth (3-5 yrs)	15.70%	8.06%	8.36%	8.37%	8.06%	1.67%
Current Ratio	1.77	1.60	1.22	1.51	1.62	1.41
Debt/Capital	86.18%	49.47%	42.90%	69.30%	61.18%	64.16%
Net Margin	3.73%	4.36%	11.81%	3.72%	3.36%	14.22%
Return on Equity	26.56%	20.02%	16.98%	20.02%	12.58%	51.39%
Sales/Assets	0.76	0.93	0.54	0.93	0.85	0.78
Proj. Sales Growth (F1/F0)	36.22%	3.34%	3.90%	6.29%	2.92%	4.44%
Momentum Score	A	-	-	C	B	F
Daily Price Chg	2.62%	0.70%	0.65%	2.55%	2.21%	1.44%
1 Week Price Chg	-1.34%	2.27%	2.47%	1.83%	1.47%	0.89%
4 Week Price Chg	-7.25%	-3.07%	1.35%	-6.99%	-2.35%	-10.43%
12 Week Price Chg	1.74%	-0.19%	5.63%	0.89%	-1.40%	-4.82%
52 Week Price Chg	-16.16%	6.89%	16.19%	6.03%	28.70%	-21.36%
20 Day Average Volume	1,591,392	181,605	1,995,746	160,566	3,066,059	3,521,217
(F1) EPS Est 1 week change	-0.34%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.80%	0.00%	0.00%	0.00%	1.27%	-1.38%
(F1) EPS Est 12 week change	7.98%	-0.74%	-0.19%	-6.47%	1.39%	-1.55%
(Q1) EPS Est Mthly Chg	1.96%	0.00%	0.00%	0.00%	3.21%	-3.55%

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	B
Growth Score	C
Momentum Score	A
VGM Score	B

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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