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**Individual Assignment**

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## Assessment Submission Form

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# Avery Dennison Corporation Valuation Report

## Executive Summary

Avery Dennison Corporation (NYSE: AVY) is a global leader in labelling and packaging materials, known for its strong presence in high-growth segments such as Intelligent Labels and RFID technology. The company has maintained a stable financial performance, with revenue growing at an average rate of 3.78% and a net profit margin of 7.15% over the 2018–2024 period. Avery's focus on innovation, sustainability, and strategic acquisitions has positioned it well for long-term growth, despite ongoing macroeconomic headwinds and supply chain challenges.

This report provides a comprehensive valuation analysis using a range of methods, including a Discounted Cash Flow (DCF) model, peer-based relative valuation, and sensitivity analysis. Based on our base-case DCF model, the intrinsic value of Avery Dennison is estimated at \$102.85 per share, significantly below the current market price of approximately \$171.

Given the apparent overvaluation and the moderate risk of earnings not meeting optimistic forecasts, we issue a **Sell** recommendation. While Avery's strategic direction is sound, the current stock price does not offer sufficient margin of safety for new investors.

## 1. Company Overview

Avery Dennison Corporation, headquartered in Glendale, California, is a global leader in pressure-sensitive adhesive materials, labelling solutions, and packaging technologies. Founded in 1935, the company has evolved from a small adhesive label manufacturer into a Fortune 500 enterprise with operations in over 50 countries and approximately 36,000 employees. In 2024, Avery reported revenues of \$8.76 billion, driven by its two primary business segments: Label and Graphic Materials (LGM) and Retail Branding and Information Solutions (RBIS).

### 1.1 Business Segments

- **Label and Graphic Materials (LGM):** Accounting for ~65% of revenue, LGM produces pressure-sensitive materials for labelling, packaging, and graphic applications. Key markets include food and beverage, personal care, and logistics. The segment benefits from steady demand for durable, high-quality labels and sustainable packaging solutions.
- **Retail Branding and Information Solutions (RBIS):** Contributing ~35% of revenue, RBIS focuses on apparel labelling, RFID-enabled Intelligent Labels, and supply chain solutions. The segment serves retail, logistics, and healthcare, capitalizing on the growing demand for digital identification and traceability.

### 1.2 Strategic Initiatives

Avery Dennison's strategic vision emphasizes innovation, sustainability, and global expansion. The company has invested significantly in RFID technology, which enhances supply chain transparency and efficiency, particularly in retail and healthcare. The 2023 acquisition of a \$224.9 million technology-enabled labelling firm bolstered RBIS's capabilities, positioning Avery to capture market share in high-growth segments. Sustainability is a cornerstone of Avery's strategy, with initiatives like eco-friendly adhesives and recyclable materials supporting its net-zero emissions goal by 2050. These efforts align with global environmental regulations and enhance Avery's competitive edge in a rapidly evolving industry.

Avery's global footprint, with manufacturing facilities across North America, Europe, Asia, and Latin America, enables it to serve diverse markets efficiently. Its innovation pipeline, including advancements in smart packaging and digital labelling, underscores its commitment to staying ahead of industry trends. For

example, the company's Intelligent Labels portfolio integrates RFID for real-time inventory tracking, reducing costs and improving supply chain visibility for clients.

## 2. Recent Developments and Industry Analysis

### 2.1 Recent Developments

Avery Dennison has reinforced its leadership through strategic investments and operational resilience. In 2023, revenues declined 7.47% to \$8,364.3 million due to supply chain disruptions and inflationary pressures on raw materials. However, 2024 marked a recovery, with revenues rising 4.68% to \$8,755.7 million, driven by improved demand, operational efficiencies, and stabilizing supply chains. Net income improved from \$503.0 million in 2023 to \$704.9 million in 2024, reflecting margin stabilization and cost control measures.

The 2023 acquisition of a \$224.9 million technology-enabled labelling firm expanded Avery's RFID and digital labelling capabilities, targeting high-growth sectors like retail, logistics, and healthcare. This move aligns with Avery's strategy to lead in digital identification solutions, where RFID adoption is accelerating. Additionally, Avery advanced its sustainability agenda, launching recyclable label solutions and reducing its carbon footprint by 10% from 2022 levels, as reported in its 2024 Sustainability Report. These efforts support Avery's commitment to achieving net-zero emissions by 2050.

### 2.2 Industry Analysis

The global labelling and packaging industry is poised for robust growth, driven by several macro trends. The rise of e-commerce, projected to grow at a 7.2% CAGR through 2030 (Statista), fuels demand for packaging and track-and-trace solutions. The RFID market, a key driver for Avery, is expected to grow at a 10.8% CAGR, reaching \$35.6 billion by 2030 (Grand View Research). This growth is propelled by demand for supply chain transparency in retail, logistics, and healthcare, where RFID enables real-time inventory management and compliance with traceability regulations.

Regionally, Asia-Pacific accounts for ~40% of global labelling demand, driven by manufacturing growth and e-commerce adoption in China and India. North America and Europe, contributing ~30% and ~25% respectively, benefit from sustainability mandates and advanced logistics networks. However, the industry faces significant challenges:

- **Raw Material Volatility:** Prices for adhesives and resins, which constitute ~20% of production costs, fluctuate with oil prices, potentially reducing margins by 1–2% annually.
- **Regulatory Pressures:** Bans on single-use plastics in the EU and other regions could increase compliance costs by \$50–100 million over five years.
- **Competition:** Major players like 3M, CCL Industries, UPM Raflatac, and Lintec Corporation are investing in smart labelling and sustainable materials, challenging Avery's innovation lead.

Avery's competitive advantages include its early adoption of RFID, global manufacturing scale, and sustainability leadership. Its Intelligent Labels portfolio, which integrates RFID for applications like inventory tracking and anti-counterfeiting, positions it to capture market share. However, margin pressures from rising input costs and competitive pricing require ongoing cost discipline and innovation to maintain profitability.

## 3. Historical Earnings and Projections

From 2018 to 2024, Avery Dennison's financial performance reflected global economic cycles and industry disruptions. Revenue grew from \$7,159.2 million in 2018 to a peak of \$9,039.3 million in 2022, driven by post-COVID demand recovery. A 7.47% decline in 2023 to \$8,364.3 million resulted from supply chain constraints and input cost pressures. In 2024, revenue rebounded 4.68% to \$8,755.7 million, signalling operational stabilization.

Revenue Growth (2018–2024)

Years	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	Average
Revenue	7159	7070.1	6971.5	8408.3	9039.3	8364.3	8755.7	
Revenue Growth (%)		-1.24%	-1.39%	20.61%	7.50%	-7.47%	4.68%	3.78%

Table 1: Historical Revenue Growth

Net Income (2018–2024)

Years	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Net Income, GAAP	467.4	303.6	555.9	740.1	757.1	503	704.9

Table 2: Historical Net Income

Net income followed a similar trend. It grew steadily from \$467.4 million in 2018 to a peak of \$757.1 million in 2022, before dropping sharply to \$503 million in 2023, primarily due to one-time restructuring charges and inflationary headwinds. In 2024, net income improved to \$704.9 million, reflecting operational recovery and margin stabilization.

Free cash flow has remained strong, averaging \$604.8 million annually, indicating consistent and healthy cash generation. Importantly, the cash flow-to-net income ratio averaged 1.46 over this period, reinforcing the high quality and reliability of reported earnings.

While non-cash items like deferred taxes and stock-based compensation have influenced net income in certain years, Avery’s core operating performance has remained fundamentally sound.

3.1 Projections (2025–2029)

Looking forward, we project moderate revenue growth of 4.0% per annum for 2025–2029. This reflects cautious optimism, balancing ongoing economic uncertainties with Avery’s strong positioning in high-growth areas such as RFID-enabled Intelligent Labels.

We also expect EBIT margins to average 11.98%, slightly above the pre-pandemic historical average of 11.33%. This assumption is based on expected productivity improvements, better operating leverage, and continued investment in premium, technology-driven segments, as detailed in the company’s 10-K filings and investor presentations.

Metric	2025E	2026E	2027E	2028E	2029E
Revenue	9105.928	9484.735	9895.082	10340.31	10824.17
EBIT	1090.647	1136.018	1185.166	1238.492	1296.447
FCFF (Free Cash Flow to Firm)	694.9878	740.2396	792.1293	851.8473	920.8264

Table 3: Projections

Scenario Analysis:

- Bull Case (5.5% growth, 12.5% EBIT margin): Assumes robust RFID demand and cost efficiencies.
- Base Case (4.0% growth, 11.98% EBIT margin): Reflects balanced growth and operational stability.
- Bear Case (2.5% growth, 11.0% EBIT margin): Accounts for economic slowdown and margin pressures.

These scenarios incorporate industry forecasts, Avery’s historical performance, and macroeconomic indicators, such as global GDP growth (~2.5%) and inflation trends (~2–3%).

## 4. Valuation

### 4.1 Discounted Cash Flow (DCF)

The Discounted Cash Flow (DCF) model is the cornerstone of this valuation, estimating Avery Dennison's intrinsic value based on its future ability to generate cash. We forecasted Free Cash Flows to the Firm (FCFF) from 2025 to 2029, incorporating historical performance and reasonable future assumptions grounded in company trends and industry outlook.

Key assumptions in this model include:

- **Revenue growth rate of 4.0%**, reflecting steady growth driven by RFID adoption and recovery in demand.
- **EBIT margin of 11.98%**, slightly above pre-pandemic levels due to anticipated operational efficiencies.
- **Terminal growth rate of 2.5%**, aligned with long-term U.S. GDP growth expectations.
- **Weighted Average Cost of Capital (WACC) of 7.95%**, derived as follows:  
Risk-free rate: 4.01% (10-year Treasury yield)  
Market risk premium: 6.0%  
Beta: 0.86 (Sourced from Bloomberg)  
Cost of debt: 3.43%  
Debt-to-capital ratio: 18.34%

These inputs result in a present value of forecasted FCFF of \$3,163.79 million and a terminal value of \$8,092.84 million, leading to an enterprise value of \$11,256.64 million.

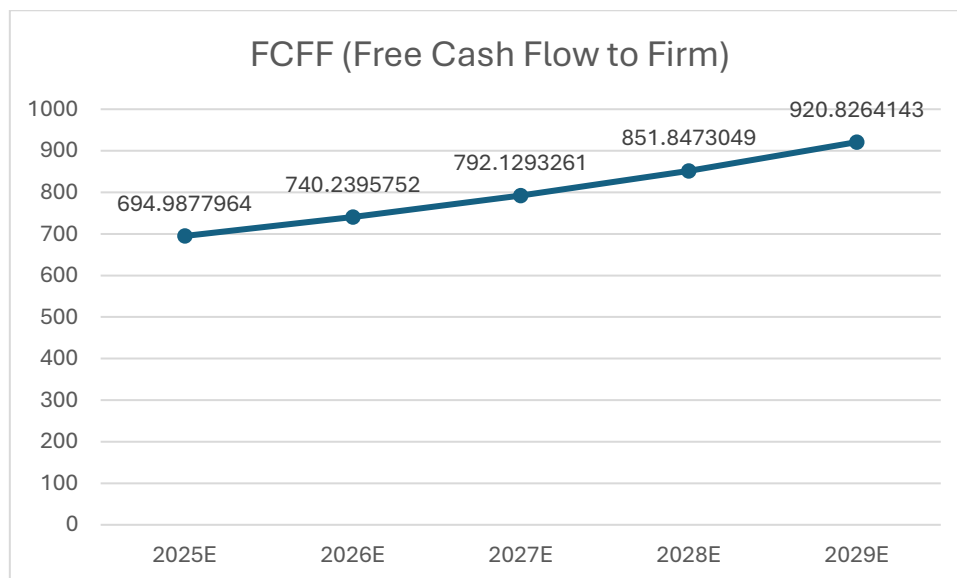


Figure 1: Free Cash Flow To Firm

After subtracting net debt and dividing the equity value by shares outstanding, we estimate an equity value of \$8,207.84 million and an implied share price of \$102.85, suggesting the stock is significantly overvalued compared to the current market price of approximately \$171.

Years	2025E	2026E	2027E	2028E	2029E	Terminal Value
FCFF	694.9878	740.2396	792.1293	851.8473	920.8264	11865.889
Dicsount Factor	0.926318	0.858065	0.794841	0.736276	0.682026	8092.843
PV of FCFF	643.7798	635.1739	629.6172	627.1948	628.0274	
Sum of PV of FCFF	3163.793					

Table 4: Discounted Cash Flow

## 4.2 Comparable Company Analysis (CCA)

The Comparable Company Analysis (CCA) offers a market-based valuation by comparing Avery Dennison to similar publicly traded peers. This approach reflects how the market currently values companies with similar operational and financial characteristics.

For this analysis, we selected key industry peers:

- 3M Company (EV/EBITDA: 10.5x)
- CCL Industries (EV/EBITDA: 9.8x)

These firms operate in adjacent segments of the industrial and packaging sector and provide a relevant benchmark. Taking the average EV/EBITDA multiple of 10.15x and applying it to Avery Dennison's forecasted 2024 EBITDA of \$1,431.1 million, we arrive at an implied enterprise value of \$14,525.67 million.

After subtracting net debt of \$3,048.8 million, the implied equity value is \$11,476.87 million. Dividing this by the number of shares outstanding results in an implied share price of \$143.83.

Metric	Value
Average EV/EBITDA Multiple	10.15x
Avery Dennison 2024 EBITDA	\$1,431.1 million
Implied Enterprise Value	\$14,525.67 million
Less: Net Debt	\$3,048.8 million
Implied Equity Value	\$11,476.87 million
Implied Share Price	<b>\$143.83</b>

*Table 5: Comparable Analysis*

## 4.3 Valuation Conclusions

To estimate Avery Dennison's intrinsic value, we employed multiple valuation methods, each offering a distinct perspective:

- **Discounted Cash Flow (DCF)** – \$102.85 per share
- **Comparable Company Analysis (CCA)** – \$143.83 per share

The DCF model, grounded in long-term fundamentals and conservative assumptions, suggests a much lower intrinsic value, reflecting limited upside potential based on expected free cash flows. In contrast, market-based approach like CCA and indicate higher valuations, influenced by prevailing multiples and investor sentiment.

To derive a fair composite valuation, we assign the following weights:

- **DCF: 50%** (emphasizing long-term fundamentals)
- **CCA: 50%**



## Weighted Valuation Summary:

Method	Value	Weight	Weighted Value
DCF	\$102.85	50%	\$51.43
Comparable Company Analysis	\$143.83	50%	\$71.915
Total Implied Value			\$123.345

Table 6: Weighted Valuation Summary

The final implied share price of \$124.24 is significantly below the current market price of approximately \$171, reinforcing our view that Avery Dennison is overvalued based on both intrinsic and relative valuation measures.

## Valuation Model Comparison:

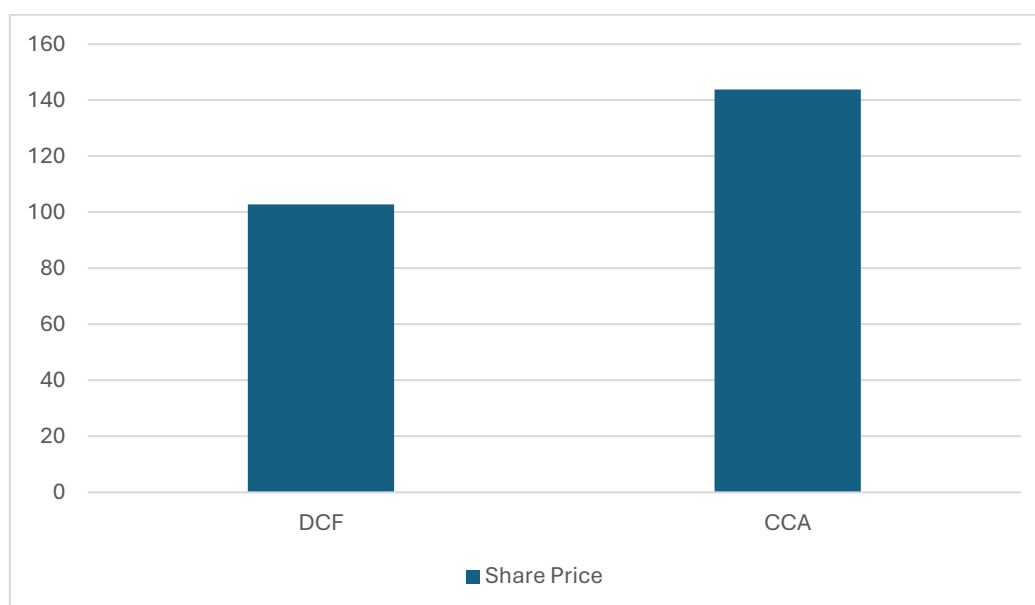


Figure 2: Model Comparison

## 5. Investment Actions

Based on our valuation analysis, we recommend a Sell rating on Avery Dennison's stock.

The Discounted Cash Flow (DCF) model, grounded in conservative assumptions, yields a share price of \$102.85, which is approximately 40% below the current market price of ~\$171. Even when incorporating more optimistic relative valuation method such as Comparable Company Analysis (\$143.83), the stock still appears overvalued relative to its intrinsic worth.

This discrepancy suggests that the market may be pricing in overly optimistic expectations, particularly around Avery Dennison's Intelligent Labels and RFID segment. While these areas represent exciting growth opportunities, execution risks, intensifying competition, and margin pressures could limit the upside potential in the medium term.

**Execution Risks:** Integration challenges from acquisitions and competitive pressures in smart labelling.

**Margin Pressures:** Rising input costs and regulatory compliance expenses.

**Market Sentiment:** Current multiples may reflect overly optimistic growth expectations.

In light of this and based on a weighted valuation of \$124.24 per share, we believe that the current market valuation is not justified, and investors may benefit from locking in gains or avoiding new positions at this

level. Investors should consider locking in gains or avoiding new positions until the stock price aligns with intrinsic value. A potential re-entry point could emerge if the price falls below \$130, offering a better margin of safety.

## 6. Risk Factors

While Avery Dennison holds a strong market position and promising growth avenues, several risks could materially impact its financial performance and valuation:

### a) Negative Industry Developments

The packaging and labelling sector is exposed to raw material price volatility, particularly for adhesives and resins, which can squeeze profit margins. Additionally, regulatory pressure on single-use plastics may require costly shifts in materials and processes.

### b) Regulatory and Legal Risks

Stricter environmental regulations around sustainability and emissions could lead to higher compliance costs and capital expenditures, potentially limiting profitability.

### c) Company-Specific Risks

Avery Dennison's debt-to-equity ratio of 1.46 (as of 2024) signals a highly leveraged capital structure, which could strain cash flows, especially in a rising interest rate environment. Furthermore, integration risks from acquisitions, including the 2023 \$224.9 million deal, may disrupt operations and delay expected synergies.

### d) Forecast Uncertainty

Our financial projections assume a 4% revenue growth rate from 2025 to 2029. This may be overly optimistic, especially if economic headwinds persist or demand in high-value segments underperforms.

### e) Other Risks

Avery Dennison operates globally, making it susceptible to currency fluctuations that could impact earnings. Supply chain disruptions, as witnessed in recent years, remain an ongoing threat to operational continuity and inventory costs.

## 7. Conclusion

This valuation analysis underscores Avery Dennison's strong fundamentals and strategic positioning in high-growth segments like RFID and sustainable labelling. Strategic initiatives, such as the 2023 \$224.9 million acquisition and sustainability commitments targeting net-zero emissions by 2050, position Avery to capitalize on e-commerce and traceability trends, particularly in retail, logistics, and healthcare. The company's 4.68% revenue growth in 2024, robust free cash flow, and innovative portfolio highlight its resilience and potential. However, the current market price of ~\$171 per share significantly exceeds the intrinsic value derived from multiple methodologies: DCF (\$102.85), and CCA (\$143.83) suggests a 28–40% overvaluation, driven by optimistic market expectations that may not fully account for execution risks, competitive pressures, and margin challenges.

The broader market context, with elevated industrial sector multiples (S&P 500 Industrials P/E ~22x), suggests that Avery's valuation may be inflated by sector-wide optimism rather than company-specific fundamentals. Potential catalysts for a price correction include weaker-than-expected RFID adoption, margin compression from input costs, or macroeconomic slowdowns, which could align the stock price closer to its intrinsic value. Investors are advised to monitor these factors and consider re-entering below \$130, where the risk-reward profile becomes more favourable.

The Sell recommendation reflects a prudent approach, prioritizing margin of safety amid uncertainties in raw material costs, regulatory shifts, and acquisition integration. While Avery Dennison remains a compelling long-term investment, the current valuation offers limited upside. Investors are advised to monitor for a price correction below \$130, which would align more closely with intrinsic value and provide a more attractive entry point. This analysis demonstrates the application of disciplined valuation techniques, balancing quantitative rigor with qualitative insights into Avery's strategic outlook. While Avery Dennison remains a compelling long-term investment due to its innovation and market leadership, the current valuation offers limited upside, underscoring the importance of timing and price discipline in equity investment decisions.

## Appendix: Valuation Assumptions

Assumption	Value	Basis
Revenue Growth Rate	4.0%	Given the historical average of 3.78% and the 2024 recovery, we assume a slightly conservative Revenue Growth of 4.0% for 2025–2029, reflecting cautious optimism for continued recovery and growth in high-value categories like Intelligent Labels.
EBIT Margin	11.98%	Historical average (2018–2019) is 11.33%. Given productivity gains and high-value category growth, we assume an EBIT Margin of 11.98% for 2025–2029, slightly above historical but reflecting operational improvements noted in 10-Ks.
Depreciation (% of Revenue)	2.0%	Given historical consistency, we assume D&A at 2.0% of Revenue for 2025–2029.
CapEx (% of Revenue)	2.88%	We assume CapEx at historical average of Revenue for 2025–2029, balancing historical trends with recent data (2022–2024) at 2.88%.
Change in NWC (% of Revenue)	0.51%	Based on the historical average and 10-K efficiency trends, we assume Change in NWC at 0.51% of Revenue for 2025–2029, due to improved NWC management.
Effective Tax Rate	26.0%	Based on 2022–2024 10-K data, we assume an ETR of 26.0% for 2025–2029, aligning with the adjusted ETR trend.
Terminal Growth Rate	2.5%	A 2.5% perpetual growth rate is appropriate, as it's conservative and aligns with long-term global GDP growth, while accounting for AVY's stable market position and innovation focus.

### WACC Calculation:

- Risk-free rate: 4.01%
- Market risk premium: 6.0%
- Beta: 0.86 (Sourced from Bloomberg)
- Cost of debt: 3.43% (post-tax)
- Debt-to-capital: 18.34%

### Peer Comparison:

Company	EV/EBITDA	P/E	Revenue Growth (%)
3M Company	10.5x	15.2x	2.8
CCL Industries	9.8x	14.8x	4.1
UPM Raflatac	10.0x	15.0x	3.5
Avery Dennison	10.8x	15.9x	4.0