Avery Dennison Corp
Form DEF 14A
March 08, 2019

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant ý
Filed by a Party other than the Registrant o

Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
ý Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to § 240.14a-12

AVERY DENNISON CORPORATION
(Name of Registrant as Specified In Its Charter)

N/A
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

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Notice of 2019 Annual Meeting of Stockholders

To Our Stockholders:

We cordially invite you to attend our 2019 Annual Meeting of Stockholders at 207 Goode Avenue, Glendale, California 91203 on Thursday, April 25, 2019 at 1:30 p.m. Pacific Time. At the meeting, we will conduct the following items of business:

Elect the 11 directors nominated by our Board to serve a one-year term;

Approve, on an advisory basis, our executive compensation;

Ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2019; and

Transact any other business properly brought before the meeting or any adjournment or postponement thereof.

Our Board recommends that you vote FOR each of the director nominees in Item 1 and FOR Items 2 and 3.

Stockholders of record as of February 25, 2019 are entitled to notice of, and to vote at, the meeting and any adjournment or postponement thereof.

We will mail our Notice of Internet Availability of Proxy Materials, which includes instructions on how to access these materials on the Internet, on or before March 11, 2019. If you previously elected to receive a paper copy of our proxy materials, we will mail you our 2019 proxy statement; 2018 annual report, which includes letters to stockholders from our Chairman and our Chairman-Elect, President and Chief Executive Officer; and a proxy card on or about March 11, 2019.

We want your shares to be represented and voted. You can vote as shown in the chart below.

INSTRUCTIONS FOR VOTING

On the Internet

You can vote online at www.proxyvote.com before 11:59 p.m. Eastern Time on April 24, 2019. You will need the 16-digit control number on your Notice of Internet Availability or proxy card.

By Telephone

In the U.S. and Canada, you can vote by calling 1.800.690.6903 before 11:59 p.m. Eastern Time on April 24, 2019. You will need the 16-digit control number on your Notice of Internet Availability or proxy card.

By Mail

You can vote by mail by completing, dating and signing your proxy card and returning it in the postage-paid envelope or otherwise to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, New York 11717.

In Person

Unless your shares are held through our Employee Savings Plan, you can vote in person at the Annual Meeting. Beneficial holders must contact their broker or other nominee if they want to vote in person.

On behalf of the Board of Directors, management and employees of Avery Dennison, thank you for your continued support.

By Order of the Board of Directors

Susan C. Miller
Corporate Secretary

March 8, 2019

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OUR PLAN TO WIN

Our Strategies

Drive outsized growth in high value product categories with higher growth and margin potential (e.g., specialty labels, graphics, industrial tapes and radio-frequency identification (RFID))

Grow profitably in our base business through tailored go-to-market strategies and disciplined execution

Maintain our relentless focus on productivity through continued operational excellence and enterprise lean sigma

Deploy capital effectively by balancing investments in organic growth, productivity and acquisitions, while returning cash to stockholders

Our Values

Our Stakeholders

Customers
We provide innovative, high quality products and solutions, with industry-leading service

Employees
We cultivate a diverse, engaged, safe and healthy workforce

Communities
We are responsible stewards of the environment and a force for good in our communities

Investors
We are committed to delivering superior shareholder returns over the long term

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PROXY SUMMARY

This section summarizes information described in greater detail in other parts of this proxy statement and does not contain all the information you should consider before voting. We encourage you to read the entire proxy statement before voting.

TIME AND LOCATION OF ANNUAL MEETING

The Annual Meeting will take place at 1:30 p.m. Pacific Time on April 25, 2019 at 207 Goode Avenue, Glendale, California 91203. Parking will be available next door at 127 Burchett Street, Glendale, California 91203. Attendants will be available to provide assistance with directions and parking tickets will be validated at the Annual Meeting.

ITEMS BEING VOTED ON AT ANNUAL MEETING

You are being asked to vote on the items of business shown below at the Annual Meeting. Our Board of Directors (our "Board") recommends that you vote FOR each of the 11 director nominees and FOR the other two items being brought before the stockholder vote.

ITEM	BOARD RECOMMENDATION	VOTE REQUIRED	DISCRETIONARY BROKER VOTING	PAGE REFERENCE
Election of directors	**FOR each nominee**	Majority of votes cast	No	23
Advisory vote to approve executive compensation	**FOR**	Majority of shares represented and entitled to vote	No	35
Ratification of appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm for fiscal year 2019	**FOR**	Majority of shares represented and entitled to vote	Yes	82

BUSINESS STRATEGY OVERVIEW

We strive to create superior long-term, sustainable value for our customers, employees and investors and improve the communities in which we operate. To realize the business aspects of this vision, we are focused on executing the following key strategies:

Driving outsized growth in high value product categories with higher growth and margin potential (e.g., specialty labels, graphics, industrial tapes and radio-frequency identification (RFID));

Growing profitably in our base business through tailored go-to-market strategies and disciplined execution;

Maintaining our relentless focus on productivity through continued operational excellence and enterprise lean sigma; and

Deploying capital effectively by balancing investments in organic growth, productivity and acquisitions, while returning cash to stockholders.

FINANCIAL PERFORMANCE HIGHLIGHTS

Strong 2018 Performance and Execution of Strategic Priorities. Fiscal year 2018 marked our seventh consecutive year of strong top-line growth, operating margin expansion, and double-digit adjusted earnings per share (EPS) growth. We exceeded our financial goals for the year, with the accomplishments shown below and on the following page.

Achieved **net sales of approximately $7.2 billion, an increase of 8.2% over prior year**.

Excluding the impact of currency, sales grew by 6.9%. On an organic basis, sales grew by 5.5%, driven by growth in high value product categories and sales in emerging markets.

Reported EPS significantly increased from $3.13 in 2017 to $5.28 in 2018 due to the combined effects of 2017 tax charges related to the enactment of the U.S. Tax Cuts and Jobs Act (TCJA) and a net tax benefit from a discrete foreign tax planning action, the combined effect of volume and mix, and benefits from productivity initiatives. These benefits were partially offset by settlement charges resulting from the 2018 termination of our U.S. pension plan, higher restructuring charges, higher employee-related costs, growth investments, and the net impact of pricing and raw material inflation.

Adjusted EPS increased from $5.00 to $6.06 due to the combined effect of volume and mix, as well as benefits from productivity initiatives, partially offset by higher employee-related costs, growth investments, and the net impact of pricing and raw material inflation. Adjusted EPS exceeded the high end of the $5.70 to $5.95 annual guidance range we gave to our stockholders in January 2018.

With **net cash provided by operating activities of $457.9 million**, delivered free cash flow of $429.2 million.

On **net income of $467.4 million**, achieved return on total capital (ROTC) of 18.6%.

Sales change ex. currency, organic sales change, adjusted EPS, free cash flow, and ROTC are supplemental financial measures that we provide to assist investors in assessing our performance and operating trends. They are defined in the *Compensation Discussion and Analysis* section of this proxy statement and reconciled from generally accepted accounting principles in the United States of America (GAAP) in *Appendix A* of this proxy statement. These non-GAAP financial measures are not in accordance with, nor are they a substitute for or superior to, the comparable financial measures under GAAP.

Delivering Financial Targets. Our five-year financial goals through 2018 included an organic sales growth target of 4% to 5% and a GAAP operating margin target of 9% to 10% in 2018. We also targeted double-digit adjusted EPS growth and ROTC of at least 16% in 2018. The combination of our growth and ROTC targets is a proxy for growth in economic value added (EVA), one of the performance objectives used in our long-term incentive (LTI) compensation program. As shown below, we achieved or exceeded our five-year commitments through 2018.

For the 2014-2018 period, on a five-year compound annual basis (with 2013 as the base period), GAAP reported net sales, reported EPS and reported net income grew by 3.1%, 19.9% and 17.0%, respectively.

	2014-2018 TARGETS	2014-2018 RESULTS(1)
Organic Sales Growth(2)	4%-5%	4.3%
GAAP Operating Margin in 2018	9%-10%	10.0%

Adjusted EPS Growth(2)	12%-15%+	17.7%
ROTC in 2018	16%+	18.6%

(1) Results for non-GAAP measures are reconciled from GAAP in *Appendix A* of this proxy statement.
(2) Percentages reflect five-year compound annual growth rates, with 2013 as the base period.

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In March 2017, we announced five-year goals through 2021, targeting continued solid organic sales growth, GAAP operating margin of at least 11% in 2021, double-digit adjusted EPS growth on a compound annual basis, and ROTC of at least 17% in 2021. As shown below, based on our results for the first two years of this five-year period, we are on track to deliver these targets.

For the 2017-2018 period, on a two-year compound annual basis (with 2016 as the base period), GAAP reported net sales, reported EPS and reported net income increased by 8.5%, 22.1% and 20.7%, respectively.

	2017-2021 TARGETS	2017-2018 RESULTS(1)
Sales Growth(2)	4%+ organic 5%+ ex. currency(3)	4.8% organic 7.5% ex. currency
GAAP Operating Margin	11%+ in 2021	10.0% in 2018
Adjusted EPS Growth(2)	10%+	22.8%
ROTC	17%+ in 2021	18.6% in 2018

(1) Results for non-GAAP measures are reconciled from GAAP in *Appendix A* of this proxy statement.
(2) Percentages for targets reflect five-year compound annual growth rates, with 2016 as the base period. Percentages for results reflect two-year compound annual growth rates, with 2016 as the base period.
(3) Target for sales growth ex. currency reflects the impact of completed acquisitions as of March 2017 of approximately 1 point.

Disciplined Capital Allocation. We have consistently executed our disciplined approach to capital allocation, balancing our investments in organic growth, productivity and acquisitions, while continuing to return cash to stockholders through dividends and share repurchases. **In 2018, we delivered ROTC of nearly 19% and invested $256.6 million in capital expenditures to support future growth and productivity improvement, made $3.8 million in equity investments, paid $175.0 million in dividends, and repurchased $392.9 million in shares of our common stock.**

We have invested in our businesses to support organic growth and pursued targeted acquisitions that support our strategy of increasing our exposure to high value product categories. **We increased our spending on capital expenditures in 2018 by over 13% compared to prior year to enable the future growth of our businesses, improve our profitability and expand our operating margins.** In addition, during 2018, we continued integrating the following acquisitions we made in 2017: (i) Hanita Coatings Rural Cooperative Association Limited, an Israel-based pressure-sensitive manufacturer of specialty films and laminates; (ii) Yongle Tape Ltd., a China-based manufacturer of specialty tapes and related products used in a variety of industrial markets; and (iii) Finesse Medical Limited, an Ireland-based manufacturer of healthcare products used in the management of wound care and skin conditions. We also made equity investments in two start-up companies developing innovative technological solutions, and negotiated a further investment in a small company in which we first invested in 2016, for which payment was made in early 2019.

In 2018, we deployed approximately $568 million to (i) repurchase nearly four million shares at an aggregate cost of nearly $393 million and (ii) pay an annual dividend of $2.01 per share for an aggregate amount of $175 million. We have paid quarterly dividends for decades and most recently **raised our quarterly dividend rate by 16% in April 2018**. Given the lower price of our common stock in the second half of the year, as well as our substantially decreased use of capital for acquisitions and equity investments, we repurchased a significantly greater dollar amount in shares in 2018 compared to prior years. As shown in the graph on the following page, **over the last five years, we have allocated over $2 billion to dividends and share repurchases**.

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Capital Allocated to Dividends,
Share Repurchases and Acquisitions*

* Amounts for acquisitions include investments in unconsolidated businesses.

Three- and Five-Year Cumulative TSR Outperformance. As shown below, **despite negative total stockholder return (TSR) in 2018, we delivered cumulative TSR for the 2016-2018 three-year period and the 2014-2018 five-year period that significantly outperformed the S&P 500® and the median of the S&P 500 Industrials and Materials subsets** (we are a member of the Materials subset, but share many characteristics with members of the Industrials subset; investors have informed us that they look at both subsets in evaluating our relative performance, as we do internally). TSR measures the return we have provided to our stockholders, including stock price appreciation and dividends paid (assuming reinvestment of dividends).

We believe that our longer-term TSR is a more meaningful measure of our performance than our one-year TSR, which can be significantly impacted by short-term market volatility that may be unrelated to our underlying performance. For example, although we delivered strong performance in 2018 exceeding the high end of our adjusted EPS guidance for the year our 2018 TSR was negative.

1-, 3- and 5-YEAR TSR