

## Avery Dennison Corp.

# 4Q Flash: Solutions ahead while Materials below; '24 guide between us, street

Reiterate Rating: UNDERPERFORM | PO: 208.00 USD | Price: 201.24 USD

## Operating EPS \$2.16 vs BofA @ \$2.11 and Street @ \$2.16

Avery Dennison's (AVY's) 4Q operating EPS were \$2.16, which compares to BofA at \$2.11 and the Street at \$2.16 (Visible Alpha). Overall, adjusted operating income of \$261.1mn was slightly ahead of our \$257.4mn estimate and added 3c to EPS compared to our model. Meantime, net interest expense was a 6c drag compared to our model while other expenses/income added 10c. Lastly, a slightly higher adj tax rate (of 25.8% vs. our 25% est) deducted 2c from EPS. AVY saw organic sales up 1.1% in 4Q which compares to our 3.7% estimate. We reiterate our Underperform rating largely on valuation – on first blush, the quarter had a mixture of positive (strong food/logistics intelligent label [IL], a conclusion to destocking) and negative (weaker Materials EBIT vs our model, a slightly weaker revenue guide for 2024 than consensus. Expect investors to initially like the destocking and IL commentary but for the stock to be ultimately held back on valuation and the in-between guidance factors for 2024 (i.e., revenues mentioned above; '24 EPS guided modestly below consensus).

## 2024 touch below Street, ahead of BofA

As for guidance, AVY expects 2024 adj EPS of \$9.00-9.50 (excluding a 35c impact from restructuring and other items) which compares to our \$8.95 estimate and the Street at \$9.43. This guidance assumes 2.5-4.5% of organic sales growth including “strong volume growth” along with lower pricing from deflation. AVY is also targeting 20%+ organic growth in Intelligent Labels (IL) given the adoption and momentum in new categories as well as an expected rebound in apparel in 2H24. Additionally, AVY is guiding to \$45mn of incremental savings from restructuring actions in 2024, 100% FCF adj. FCF conversion, and comparable capex to 2023 (i.e. ~\$285mn of fixed and IT capital spending). As for 1Q, the company mentioned that the continued momentum will likely be offset employee-related costs as well as from seasonality in apparel and logistics, so this qualitatively suggests 1Q similar to 4Q. Our current 1Q estimate is \$2.08 and the Street is at \$2.15.

## Solutions ahead with strong IL trends; Materials below

The Solutions Group reported operating income of \$80.5mn which was \$14.2mn above our \$66.3mn estimate (or +\$0.13 on EPS). Meantime, the segment saw core sales increase by 13.9% which was above our 8% estimate. Overall, IL was up by more than 30% in 4Q including 110% in non-apparel categories and flat trends in apparel. To that end, AVY mentioned that apparel retailer and brand sentiment remains muted. Meantime, organic sales were said to be up mid-single digits in base solutions. Materials Group operating income was \$198.4mn which was -\$12.7mn below our \$211.1mn estimate (-12c on EPS) and the segment posted a core sales decline of -3.9% compared to our +2% estimate. Label Materials were said to be down mid-single digits organically including a low-single digit volume increase. Graphics and Reflectives organic sales were up mid-single digits organically while Performance Tapes and Medical was down by low-to-mid single digits. Lastly, corporate was -\$17.8mn compared to our -\$20mn estimate.

31 January 2024

### Equity

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### Stock Data

Price	201.24 USD
Price Objective	208.00 USD
Date Established	27-Nov-2023
Investment Opinion	B-3-7
52-Week Range	158.93 USD - 204.51 USD
Mrkt Val (mn) / Shares Out (mn)	21,694 USD / 107.8
Free Float	99.2%
Average Daily Value (mn)	76.50 USD
BofA Ticker / Exchange	AVY / NYS
Bloomberg / Reuters	AVY US / AVY.N
ROE (2023E)	30.7%
Net Dbt to Eqty (Dec-2022A)	144.4%
ESGMeter™	High

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Timestamp: 31 January 2024 08:18AM EST

## Price objective basis & risk

### Avery Dennison Corp. (AVY)

Our \$208 price objective is derived from a three-part valuation approach, which includes the use of (1) a 20x 2024E P/E multiple, (2) a 16-17x 2024E EV/EBITDA multiple, and (3) our intrinsic free cash flow (FCF) valuation, which estimates \$800mn of normalized FCF (please see our free cash flow model for additional information), 9% cost of equity and a 5% growth rate. Based on history, we think our valuation multiples are appropriate for a late-cycle period with limited inflation.

Risks to our price objective are (1) risk relative to AVY's ability to execute on its cost reduction plans, (2) volume and pricing trends in core Materials Group and Solutions Group segments, (3) growing dependence on emerging economies, (4) dilution from radio frequency identification (RFID) investments, (5) unfavorable volume and pricing trends, (6) unfavorable macroeconomic environment, (7) variability in governmental policy.

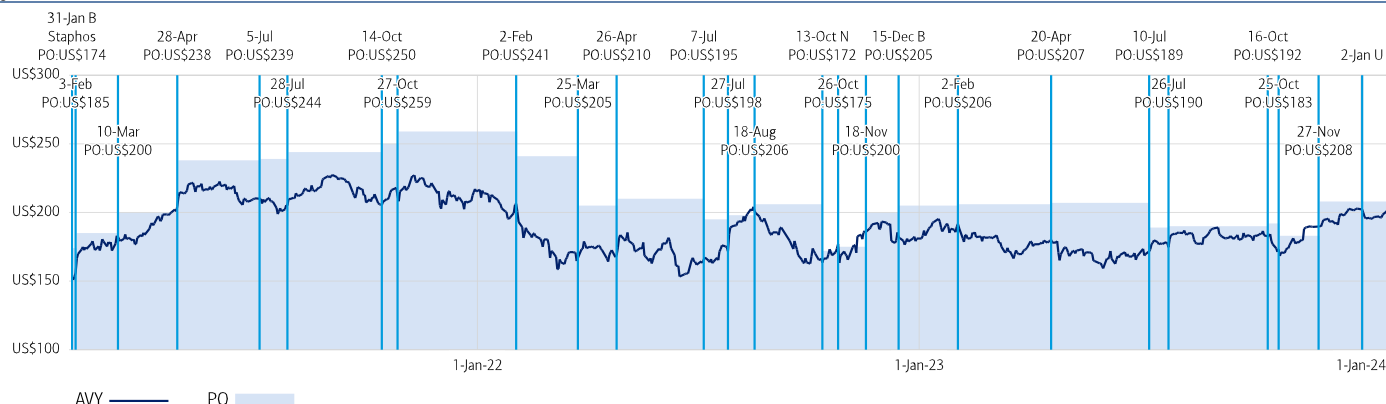
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### Avery Dennison (AVY) Price Chart



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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%

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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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