

## Berry Global Group (BERY)

**\$46.10** (As of 01/27/20)

Price Target (6-12 Months): **\$53.00**

Long Term: 6-12 Months

**Zacks Recommendation:** **Outperform**  
(Since: 12/24/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5) **2-Buy**

Zacks Style Scores: VGM:A

Value: A | Growth: B | Momentum: B

### Summary

In the past three months, Berry Global's shares have outperformed the industry. Also, the company is well placed to benefit from acquisitions it made over time. Clopay Plastic Products and Laddawn, both acquired in fiscal 2018, have been strengthening its operations. 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. For fiscal 2020, it anticipates cash flow from operations of \$1,400 million. In addition, business restructuring initiatives will help Berry Global offer better services to customers and enhance shareholders' value. Further, analysts have become increasingly bullish on the company in the past 30 days.

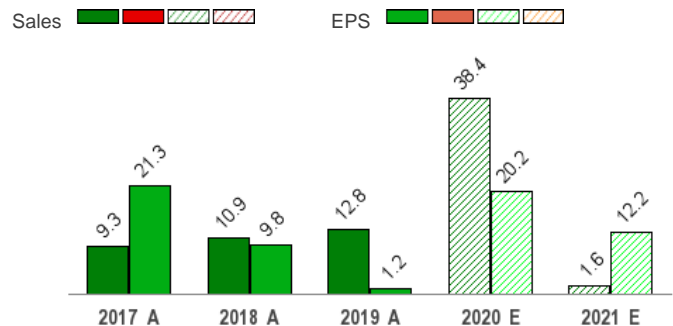
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$59.16 - \$36.98
20 Day Average Volume (sh)	1,229,667
Market Cap	\$6.1 B
YTD Price Change	-2.9%
Beta	1.28
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Containers - Paper and Packaging</a>
Zacks Industry Rank	Bottom 19% (206 out of 255)

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



Last EPS Surprise	21.6%
Last Sales Surprise	-3.5%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	01/31/2020
Earnings ESP	-7.9%
P/E TTM	13.5
P/E F1	11.2
PEG F1	1.1
P/S TTM	0.7

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,491 E
2020	2,965 E	3,052 E	3,152 E	3,051 E	12,291 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					\$4.60 E
2020	\$0.54 E	\$1.05 E	\$1.26 E	\$1.21 E	\$4.10 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 01/27/2020. The reports text is as of 01/28/2020.

## 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 around 48,000 people globally.

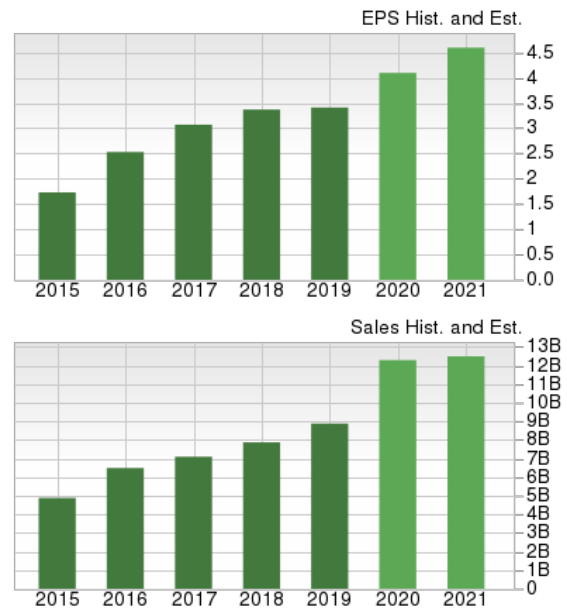
The company acquired United Kingdom-based RPC Group Plc. The latter specializes in providing recycled solutions and plastic packaging. Its products are mainly used by customers, both in the non-packaging and packaging markets. With the completion of the RPC Group buyout, Berry Global revised its business 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 (35.7% revenues in fourth-quarter fiscal 2019): 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 (24.6%): 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 (18.9%): This segment consists of several product groups including health products, hygiene products and specialties products.



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## Reasons To Buy:

▲ Berry Global follows a balanced capital allocation strategy. It invests its cash flow in improving organic growth capabilities and reducing costs, making acquisitions, repaying debts as well as repurchasing shares. The company repaid its long-term debt of \$1,214 million in fiscal 2019. Notably, in July 2019, Berry Global completed the sale of its SFL business for net proceeds of \$326 million. The company noted that it used the net proceeds of the sale to repay debt. Further, we believe that improvement in cash flows will 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. Notably, in fiscal 2019, acquired assets added 16.7% to sales. Clopay Plastic Products Company, Inc. was added to the portfolio in February 2018 while Laddawn, Inc. was bought in August 2018. Since its acquisition, Clopay Plastic has been fortifying Berry Global's Health, Hygiene & Specialties segment. Alternatively, Laddawn's assets solidified the Engineered Materials segment through the enhancement of sales generating capabilities in the core films market, and the addition of 380 skilled employees plus five manufacturing facilities in the United States. Moreover, in July 2019, the company completed its 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. Also, this buyout will 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.

▲ 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 three months, Berry Global's shares have gained 8%, outperforming the industry's rally of 2.1%. In addition, analysts have increasingly grown bullish on the company over the past 30 days. Consequently, the Zacks Consensus Estimate for earnings has moved 0.7% north to \$4.10 for fiscal 2020 on the back of two upward estimate revisions versus none downward. Also, over the same time frame, the consensus estimate for fiscal 2021 has been raised 0.9% to \$4.60 with two estimates trending upward versus none downward.

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## Risks

- Berry Global is experiencing a persistent weak operational performance across its Engineered Materials and Health, Hygiene & Specialties segments. Notably, in fourth-quarter of fiscal 2019, the Engineered Materials segment's sales declined 6.7% year over year due to lower organic sales on account of supply chain disruption related to material qualifications, along with weakness in industrial markets. Additionally, in the reported quarter, Health, Hygiene & Specialties segment's sales decreased 16.2%. Sales were adversely impacted by soft organic sales on account of continued weakness in North American baby care market and customer product transitions in hygiene. Also, lower resin prices might constantly dent the segmental sales in the quarters ahead.
  - 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, the metric also surged 47.3% in the fourth quarter of fiscal 2019, on a year over year basis, despite its cost-reduction initiatives. In addition, the company's selling, general and administrative expenses jumped 74.6% year over year in the quarter. Rise in expenses (on account of higher manufacturing and restructuring related costs) have 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. We believe, further escalation in costs might weigh on Berry Global's margins in the quarters ahead. In addition, the company'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 \$11,365 million at the end of the fourth quarter of fiscal 2019. The metric reflects an increase of 94.5% from fiscal 2018 end, and a surge of 107.8% on a sequential basis. For fiscal 2020, Berry Global predicts interest expenses of \$500 million.
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## Last Earnings Report

### Berry Global Q4 Earnings Top Estimates, Revenues Miss

Berry Global reported mixed results for fourth-quarter fiscal 2019 (ended Sep 28, 2019), wherein its earnings surpassed the Zacks Consensus Estimate but revenues lagged the same.

In the fiscal fourth quarter, the company's adjusted earnings of 90 cents per share were flat on a year-over-year basis. Notably, the bottom line beat the Zacks Consensus Estimate of 74 cents by 21.6%.

For fiscal 2019, the company's adjusted earnings came in at \$3.41 per share, up 1.2% year over year.

Quarter Ending **09/2019**

Report Date	Nov 21, 2019
Sales Surprise	-3.49%
EPS Surprise	21.62%
Quarterly EPS	0.90
Annual EPS (TTM)	3.41

### Segmental Performance

Berry Global's net sales were \$3,019 million, reflecting year-over-year increase of about 47%. The improvement was driven by gain from acquired assets, partially offset by decline in selling prices and lower base volumes of 2%. Notably, the top line lagged the Zacks Consensus Estimate of \$3,128 million by 3.5%.

For fiscal 2019, the top line came in at \$8,878 million, up 12.8% year over year.

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 the segmental sales is provided below:

Consumer Packaging–International's sales were \$1,077 million, compared with \$53 million in the year-ago quarter. The increase was driven by a significant contribution from the RPC acquisition. It accounted for 35.7% of the quarter's net sales.

Consumer Packaging–North America's sales were \$744 million, up 14.8% year over year. The increase was attributable to gain from acquired assets and 2% of base volume improvement. It accounted for 24.6% of the quarter's net sales.

Revenues generated from Health, Hygiene & Specialties amounted to \$570 million, down 16.2%. The fall was attributable to 3% decline in base volume due to softness in North American baby care market, lower selling prices as well as unfavorable movements in foreign currencies. It accounted for 18.9% of the quarter's net sales.

Revenues from Engineered Materials declined 6.7% year over year to \$628 million. The fall was due to 5% decline in base volume owing to weak industrial markets and supply chain disruption. It accounted for 20.8% of the quarter's net sales.

### Margin Details

In the fiscal fourth quarter, Berry Global's cost of goods sold increased 47.3% to \$2,511 million. It represented 83.2% of net sales compared with 83% in the year-ago quarter. Selling, general and administrative expenses rose 74.6% to \$199 million, and represented 6.6% of net sales.

Adjusted operating income in the quarter increased 35.8% to \$288 million. In addition, adjusted operating margin came in at 9.5%, down 80 basis points year over year. Interest expenses were \$128 million, up 100% on a year-over-year basis.

### Balance Sheet & Cash Flow

Exiting fourth-quarter fiscal 2019, Berry Global's cash and cash equivalents were \$750 million, up from \$381 million recorded a year ago. Current and long-term debt increased 94.5% to \$11,365 million from Sep 29, 2018.

In fiscal 2019, the company generated net cash of \$1,201 million from operating activities, reflecting increase of 19.6% from the year-ago period. Capital invested for the purchasing of property, plant and equipment totaled \$399 million, up from \$336 million. Also, during the period, the company repurchased shares worth \$74 million.

Free cash flow in the reported quarter was \$480 million, up from \$382 million 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

### 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.

### Redemption of Senior Notes

On **Dec 20, 2019**, Berry Global's business unit, Berry Global, Inc. announced its decision to redeem Second Priority Senior Secured Notes ("notes"), per the terms of the indenture binding the notes. The notes considered for redemption comprise \$100 million of total principal amount of its 6.00% notes due 2022.

The redemption price has been set at 101.500% of the total principal amount, along with any accrued and unpaid interest. The redemption date has been set as Jan 21, 2020. The company anticipates \$200 million worth of total principal amount of notes to remain outstanding subsequent to the redemption. Notably, it plans to utilize cash on hand for funding the redemption.

It's worth noting here that on Dec 9, 2019, the company redeemed \$100 million of total principal amount of its 6.00% notes due 2022.

### Berry Global Group Prices Senior Secured Notes Offering

On **Dec 12, 2019**, Berry Global's business unit, Berry Global, Inc. announced the pricing of €1,075 million worth first-priority senior secured notes. The notes will be offered to private investors by Berry Global, Inc.

Notably, the proposal for a private offering of €725 million of first-priority senior secured notes (in two instalments) was announced by Berry Global Group on Dec 9.

As noted, the first part of the notes offering will include €700 million of first-priority senior secured notes due to mature on Jan 15, 2025. The notes carry a 1% interest rate, with two semi-annual payments to be made each year on Jan 15 and Jul 15. The first interest payment will be made on Jul 15, 2020.

The second installment of notes offering will comprise €375 million of first-priority senior secured notes due to mature on Jan 15, 2027. These notes carry a 1.5% interest rate. Interest payments will be made semi-annually each year on Jan 15 and Jul 15. The first interest payment will be made on Jul 15, 2020.

### Partnership

On **Nov 11, 2019**, Berry Global announced its partnership with SABIC in driving the innovation and utilization of polyolefin resins from chemical recycling.

## Valuation

Berry Global's shares has declined 8.5% over the trailing 12-month period. Over the past year, the Zacks sub-industry have moved down 24.8%, while the Zacks Industrial Products sector moved up 14.5%.

The S&P 500 Index has moved up 24.1% in the past year.

The stock is currently trading at 10.83x forward 12-month earnings per share, which compares to 15.82x for the Zacks sub-industry, 18.01x for the Zacks sector and 18.93x for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.15x and as low as 8.86x, with a 5-year median of 15.88x. Our Outperform recommendation indicates that the stock will perform better than the market. Our price target of \$53 reflects 12.45x 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
	Current	10.83	15.82	18.01	18.93
P/E F12M	5 Year High	21.15	18.85	18.81	18.24

P/E F12M	5-Year High	21.15	18.95	19.91	19.34
	5-Year Low	8.86	7.13	12.6	15.18
	5-Year Median	15.88	16.89	16.54	17.45
EV/EBITDA F12M	Current	7.72	18.41	17.82	12.66
	5-Year High	9.16	30.08	18.22	12.66
	5-Year Low	4.95	10.98	10.69	9.08
	5-Year Median	8.32	16.52	14.03	10.78
EV/Sales F12M	Current	1.34	4.83	3.14	3.26
	5-Year High	1.84	5.91	3.14	3.37
	5-Year Low	0.85	1.87	1.76	2.3
	5-Year Median	1.47	2.24	2.28	2.78

As of 01/27/2020

## Industry Analysis Zacks Industry Rank: Bottom 19% (206 out of 255)



## Top Peers

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

Industry Comparison Industry: Containers - Paper And Packaging				Industry Peers		
	BERY Outperform	X Industry	S&P 500	GEF Underperform	GPK Neutral	MMM Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>A</b>	<b>B</b>	<b>C</b>
Market Cap	6.10 B	5.71 B	23.86 B	2.07 B	4.77 B	101.00 B
# of Analysts	7	5	13	3	7	6
Dividend Yield	0.00%	2.93%	1.81%	4.10%	1.83%	3.28%
<b>Value Score</b>	<b>A</b>	-	-	<b>B</b>	<b>C</b>	<b>C</b>
Cash/Price	0.12	0.03	0.04	0.04	0.01	0.08
EV/EBITDA	11.60	10.47	13.94	8.01	8.44	13.11
PEG Ratio	1.12	1.91	2.00	1.43	0.97	1.92
Price/Book (P/B)	3.76	2.99	3.25	1.74	2.34	9.38
Price/Cash Flow (P/CF)	5.68	8.33	13.46	4.70	7.43	13.14
P/E (F1)	11.24	16.32	18.67	11.41	16.54	18.29
Price/Sales (P/S)	0.69	1.08	2.62	0.45	0.78	3.16
Earnings Yield	8.89%	6.12%	5.35%	8.76%	6.03%	5.47%
Debt/Equity	6.96	0.98	0.72	2.23	1.44	1.68
Cash Flow (\$/share)	8.12	4.77	6.92	9.12	2.21	13.37
<b>Growth Score</b>	<b>B</b>	-	-	<b>A</b>	<b>C</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	22.76%	11.71%	10.68%	15.00%	2.09%	6.54%
Proj. EPS Growth (F1/F0)	20.11%	7.44%	7.51%	-5.05%	13.63%	6.22%
Curr. Cash Flow Growth	7.93%	19.75%	13.40%	31.14%	28.98%	8.64%
Hist. Cash Flow Growth (3-5 yrs)	15.70%	8.06%	8.78%	8.37%	8.06%	5.24%
Current Ratio	1.84	1.61	1.22	1.51	1.62	2.30
Debt/Capital	87.44%	52.05%	42.92%	69.30%	61.18%	62.66%
Net Margin	4.55%	4.55%	11.39%	3.72%	3.60%	15.48%
Return on Equity	29.77%	20.02%	17.19%	20.02%	12.72%	54.02%
Sales/Assets	0.82	0.93	0.54	0.93	0.85	0.81
Proj. Sales Growth (F1/F0)	38.44%	4.38%	4.09%	6.29%	2.27%	5.02%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>B</b>	<b>B</b>	<b>C</b>
Daily Price Chg	0.13%	-0.23%	-1.40%	-2.19%	-0.06%	-1.41%
1 Week Price Chg	-5.56%	-1.45%	-1.09%	-4.47%	-0.96%	-1.76%
4 Week Price Chg	-2.70%	-2.21%	-0.25%	-3.85%	-1.20%	-0.11%
12 Week Price Chg	11.16%	3.15%	3.64%	3.52%	3.34%	0.42%
52 Week Price Chg	-9.25%	8.79%	18.08%	10.00%	34.70%	-9.09%
20 Day Average Volume	1,229,667	194,844	1,615,215	170,599	2,371,071	2,387,386
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.54%	0.00%
(F1) EPS Est 4 week change	0.56%	0.00%	0.00%	-1.76%	0.67%	-0.41%
(F1) EPS Est 12 week change	7.12%	-2.47%	-0.17%	-6.37%	-0.47%	-0.58%
(Q1) EPS Est Mthly Chg	1.45%	0.00%	0.00%	0.00%	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	A
Growth Score	B
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.

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### Disclosures

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