## First Quarter 2023 <br> Financial Review and Analysis

(preliminary, unaudited)

April 26, 2023
Supplemental Presentation Materials
Unless otherwise indicated, comparisons are to the same period in the prior year.

## Safe Harbor Statement



 and governmental regulations; (ii) the cost and availability of raw materials; (iii) competitors' actions, including pricing, expansion in key markets, and product offerings; (iv) the degree to which higher costs can be offset with productivity measures and/or passed on to customers through price increases, without a significant loss of volume; (v) foreign currency fluctuations; and (vi) the execution and integration of acquisitions.

Actual results and trends may differ materially from historical or anticipated results depending on a variety of factors, including but not limited to, risks and uncertainties related to the following:

Ukraine; and fluctuations in foreign currency exchange rates and other risks associated with foreign operations, including in emerging markets

- Our Business - fluctuations in demand affecting sales to customers; fluctuations in the cost and availability of raw materials and energy; changes in our markets due to competitive conditions, technological developments, environmental standards, laws and regulations, and customer preferences; the impact of competitive products and pricing; execution and integration of acquisitions; selling prices; customer and supplier concentrations or consolidations; financial condition of distributors; outsourced manufacturers; product and service quality; timely development and market acceptance of new products, including sustainable or sustainably-sourced products; investment in development activities and new production facilities; successful implementation of new manufacturing technologies and installation of manufacturing equipment; our ability to generate sustained productivity improvement; our ability to achieve and sustain targeted cost reductions; collection of receivables from customers; our environmental, social and governance practices; and impacts from COVID-19
- Income Taxes - fluctuations in tax rates; changes in tax laws and regulations, and uncertainties associated with interpretations of such laws and regulations; retention of tax incentives; outcome of tax audits; and the realization of deferred tax assets
 of new or upgraded information technology systems
- Human Capital - recruitment and retention of employees and collective labor arrangements
- Our Indebtedness - credit risks; our ability to obtain adequate financing arrangements and maintain access to capital; fluctuations in interest rates; volatility of financial markets; and compliance with our debt covenants
- Ownership of Our Stock - potential significant variability of our stock price and amounts of future dividends and share repurchases
- Legal and Regulatory Matters - protection and infringement of intellectual property; impact of legal and regulatory proceedings, including with respect to environmental, anti-corruption, health and safety, and trade compliance
- Other Financial Matters - fluctuations in pension costs and goodwill impairment
 the Securities and Exchange Commission on February 22, 2023.
 events or circumstances, other than as may be required by law.


## Use of Non-GAAP Financial Measures





 accompanying the earnings news release for the quarter (see Attachments A-4 through A-8 to news release dated April 26, 2023).



 and other items), we believe that we are providing meaningful supplemental inform
financial measures recur, they tend to be disparate in amount, frequency or timing.
 We use the non-GAAP financial measures described below in this presentation.

 calculated on a constant currency basis, with prior period results translated at current period average exchange rates to exclude the effect of currency fluctuations.

- Organic sales change refers to sales change ex. currency, excluding the estimated impact of acquisitions and product line divestitures.
 period.

We believe that the following measures assist investors in understanding our core operating trends and comparing our results with those of our competitors.

- Adjusted operating income refers to net income adjusted for taxes; other expense (income), net; interest expense and other non-operating expense (income), net
- Adjusted EBITDA refers to adjusted operating income before depreciation and amortization
- Adjusted operating margin refers to adjusted operating income as a percentage of net sales.
- Adjusted EBITDA margin refers to adjusted EBITDA as a percentage of net sales.
 impacts related to enactments of comprehensive tax law changes, and other items.
- Adjusted net income refers to income before taxes, tax-effected at the adjusted tax rate, and adjusted for tax-effected restructuring charges and other items.
- Adjusted net income per common share, assuming dilution (adjusted EPS) refers to adjusted net income divided by the weighted average number of common shares outstanding, assuming dilution.
 assists investors in assessing our leverage position.

 showing the amount of cash we have available for debt reductions, dividends, share repurchases, and acquisitions.
- Free cash flow conversion refers to free cash flow divided by net income.

This document has been furnished (not filed) on Form 8-K with the SEC and may be found on our website at www.investors.averydennison.com.

## Q1 EPS as expected; Q2 outlook lowered; reaffirm H2 EPS run rate >\$10

First Quarter EPS and free cash flow as expected, despite inventory destocking in labels and apparel

- Reported EPS of $\$ 1.49$; adj. EPS (non-GAAP) of $\$ 1.70$, down $29 \%$
- Net sales of $\$ 2.1$ bil., down 9\% ex. currency (non-GAAP) and organically (non-GAAP)
- Reported operating income of $\$ 190$ mil.
- Adj. EBITDA (non-GAAP) of \$280 mil., down 22\%
- Sequentially, adj. EBITDA up 7\%
- YTD free cash flow (non-GAAP) of ( $\$ 71$ ) mil.


## Sequential improvement expected in Q2; lower than previous outlook due to continued destocking

## Expect to deliver strong second half with >\$10 EPS run-rate

- Anticipate destocking to be largely complete mid-year
- Confident in \$1B IL platform in 2023; new programs accelerating
- Cost-saving initiatives to ramp throughout the year

FY adj. EPS guidance range of $\mathbf{\$ 8 . 8 5}$ to $\mathbf{\$ 9 . 2 0}$ (previously $\$ 9.15$ to $\$ 9.55$ )

- Revised due to lower Q2 outlook
- Targeting $\sim 100 \%$ free cash flow conversion (non-GAAP)

Intelligent Labels


- Q1 up low-single digits; non-apparel up $\sim 50 \%$, largely offset by decline in apparel, incl. inventory destocking
- Industry-leading position; 50\%+ UHF RFID share
- Targeting 20\%+ organic growth in coming years
- Clear innovation leader
- Investing in capacity and market development

Solutions enabling omnichannel retail, more efficient supply chains, enhanced consumer experience and less waste
ApparelOther

Pipeline by End MarketApparel
Food
Industrial
Logistics
Beauty

## Quarterly Sales Trend Analysis

|  | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Reported Sales Change | 14.5\% | 11.7\% | 11.8\% | (7.2\%) | (12.1\%) |
| Organic Sales Change ${ }^{(1)}$ | 12.7\% | 11.3\% | 15.5\% | (0.9\%) | (9.2\%) |
| Acquisitions/Divestitures | 5.3\% | 5.4\% | 3.5\% | 0.1\% | 0.2\% |
| Sales Change Ex. Currency ${ }^{(1),(2)}$ | 18.0\% | 16.7\% | 19.0\% | (0.8\%) | (9.1\%) |
| Currency Translation | (3.4\%) | (5.0\%) | (7.2\%) | (6.4\%) | (3.1\%) |
| Reported Sales Change ${ }^{(2)}$ | 14.5\% | 11.7\% | 11.8\% | (7.2\%) | (12.1\%) |

## Quarterly Sales Trend Analysis (cont.)

|  | Organic Sales Change |  |  |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: |
|  | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 |
| Materials Group | $10 \%$ | $14 \%$ | $19 \%$ | $2 \%$ | (9\%) |
| Solutions Group | $20 \%$ | $5 \%$ | $7 \%$ | $(8 \%)$ | (9\%) |
| Total Company | $\mathbf{1 3 \%}$ | $\mathbf{1 1 \%}$ | $\mathbf{1 6 \%}$ | (1\%) | (9\%) |
| Total Company <br> Sales Change Ex. Currency | $\mathbf{1 8 \%}$ | $\mathbf{1 7 \%}$ | $\mathbf{1 9 \%}$ | (1\%) | (9\%) |

## Sales Growth and Operating Margin Comparison

|  | Q1 Sales Growth |  |  |
| :--- | :---: | :---: | :---: | :---: |
|  | Reported | Ex. Currency | Organic |
| Materials Group | $(12.6 \%)$ | $(9.3 \%)$ | $(9.3 \%)$ |
| Solutions Group | $(11.0 \%)$ | $(8.3 \%)$ | $(8.9 \%)$ |
| Total Company | $(12.1 \%)$ | $(9.1 \%)$ | $(9.2 \%)$ |


|  | Reported <br> Operating Margin |  |
| :--- | :---: | :---: |
| Materials Group | $\mathbf{1 Q 2 3}$ | $\mathbf{1 Q 2 2}$ |
| Solutions Group | $11.0 \%$ | $13.3 \%$ |
| Total Company | $8.5 \%$ | $13.3 \%$ |

Adj. EBITDA Margin (non-GAAP)

| 1Q23 | 1Q22 |
| :---: | :---: |
| 14.2\% | 15.2\% |
| 15.7\% | 19.1\% |
| 13.6\% | 15.3\% |
|  |  |

## First Quarter 2023 Results

## Materials Group

Reported sales decreased $13 \%$ to $\$ 1.5$ bil.
Sales down 9\% ex. currency and organically

- Label materials down low-double digits on organic basis
- Lower volume, driven by inventory destocking, partially offset by pricing actions
- Organically, sales down low-double digits in North America, high-single digits in Western Europe and mid-to-high single digits in emerging markets
- Graphics and Reflectives up low-single digits organically
- Performance Tapes and Medical up mid-single digits organically

Reported operating margin decreased 230 bps to $11.0 \%$

- Adj. EBITDA margin decreased 100 bps to $14.2 \%$ driven by lower volume/mix, partially offset by benefits from the net impact of pricing and raw material input costs, and productivity
- Sequentially, adj. EBITDA margin increased 140 bps

Anticipate label destocking to be largely complete mid-year; adj. EBITDA margin to continue improving sequentially throughout 2023

## Solutions Group

Reported sales decreased $11 \%$ to $\$ 605$ mil.

Sales down 8\% ex. currency and 9\% organically

- High-value categories up low-single digits organically
- Base solutions down roughly 20\% organically, incl. destocking
- Enterprise-wide Intelligent Labels sales up low-single digits organically

Reported operating margin decreased 480 bps to 8.5\%

- Adj. EBITDA margin decreased 340 bps to $15.7 \%$ driven by lower volume

Apparel volume expected to rebound in H 2 , while IL programs accelerate throughout 2023. Adj. EBITDA margin to improve sequentially throughout 2023

Announced agreement to acquire Lion Brothers, a leading provider of external embellishments, with ~\$65 mil. in annual sales

## 2023 EPS Guidance

## Adj. EPS



Reported EPS
Add back: est. restructuring costs and other items

## Adjusted EPS (non-GAAP)

## Contributing Factors

- Reported sales of $-2 \%$ to $0 \%$
- Negligible impact from currency (previously $\sim 1 \%$ headwind)
- Organic sales change of $-2 \%$ to $0 \%$ (previously $1 \%$ to $5 \%$ )
- CY savings of $\sim \$ 50$ mil. from restructuring actions, net (previously $\sim \$ 45$ mil.)
- Continuing to invest in key strategic platforms, particularly Intelligent Labels
- Incremental opex investment of $\sim \mathbf{\$ 2 5}$ mil.
- Fixed and IT capital spend of $\sim 350$ mil.
- $\$ 0.25$ headwind from non-operational items (tax, currency, interest, share count)
- Sequential improvement expected in Q2; lower than prev. outlook (continued destocking)
- Expect to deliver strong second half with $>\$ 10$ EPS run-rate


## Appendix

## Broad exposure to diverse end markets

Sales by End Market Category ${ }^{(1)}$


## Sales by Geographic End Market ${ }^{(1)}$



## Strong Balance Sheet and Ample Liquidity



## (1) Totals may not sum due to rounding

[^0][^1]
## Adjusted EPS

As reported net income per common share, assuming dilution
$\frac{2019}{\$ 3.57} \frac{\mathbf{2 0 2 0}}{\$ 6.61} \frac{\mathbf{2 0 2 1}}{\$ 8.83} \xlongequal{\$ 9.21}$

Non-GAAP adjustments per common share, net of tax:

| Restructuring charges and other items ${ }^{(1)}$ | $\$$ | 0.47 | $\$$ | 0.48 | $\$$ | 0.05 | $\$$ | $(0.06)$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Pension plan settlements, curtailment losses, and related charges | $\$$ | 3.12 | $\$$ | 0.01 | $\$$ | 0.03 |  |  |
| Tax benefit from discrete foreign tax structuring and planning transactions | $\$$ | $(0.56)$ |  |  |  |  |  |  |
| Adjusted net income per common share, assuming dilution (non-GAAP) | $\$$ | 6.60 | $\$$ | 7.10 | $\$$ | 8.91 | $\$$ | 9.15 |

## The adjusted tax rate was $24.7 \%, 25 \%, 24.1 \%$, and $24.6 \%$ for $2022,2021,2020$, and 2019 , respectively

(1) Includes restructuring and related charges, transaction and related costs, gain/loss on venture investments, gain/loss on sale of assets, gain on sale of product line, and outcomes of legal proceedings.



[^0]:    April 26, 2023 Preliminary \& unaudited, Q1 2023 financial review and analysis

[^1]:    * €500M debt converted to USD at 1.1 x + \$30M medium-term note

