



Inspired Brands.  
Intelligent World.™

# First Quarter 2016 Financial Review and Analysis

(preliminary, unaudited)

## Supplemental Presentation Materials

*Unless otherwise indicated, comparisons are to the same period in the prior year.*

April 27, 2016

Certain statements contained in this document are "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements, and financial or other business targets, are subject to certain risks and uncertainties. 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 relating to the following: fluctuations in demand affecting sales to customers; worldwide and local economic conditions; fluctuations in currency exchange rates and other risks associated with foreign operations, including in emerging markets; the financial condition and inventory strategies of customers; changes in customer preferences; fluctuations in cost and availability of raw materials; our ability to generate sustained productivity improvement; our ability to achieve and sustain targeted cost reductions; the impact of competitive products and pricing; loss of significant contracts or customers; collection of receivables from customers; selling prices; business mix shift; timely development and market acceptance of new products, including sustainable or sustainably-sourced products; investment in development activities and new production facilities; integration of acquisitions and completion of potential dispositions; amounts of future dividends and share repurchases; customer and supplier concentrations; successful implementation of new manufacturing technologies and installation of manufacturing equipment; disruptions in information technology systems, including cyber-attacks or other intrusions to network security; successful installation of new or upgraded information technology systems; data security breaches; volatility of financial markets; impairment of capitalized assets, including goodwill and other intangibles; credit risks; our ability to obtain adequate financing arrangements and maintain access to capital; fluctuations in interest and tax rates; changes in tax laws and regulations, and uncertainties associated with interpretations of such laws and regulations; outcome of tax audits; fluctuations in pension, insurance, and employee benefit costs; the impact of legal and regulatory proceedings, including with respect to environmental, health and safety; changes in governmental laws and regulations; protection and infringement of intellectual property; changes in political conditions; the impact of epidemiological events on the economy and our customers and suppliers; acts of war, terrorism, and natural disasters; and other factors.

We believe that the most significant risk factors that could affect our financial performance in the near-term include: (1) the impacts of economic conditions on underlying demand for our products and foreign currency fluctuations; (2) competitors' actions, including pricing, expansion in key markets, and product offerings; and (3) the degree to which higher costs can be offset with productivity measures and/or passed on to customers through selling price increases, without a significant loss of volume.

For a more detailed discussion of these and other factors, see "Risk Factors" and "Management's Discussion and Analysis of Results of Operations and Financial Condition" in our 2015 Form 10-K, filed on February 24, 2016 with the Securities and Exchange Commission. The forward-looking statements included in this document are made only as of the date of this document, and we undertake no obligation to update these statements to reflect subsequent events or circumstances, other than as may be required by law.

### Use of Non-GAAP Financial Measures

This presentation contains certain non-GAAP financial measures as defined by SEC rules. These non-GAAP financial measures are not in accordance with, nor are they a substitute for or superior to, the comparable GAAP financial measures. Reconciliations of non-GAAP financial measures to the most directly comparable GAAP financial measures, including limitations associated with these non-GAAP financial measures, are provided in the financial schedules accompanying the earnings news release for the quarter (see Attachments A-2 through A-4 to news release dated April 27, 2016).

Our non-GAAP financial measures exclude the impact of certain events, activities, or strategic decisions. The accounting effects of these events, activities or decisions, which are included in the GAAP financial measures, may make it difficult to assess our underlying performance in a single period. By excluding the accounting effects, both positive and negative, of certain items (e.g., restructuring charges, asset impairments, legal settlements, certain effects of strategic transactions and related costs, losses from debt extinguishments, losses from curtailment and settlement of pension obligations, gains or losses on sales of certain assets, and other items), we believe that we are providing meaningful supplemental information to facilitate an understanding of our core operating results and liquidity measures. These non-GAAP financial measures are used internally to evaluate trends in our underlying performance, as well as to facilitate comparison to the results of competitors for a single period. While some of the items we exclude from GAAP financial measures recur, they tend to be disparate in amount, frequency, or timing.

We use the following non-GAAP financial measures in this presentation:

- *Organic sales change* refers to the increase or decrease in sales excluding the estimated impact of currency translation, product line exits, acquisitions and divestitures, and, where applicable, the extra week in the prior fiscal year.
- *Adjusted operating margin* refers to income before interest expense and taxes, excluding restructuring charges and other items, as a percentage of sales.
- *Adjusted tax rate* refers to the anticipated full-year GAAP tax rate adjusted for certain events.
- *Adjusted EPS* refers to reported net income per common share, assuming dilution, adjusted for tax-effected restructuring charges and other items.
- *Free cash flow* refers to cash flow from operations, less payments for property, plant and equipment, software and other deferred charges, plus proceeds from sales of property, plant and equipment, plus (minus) net proceeds from sales (purchases) of investments. Free cash flow excludes uses of cash that do not directly or immediately support the underlying business, such as discretionary debt reductions, dividends, share repurchases, and certain effects of acquisitions and divestitures (e.g., cash flow from discontinued operations, taxes, and transaction costs).

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](http://www.investors.averydennison.com).

# First Quarter Review

---

## **Solid organic sales growth with strong margin expansion in both core businesses delivered better-than-expected earnings growth for the quarter**

- > Sales up approx. 4% on organic basis, in line with expectations
- > Operating margin, as reported, improved 180 basis points primarily due to productivity initiatives and higher volume, partially offset by higher employee-related costs
  - » Adjusted operating margin improved 130 basis points
- > Reported EPS of \$0.98
  - » Adjusted EPS (non-GAAP) of \$0.94, up approx. 16%

## **PSM continues to outperform; good progress on RBIS transformation**

## **Continued disciplined execution of long-term capital allocation strategy**

- > Free cash flow of negative \$37 mil., \$18 mil. below prior year
- > Continue to anticipate full year free cash flow conversion of ~100%
- > Repurchased 1.5 mil. shares (0.8 mil. net of dilution) and paid \$33 mil. in dividends

## **Raised midpoint of guidance range for 2016 Adjusted EPS by \$0.08**

# Sales Trend Analysis

	<u>1Q15</u>	<u>2Q15</u>	<u>3Q15</u>	<u>4Q15</u>	<u>1Q16</u>
<b>Organic Sales Change</b>	3.0%	3.7%	4.6%	7.1%	3.8%
<b>Currency Translation</b>	(7.2)%	(9.5)%	(9.5)%	(8.0)%	(5.6)%
<b>Extra Week</b>	~3.0%	--	--	~(7.5)%	--
<b>Product Line Divestiture</b>	--	(0.4)%	(1.0)%	(1.0)%	(1.0)%
<b>Reported Sales Change*</b>	(1.4)%	(6.2)%	(5.9)%	(9.3)%	(2.8)%

\* Totals may not sum due to rounding.

# First Quarter Segment Sales and Margin Analysis

	<u>1Q16</u>	
	<u>Reported</u>	<u>Organic</u>
<b><u>Sales Growth:</u></b>		
<b>Pressure-sensitive Materials</b>	<b>(3)%</b>	<b>4%</b>
<b>Retail Branding and Information Solutions</b>	<b>(3)%</b>	<b>4%</b>
<b>Vancive Medical Technologies</b>	<b>(20)%</b>	<b>(18)%</b>
<b>Total Company</b>	<b>(3)%</b>	<b>4%</b>

	<b>Adjusted</b>			
	<u>As Reported*</u>		<u>(Non-GAAP)</u>	
	<u>1Q16</u>	<u>1Q15</u>	<u>1Q16</u>	<u>1Q15</u>
<b><u>Operating Margin:</u></b>				
<b>Pressure-sensitive Materials</b>	<b>12.7%</b>	<b>11.0%</b>	<b>12.9%</b>	<b>11.5%</b>
<b>Retail Branding and Information Solutions</b>	<b>6.9%</b>	<b>4.9%</b>	<b>7.8%</b>	<b>6.4%</b>
<b>Vancive Medical Technologies</b>	<b>(5.8)%</b>	<b>(10.9)%</b>	<b>(5.2)%</b>	<b>(5.2)%</b>
<b>Total Company</b>	<b>9.3%</b>	<b>7.5%</b>	<b>9.7%</b>	<b>8.4%</b>

\* Certain prior period amounts have been revised to reflect the impact of adjustments made in the third quarter of 2015 to certain of the Company's benefit plan balances.

# First Quarter Segment Overview

---

## **PRESSURE-SENSITIVE MATERIALS (PSM)**

- > Reported sales of \$1.09 bil., down approx. 3% compared to prior year
  - » Sales up approx. 4% on organic basis
- > Label and Packaging Materials sales up mid-single digits on organic basis
- > Combined Graphics and Performance Tapes up mid-single digits on organic basis
- > Operating margin improved 170 basis points to 12.7% as the benefit of productivity initiatives and increased volume more than offset higher employee-related costs
  - » Adjusted operating margin improved 140 basis points to 12.9%

## **RETAIL BRANDING AND INFORMATION SOLUTIONS (RBIS)**

- > Reported sales of \$378 mil., down approx. 3% compared to prior year
  - » Sales up approx. 4% on organic basis
- > Operating margin increased 200 basis points to 6.9% as the benefit of productivity initiatives and increased volume more than offset higher employee-related costs
  - » Adjusted operating margin improved 140 basis points to 7.8%

# 2016 EPS Guidance

	<u>Previous</u>	<u>Updated</u>
Reported EPS	\$3.15 – \$3.35	\$3.25 – \$3.40
<u>Add Back:</u>		
Est. restructuring charges and other items	~\$0.20	~\$0.20
Est. non-cash charges to settle certain U.S. pension obligations	~\$0.30	~\$0.30
Adjusted EPS (non-GAAP)	\$3.65 – \$3.85	\$3.75 – \$3.90

## Contributing Factors to 2016 Results

- > At recent currency translation rates, reported net sales up 0.5% to 2.0%
  - » Organic sales growth of 3% to 4.5%
  - » Based on recent rates, currency translation represents:
    - » ~2% reduction to reported net sales (vs. previous assumption of 3.5%)
    - » ~\$15 mil. reduction to EBIT (vs. previous assumption of ~\$25 mil.)
  - » Product line divestiture headwind of (0.4)% (immaterial impact to EBIT)
- > Incremental savings of ~\$75 mil. from restructuring actions
- > Tax rate in the low to mid-thirty percent range
- > Average shares outstanding (assuming dilution) of ~90 mil.



Inspired Brands.  
Intelligent World.™