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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended October 2, 2021.

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________________________ to ________________________

Commission file number 1-7685

AVERY DENNISON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-1492269** (I.R.S. Employer Identification No.)
207 Goode Avenue **Glendale, California** (Address of Principal Executive Offices)	**91203** (Zip Code)

Registrant's telephone number, including area code: (626) 304-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $1 par value	AVY	New York Stock Exchange
1.25% Senior Notes due 2025	AVY25	Nasdaq Stock Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

☒ Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Number of shares of $1 par value common stock outstanding as of October 30, 2021: 82,795,583

AVERY DENNISON CORPORATION

FISCAL THIRD QUARTER 2021 QUARTERLY REPORT ON FORM 10-Q

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Safe Harbor Statement

The matters discussed in this Quarterly Report contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which are not statements of historical fact, contain estimates, assumptions, projections and/or expectations regarding future events, that may or may not occur. Words such as "aim," "anticipate," "assume," "believe," "continue," "could," "estimate," "expect," "foresee," "guidance," "intend," "may," "might," "objective," "plan," "potential," "project," "seek," "shall," "should," "target," "will," "would," or variations thereof, and other expressions that refer to future events and trends, identify forward-looking statements. These forward-looking statements, and financial or other business targets, are subject to certain risks and uncertainties, which could cause our actual results to differ materially from the expected results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements also include those related to the acquisition of Vestcom, including its anticipated effect on our long-term targets and future financial results.

We believe that the most significant risk factors that could affect our financial performance in the near-term include: (i) the impacts to underlying demand for our products and/or foreign currency fluctuations from global economic conditions, political uncertainty, changes in environmental standards and governmental regulations, including as a result of COVID-19; (ii) competitors' actions, including pricing, expansion in key markets, and product offerings; (iii) 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; and (iv) the execution and integration of acquisitions, including the acquisition of Vestcom.

The more significant risks and uncertainties that may impact us are discussed in more detail under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2020 Annual Report on Form 10-K filed on February 25, 2021, and subsequent quarterly reports on Form10-Q. These risks and uncertainties include, but are not limited to, the following:

- COVID-19
- International Operations – worldwide and local economic and market conditions; changes in political conditions; and fluctuations in foreign currency exchange rates and other risks associated with foreign operations, including in emerging markets
- Our Business – changes in our markets due to competitive conditions, technological developments, environmental standards, laws and regulations, and customer preferences; fluctuations in demand affecting sales to customers; execution and integration of acquisitions, including the acquisition of Vestcom; selling prices; fluctuations in the cost and availability of raw materials and energy; the impact of competitive products and pricing; 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; and collection of receivables from customers
- The Vestcom Acquisition – risks related to future opportunities and plans for the combined company, including the uncertainty of expected future financial performance and results of the combined company; unknown liabilities; and the possibility that, if we do not achieve the perceived benefits of the acquisition as rapidly or to the extent anticipated by financial analysts or investors, the market price of our common stock could decline
- 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
- Information Technology – disruptions in information technology systems, including cyber-attacks or other intrusions to network security; successful installation of new or upgraded information technology systems; and data security breaches
- Human Capital – recruitment and retention of employees; fluctuations in employee benefit costs; and collective labor arrangements
- Our Indebtedness – credit risks; our ability to obtain adequate financing arrangements and maintain access to capital; volatility of financial markets; fluctuations in interest rates; 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 and impact of legal and regulatory proceedings, including with respect to environmental, health and safety, anti-corruption and trade compliance
- Other Financial Matters – fluctuations in pension costs and goodwill impairment

Our forward-looking statements are made only as of the date hereof. We assume no duty to update these forward-looking statements to reflect new, changed or unanticipated events or circumstances, other than as may be required by law.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS
(*Unaudited*)

(Dollars in millions, except per share amount)	October 2, 2021	January 2, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 207.2	$ 252.3
Trade accounts receivable, less allowances of $37 and $44.6 at October 2, 2021 and January 2, 2021, respectively	1,441.2	1,235.2
Inventories, net	879.1	717.2
Other current assets	251.0	211.5
Total current assets	2,778.5	2,416.2
Property, plant and equipment, net	1,405.5	1,343.7
Goodwill	1,896.7	1,136.4
Other intangibles resulting from business acquisitions, net	931.5	224.9
Deferred tax assets	152.7	197.7
Other assets	802.8	765.0
	$ 7,967.7	$ 6,083.9
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt and finance leases	$ 398.8	$ 64.7
Accounts payable	1,268.2	1,050.9
Accrued payroll and employee benefits	283.6	239.0
Other current liabilities	658.8	571.4
Total current liabilities	2,609.4	1,926.0
Long-term debt and finance leases	2,800.2	2,052.1
Long-term retirement benefits and other liabilities	504.1	503.6
Deferred tax liabilities and income taxes payable	254.8	117.3
Commitments and contingencies (see Note 12)		
Shareholders' equity:		
Common stock, $1 par value per share, authorized – 400,000,000 shares at October 2, 2021 and January 2, 2021; issued – 124,126,624 shares at October 2, 2021 and January 2, 2021; outstanding – 82,833,721 shares and 83,151,174 shares at October 2, 2021 and January 2, 2021, respectively	124.1	124.1
Capital in excess of par value	854.8	862.1
Retained earnings	3,749.7	3,349.3
Treasury stock at cost, 41,292,903 shares and 40,975,450 shares at October 2, 2021 and January 2, 2021, respectively	(2,606.4)	(2,501.0)
Accumulated other comprehensive loss	(323.0)	(349.6)
Total shareholders' equity	1,799.2	1,484.9
	$ 7,967.7	$ 6,083.9

See Notes to Unaudited Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(*Unaudited*)

(In millions, except per share amounts)	Three Months Ended October 2, 2021	Three Months Ended September 26, 2020	Nine Months Ended October 2, 2021	Nine Months Ended September 26, 2020
Net sales	$ 2,071.8	$ 1,729.1	$ 6,225.1	$ 4,980.6
Cost of products sold	1,517.4	1,244.9	4,497.4	3,628.4
Gross profit	554.4	484.2	1,727.7	1,352.2
Marketing, general and administrative expense	296.9	258.3	916.2	758.7
Other expense (income), net	16.0	12.4	16.3	57.3
Interest expense	18.0	15.6	50.2	54.4
Other non-operating expense (income), net	(.9)	.1	(3.6)	(.2)
Income before taxes	224.4	197.8	748.6	482.0
Provision for (benefit from) income taxes	59.2	46.3	187.7	114.8
Equity method investment (losses) gains	(1.1)	(1.0)	(3.5)	(2.8)
Net income	$ 164.1	$ 150.5	$ 557.4	$ 364.4
Per share amounts:				
Net income per common share	$ 1.98	$ 1.80	$ 6.72	$ 4.37
Net income per common share, assuming dilution	$ 1.96	$ 1.79	$ 6.64	$ 4.34
Weighted average number of shares outstanding:				
Common shares	82.9	83.5	83.0	83.4
Common shares, assuming dilution	83.7	84.0	83.9	84.0

See Notes to Unaudited Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(*Unaudited*)

(In millions)	Three Months Ended October 2, 2021	Three Months Ended September 26, 2020	Nine Months Ended October 2, 2021	Nine Months Ended September 26, 2020
Net income	$ 164.1	$ 150.5	$ 557.4	$ 364.4
Other comprehensive income (loss), net of tax:				
Foreign currency translation	1.4	9.5	19.1	(45.5)
Pension and other postretirement benefits	1.3	.6	3.3	1.9
Cash flow hedges	1.9	(.8)	4.2	(2.2)
Other comprehensive income (loss), net of tax	4.6	9.3	26.6	(45.8)
Total comprehensive income, net of tax	$ 168.7	$ 159.8	$ 584.0	$ 318.6

See Notes to Unaudited Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(*Unaudited*)

	Nine Months Ended	
(In millions)	October 2, 2021	September 26, 2020
Operating Activities		
Net income	$ 557.4	$ 364.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	122.9	113.7
Amortization	48.6	36.1
Provision for credit losses and sales returns	26.1	50.4
Stock-based compensation	27.1	12.1
Pension plan settlement loss	1.0	—
Deferred taxes and other non-cash taxes	(1.5)	17.1
Other non-cash expense and loss (income and gain), net	17.7	35.3
Changes in assets and liabilities and other adjustments	(36.5)	(187.3)
Net cash provided by operating activities	762.8	441.8
Investing Activities		
Purchases of property, plant and equipment	(130.6)	(91.7)
Purchases of software and other deferred charges	(9.8)	(13.8)
Proceeds from sales of property, plant and equipment	1.1	.2
Proceeds from insurance and sales (purchases) of investments, net	1.2	5.2
Proceeds from sale of product line	6.7	—
Payments for acquisitions, net of cash acquired, and investments in businesses	(1,474.3)	(262.8)
Net cash used in investing activities	(1,605.7)	(362.9)
Financing Activities		
Net increase (decrease) in borrowings with maturities of three months or less	332.0	(57.1)
Additional borrowings under revolving credit facility	—	500.0
Repayments of revolving credit facility	—	(500.0)
Additional long-term borrowings	791.9	493.7
Repayments of long-term debt and finance leases	(8.0)	(268.9)
Dividends paid	(164.3)	(145.2)
Share repurchases	(126.0)	(52.2)
Net (tax withholding) proceeds related to stock-based compensation	(25.5)	(20.0)
Net cash provided by (used in) financing activities	800.1	(49.7)
Effect of foreign currency translation on cash balances	(2.3)	1.8
Increase (decrease) in cash and cash equivalents	(45.1)	31.0
Cash and cash equivalents, beginning of year	252.3	253.7
Cash and cash equivalents, end of period	$ 207.2	$ 284.7

See Notes to Unaudited Condensed Consolidated Financial Statements

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General

The unaudited Condensed Consolidated Financial Statements and related notes in this Quarterly Report on Form 10-Q are presented as permitted by Article 10 of Regulation S-X and do not contain certain information included in the audited Consolidated Financial Statements and related notes in our 2020 Annual Report on Form 10-K, which should be read in conjunction with this Quarterly Report on Form 10-Q. These unaudited Condensed Consolidated Financial Statements contain all adjustments of a normal and recurring nature necessary for a fair statement of our interim results. Interim results of operations are not necessarily indicative of future results. These unaudited Condensed Consolidated Financial Statements reflect our current estimates and assumptions that affect our reported amounts of assets and liabilities and related disclosures as of the date of the financial statements and our reported amounts of sales and expenses during the reporting periods presented.

Fiscal Periods
The three and nine months ended October 2, 2021 and September 26, 2020 consisted of thirteen-week and thirty-nine week periods, respectively.

Note 2. Acquisitions

Vestcom Acquisition
On August 31, 2021, we completed our acquisition of CB Velocity Holdings, LLC (“Vestcom”), an Arkansas-based provider of shelf-edge pricing, productivity and consumer engagement solutions for retailers and consumer packaged goods companies for a purchase price of $1.46 billion, subject to customary post-closing adjustments. We funded this acquisition using a combination of cash and proceeds from commercial paper borrowings and issuances of senior notes. Refer to Note 4, “Debt,” to the unaudited Condensed Consolidated Financial Statements for more information.

We believe Vestcom’s solutions expand our position in high value categories while adding channel access and data management capabilities to our Retail Branding and Information Solutions (“RBIS”) reportable segment.

The table below summarizes the preliminary fair value of assets acquired and liabilities assumed in the Vestcom acquisition.

(In millions)	
Cash and cash equivalents	$ 23.9
Trade accounts receivable	100.1
Other current assets	29.9
Property, plant and equipment	61.2
Goodwill	761.8
Other intangibles resulting from business acquisition	727.0
Other assets	20.9
Total assets	1,724.8
Current liabilities	52.0
Other liabilities	16.1
Deferred tax liabilities	192.6
Total liabilities	260.7
Net assets acquired	$ 1,464.1

The final allocation of purchase consideration to assets and liabilities is in process as we continue to evaluate certain balances, estimates and assumptions during the measurement period (up to one year from the acquisition date). Consistent with the allowable time to complete our assessment, the valuation of certain acquired assets and liabilities, including tangible and intangible assets, environmental liabilities and income taxes, is currently pending.

The impact of the Vestcom acquisition was not material to the proforma net sales or net income of our combined operations for the periods presented. Net sales and net income related to Vestcom post-acquisition were not material to the unaudited Condensed Consolidated Statements of Income for the periods presented.

Other 2021 Acquisitions

On March 18, 2021, we completed our acquisition of the net assets of ZippyYum, LLC ("ZippyYum"), a California-based developer of software products used in the food service and food preparation industries. We believe this acquisition enhances the product portfolio in our RBIS reportable segment.

On March 1, 2021, we completed our acquisition of the issued and outstanding stock of JDC Solutions, Inc. ("JDC"), a Tennessee-based manufacturer of pressure-sensitive specialty tapes. We believe this acquisition expands the product portfolio in our Industrial and Healthcare Materials ("IHM") reportable segment.

The acquisitions of ZippyYum and JDC are referred to collectively as the "Other 2021 Acquisitions."

The aggregate purchase consideration for the Other 2021 Acquisitions was approximately $43 million. We funded the Other 2021 Acquisitions using cash and commercial paper borrowings. In addition to the cash paid at closing, the sellers in one of these acquisitions are eligible for earn-out payments of up to approximately $13 million subject to the acquired company's achievement of certain performance targets. We estimate the fair value of these earn-out payments as of October 2, 2021 to be approximately $12 million, which has been included in the $43 million of aggregate purchase consideration.

The Other 2021 Acquisitions were not material, individually or in the aggregate, to the unaudited Condensed Consolidated Financial Statements.

Note 3. Goodwill and Other Intangibles Resulting from Business Acquisitions

Changes in the net carrying amount of goodwill for the nine months ended October 2, 2021 by reportable segment are shown below.

(In millions)	Label and Graphic Materials	Retail Branding and Information Solutions	Industrial and Healthcare Materials	Total
Goodwill as of January 2, 2021	$ 480.9	$ 471.8	$ 183.7	$ 1,136.4
Acquisitions[1]	—	779.7	6.9	786.6
Acquisition adjustment[2]	1.2	—	—	1.2
Translation adjustments	(19.2)	(6.8)	(1.5)	(27.5)
Goodwill as of October 2, 2021	$ 462.9	$ 1,244.7	$ 189.1	$ 1,896.7

[1]Goodwill acquired related to the acquisitions of Vestcom, JDC and ZippyYum. We expect nearly all of the recognized goodwill related to the Vestcom and JDC acquisitions not to be deductible for income tax purposes and the recognized goodwill related to the ZippyYum acquisition to be deductible for income tax purposes.
[2]Measurement period adjustment related to the finalization of the purchase price allocation for the acquisition of ACPO, Ltd. completed in December 2020.

Finite-Lived and Indefinite-Lived Intangible Assets

In connection with our acquisition of Vestcom, we acquired approximately $727 million of identifiable intangible assets consisting of customer relationships, trade names and trademarks, and patented and other developed technology. We utilized the income approach to estimate the fair values of acquired identifiable intangibles, primarily using Level 3 inputs. We applied significant judgment in determining the fair value of intangible assets, which involved the use of estimates and assumptions with respect to estimated future revenue and related profit margins; customer retention rates; technology migration curves; royalty rates; discount rates; and economic lives assigned to the acquired intangible assets.

The table below summarizes the preliminary amounts and useful lives of Vestcom's identifiable intangible assets as of the acquisition date.

	Amount (in millions)	Amortization period (in years)
Customer relationships	$ 492.0	12
Patented and other developed technology	100.4	7
Trade names and trademarks[1]	134.6	N/A

[1]Acquired trade names and trademarks associated with the Vestcom acquisition were not subject to amortization as they were classified as indefinite-lived intangible assets.

The intangibles assets from the Other 2021 Acquisitions were not material to the unaudited Condensed Consolidated Financial Statements.

Refer to Note 2, "Acquisitions," to the unaudited Condensed Consolidated Financial Statements for more information.

Note 4. Debt

In August 2021, we issued $500 million of senior notes, due February 15, 2032, which bear an interest rate of 2.250%, payable semiannually in arrears. Our net proceeds from the issuance, after deducting underwriting discounts and offering expenses, were $493.8 million. Additionally, in August 2021, we issued $300 million of senior notes, due August 15, 2024, which may be repaid without penalty on or after August 15, 2022 and bear an interest rate of 0.850%, payable semiannually in arrears. Our net proceeds from the issuance, after deducting underwriting discounts and offering expenses, were $298.1 million. We used the net proceeds from these two debt issuances to finance a portion of the Vestcom acquisition.

The estimated fair value of our long-term debt is primarily based on the credit spread above U.S. Treasury securities or euro government bond securities, as applicable, on notes with similar rates, credit ratings, and remaining maturities. The fair value of short-term borrowings, which include commercial paper issuances and short-term lines of credit, approximates their carrying value given the short duration of these obligations. The fair value of our total debt was $3.37 billion at October 2, 2021 and $2.34 billion at January 2, 2021. Fair values were determined based primarily on Level 2 inputs, which are inputs other than quoted prices in active markets that are either directly or indirectly observable.

Our $800 million revolving credit facility (the “Revolver”) contains a financial covenant requiring that we maintain a specified ratio of total debt in relation to a certain measure of income. As of both October 2, 2021 and January 2, 2021, we were in compliance with this financial covenant. No balance was outstanding under the Revolver as of October 2, 2021 or January 2, 2021.

Note 5. Pension and Other Postretirement Benefits

Defined Benefit Plans

We sponsor a number of defined benefit plans, the accrual of benefits under some of which has been frozen, covering eligible employees in the U.S. and certain other countries. Benefits payable to an employee are based primarily on years of service and the employee’s compensation during his or her employment with us. For the three and nine months ended October 2, 2021 and September 26, 2020, the net periodic benefit cost related to our U.S. and international plans was not material.

Service cost and the components of net periodic benefit cost (credit) other than service cost were included in “Marketing, general and administrative expense” and “Other non-operating expense (income), net” in the unaudited Condensed Consolidated Statements of Income, respectively.

We are also obligated to pay unfunded termination indemnity benefits to certain employees outside of the U.S., which are subject to applicable agreements, laws and regulations. We did not incur significant costs related to these benefits in the three or nine months ended October 2, 2021 or September 26, 2020.

Note 6. Cost Reduction Actions

2019/2020 Actions

During the nine months ended October 2, 2021, we recorded $6.7 million in restructuring charges related to our 2019/2020 actions. These charges consisted of severance and related costs for the reduction of approximately 235 positions at numerous locations across our company, which primarily included actions in our RBIS reportable segment. The actions were primarily related to global headcount and footprint reductions, with some actions accelerated or expanded in response to COVID-19.

During the nine months ended October 2, 2021, restructuring charges and payments were as follows:

(In millions)	Accrual at January 2, 2021	Charges, Net of Reversals	Cash Payments	Non-cash Impairment	Foreign Currency Translation	Accrual at October 2, 2021
2019/2020 Actions						
Severance and related costs	$ 28.3	$ 4.9	$ (22.7)	$ —	$ (.7)	$ 9.8
Asset impairment	—	1.6	—	(1.6)	—	—
Lease cancellation costs	—	.2	(.2)	—	—	—
Total	$ 28.3	$ 6.7	$ (22.9)	$ (1.6)	$ (.7)	$ 9.8

Accruals for severance and related costs, as well as lease cancellation costs, were included in “Other current liabilities” in the unaudited Condensed Consolidated Balance Sheets. Asset impairment charges were based on the estimated market value of the assets, less selling costs, if applicable. Restructuring charges were included in “Other expense (income), net” in the unaudited Condensed Consolidated Statements of Income.

The table below shows the total amount of restructuring charges, net of reversals, incurred by reportable segment and Corporate.

	Three Months Ended		Nine Months Ended	
(In millions)	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Restructuring charges, net of reversals, by reportable segment and Corporate				
Label and Graphic Materials	$ .8	$ 1.4	$ 1.4	$ 27.6
Retail Branding and Information Solutions	.8	2.9	3.8	16.6
Industrial and Healthcare Materials	.3	6.6	.8	8.6
Corporate	.5	—	1.0	(.2)
Total	$ 2.4	$ 10.9	$ 7.0	$ 52.6

Note 7. Financial Instruments

We enter into foreign exchange hedge contracts to reduce our risk from foreign exchange rate fluctuations associated with receivables, payables, loans and firm commitments denominated in certain foreign currencies that arise primarily as a result of our operations outside the U.S. We also enter into futures contracts to hedge certain price fluctuations for a portion of our anticipated domestic purchases of natural gas. The impact of these foreign exchange and commodities hedge activities on the unaudited Condensed Consolidated Financial Statements was not material.

In March 2020, we entered into U.S. dollar to euro cross-currency swap contracts with a total notional amount of $250 million to have the effect of converting the fixed-rate U.S. dollar-denominated debt to euro-denominated debt, including semiannual interest payments and the payment of principal at maturity. During the term of the contract, which ends on April 30, 2030, we pay fixed-rate interest in euros and receive fixed-rate interest in U.S. dollars. These contracts have been designated as cash flow hedges. The fair value of these contracts was $(18.9) million and $(36.7) million as of October 2, 2021 and January 2, 2021, respectively, and was included in “Long-term retirement benefits and other liabilities” in the unaudited Condensed Consolidated Balance Sheets. Refer to Note 11, “Fair Value Measurements,” to the unaudited Condensed Consolidated Financial Statements for more information.

We recorded no ineffectiveness from our cross-currency swap to earnings during the three or nine months ended October 2, 2021 or September 26, 2020.

Note 8. Taxes Based on Income

The following table summarizes our income before taxes, provision for (benefit from) income taxes, and effective tax rate:

	Three Months Ended		Nine Months Ended	
(Dollars in millions)	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Income before taxes	$ 224.4	$ 197.8	$ 748.6	$ 482.0
Provision for (benefit from) income taxes	59.2	46.3	187.7	114.8
Effective tax rate	26.4 %	23.4%	25.1 %	23.8%

Our provision for (benefit from) income taxes for the three and nine months ended October 2, 2021 included $7 million and $21 million, respectively, of net tax charges related to the tax on global intangible low-taxed income (“GILTI”) of our foreign subsidiaries and the recognition of foreign withholding taxes on current year earnings, partially offset by the benefit from foreign-derived intangible income (“FDII”). Our provision for (benefit from) income taxes for the three and nine months ended October 2, 2021 also reflected $11.3 million of return-to-provision benefit, including $8.7 million related to a GILTI exclusion election and a higher FDII deduction upon completion of our 2020 U.S. federal tax return. In addition, our provision for (benefit from) income taxes for the three and nine months ended October 2, 2021 reflected the tax impact from transaction costs related to the Vestcom acquisition. Moreover, our provision for (benefit from) income taxes for the nine months ended October 2, 2021 reflected the following discrete items: (i) $14.1 million of return-to-provision benefit related to a GILTI exclusion election made on our amended 2018 U.S. tax return; (ii) net tax charges related to the tax effects of outcomes of certain legal proceedings; and (iii) net tax benefit primarily from decreases in certain tax reserves, including associated interest and penalties, as a result of closing tax years.

Our provision for (benefit from) income taxes for the three and nine months ended September 26, 2020 included $4.5 million and $15 million, respectively, of net tax charges related to the tax on GILTI of our foreign subsidiaries and the recognition of foreign withholding taxes on current year earnings, partially offset by the benefit from FDII. Our provision for (benefit from) income taxes for the nine months ended September 26, 2020 also reflected $13.9 million of net tax benefit primarily from decreases in certain tax reserves, including associated interest and penalties, as a result of closing tax years and effective settlements of certain foreign tax audits, partially offset by additional interest and penalty accruals.

In fiscal year 2020, the U.S. Department of Treasury issued final regulations that provide certain U.S. taxpayers with an annual election to exclude foreign income subject to a high effective tax rate from their GILTI inclusions. This annual election included an option for retroactive application to tax years 2018 through 2020. We elected and recognized related tax benefits for tax years 2018 through 2020 as of October 2, 2021.

The amount of income taxes we pay is subject to ongoing audits by taxing jurisdictions around the world. Our estimate of the potential outcome of any uncertain tax issue is subject to our assessment of the relevant risks, facts, and circumstances existing at the time. We believe that we have adequately provided for reasonably foreseeable outcomes related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, which may impact our effective tax rate. The final determination of tax audits and any related legal proceedings could materially differ from the amounts currently reflected in our tax provision and the related liabilities. To date, we and our U.S. subsidiaries have completed the Internal Revenue Service's Compliance Assurance Process Program through 2017. With limited exceptions, we are no longer subject to income tax examinations by tax authorities for years prior to 2010.

It is reasonably possible that, during the next 12 months, we may realize a net decrease in our uncertain tax positions, including interest and penalties, of approximately $9 million, primarily as a result of closing tax years.

Note 9. Net Income Per Common Share

Net income per common share was computed as follows:

	Three Months Ended		Nine Months Ended	
(In millions, except per share amounts)	**October 2, 2021**	**September 26, 2020**	**October 2, 2021**	**September 26, 2020**
(A) Net income	$ 164.1	$ 150.5	$ 557.4	$ 364.4
(B) Weighted average number of common shares outstanding	82.9	83.5	83.0	83.4
Dilutive shares (additional common shares issuable under stock-based awards)	.8	.5	.9	.6
(C) Weighted average number of common shares outstanding, assuming dilution	83.7	84.0	83.9	84.0
Net income per common share: (A) ÷ (B)	$ 1.98	$ 1.80	$ 6.72	$ 4.37
Net income per common share, assuming dilution: (A) ÷ (C)	$ 1.96	$ 1.79	$ 6.64	$ 4.34

Certain stock-based compensation awards were not included in the computation of net income per common share, assuming dilution, because they would not have had a dilutive effect. Stock-based compensation awards excluded from the computation were not significant for the three or nine months ended October 2, 2021 or September 26, 2020.

Note 10. Supplemental Equity and Comprehensive Income Information

Consolidated Changes in Shareholders' Equity

(In millions)	Three Months Ended October 2, 2021	Three Months Ended September 26, 2020	Nine Months Ended October 2, 2021	Nine Months Ended September 26, 2020
Common stock issued, $1 par value per share	$ 124.1	$ 124.1	$ 124.1	$ 124.1
Capital in excess of par value				
Beginning balance	$ 846.5	$ 840.0	$ 862.1	$ 874.0
Issuance of shares under stock-based compensation plans(1)	8.3	10.3	(7.3)	(23.7)
Ending balance	$ 854.8	$ 850.3	$ 854.8	$ 850.3
Retained earnings				
Beginning balance	$ 3,637.3	$ 3,100.2	$ 3,349.3	$ 2,979.1
Net income	164.1	150.5	557.4	364.4
Issuance of shares under stock-based compensation plans(1)	—	—	(7.1)	(3.3)
Contribution of shares to 401(k) Plan(1)	4.6	3.2	14.4	10.5
Dividends	(56.3)	(48.4)	(164.3)	(145.2)
Ending balance	$ 3,749.7	$ 3,205.5	$ 3,749.7	$ 3,205.5
Treasury stock at cost				
Beginning balance	$ (2,576.7)	$ (2,447.2)	$ (2,501.0)	$ (2,425.1)
Repurchase of shares for treasury	(31.0)	(7.0)	(126.0)	(52.2)
Issuance of shares under stock-based compensation plans(1)	.1	.9	16.3	19.5
Contribution of shares to 401(k) Plan(1)	1.2	1.9	4.3	6.4
Ending balance	$ (2,606.4)	$ (2,451.4)	$ (2,606.4)	$ (2,451.4)
Accumulated other comprehensive loss				
Beginning balance	$ (327.6)	$ (403.2)	$ (349.6)	$ (348.1)
Other comprehensive income (loss), net of tax	4.6	9.3	26.6	(45.8)
Ending balance	$ (323.0)	$ (393.9)	$ (323.0)	$ (393.9)

(1)We fund a portion of our employee-related expenses using shares of our common stock held in treasury. We reduce capital in excess of par value based on the grant date fair value of the awards vested and record net gains or losses associated with using treasury shares to retained earnings.

Dividends per common share were as follows:

	Three Months Ended October 2, 2021	Three Months Ended September 26, 2020	Nine Months Ended October 2, 2021	Nine Months Ended September 26, 2020
Dividends per common share	$ .68	$ .58	$ 1.98	$ 1.74

Changes in Accumulated Other Comprehensive Loss

The changes in “Accumulated other comprehensive loss” (net of tax) for the nine-month period ended October 2, 2021 were as follows:

(In millions)	Foreign Currency Translation	Pension and Other Postretirement Benefits	Cash Flow Hedges	Total
Balance as of January 2, 2021	$ (248.1)	$ (92.7)	$ (8.8)	$ (349.6)
Other comprehensive income (loss) before reclassifications, net of tax	19.1	—	4.4	23.5
Reclassifications to net income, net of tax	—	3.3	(.2)	3.1
Other comprehensive income (loss), net of tax	19.1	3.3	4.2	26.6
Balance as of October 2, 2021	$ (229.0)	$ (89.4)	$ (4.6)	$ (323.0)

The changes in “Accumulated other comprehensive loss” (net of tax) for the nine-month period ended September 26, 2020 were as follows:

(In millions)	Foreign Currency Translation	Pension and Other Postretirement Benefits	Cash Flow Hedges	Total
Balance as of December 28, 2019	$ (245.1)	$ (101.8)	$ (1.2)	$ (348.1)
Other comprehensive income (loss) before reclassifications, net of tax	(45.5)	—	(2.3)	(47.8)
Reclassifications to net income, net of tax	—	1.9	.1	2.0
Other comprehensive income (loss), net of tax	(45.5)	1.9	(2.2)	(45.8)
Balance as of September 26, 2020	$ (290.6)	$ (99.9)	$ (3.4)	$ (393.9)

Note 11. Fair Value Measurements

Recurring Fair Value Measurements
The assets and liabilities carried at fair value, measured on a recurring basis, as of October 2, 2021 were as follows:

		Fair Value Measurements Using		
(In millions)	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Investments	$ 33.9	$ 27.0	$ 6.9	$ —
Derivative assets	13.7	1.7	12.0	—
Bank drafts	13.6	13.6	—	—
Liabilities				
Cross-currency swap	$ 18.9	$ —	$ 18.9	$ —
Derivative liabilities	7.3	—	7.3	—
Contingent consideration liabilities	10.4	—	—	10.4

The assets and liabilities carried at fair value, measured on a recurring basis, as of January 2, 2021 were as follows:

		Fair Value Measurements Using		
(In millions)	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Investments	$ 33.6	$ 27.4	$ 6.2	$ —
Derivative assets	5.2	.1	5.1	—
Bank drafts	12.8	12.8	—	—
Liabilities				
Cross-currency swap	$ 36.7	$ —	$ 36.7	$ —
Derivative liabilities	9.5	.3	9.2	—

Investments include fixed income securities (primarily U.S. government and corporate debt securities) measured at fair value using quoted prices/bids and a money market fund measured at fair value using net asset value. As of October 2, 2021, investments of $.4 million and $33.5 million were included in “Cash and cash equivalents” and “Other current assets,” respectively, in the unaudited Condensed Consolidated Balance Sheets. As of January 2, 2021, investments of $1 million and $32.6 million were included in “Cash and cash equivalents” and “Other current assets,” respectively, in the unaudited Condensed Consolidated Balance Sheets. Derivatives that are exchange-traded are measured at fair value using quoted market prices and classified within Level 1 of the valuation hierarchy. Derivatives measured based on foreign exchange rate inputs that are readily available in public markets are classified within Level 2 of the valuation hierarchy. Bank drafts (maturities greater than three months) are valued at face value due to their short-term nature and were included in “Other current assets” in the unaudited Condensed Consolidated Balance Sheets.

Contingent consideration liabilities relate to estimated earn-out payments associated with one of the Other 2021 Acquisitions. These payments are based on the acquired company’s achievement of certain performance targets based on the terms of the purchase agreement, and our estimates are based on the expected payments related to these targets as of October 2, 2021. We have classified these liabilities as Level 3. As of October 2, 2021, contingent consideration liabilities of approximately $3 million and $7 million were included in “Other current liabilities” and “Long-term retirement benefits and other liabilities,” respectively, in the unaudited Condensed Consolidated Balance Sheets.

The activity related to contingent consideration for the nine months ended October 2, 2021 is shown below.

(In millions)		
Acquisition	$	11.6
Payments		(1.2)
Balance at October 2, 2021	$	10.4

Note 12. Commitments and Contingencies

Legal Proceedings

We are involved in various lawsuits, claims, inquiries, and other regulatory and compliance matters, most of which are routine to the nature of our business. When it is probable that a loss will be incurred and where a range of the loss can be reasonably estimated, the best estimate within the range is accrued. When the best estimate within the range cannot be determined, the low end of the range is accrued. The ultimate resolution of these claims could affect future results of operations should our exposure be materially different from our estimates or should liabilities be incurred that were not previously accrued. Potential insurance reimbursements are not offset against potential liabilities.

We are currently party to a litigation in which ADASA Inc. (“Adasa”), an unrelated third party, alleged that certain of our radio-frequency identification (“RFID”) products infringed on its patent. We recorded a contingent liability related to this matter in the second quarter of 2021 in the amount of $26.6 million based on a jury verdict issued on May 14, 2021.

During the third quarter of 2021, the first instance judgment associated with the jury verdict was issued. This resulted in additional potential liability of $35.8 million for, among other things, RFID tags sold prior to March 31, 2021 and a royalty on a higher number of tags. In addition, Adasa was awarded a royalty on in-scope tags sold after March 31, 2021; we have largely completed our migration to alternative encoding methods used in our other RFID tags. We did not increase the contingent liability we recorded for this additional potential liability. With continued evaluation of the matter and our defenses, as well as consultation with our outside counsel, we continue to believe that ADASA’s patent is invalid and that, even if valid, we have not infringed it, and that the royalty rate used as the basis for the jury’s determination is unreasonable under prevailing industry standards, as well as that any liability related to this matter would be substantially lower than that which is reflected in either the jury verdict or the first instance judgment. On October 22, 2021, we appealed the judgment to the United States Court of Appeals for the Federal Circuit and continue to believe meritorious defenses exist to significantly reduce the liability we currently have recorded. We maintained our current contingent liability of $26.6 million for this matter as a reasonable estimate within the range of probable outcomes.

Because of the uncertainties associated with claims resolution and litigation, future expenses to resolve these matters could be higher than the liabilities we have accrued; however, we are unable to reasonably estimate a range of potential expenses. If information were to become available that allowed us to reasonably estimate a range of potential expenses in an amount higher or lower than what we have accrued and determined such to be probable, we would adjust our accrued liabilities accordingly. Additional lawsuits, claims, inquiries, and other regulatory and compliance matters could arise in the future. The range of expenses for resolving any future matters would be assessed as they arise; until then, a range of potential expenses for such resolution cannot be determined.

Based upon current information, we believe that the impact of the resolution of these matters would not be, individually or in the aggregate, material to our financial position, results of operations or cash flows.

Environmental Expenditures

Environmental expenditures are generally expensed. When it is probable that a loss will be incurred and where a range of the loss can be reasonably estimated, the best estimate within the range is accrued. When the best estimate within the range cannot be determined, the low end of the range is accrued. The ultimate resolution of these matters could affect future results of operations should our exposure be materially different from our estimates or should liabilities be incurred that were not previously accrued. Potential insurance reimbursements are not offset against potential liabilities. We review our estimates of the costs of complying with environmental laws related to remediation and cleanup of various sites, including sites in which governmental agencies have designated us as a potentially responsible party (“PRP”). However, environmental expenditures for newly acquired assets and those that extend or improve the economic useful life of existing assets are capitalized and amortized over the shorter of the estimated useful life of the acquired asset or the remaining life of the existing asset.

As of October 2, 2021, we have been designated by the U.S. Environmental Protection Agency (“EPA”) and/or other responsible state agencies as a PRP at twelve waste disposal or waste recycling sites that are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination. No settlement of our liability related to any of these sites has been agreed upon. We are participating with other PRPs at these sites and anticipate that our share of remediation costs will be determined pursuant to agreements that we negotiate with the EPA or other governmental authorities.

These estimates could change as a result of changes in planned remedial actions, remediation technologies, site conditions, the estimated time to complete remediation, environmental laws and regulations, and other factors. Because of the uncertainties associated with environmental assessment and remediation activities, our future expenses to remediate these sites could be higher than the liabilities we have accrued; however, we are unable to reasonably estimate a range of potential expenses. If information were to become available that allowed us to reasonably estimate a range of potential expenses in an amount higher or lower than what we have accrued, we would adjust our environmental liabilities accordingly. In addition, we may be identified as a PRP at additional sites in the future. The range of expenses for remediation of any future-identified sites would be addressed as they arise; until then, a range of expenses for such remediation cannot be determined.

The activity related to our environmental liabilities for the nine months ended October 2, 2021 is shown below.

(In millions)		
Balance at January 2, 2021	$	21.1
Charges, net of reversals		1.3
Payments		(1.6)
Balance at October 2, 2021	$	20.8

Approximately $2 million and $9 million of this balance was classified as short-term and included in “Other current liabilities” in the unaudited Condensed Consolidated Balance Sheets as of October 2, 2021 and January 2, 2021, respectively.

Note 13. Segment and Disaggregated Revenue Information

Disaggregated Revenue Information

Disaggregated revenue information is shown below in the manner that best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. Revenue from our Label and Graphic Materials reportable segment is attributed to geographic areas based on the location from which products are shipped. Revenue from our RBIS reportable segment is shown by product group.

	Three Months Ended		Nine Months Ended	
(In millions)	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Net sales to unaffiliated customers				
Label and Graphic Materials:				
U.S.	$ 372.1	$ 320.7	$ 1,094.7	$ 963.9
Europe, Middle East and North Africa	499.3	404.6	1,550.8	1,272.2
Asia	289.4	264.4	910.4	736.4
Latin America	103.6	84.1	300.0	245.2
Other international	81.4	71.6	243.1	202.7
Total Label and Graphic Materials	1,345.8	1,145.4	4,099.0	3,420.4
Retail Branding and Information Solutions:				
Apparel	436.5	371.5	1,334.5	985.1
Identification Solutions[1] and Vestcom	94.2	54.6	208.2	137.8
Total Retail Branding and Information Solutions	530.7	426.1	1,542.7	1,122.9
Industrial and Healthcare Materials	195.3	157.6	583.4	437.3
Net sales to unaffiliated customers	$ 2,071.8	$ 1,729.1	$ 6,225.1	$ 4,980.6

[1] Previously referred to as Printer Solutions

Additional Segment Information

Additional financial information by reportable segment and Corporate is shown below.

	Three Months Ended		Nine Months Ended	
(In millions)	October 2, 2021	September 26, 2020	October 2, 2021	September 26, 2020
Intersegment sales				
Label and Graphic Materials	$ 24.8	$ 19.8	$ 71.1	$ 55.1
Retail Branding and Information Solutions	10.4	7.3	28.1	19.4
Industrial and Healthcare Materials	3.7	2.0	8.0	4.8
Intersegment sales	$ 38.9	$ 29.1	$ 107.2	$ 79.3
Income before taxes				
Label and Graphic Materials	$ 184.9	$ 173.1	$ 639.2	$ 483.1
Retail Branding and Information Solutions	58.5	47.0	160.6	67.2
Industrial and Healthcare Materials	18.7	12.5	64.7	34.9
Corporate expense	(20.6)	(19.1)	(69.3)	(49.0)
Interest expense	(18.0)	(15.6)	(50.2)	(54.4)
Other non-operating expense (income), net	.9	(.1)	3.6	.2
Income before taxes	$ 224.4	$ 197.8	$ 748.6	$ 482.0
Other expense (income), net, by reportable segment and Corporate				
Label and Graphic Materials	$ .2	$ 1.4	$ (30.2)	$ 28.3
Retail Branding and Information Solutions	14.6	4.4	44.2	20.6
Industrial and Healthcare Materials	.7	6.6	1.3	8.6
Corporate	.5	—	1.0	(.2)
Other expense (income), net	$ 16.0	$ 12.4	$ 16.3	$ 57.3
Other expense (income), net, by type				
Restructuring charges:				
Severance and related costs	$ 1.1	$ 6.5	$ 5.1	$ 46.4
Asset impairment charges and lease cancellation costs	1.3	4.4	1.9	6.2
Other items:				
Transaction and related costs	19.4	—	20.1	3.2
Loss on sale of assets, net	—	—	.2	—
(Gain) loss on investments	(4.9)	1.5	(4.9)	1.5
Gain on sale of product line	(.9)	—	(5.7)	—
Outcomes of legal proceedings, net[(1)]	—	—	(.4)	—
Other expense (income), net	$ 16.0	$ 12.4	$ 16.3	$ 57.3

[(1)]First nine months of 2021 include an indirect tax credit based on a Brazilian Federal Supreme Court ruling in our favor in the amount of $29.1 million, partially offset by a contingent liability related to a patent infringement lawsuit in the amount of $26.6 million. Refer to Note 12, "Commitments and Contingencies," to the unaudited Condensed Consolidated Financial Statements for more information related to the patent infringement lawsuit.

Note 14. Supplemental Financial Information

Inventories

The table below summarizes the amounts in inventories, net.

(In millions)	October 2, 2021	January 2, 2021
Raw materials	$ 367.3	$ 268.6
Work-in-progress	228.9	210.3
Finished goods	282.9	238.3
Inventories, net	$ 879.1	$ 717.2

Property, Plant and Equipment

The table below summarizes the amounts in property, plant and equipment, net.

(In millions)	October 2, 2021	January 2, 2021
Property, plant and equipment	$ 3,536.4	$ 3,476.3
Accumulated depreciation	(2,130.9)	(2,132.6)
Property, plant and equipment, net	$ 1,405.5	$ 1,343.7

Allowance for Credit Losses

The activity related to our allowance for credit losses is shown below.

	Nine Months Ended	
(In millions)	October 2, 2021	September 26, 2020
Beginning balance	$ 44.6	$ 27.1
(Reversal of) provision for credit losses[1]	(4.8)	20.0
Amounts written off	(3.1)	(2.3)
Other, including foreign currency translation	.3	1.0
Ending balance	$ 37.0	$ 45.8

[1]For the nine months ended September 26, 2020, our provision for credit losses reflected impacts on customers as a result of COVID-19.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, provides management's views on our financial condition and results of operations and should be read in conjunction with the accompanying unaudited Condensed Consolidated Financial Statements and related notes.

NON-GAAP FINANCIAL MEASURES

We report our financial results in conformity with accounting principles generally accepted in the United States of America, or GAAP, and also communicate with investors using certain non-GAAP financial measures. These non-GAAP financial measures are not in accordance with, nor are they a substitute for or superior to, the comparable GAAP financial measures. These non-GAAP financial measures are intended to supplement the presentation of our financial results that are prepared in accordance with GAAP. Based upon feedback from investors and financial analysts, we believe that the supplemental non-GAAP financial measures we provide are useful to their assessments of our performance and operating trends, as well as liquidity.

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, positive or negative, of certain items (e.g., restructuring charges, outcomes of certain legal proceedings, certain effects of strategic transactions and related costs, losses from debt extinguishments, gains or losses from curtailment or settlement of pension obligations, gains or losses on sales of certain assets, gains or losses on investments and other items), we believe that we are providing meaningful supplemental information that facilitates an understanding of our core operating results and liquidity measures. While some of the items we exclude from GAAP financial measures recur, they tend to be disparate in amount, frequency, or timing.

We use these non-GAAP financial measures internally to evaluate trends in our underlying performance, as well as to facilitate comparison to the results of competitors for quarters and year-to-date periods, as applicable.

We use the non-GAAP financial measures described below in this MD&A.

- *Sales change ex. currency* refers to the increase or decrease in net sales, excluding the estimated impact of foreign currency translation, and, where applicable, the calendar shift resulting from the extra week in the prior fiscal year and currency adjustment for transitional reporting of highly inflationary economies. The estimated impact of foreign currency translation is 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.

We believe that sales change ex. currency and organic sales change assist investors in evaluating the sales change from the ongoing activities of our businesses and enhance their ability to evaluate our results from period to period.

- *Free cash flow* refers to cash flow provided by operating activities, 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 insurance and sales (purchases) of investments. Free cash flow is also adjusted for, where applicable, certain acquisition-related transaction costs. We believe that free cash flow assists investors by showing the amount of cash we have available for debt reductions, dividends, share repurchases and acquisitions.
- *Operational working capital as a percentage of annualized current quarter net sales* refers to trade accounts receivable and inventories, net of accounts payable, and excludes cash and cash equivalents, short-term borrowings, deferred taxes, other current assets and other current liabilities, as well as net current assets or liabilities held-for-sale divided by annualized current quarter net sales. We believe that operational working capital as a percentage of annualized current quarter net sales assists investors in assessing our working capital requirements because it excludes the impact of fluctuations attributable to our financing and other activities (which affect cash and cash equivalents, deferred taxes, other current assets, and other current liabilities) that tend to be disparate in amount, frequency, or timing, and may increase the volatility of working capital as a percentage of sales from period to period. The items excluded from this measure are not significantly influenced by our day-to-day activities managed at the operating level and do not necessarily reflect the underlying trends in our operations.

OVERVIEW AND OUTLOOK

Operational and Market Update

Uncertainty surrounding the global health crisis remains elevated as many parts of the world are experiencing an increase in cases related to COVID-19, with the greatest impact to the company in Southeast Asia, particularly in our Retail Branding and Information Solutions ("RBIS") reportable segment. The safety and well-being of employees has been and continues to be our top priority. We have taken steps to ensure employee safety, quickly implementing world-class safety protocols and continuing to adapt our guidelines as the pandemic continues to evolve. Where appropriate, we may take further actions required by international, federal, state or local authorities or that we determine are in the best interests of our employees, customers, shareholders and communities.

As supply chains remain constrained, we continue to actively manage through a dynamic supply and demand environment. Demand across the majority of businesses and regions remains strong, while raw materials, freight and labor availability continue to be constrained. Inflation remains persistent and we have implemented pricing and material re-engineering actions to offset higher costs. We are leveraging our global scale and working closely with customers and suppliers to minimize disruptions and continue to demonstrate agility and preparedness through robust scenario planning.

Overall, COVID-19 had a notably negative impact on our consolidated financial results in 2020, most significantly in our RBIS and Industrial and Healthcare Materials ("IHM") reportable segments. Our operations largely recovered from the prior-period impact of COVID-19, with this recovery reflected in higher volume across our businesses.

Net Sales

The factors impacting reported net sales change, as compared to the prior-year period, are shown in the table below.

	Three Months Ended October 2, 2021	Nine Months Ended October 2, 2021
Reported sales change	20%	25%
Foreign currency translation	(3)	(5)
Extra week impact	—	(1)
Sales change ex. currency[1]	17	19
Acquisitions and product line divestitures	(3)	(2)
Organic sales change[1]	14%	17%

[1]Totals may not sum due to rounding

In the three months and nine months ended October 2, 2021, net sales increased on an organic basis compared to the same periods in the prior year due to higher volume/mix and pricing actions.

Net Income

Net income increased from approximately $364 million in the first nine months of 2020 to approximately $557 million in the first nine months of 2021. Major factors affecting the change in net income included the following:

- Higher volume/mix
- Favorable currency translation
- Benefits from productivity initiatives, including savings from restructuring actions, net of transition costs
- Benefit from the Brazil indirect tax credit
- Lower allowances for credit losses

Offsetting factors:

- Higher employee-related costs
- The impact of prior-year temporary cost reduction actions
- Higher tax provision
- Net impact of higher selling prices, higher raw material costs, and higher freight costs
- Contingent liability related to patent infringement litigation
- Higher transaction and related costs

Acquisitions

Vestcom Acquisition

On August 31, 2021, we completed our acquisition of CB Velocity Holdings, LLC ("Vestcom"), an Arkansas-based provider of shelf-edge pricing, productivity and consumer engagement solutions for retailers and consumer packaged goods companies for a purchase price of $1.46 billion, subject to customary post-closing adjustments. We funded this acquisition using a combination of cash and proceeds from commercial paper borrowings and issuances of senior notes. Refer to Note 4, "Debt," to the unaudited Condensed Consolidated Financial Statements for more information.

We believe Vestcom's solutions expand our position in high value categories while adding channel access and data management capabilities to our RBIS reportable segment.

Other 2021 Acquisitions

On March 18, 2021, we completed our acquisition of the net assets of ZippyYum, LLC ("ZippyYum"), a California-based developer of software products used in the food service and food preparation industries. We believe this acquisition enhances the product portfolio in our RBIS reportable segment.

On March 1, 2021, we completed our acquisition of the issued and outstanding stock of JDC Solutions, Inc. ("JDC"), a Tennessee-based manufacturer of pressure-sensitive specialty tapes. We believe this acquisition expands the product portfolio in our IHM reportable segment.

The acquisitions of ZippyYum and JDC are referred to collectively as the "Other 2021 Acquisitions."

The aggregate purchase consideration for the Other 2021 Acquisitions was approximately $43 million. We funded the Other 2021 Acquisitions using cash and commercial paper borrowings. In addition to the cash paid at closing, the sellers in one of these acquisitions are eligible for earn-out payments of up to approximately $13 million subject to the acquired company's achievement of certain performance targets. We estimate the fair value of these earn-out payments as of October 2, 2021 to be approximately $12 million, which has been included in the $43 million of aggregate purchase consideration.

The Other 2021 Acquisitions were not material, individually or in the aggregate, to the unaudited Condensed Consolidated Financial Statements.
Refer to Note 2, "Acquisitions," to the unaudited Condensed Consolidated Financial Statements for more information.

Cost Reduction Actions

2019/2020 Actions

During the nine months ended October 2, 2021, we recorded $6.7 million in restructuring charges related to our 2019/2020 actions. These charges consisted of severance and related costs for the reduction of approximately 235 positions at numerous locations across our company, which primarily included actions in our RBIS reportable segment. The actions were primarily related to global headcount and footprint reductions, with some actions accelerated or expanded in response to COVID-19.

Restructuring charges were included in "Other expense (income), net" in the unaudited Condensed Consolidated Statements of Income. Refer to Note 6, "Cost Reduction Actions," to the unaudited Condensed Consolidated Financial Statements for more information.

Cash Flow

(In millions)	Nine Months Ended October 2, 2021	Nine Months Ended September 26, 2020
Net cash provided by operating activities	$ 762.8	$ 441.8
Purchases of property, plant and equipment	(130.6)	(91.7)
Purchases of software and other deferred charges	(9.8)	(13.8)
Proceeds from sales of property, plant and equipment	1.1	.2
Proceeds from insurance and sales (purchases) of investments, net	1.2	5.2
Payments for certain acquisition-related transaction costs	14.5	—
Free cash flow	$ 639.2	$ 341.7

During the first nine months of 2021, net cash provided by operating activities increased compared to the same period last year primarily due to higher net income and improved operational working capital, partially offset by higher income tax payments, net of refunds. During the first nine months of 2021, free cash flow increased compared to the same period last year primarily due to an increase in net cash provided by operating activities, partially offset by an increase in purchases of property, plant and equipment.

Outlook

In addition to the continued uncertain impact on COVID-19 on our businesses and including the impact of the recently completed Vestcom acquisition, certain factors that we believe may contribute to our 2021 results are described below.

- We expect net sales to increase by approximately 20%, including an increase of approximately 3.5% from the effect of foreign currency translation and a decrease of approximately 1.5% related to the calendar shift resulting from the extra week in 2020.
- We expect closed acquisitions to benefit operating income.
- Based on recent exchange rates, we expect foreign currency translation to increase our operating income by approximately $30 million.
- We expect incremental savings from restructuring actions, net of transition costs, of approximately $60 million.
- We expect the pace of our investments in our businesses to accelerate throughout the year.
- We expect our full year effective tax rate to be in the mid-twenty percent range.
- We expect net cash provided by operating activities and free cash flow to increase.

ANALYSIS OF RESULTS OF OPERATIONS FOR THE THIRD QUARTER

Income Before Taxes

(In millions, except percentages)	Three Months Ended October 2, 2021	Three Months Ended September 26, 2020
Net sales	$ 2,071.8	$ 1,729.1
Cost of products sold	1,517.4	1,244.9
Gross profit	554.4	484.2
Marketing, general and administrative expense	296.9	258.3
Other expense (income), net	16.0	12.4
Interest expense	18.0	15.6
Other non-operating expense (income), net	(.9)	.1
Income before taxes	$ 224.4	$ 197.8
Gross profit margin	26.8%	28.0%

Gross Profit Margin

Gross profit margin for the third quarter of 2021 decreased from the same period last year primarily due to the net impact of higher selling prices, higher raw material costs, and higher freight costs and higher employee-related costs, partially offset by higher volume and the impact of prior-year temporary cost reduction actions.

Marketing, General and Administrative Expense

Marketing, general and administrative expense increased in the third quarter of 2021 compared to the same period last year primarily due to growth investments, higher employee-related costs, and the impact of prior-year temporary cost reduction actions.

Other Expense (Income), Net

(In millions)	Three Months Ended October 2, 2021	Three Months Ended September 26, 2020
Other expense (income), net, by type		
Restructuring charges:		
Severance and related costs	$ 1.1	$ 6.5
Asset impairment charges and lease cancellation costs	1.3	4.4
Other items:		
Transaction and related costs	19.4	—
(Gain) loss on investments	(4.9)	1.5
Gain on sale of product line	(.9)	—
Other expense (income), net	$ 16.0	$ 12.4

Refer to Note 6, "Cost Reduction Actions," to the unaudited Condensed Consolidated Financial Statements for more information regarding restructuring charges.

In May 2021, the Brazilian Federal Supreme Court ruled on the recovery of certain indirect taxes that we had paid in previous years. As a result of the ruling, we recorded a gain of $29.1 million in "Other expense (income), net" in the unaudited Condensed Consolidated Statements of Income. We expect to use these recoveries to offset our future taxes in Brazil. Refer to Note 13, "Segment and Disaggregated Revenue Information," to the unaudited Condensed Consolidated Financial Statements for more information regarding this ruling.

Interest Expense

Interest expense increased in the third quarter of 2021 compared to the same period last year reflecting additional interest costs related to the $800 million of senior notes we issued in August 2021.

Net Income and Earnings per Share

(In millions, except per share amounts and percentages)	Three Months Ended October 2, 2021	Three Months Ended September 26, 2020
Income before taxes	$ 224.4	$ 197.8
Provision for (benefit from) income taxes	59.2	46.3
Equity method investment (losses) gains	(1.1)	(1.0)
Net income	$ 164.1	$ 150.5
Per share amounts:		
Net income per common share	$ 1.98	$ 1.80
Net income per common share, assuming dilution	1.96	1.79
Effective tax rate	26.4%	23.4%

Provision for (Benefit from) Income Taxes

Our effective tax rate for the three months ended October 2, 2021 was 26.4% compared to 23.4% in the same period last year. The increase was primarily due to a higher forecasted effective tax rate and transaction costs related to the Vestcom acquisition, partially offset by a higher discrete benefit from return-to-provision adjustments upon completion of our 2020 U.S. federal tax return. Refer to Note 8, "Taxes Based on Income," to the unaudited Condensed Consolidated Financial Statements for more information.

RESULTS OF OPERATIONS BY REPORTABLE SEGMENT FOR THE THIRD QUARTER

Operating income refers to income before taxes, interest and other non-operating expense (income), net.

Label and Graphic Materials

	Three Months Ended	
(In millions)	October 2, 2021	September 26, 2020
Net sales including intersegment sales	$ 1,370.6	$ 1,165.2
Less intersegment sales	(24.8)	(19.8)
Net sales	$ 1,345.8	$ 1,145.4
Operating income[(1)]	184.9	173.1
[(1)]Included charges associated with restructuring actions in both years, transaction and related costs and gain on sale of product line in 2021.	$ .2	$ 1.4

Net Sales

The factors impacting reported net sales change are shown in the table below.

	Three Months Ended October 2, 2021
Reported sales change	18%
Foreign currency translation	(3)
Sales change ex. currency[(1)]	15
Acquisitions and product line divestitures	(1)
Organic sales change[(1)]	14%

[(1)] Totals may not sum due to rounding

In the third quarter of 2021, net sales increased on an organic basis compared to the same period in the prior year due to favorable volume/mix and pricing actions. On an organic basis, net sales increased by low-double digit rates in emerging markets and North America and more than 20% in Western Europe.

Operating Income

Operating income increased in the third quarter of 2021 compared to the same period last year primarily due to favorable volume/mix, partially offset by the net impact of higher selling prices, higher raw material costs, and higher freight costs and higher employee-related costs.

Retail Branding and Information Solutions

	Three Months Ended	
(In millions)	October 2, 2021	September 26, 2020
Net sales including intersegment sales	$ 541.1	$ 433.4
Less intersegment sales	(10.4)	(7.3)
Net sales	$ 530.7	$ 426.1
Operating income[(1)]	58.5	47.0
[(1)]Included charges associated with restructuring actions and gain on investments and transaction and related costs in 2021, and loss on investments in 2020.	$ 14.6	$ 4.4

Net Sales

The factors impacting reported net sales change are shown in the table below.

	Three Months Ended October 2, 2021
Reported sales change	25%
Foreign currency translation	(2)
Sales change ex. currency[(1)]	22
Acquisitions	(9)
Organic sales change[(1)]	14%

[(1)]Totals may not sum due to rounding

In the third quarter of 2021, company-wide, net sales of Intelligent Labels solutions and the base business increased on an organic basis by a mid-teens rate.

Operating Income
Operating income increased in the third quarter of 2021 compared to the same period last year primarily due to higher volume, benefits from productivity initiatives, including savings from restructuring actions, net of transition costs, partially offset by increased transaction and related costs, higher employee-related costs, the impact of prior-year temporary cost reduction actions, and growth investments.

Industrial and Healthcare Materials

	Three Months Ended	
(In millions)	**October 2, 2021**	**September 26, 2020**
Net sales including intersegment sales	$ 199.0	$ 159.6
Less intersegment sales	(3.7)	(2.0)
Net sales	$ 195.3	$ 157.6
Operating income[1]	18.7	12.5
[1]Included charges associated with restructuring actions in both years and transaction and related costs in 2021.	$ .7	$ 6.6

Net Sales
The factors impacting reported net sales change are shown in the table below.

	Three Months Ended October 2, 2021
Reported sales change	24%
Foreign currency translation	(4)
Sales change ex. currency[1]	20
Acquisitions	(5)
Organic sales change[1]	15%

[1] Totals may not sum due to rounding

In the third quarter of 2021, net sales increased on an organic basis compared to the same period in the prior year primarily due to a high-teens rate increase in industrial categories and a high-single digit rate increase in healthcare categories.

Operating Income
Operating income increased in the third quarter of 2021 compared to the same period last year primarily due to higher volume/mix and lower restructuring charges, partially offset by the net impact of higher selling prices, higher raw material costs, and higher freight costs, the impact of prior-year temporary cost reduction actions, and higher employee-related costs.

ANALYSIS OF RESULTS OF OPERATIONS FOR THE NINE MONTHS YEAR-TO-DATE

Income Before Taxes

	Nine Months Ended	
(In millions, except percentages)	**October 2, 2021**	**September 26, 2020**
Net sales	$ 6,225.1	$ 4,980.6
Cost of products sold	4,497.4	3,628.4
Gross profit	1,727.7	1,352.2
Marketing, general and administrative expense	916.2	758.7
Other expense (income), net	16.3	57.3
Interest expense	50.2	54.4
Other non-operating expense (income), net	(3.6)	(.2)
Income before taxes	$ 748.6	$ 482.0
Gross profit margin	27.8%	27.1%

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Gross Profit Margin

Gross profit margin for the first nine months of 2021 increased from the same period last year primarily due to higher volume and benefits from productivity initiatives, including savings from restructuring actions, net of transition costs, partially offset by the net impact of higher selling prices, higher raw material costs, and higher freight costs, the impact of prior-year temporary cost reduction actions, and higher employee-related costs.

Marketing, General and Administrative Expense

Marketing, general and administrative expense increased in the first nine months of 2021 compared to the same period last year primarily due to higher employee-related costs, the impact of prior-year temporary cost reduction actions, growth investments, and unfavorable currency translation, partially offset by lower allowances for credit losses and benefits from productivity initiatives, including savings from restructuring actions, net of transition costs.

Other Expense (Income), Net

	Nine Months Ended	
(In millions)	October 2, 2021	September 26, 2020
Other expense (income), net, by type		
Restructuring charges:		
Severance and related costs	$ 5.1	$ 46.4
Asset impairment charges and lease cancellation costs	1.9	6.2
Other items:		
Transaction and related costs	20.1	3.2
Loss on sale of assets, net	.2	—
(Gain) loss on investment	(4.9)	1.5
Gain on sale of product line	(5.7)	—
Outcomes of legal proceedings, net	(.4)	—
Other expense (income), net	$ 16.3	$ 57.3

Refer to Note 6, “Cost Reduction Actions,” to the unaudited Condensed Consolidated Financial Statements for more information regarding restructuring charges. Refer to Note 13, “Segment and Disaggregated Revenue Information,” to the unaudited Condensed Consolidated Financial Statements for more information regarding outcomes of legal proceedings.

Interest Expense

Interest expense decreased in the first nine months of 2021 compared to the same period last year reflecting lower borrowing rates on outstanding indebtedness.

Net Income and Earnings per Share

	Nine Months Ended	
(In millions, except per share amounts and percentages)	October 2, 2021	September 26, 2020
Income before taxes	$ 748.6	$ 482.0
Provision for (benefit from) income taxes	187.7	114.8
Equity method investment (losses) gains	(3.5)	(2.8)
Net income	$ 557.4	$ 364.4
Per share amounts:		
Net income per common share	$ 6.72	$ 4.37
Net income per common share, assuming dilution	6.64	4.34
Effective tax rate	25.1%	23.8%

Provision for (Benefit from) Income Taxes

Our effective tax rate for the nine months ended October 2, 2021 was 25.1% compared to 23.8% in the same period last year. The increase was primarily due to net discrete tax charges related to tax effects on outcomes of certain legal proceedings and transaction costs related to the Vestcom acquisition, partially offset by higher discrete benefits from return-to-provision adjustments for tax years 2018 and 2020. Refer to Note 8, “Taxes Based on Income,” to the unaudited Condensed Consolidated Financial Statements for more information.

We estimate our effective tax rate for fiscal year 2021 to be in the mid-twenty percent range. Our effective tax rate can vary from quarter to quarter due to a variety of factors, such as changes in the mix of earnings in countries with differing statutory tax rates, changes in tax reserves, settlements of income tax audits, changes in tax laws and regulations, return-to-provision adjustments, tax impacts related to stock-based payments and execution of tax planning strategies.

RESULTS OF OPERATIONS BY REPORTABLE SEGMENT FOR THE NINE MONTHS YEAR-TO-DATE

Operating income refers to income before taxes, interest and other non-operating expense (income), net.

Label and Graphic Materials

	Nine Months Ended	
(In millions)	October 2, 2021	September 26, 2020
Net sales including intersegment sales	$ 4,170.1	$ 3,475.5
Less intersegment sales	(71.1)	(55.1)
Net sales	$ 4,099.0	$ 3,420.4
Operating income[1]	639.2	483.1
[1] Included charges associated with restructuring actions and transaction and related costs in both years, and outcomes of legal proceedings and gain on sale of product line in 2021.	$ (30.2)	$ 28.3

Net Sales
The factors impacting reported net sales change are shown in the table below.

	Nine Months Ended October 2, 2021
Reported sales change	20%
Foreign currency translation	(5)
Extra week impact	(1)
Sales change ex. currency[1]	13
Acquisitions and product line divestitures	(1)
Organic sales change[1]	12%

[1] Totals may not sum due to rounding

In the first nine months of 2021, net sales increased on an organic basis compared to the same period in the prior year due to favorable volume/mix. On an organic basis, net sales increased by a mid-teens rate in emerging markets, a mid-to-high single digit rate in North America, and a mid-teens rate in Western Europe.

Operating Income
Operating income increased in the first nine months of 2021 compared to the same period last year primarily due to favorable volume/mix, the Brazil indirect tax credit, lower restructuring charges, favorable foreign currency translation, and lower allowances for credit losses. These benefits were partially offset by the net impact of higher selling prices, higher raw material costs, and higher freight costs and higher employee-related costs.

Retail Branding and Information Solutions

	Nine Months Ended	
(In millions)	October 2, 2021	September 26, 2020
Net sales including intersegment sales	$ 1,570.8	$ 1,142.3
Less intersegment sales	(28.1)	(19.4)
Net sales	$ 1,542.7	$ 1,122.9
Operating income[1]	160.6	67.2
[1] Included charges associated with restructuring actions and transaction and related costs in both years, outcome of legal proceedings, loss on sale of asset and gain on investments in 2021, and loss on investments in 2020.	$ 44.2	$ 20.6

Net Sales
The factors impacting reported net sales change are shown in the table below.

	Nine Months Ended October 2, 2021
Reported sales change	37%
Foreign currency translation	(3)
Extra week impact	(1)
Sales change ex. currency[(1)]	33
Acquisitions	(5)
Organic sales change[(1)]	28%

[(1)] Totals may not sum due to rounding

On an organic basis, net sales in the segment related to Intelligent Labels increased by approximately 30%. Net sales in the base business increased approximately 25% in the first nine months of 2021, partially due to the recovery from the prior-period impact of COVID-19.

Operating Income
Operating income increased in the first nine months of 2021 compared to the same period last year primarily due to higher volume, benefits from productivity initiatives, including savings from restructuring actions, net of transition costs, and lower restructuring charges, partially offset by higher employee-related costs, outcomes of legal proceedings, the impact of prior-year temporary cost reduction actions, growth investments, and higher transaction and related costs.

Industrial and Healthcare Materials

	Nine Months Ended	
(In millions)	October 2, 2021	September 26, 2020
Net sales including intersegment sales	$ 591.4	$ 442.1
Less intersegment sales	(8.0)	(4.8)
Net sales	$ 583.4	$ 437.3
Operating income[(1)]	64.7	34.9
[(1)] Included charges associated with restructuring actions in both years and transaction and related costs and gain on sale of assets in 2021.	$ 1.3	$ 8.6

Net Sales
The factors impacting reported net sales change are shown in the table below.

	Nine Months Ended October 2, 2021
Reported sales change	33%
Foreign currency translation	(6)
Extra week impact	(2)
Sales change ex. currency[(1)]	25
Acquisitions	(5)
Organic sales change[(1)]	21%

[(1)] Totals may not sum due to rounding

In the first nine months of 2021, net sales increased on an organic basis compared to the same period in the prior year primarily due to an increase of approximately 30% in industrial categories, partially offset by a low-single digit rate decline in healthcare categories.

Operating Income
Operating income increased in the first nine months of 2021 compared to the same period last year primarily due to higher volume/mix and lower restructuring charges, partially offset by the impact of prior-year temporary cost reduction actions, the net impact of higher selling prices, higher raw material costs, and higher freight costs and higher employee-related costs.

FINANCIAL CONDITION

Liquidity

Operating Activities

	Nine Months Ended	
(In millions)	October 2, 2021	September 26, 2020
Net income	$ 557.4	$ 364.4
Depreciation	122.9	113.7
Amortization	48.6	36.1
Provision for credit losses and sales returns	26.1	50.4
Stock-based compensation	27.1	12.1
Pension plan settlement loss	1.0	—
Deferred taxes and other non-cash taxes	(1.5)	17.1
Other non-cash expense and loss (income and gain), net	17.7	35.3
Changes in assets and liabilities and other adjustments	(36.5)	(187.3)
Net cash provided by operating activities	$ 762.8	$ 441.8

During the first nine months of 2021, net cash provided by operating activities increased compared to the same period last year primarily due to higher net income and improved operational working capital, partially offset by higher income tax payments, net of refunds.

Investing Activities

	Nine Months Ended	
(In millions)	October 2, 2021	September 26, 2020
Purchases of property, plant and equipment	$ (130.6)	$ (91.7)
Purchases of software and other deferred charges	(9.8)	(13.8)
Proceeds from sales of property, plant and equipment	1.1	.2
Proceeds from insurance and sales (purchases) of investments, net	1.2	5.2
Proceeds from sale of product line	6.7	—
Payments for acquisitions, net of cash acquired, and investments in businesses	(1,474.3)	(262.8)
Net cash used in investing activities	$ (1,605.7)	$ (362.9)

Purchases of Property, Plant and Equipment
During the first nine months of 2021, we primarily invested in equipment to support growth in the U.S. and certain countries in Europe and Asia for our Labels and Graphic Materials ("LGM") reportable segment, in the U.S. for our IHM reportable segment, and in the U.S. and certain countries in Asia for our RBIS reportable segment. During the first nine months of 2020, we primarily invested in equipment and expanded manufacturing facilities to support growth in the U.S. and certain countries in Europe and Asia for our LGM reportable segment, in the U.S. and certain countries in Europe for our IHM reportable segment, and in the U.S. and certain countries in Asia for our RBIS reportable segment.

Purchases of Software and Other Deferred Charges
During the first nine months of 2021, we invested in information technology upgrades in the U.S. and Europe. During the first nine months of 2020, we invested in information technology upgrades worldwide.

Proceeds from Sale of Product Line
During the first nine months of 2021, proceeds from the sale of a product line were in our LGM reportable segment.

Payments for Acquisitions, Net of Cash Acquired, and Investments in Businesses
During the first nine months of 2021, we paid consideration, net of cash acquired, of approximately $1.44 billion and $32 million for the Vestcom acquisition and the Other 2021 Acquisitions, respectively. We funded the Vestcom acquisition using the net proceeds from the $500 million and $300 million senior notes we issued in August 2021, commercial paper borrowings and cash. We funded the Other 2021 Acquisitions using cash and commercial paper borrowings. During the first nine months of 2020, we paid consideration, net of cash acquired, of approximately $255 million to acquire Smartrac, which we initially funded using commercial paper borrowings. We also invested in certain strategic unconsolidated businesses in both 2021 and 2020.

Financing Activities

(In millions)	Nine Months Ended October 2, 2021	Nine Months Ended September 26, 2020
Net increase (decrease) in borrowings with maturities of three months or less	$ 332.0	$ (57.1)
Additional borrowings under revolving credit facility	—	500.0
Repayments of revolving credit facility	—	(500.0)
Additional long-term borrowings	791.9	493.7
Repayments of long-term debt and finance leases	(8.0)	(268.9)
Dividends paid	(164.3)	(145.2)
Share repurchases	(126.0)	(52.2)
Net (tax withholding) proceeds related to stock-based compensation	(25.5)	(20.0)
Net cash (used in) provided by financing activities	$ 800.1	$ (49.7)

Borrowings and Repayment of Debt
During the first nine months of 2021 and 2020, our commercial paper borrowings were used to fund acquisitions, dividend payments, share repurchases and capital expenditures, and for other general corporate purposes.

In August 2021, we issued $500 million of senior notes, due February 15, 2032, which bear an interest rate of 2.250%, payable semiannually in arrears. Our net proceeds from the issuance, after deducting underwriting discounts and offering expenses, were $493.8 million. Additionally, in August 2021, we issued $300 million of senior notes, due August 15, 2024, which may be repaid without penalty on or after August 15, 2022 and bear an interest rate of 0.850%, payable semiannually in arrears. Our net proceeds from the issuance, after deducting underwriting discounts and offering expenses, were $298.1 million. We used the net proceeds from these two debt issuances to finance a portion of the Vestcom acquisition.

Refer to Note 2, “Acquisitions,” and Note 4, “Debt,” to the Unaudited Condensed Consolidated Financial Statements for more information.

During the first quarter of 2020, commercial paper borrowings were also used for the Smartrac acquisition, with those borrowings subsequently repaid using a portion of the net proceeds from the $500 million of senior notes we issued in March 2020. We used the remaining proceeds from these notes to repay our $250 million of senior notes that matured in April 2020.

In the first quarter of 2020, in light of uncertainty due to COVID-19 regarding the availability of commercial paper borrowings, which we typically rely upon to fund our day-to-day operational needs, and the relatively favorable terms under our $800 million revolving credit facility (the “Revolver), we borrowed $500 million from the Revolver with a six-month duration. This amount was repaid in June 2020.

Dividends Paid
We paid dividends of $1.98 per share in the first nine months of 2021 compared to $1.74 per share in the same period last year. In April 2021, we increased our quarterly dividend rate to $.68 per share, representing an increase of approximately 10% from our previous quarterly dividend rate of $.62 per share.

Share Repurchases
During the first nine months of 2021 and 2020, we repurchased approximately .7 million and .4 million shares of our common stock, respectively.

Net (Tax Withholding) Proceeds Related to Stock-Based Compensation
During the first nine months of 2021, tax withholding for stock-based compensation increased compared to the same period last year primarily as a result of equity awards vesting at higher share prices.

Analysis of Selected Balance Sheet Accounts

Long-lived Assets
In the nine months ended October 2, 2021, goodwill increased by approximately $760 million to $1.90 billion, which reflected the preliminary valuation of goodwill associated with the Vestcom acquisition and the Other 2021 Acquisitions, partially offset by the impact of foreign currency translation.

In the nine months ended October 2, 2021, other intangibles resulting from business acquisitions, net, increased by approximately $707 million to $931.5 million, which reflected the preliminary valuation of intangible assets associated with the Vestcom acquisition and the Other 2021 Acquisitions, partially offset by current year amortization expense and the impact of foreign currency translation.

Refer to Note 3, “Goodwill and Other Intangibles Resulting from Business Acquisitions,” to the unaudited Condensed Consolidated Financial Statements for more information.

Shareholders' Equity Accounts
As of October 2, 2021, the balance of our shareholders' equity was $1.80 billion. Refer to Note 10, "Supplemental Equity and Comprehensive Income Information," to the unaudited Condensed Consolidated Financial Statements for more information.

Impact of Foreign Currency Translation

(In millions)		Nine Months Ended October 2, 2021
Change in net sales	$	169

International operations generated approximately 76% of our net sales during the nine months ended October 2, 2021. Our future results are subject to changes in political and economic conditions in the regions in which we operate and the impact of fluctuations in foreign currency exchange and interest rates.

The favorable impact of foreign currency translation on net sales in the first nine months of 2021 compared to the same period last year was primarily related to euro-denominated sales and sales in China.

Effect of Foreign Currency Transactions

The impact on our net income from transactions denominated in foreign currencies is largely mitigated because the costs of our products are generally denominated in the same currencies in which they are sold. In addition, to reduce our income and cash flow exposure to transactions in foreign currencies, we enter into foreign exchange forward, option and swap contracts where available and appropriate. Refer to Note 7, "Financial Instruments," to the unaudited Condensed Consolidated Financial Statements for more information.

Analysis of Selected Financial Ratios

We utilize the financial ratios discussed below to assess our financial condition and operating performance. We believe this information assists our investors in understanding the drivers of our cash flow other than net income and capital expenditures.

Operational Working Capital Ratio
Operational working capital, as a percentage of annualized current-quarter net sales, is reconciled to working capital below. Our objective is to minimize our investment in operational working capital, as a percentage of annualized current-quarter net sales, to maximize cash flow and return on investment. Operational working capital, as a percentage of annualized current-quarter net sales, in the third quarter of 2021 was lower compared to the third quarter of 2020.

(In millions, except percentages)		October 2, 2021		September 26, 2020
(A) Working capital	$	169.1	$	558.5
Reconciling items:				
Cash and cash equivalents		(207.2)		(284.7)
Other current assets		(251.0)		(214.5)
Short-term borrowings and current portion of long-term debt and finance leases		398.8		124.1
Accrued payroll and employee benefits and other current liabilities		942.4		759.1
(B) Operational working capital	$	1,052.1	$	942.5
(C) Third-quarter net sales, annualized[(1)]	$	8,523.4	$	6,916.4
Operational working capital, as a percentage of annualized current-quarter net sales: (B) ÷ (C)		12.3 %		13.6 %

(1) Included 2021 estimated annualized sales for Vestcom.

Accounts Receivable Ratio
The average number of days sales outstanding was 62 days in the third quarter of 2021 compared to 64 days in the third quarter of 2020, calculated using the accounts receivable balance at quarter-end divided by the average daily sales, including the 2021 estimated annualized sales for Vestcom, in the third quarter of 2021 and 2020, respectively. The higher average number of days sales outstanding in 2020 primarily reflected the impact of COVID-19 on our customers. Additionally, the average number of days sales outstanding in 2021 decreased due to higher volume, the impact of foreign currency translation, and focused collection efforts, partially offset by the impact of acquisitions.

Inventory Ratio
Average inventory turnover was 7.1 in the third quarter of 2021 compared to 7.5 in the third quarter of 2020, calculated using the annualized third-quarter cost of products sold, including the 2021 estimated annualized cost of products sold for Vestcom, in 2021 and 2020, respectively, and divided by the inventory balance at quarter-end.

The decrease in average inventory turnover primarily reflected higher inventory balances to manage supply chain disruptions, anticipated increased demand, and the impact of increasing raw material costs, partially offset by volume-driven higher cost of products sold. Additionally, inventory turnover in the third quarter of 2020 reflected lower cost of products sold as a result of lower demand due to COVID-19.

Accounts Payable Ratio

The average number of days payable outstanding was 74 days in the third quarter of 2021 compared to 68 days in the third quarter of 2020, calculated using the accounts payable balance at quarter-end divided by the annualized third-quarter cost of products sold, including the 2021 estimated annualized cost of products sold for Vestcom, in 2021 and 2020, respectively. The increase in the average number of days payable outstanding from the prior year primarily reflected the impact of higher accounts payable balances due to our inventory build-up to manage supply chain disruptions, anticipated increased demand and the impact of increasing raw material costs, partially offset by volume-driven higher cost of products sold and the impact of acquisitions.

Capital Resources

Capital resources include cash flows from operations, cash and cash equivalents, and debt financing, including access to commercial paper borrowings supported by our Revolver. We use these resources to fund our operational needs.

As of October 2, 2021, we had cash and cash equivalents of $207.2 million held in accounts at third-party financial institutions. Our cash balances are held in numerous locations throughout the world. As of October 2, 2021, the majority of our cash and cash equivalents was held by our foreign subsidiaries, primarily in Asia Pacific and Europe.

To meet our U.S. cash requirements, we have several cost-effective liquidity options available. These options include borrowing funds at reasonable rates, including borrowings from foreign subsidiaries, and repatriating foreign earnings and profits. However, if we were to repatriate foreign earnings and profits, a portion would be subject to cash payments of withholding taxes imposed by foreign tax authorities. Additional U.S. taxes may also result from the impact of foreign currency movements related to these earnings and profits.

The Revolver, which matures in February 2025, is used as a back-up facility for our commercial paper borrowings and can be used for other corporate purposes. No balance was outstanding under the Revolver as of October 2, 2021 or January 2, 2021.

Capital from Debt

The carrying value of our total debt increased by approximately $1.08 billion in the first nine months of 2021 to $3.20 billion, primarily reflecting our issuance of the $500 million and $300 million senior notes in August 2021 and a net increase in commercial paper borrowings.

Credit ratings are a significant factor in our ability to raise short- and long-term financing. The credit ratings assigned to us also impact the interest rates we pay and our access to commercial paper, credit facilities, and other borrowings. A downgrade of our short-term credit ratings could impact our ability to access commercial paper markets. If our access to commercial paper markets were to become limited, as it did in the first quarter of 2020 as a result of COVID-19, we believe that the Revolver and our other credit facilities would be available to meet our short-term funding requirements. When determining a credit rating, we believe that rating agencies primarily consider our competitive position, business outlook, consistency of cash flows, debt level and liquidity, geographic dispersion and management team. There has been no change to the credit ratings assigned to us as a result of COVID-19. We remain committed to maintaining an investment grade rating.

Off-Balance Sheet Arrangements, Contractual Obligations, and Other Matters

Refer to Note 12, “Commitments and Contingencies,” to the unaudited Condensed Consolidated Financial Statements for this information. Except as indicated therein, we have no material off-balance sheet arrangements as described in Item 303(b) of Regulation S-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to the information provided in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended January 2, 2021 that have not been disclosed in our periodic filings with the SEC.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(f)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure.

In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our disclosure controls system is based upon a global chain of financial and general business reporting lines that converge in our headquarters in Glendale, California. As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such time to provide reasonable assurance that information was recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We have excluded CB Velocity Holdings, LLC (“Vestcom”) from our assessment of internal control over financial reporting as of the end of the third quarter 2021 because we acquired the company in a purchase business combination during the third quarter 2021. Vestcom is a wholly-owned subsidiary, the total assets of which, excluding goodwill and other intangibles resulting from business acquisitions, and total revenues of which have been excluded from our assessment of internal control over financial reporting. These items represent 3% and less than 1%, respectively, of the related unaudited consolidated financial statement amounts as of and for the nine months ended October 2, 2021.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to “Legal Proceedings” in Note 12, “Commitments and Contingencies,” to the unaudited Condensed Consolidated Financial Statements in Part 1, Item 1 for this information.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended January 2, 2021 that have not been disclosed in our periodic filings with the SEC, except as set forth below.

The successful execution of our business strategy following the consummation of the acquisition of Vestcom involves risks and may not be successful.

On July 27, 2021, we entered into an Agreement and Plan of Merger by and among the Company, CB Velocity Holdings, LLC (“Vestcom”), Lobo Merger Sub, LLC (“Merger Sub”) and Charlesbank Equity Fund VIII, Limited Partnership (the “Merger Agreement”) pursuant to which, on the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub would merge with and into Vestcom, with Vestcom surviving the merger as a wholly-owned subsidiary of the Company (the “Acquisition”).

The Acquisition closed on August 31, 2021. The success of the Acquisition depends, in part, on the ability of the combined company to realize the anticipated benefits from combining our business with that of Vestcom. Realizing these benefits depends, in part, on maintaining adequate focus on executing the business strategies of the combined company as well as the successful integration of assets, operations, functions and personnel. At this time, there can be no assurance that any cost savings, economies of scale, enhanced liquidity or other operational efficiencies, as well as revenue enhancement opportunities anticipated from the combination, or other synergies, will be realized.

If management of the combined company is unable to continue minimizing the potential disruption of the combined company’s ongoing business during the integration process, the anticipated benefits of the Acquisition may not be partially or fully realized. In addition, the inability to successfully manage the implementation of appropriate systems, policies, benefits and compliance programs for the combined company could have a material adverse effect on our business.

Any or all of these events could adversely affect the combined company’s ability to maintain relationships with service providers, customers and employees as a result of the Acquisition or realize the anticipated benefits of the Acquisition.

Potential new U.S. tax legislation could materially and adversely affect our effective tax rate.

The U.S. government has proposed significant changes to the taxation of corporations, which may include the following: an increase in the corporate income tax rate, the imposition of minimum taxes or surtaxes on certain types of income, significant changes to the taxation of income derived from international business activities, and the addition of further limitations on interest deductions. While various proposals are under active consideration, it is unclear at this time what, if any, changes will be enacted and the impact and timing thereof.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not Applicable

(b) Not Applicable

(c) Repurchases of Equity Securities by Issuer

Repurchases by us or our "affiliated purchasers" (as defined in Rule 10b-18(a)(3) of the Exchange Act) of registered equity securities in the third quarter of 2021 are shown in the table below. Repurchased shares may be reissued under our long-term incentive plan or used for other corporate purposes.

Period[(1)]	Total number of shares purchased[(2)]	Average price paid per share	Total number of shares purchased as part of publicly announced plans[(2)(3)]	Approximate dollar value of shares that may yet be purchased under the plans[(4)]
July 4, 2021 – July 31, 2021	75.1	$ 206.08	75.1	$ 429.9
August 1, 2021 – August 28, 2021	61.9	215.37	61.9	416.6
August 29, 2021 – October 2, 2021	9.8	215.29	9.8	414.5
Total	146.8	$ 210.62	146.8	$ 414.5

(1)The periods shown are our fiscal periods during the thirteen-week quarter ended October 2, 2021.
(2)Shares in thousands.
(3)In April 2019, our Board authorized the repurchase of shares of our common stock with a fair market value of up to $650 million, exclusive of any fees, commissions or other expenses related to such purchases. This Board authorization will remain in effect until shares in the amount authorized thereunder have been repurchased.
(4)Dollars in millions.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS

Exhibit 2.1	Agreement and Plan of Merger, dated as of July 27, 2021, by and among Avery Dennison Corporation (the "Company"), CB Velocity Holdings, LLC, Lobo Merger Sub, LLC and Charlesbank Equity Fund VIII, Limited Partnership, as unitholder representative (incorporated by reference to Exhibit 2.1 on Current Report on Form 8-K, filed July 30, 2021)
Exhibit 3.1(i)	Amended and Restated Certificate of Incorporation, as filed on April 28, 2011 with the Office of Delaware Secretary of State (incorporated by reference to Exhibit 3.1 on Current Report on Form 8-K, filed April 29, 2011)
Exhibit 3.1(ii)	Amended and Restated Bylaws, effective as of December 7, 2017 (incorporated by reference to Exhibit 3.1(ii) on Current Report on Form 8-K, filed December 8, 2017)
Exhibit 4.1	Seventh Supplemental Indenture between the Company and The Bank of New York Mellon Trust Company, N.A. (the "Bank of New York"), as Trustee, dated as of August 18, 2021 (including Form of 0.850% Senior Notes due 2024 on Exhibit A thereto) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on August 18, 2021)
Exhibit 4.2	Eighth Supplemental Indenture between the Company and The Bank of New York, as Trustee, dated as of August 18, 2021 (including Form of 2.250% Senior Notes due 2032 on Exhibit A thereto) (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on August 18, 2021).
Exhibit 10.1	First Amendment, dated August 9, 2021, to the Fifth Amended and Restated Credit Agreement, dated as of February 13, 2020, by and among by and among the Company, the lenders party thereto, the agents party thereto and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 12, 2021).
Exhibit 31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS***	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
Exhibit 101.SCH***	Inline XBRL Extension Schema Document
Exhibit 101.CAL***	Inline XBRL Extension Calculation Linkbase Document
Exhibit 101.LAB***	Inline XBRL Extension Label Linkbase Document
Exhibit 101.PRE***	Inline XBRL Extension Presentation Linkbase Document
Exhibit 101.DEF***	Inline XBRL Extension Definition Linkbase Document
Exhibit 104***	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included as part of this Exhibit 101 inline XBRL document set

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* Filed herewith.

** Furnished herewith.

*** Furnished herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act, are deemed not filed for purposes of Section 18 of the Exchange Act and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AVERY DENNISON CORPORATION
(Registrant)

/s/ Gregory S. Lovins
Gregory S. Lovins
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Lori J. Bondar
Lori J. Bondar
Vice President, Controller, Treasurer, and Chief Accounting Officer
(Principal Accounting Officer)

November 2, 2021

Exhibit 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATION

I, Mitchell R. Butier, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avery Dennison Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Mitchell R. Butier
Mitchell R. Butier
Chairman, President and Chief Executive Officer

November 2, 2021

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Gregory S. Lovins, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avery Dennison Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Gregory S. Lovins
Gregory S. Lovins
Senior Vice President and Chief Financial Officer

November 2, 2021

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER*

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the “Company”) hereby certifies, to the best of his knowledge, that:

(i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended October 2, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 2, 2021

/s/ Mitchell R. Butier
Mitchell R. Butier
Chairman, President and Chief Executive Officer

* The above certification accompanies the Company’s Quarterly Report on Form 10-Q and is furnished, not filed, as provided in SEC Release 33-8238, dated June 5, 2003.

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER*

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Avery Dennison Corporation (the “Company”) hereby certifies, to the best of his knowledge, that:

(i) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended October 2, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 2, 2021

/s/ Gregory S. Lovins
Gregory S. Lovins
Senior Vice President and Chief Financial Officer

* The above certification accompanies the Company’s Quarterly Report on Form 10-Q and is furnished, not filed, as provided in SEC Release 33-8238, dated June 5, 2003.