

Avery Dennison Corp
Form 10-Q
August 07, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 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 June 29, 2013.

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

95-1492269
(I.R.S. Employer Identification No.)

150 North Orange Grove Boulevard
Pasadena, California
(Address of principal executive offices)

91103
(Zip Code)

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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 July 27, 2013: 98,081,578

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FISCAL SECOND QUARTER 2013 FORM 10-Q QUARTERLY REPORT

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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, which may or may not occur. Words such as aim, anticipate, assume, believe, continue, could, estimate, expect, guidance, intend, may, might, objective, plan, potential, project, seek, shall, should, target, will, would, 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 expected results, performance or achievements expressed or implied by such forward-looking statements.

Certain risks and uncertainties are discussed in more detail under Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012 and include, but are not limited to, risks and uncertainties relating to the following: fluctuations in demand affecting sales to customers; the financial condition and inventory strategies of customers; changes in customer order patterns; worldwide and local economic conditions; fluctuations in cost and availability of raw materials; our ability to generate sustained productivity improvement; our ability to achieve and sustain targeted cost reductions; impact of competitive products and pricing; loss of significant contracts or customers; collection of receivables from customers; selling prices; business mix shift; changes in tax laws and regulations, and uncertainties associated with interpretations of such laws and regulations; outcome of tax audits; timely development and market acceptance of new products, including sustainable or sustainably-sourced products; investment in development activities and new production facilities; fluctuations in foreign currency exchange rates and other risks associated with foreign operations; integration of acquisitions and completion of potential dispositions; timing and amounts of future dividends and share repurchases; customer and supplier concentrations; successful implementation of new manufacturing technologies and installation of manufacturing equipment; disruptions in information technology systems; successful installation of new or upgraded information technology systems; volatility of financial markets; impairment of capitalized assets, including goodwill and other intangibles; credit risks; our ability to obtain adequate financing arrangements and maintain access to capital; fluctuations in interest and tax rates; fluctuations in pension, insurance and employee benefit costs; impact of legal and regulatory proceedings, including with respect to environmental, health and safety; changes in governmental laws and regulations; changes in political conditions; impact of epidemiological events on the economy and our customers and suppliers; acts of war, terrorism, and natural disasters; and other factors.

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

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.

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PART 1. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****CONDENSED CONSOLIDATED BALANCE SHEETS***(Unaudited)*

(Dollars in millions, except per share amount)	June 29, 2013	December 29, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 211.6	\$ 235.4
Trade accounts receivable, less allowances of \$40.5 and \$44.8 at June 29, 2013 and December 29, 2012, respectively	1,009.5	972.8
Inventories, net	508.0	473.3
Current deferred and refundable income taxes	127.9	129.1
Assets held for sale	609.4	472.2
Other current assets	122.6	128.9
Total current assets	2,589.0	2,411.7
Property, plant and equipment	2,665.6	2,871.1
Accumulated depreciation	(1,743.2)	(1,855.6)
Property, plant and equipment, net	922.4	1,015.5
Goodwill	747.5	764.4
Other intangibles resulting from business acquisitions, net	109.2	125.0
Non-current deferred income taxes	344.3	331.6
Other assets	478.6	457.1
	\$ 5,191.0	\$ 5,105.3
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt and capital leases	\$ 438.2	\$ 520.2
Accounts payable	821.3	804.3
Current deferred and payable income taxes	53.1	65.1
Liabilities held for sale	170.6	160.5
Other current liabilities	501.7	524.4
Total current liabilities	1,984.9	2,074.5
Long-term debt and capital leases	951.4	702.2
Long-term retirement benefits and other liabilities	595.3	607.2
Non-current deferred and payable income taxes	144.8	140.5
Commitments and contingencies (see Note 15)		
Shareholders' equity:		
Common stock, \$1 par value per share, authorized 400,000,000 shares at June 29, 2013 and December 29, 2012; issued 124,126,624 shares at June 29, 2013 and December 29, 2012; outstanding 98,484,345 shares and 99,915,457 shares at June 29, 2013 and December 29, 2012, respectively	124.1	124.1

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Capital in excess of par value	800.7	801.8
Retained earnings	1,974.9	1,910.8
Treasury stock at cost, 25,642,279 shares and 24,211,167 shares at June 29, 2013 and December 29, 2012, respectively	(1,060.1)	(977.8)
Accumulated other comprehensive loss	(325.0)	(278.0)
Total shareholders' equity	\$ 5,191.0	\$ 5,105.3

See Notes to Unaudited Condensed Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME*(Unaudited)*

(In millions, except per share amounts)	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net sales	\$ 1,552.3	\$ 1,490.4	\$ 3,051.2	\$ 2,933.4
Cost of products sold	1,134.8	1,102.3	2,232.0	2,168.2
Gross profit	417.5	388.1	819.2	765.2
Marketing, general and administrative expense	293.5	284.7	594.4	573.6
Interest expense	14.8	18.6	27.0	36.9
Other (income) expense, net	(.3)	11.2	7.2	18.8
Income from continuing operations before taxes	109.5	73.6	190.6	135.9
Provision for income taxes	38.7	24.5	53.0	42.2
Income from continuing operations	70.8	49.1	137.6	93.7
(Loss) income from discontinued operations, net of tax	(2.0)	15.1	(11.0)	14.4
Net income	\$ 68.8	\$ 64.2	\$ 126.6	\$ 108.1
Per share amounts:				
Net income (loss) per common share:				
Continuing operations	\$.71	\$.47	\$ 1.38	\$.89
Discontinued operations	(.02)	.15	(.11)	.14
Net income per common share	\$.69	\$.62	\$ 1.27	\$ 1.03
Net income (loss) per common share, assuming dilution:				
Continuing operations	\$.70	\$.47	\$ 1.36	\$.89
Discontinued operations	(.02)	.15	(.11)	.14
Net income per common share, assuming dilution	\$.68	\$.62	\$ 1.25	\$ 1.03
Dividends per common share	\$.29	\$.27	\$.56	\$.54
Average shares outstanding:				
Common shares	99.3	103.4	99.7	104.6
Common shares, assuming dilution	100.8	104.3	101.3	105.3

See Notes to Unaudited Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME*(Unaudited)*

(In millions)	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net income	\$ 68.8	\$ 64.2	\$ 126.6	\$ 108.1
Other comprehensive loss, before tax:				
Foreign currency translation adjustment	(38.5)	(79.5)	(56.5)	(37.8)
Net actuarial loss, prior service cost and net transition asset	6.8	3.8	12.9	7.6
Effective portion of gains/losses on cash flow hedges	.6	2.0	1.5	3.8
Other comprehensive loss, before tax	(31.1)	(73.7)	(42.1)	(26.4)
Income tax expense related to components of other comprehensive loss	2.6	2.0	4.9	4.0
Other comprehensive loss, net of tax	(33.7)	(75.7)	(47.0)	(30.4)
Total comprehensive income (loss), net of tax	\$ 35.1	\$ (11.5)	\$ 79.6	\$ 77.7

See Notes to Unaudited Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS*(Unaudited)*

(In millions)	Six Months Ended	
	June 29, 2013	June 30, 2012
Operating Activities		
Net income	\$ 126.6	\$ 108.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	69.5	75.2
Amortization	33.8	35.4
Provision for doubtful accounts and sales returns	9.5	9.4
Asset impairment and net (gain) loss on sale/disposal of assets	(9.2)	6.3
Stock-based compensation	17.6	21.4
Other non-cash expense and loss	28.2	21.1
Other non-cash income and gain		(1)
Changes in assets and liabilities and other adjustments	(229.3)	(235.8)
Net cash provided by operating activities	46.7	41.0
Investing Activities		
Purchases of property, plant and equipment	(49.9)	(43.3)
Purchases of software and other deferred charges	(24.6)	(19.9)
Proceeds from sale of product line		