

## Berry Global

# F1Q Flash: A touch lighter but F24 guide reaffirmed; HHS spin-off announced

Maintain Rating: BUY | PO: 83.00 USD | Price: 64.28 USD

## Op. EPS of \$1.22 vs. BofA @ \$1.30 and Street @ \$1.31

BERY F1Q24 operating EPS were \$1.22, below BofA at \$1.30 and the Street at \$1.31 (Visible Alpha [VA]). Relative to our model, lower operating income deducted 28c from EPS and a higher adj. tax rate was a 6c drag. Meantime, a lower net interest expense added 7c while other income/expenses added 17c and a lower share count added 2c. BERY's volumes declined -3% (vs. BofA at -2.3%) overall in F1Q and the company cited generally market softness. Separately, BERY and Glatfelter (GLT; Not covered) jointly announced that they have entered into agreements for BERY to spin-off and merge the majority of the Health, Hygiene and Specialties segment to include the Global Nonwovens and Films business with GLT to create a new publicly traded company. The total enterprise value of the combined entity is \$3.6bn with pro-forma revenue and adj. EBITDA of \$3.6bn and \$455mn, respectively. BERY is expected to receive net cash proceeds of ~\$1bn at closing and noted that it intends to use this to repay existing debt. We maintain our Buy rating on Berry primarily given its relative valuation as well as opportunity for restructuring-driven cost saves and value-return.

## F24 guidance reaffirmed

As for guidance, BERY reaffirmed its full year guidance of \$7.35-7.85 in adj. EPS which compares to BofA at \$7.60 and the Street currently at \$7.75. Meantime, the company continues to expect F24 EBITDA of \$2.05-2.15bn and FCF of \$800-900mn which includes \$1.35-1.45bn in cash from operations (CFO) along with \$550mn in capex.

## Segment details

At the segment level, Consumer Packaging – North America (CPNA) operating EBITDA of \$130mn was \$1.4mn above our model (BofA at \$128.6mn) and volumes declined -4% which was below our -2% estimate. Consumer Packaging – International (CPI) EBITDA came in at \$123mn which was below our forecast by \$10mn. Segment volumes were down -3% which was slightly below our -2% estimate. HHS was about in-line with our estimate (BERY at \$75mn vs. BofA at \$75.8mn). HHS volumes were down -2% (against our -4% estimate). Engineered Materials (EM – which has now been renamed “Flexibles”) was above our model at \$103mn (vs. our \$95.1mn estimate) and the volume decline of -3% was slightly better than our -4% estimate.

07 February 2024

### Equity

**George L. Staphos**  
Research Analyst  
BofAS  
+1 646 855 4495  
[george.l.staphos@bofa.com](mailto:george.l.staphos@bofa.com)

**Cashen Keeler**  
Research Analyst  
BofAS  
+1 646 855 4256  
[cashen.keeler@bofa.com](mailto:cashen.keeler@bofa.com)

**Lucas Hudson**  
Research Analyst  
BofAS  
+1 917 861 6981  
[lucas.hudson@bofa.com](mailto:lucas.hudson@bofa.com)

### Stock Data

Price	64.28 USD
Price Objective	83.00 USD
Date Established	2-Jan-2024
Investment Opinion	B-1-7
52-Week Range	53.83 USD - 69.94 USD
Mrkt Val (mn) / Shares Out (mn)	7,726 USD / 120.2
Free Float	96.9%
Average Daily Value (mn)	45.02 USD
BofA Ticker / Exchange	BERY / NYS
Bloomberg / Reuters	BERY US / BERY.N
ROE (2024E)	26.6%
Net Dbt to Eqty (Sep-2023A)	241.8%
ESGMeter™	High

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Timestamp: 07 February 2024 08:12AM EST

## Price objective basis & risk

### Berry Global (BERY)

Our \$83 price objective is derived from a three-part valuation approach, which includes: (1) a 13x calendarized 2024E P/E multiple, (2) a 9x calendarized 2024E EV/EBITDA multiple, (3) a normalized FCF estimate of \$900mn, an estimated cost of equity of 11% and forecast rate of growth of 0%. We believe the multiples (in-line to a slight discount) we use are appropriate relative to peers given the increased leverage.

Downside risks to our PO are: (1) plastic packaging markets' potential sustainability challenges, including in Europe, (2) food, beverage and other packaging fundamentals could disappoint relative to expectations, (3) unfavorable resin price volatility could impact results despite contractual pass-through, (4) competitive factors, (5) financial leverage, (6) unfavorable volume and pricing trends, (7) unfavorable macroeconomic trends.

Overall, energy, commodity and macro volatility represent ongoing risks for packaging companies. We have tried to forecast and model accurately. However, industry and economic trends could prove weaker or stronger than we modeled.

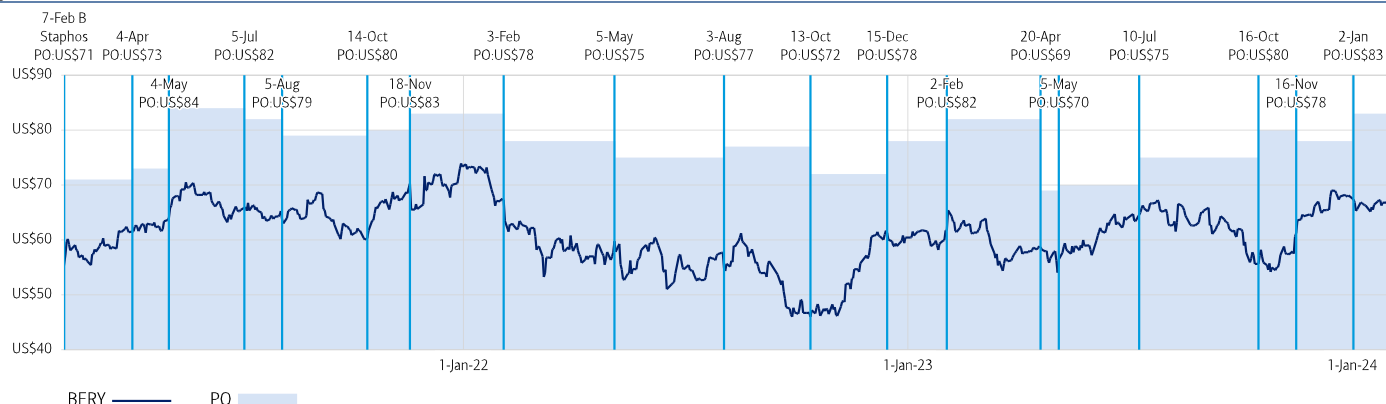
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### Berry Global (BERY) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### Equity Investment Rating Distribution: Packaging Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	14	60.87%	Buy	10	71.43%
Hold	6	26.09%	Hold	5	83.33%
Sell	3	13.04%	Sell	2	66.67%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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